



CFA OILFIELD SERVICES FORECAST BREAKFAST

MAKING SERVICE INVESTMENTS

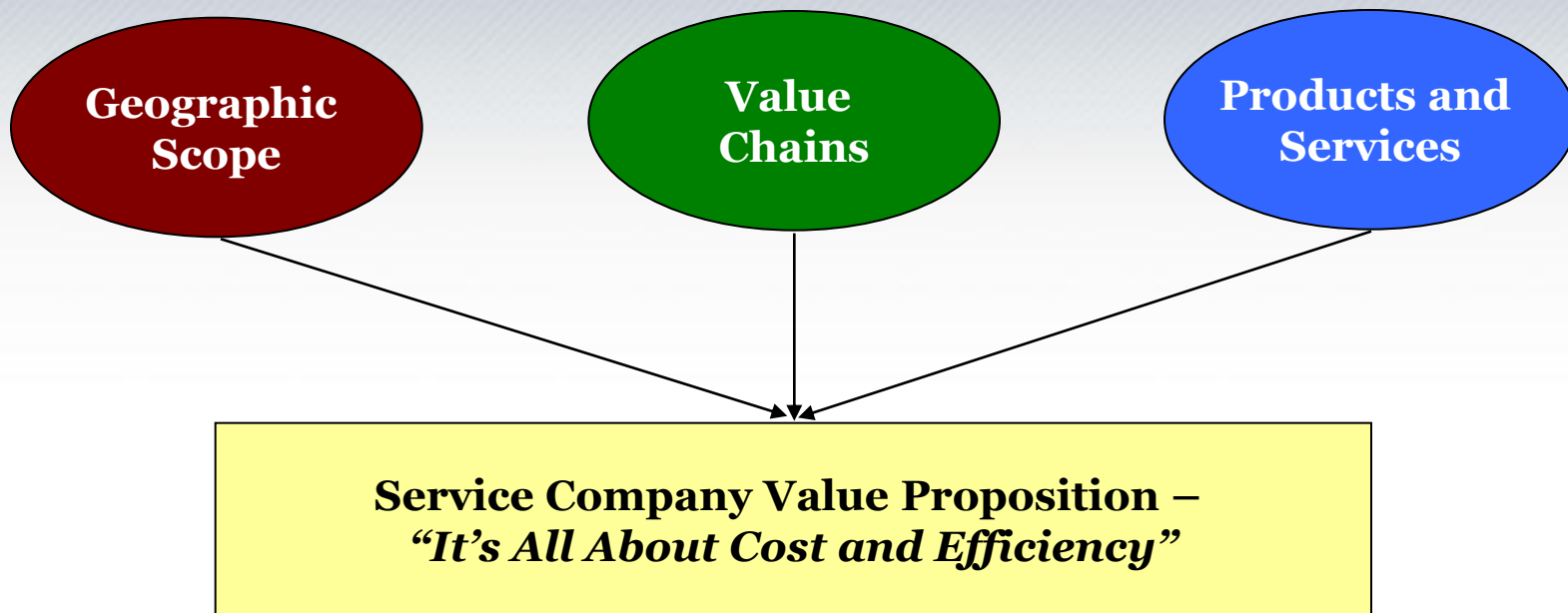
- The only advantage a service company has is its ability to save the customer money:
 - *Does your service investment have it?*

- The best service companies will perform poorly if they can't attract the attention of capital spending dollars:
 - *Can your investment capture those dollars?*

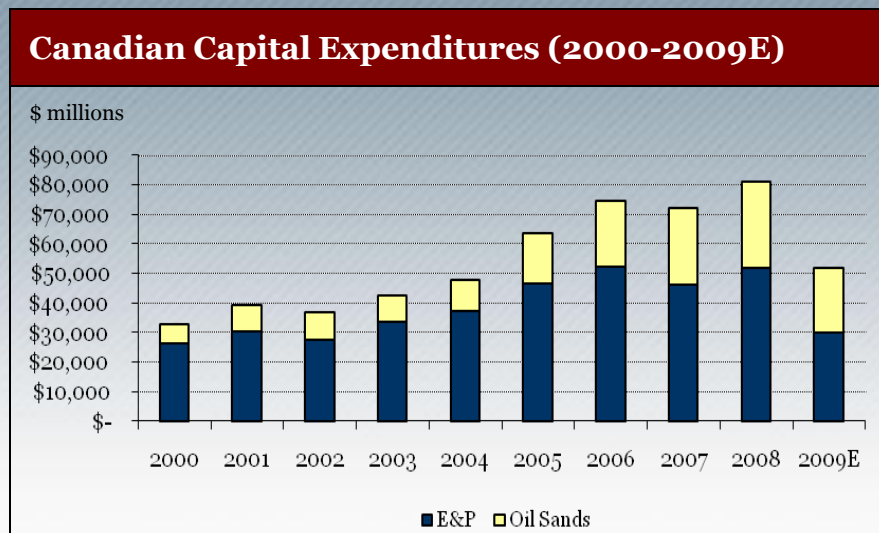
- Great management teams have peripheral vision:
 - *Is your investment anticipating where the market is going?*

SERVICE COMPANY VALUE PROPOSITION

- Oil and gas companies are extremely cost sensitive; therefore, service providers that have geographic scope, consolidated value chains, or product and service strength will be the preferred supplier



CANADIAN ENERGY INDUSTRY CAPITAL SPENDING



Source: CAPP, 32 Degrees

- Since 2000, E&P companies have spent on average \$54.4 billion for Canadian energy services annually
- In 2008, the Canadian energy services market equaled \$81.1 billion
- Future dollars will not be spent the same way they are today – **key is to anticipate** what will capture potential spending dollars
- Canadian spending doesn't outline the opportunity for Canadian service companies to compete globally – *to be discussed ...*

ANTICIPATING MARKET MOMENTUM

- Develop an understanding of capital flows in the Canadian oil and gas economy
 - *The industry cycles, best to be on the right side of it – high commodity prices do not necessarily mean a healthy service industry*
 - *E&P companies need to make money before they invest – service sector is strongest when recycle ratios are around 1.3x*
- Know the industry
 - *anticipating trends is about understanding: competitors and complementors; political, social, legal and economic forces; and having knowledge of emerging technologies and developments*

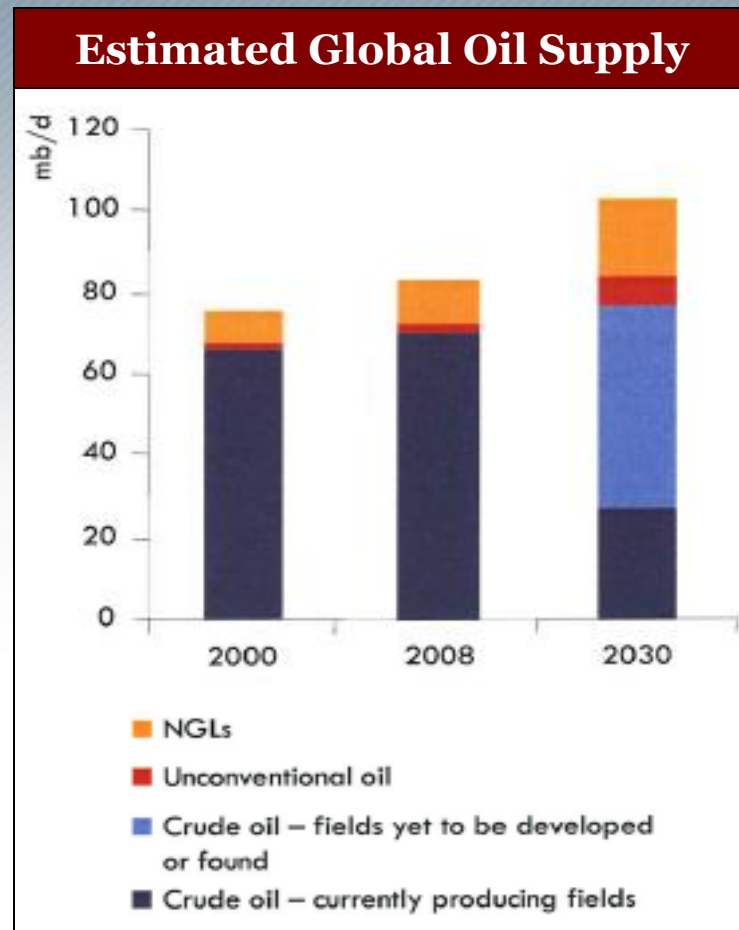
THE TRENDS

- Technological Maturity
- Canadian Crude Oil
- Aging Infrastructure
- Resource Nationalism
- Bankrupt Service Industry?



TECHNOLOGICAL MATURITY

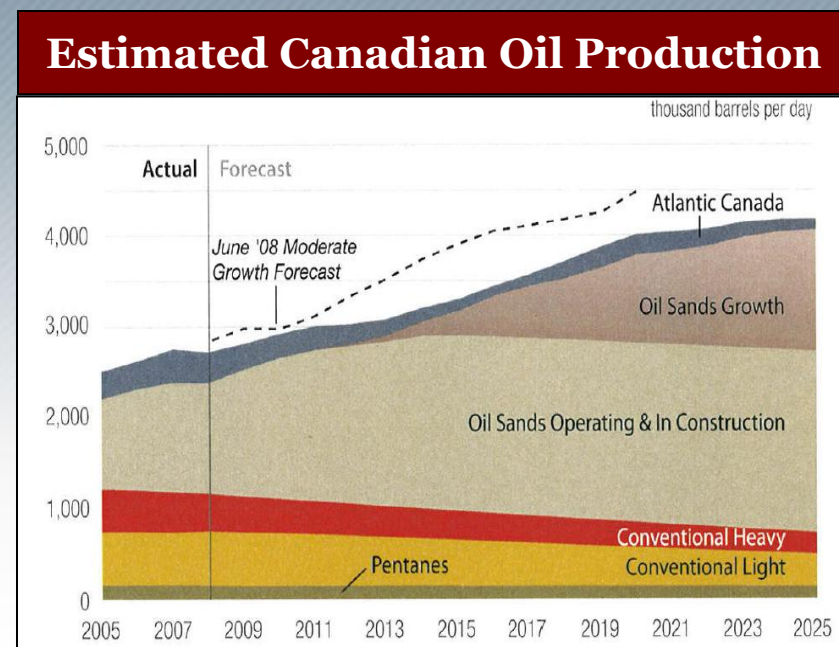
- Many of the largest producing basins in the world are approaching technological maturity
- Traditional drilling and extraction technologies have stopped being effective at slowing declines
- Continued production from these fields will require new technological advances



Source: IEA WEO 2008 Supply Outlook

CANADIAN CRUDE OIL

- Most of the world's producing nations are in irreversible crude oil production decline
- Canada is one of only a few nations that can significantly increase crude oil production
- Oil sands development will be revitalized due to increasing crude oil pricing
- The world will continue to consume and **Canada** will play a larger role in global oil supply



Source: CAPP 2009 Crude Oil Forecast

AGING ENERGY INFRASTRUCTURE

- High percentage of “delivery system” beyond original design life
- Every aspect of the system is effected: refineries, pipelines and electric delivery
- Continuous requirement for improved safety and environmental responsibility
- It has been suggested the cost to replace could exceed \$100 trillion globally

Example of Aging Infrastructure	
Facility	Average Age
U.S. Refineries	70 - 85 yrs
Can. Refineries	30 - 50 yrs
U.S. Pipeline System	40 - 80 yrs
Can. Pipeline System	30 - 50 yrs
U.S. Coal-fired Plants	45 yrs
Can. Coal-fired Plants	20 - 40 yrs

Source: Simmons & Company International, 32 Degrees

RESOURCE NATIONALISM

- In the early 1970s the major oil companies controlled around 80% of global reserves
- Today more than 80% of global reserves are under the direct control of governments or National Oil Companies “NOC”
- Foreign government and NOC acquisition of Canadian resources creates an interesting situation

Worldwide Oil and Gas Reserves				
Rank	Company	Worldwide Reserves		Total BOE
		Liquids MM Barrels	Natural Gas BCF	
1	Saudi Arabian Oil Company	259,900	253,800	303,285
2	National Iranian Oil Company	138,400	948,200	300,485
3	Qatar General Petroleum Corporation	15,207	905,300	169,959
4	Iraq National Oil Company	115,000	119,940	134,135
5	Petroleos de Venezuela.S.A.	99,377	170,920	128,594
6	Abu Dhabi National Oil Company	92,200	198,500	126,132
7	Kuwait Petroleum Corporation	101,500	55,515	110,990
8	Nigerian National Petroleum Corporation	36,220	183,990	67,671
9	National Oil Company (Libya)	41,464	50,100	50,028
10	Sonatrach (Algeria)	12,200	159,000	39,379
11	Gazprom (Russia)	0	171,176	29,261
12	OAD Rosneft (Russia)	17,513	25,108	21,805
13	PetroChina Co. Ltd. (China)	11,706	57,111	21,469
14	Petronas (Malaysia)	5,360	82,992	19,547
15	OAD Lukoil (Russia)	15,715	28	15,720
16	Egyptian General Petroleum Corp.	3,700	58,500	13,700
17	ExxonMobil Corporation	7,744	32,610	13,318
18	Petroleos Mexicanos (Mexico)	11,048	12,578	13,198
19	BP Corporation	5,492	41,130	12,523
20	Petroleo Brasileiro S.A. (Brazil)	9,613	12,547	11,578

Source: OJG 200/100, Oil and Gas Journal, Sept. 15, 2008

BANKRUPT SERVICE INDUSTRY?

1982 - 1987



During the 1980's, nearly 80% of the service industry went bankrupt.

What are today's similarities?

2009 



HOW TO PARTICIPATE

- **Technological Maturity**
 - *Advanced exploration technology*
 - *Reservoir modeling and stimulation*
 - *Enhanced recovery innovation*
 - *Automation and controls*
 - *Combination of incumbent products for more efficient use*



1900's Drilling Rig

HOW TO PARTICIPATE

- **Canadian Crude Oil**
 - *Specialized wellhead equipment*
 - *Enhanced recovery innovation*
 - *Engineering and construction*
 - *Consumable processing products*
 - *Long-term infrastructure maintenance*
 - *Environmental products and services*



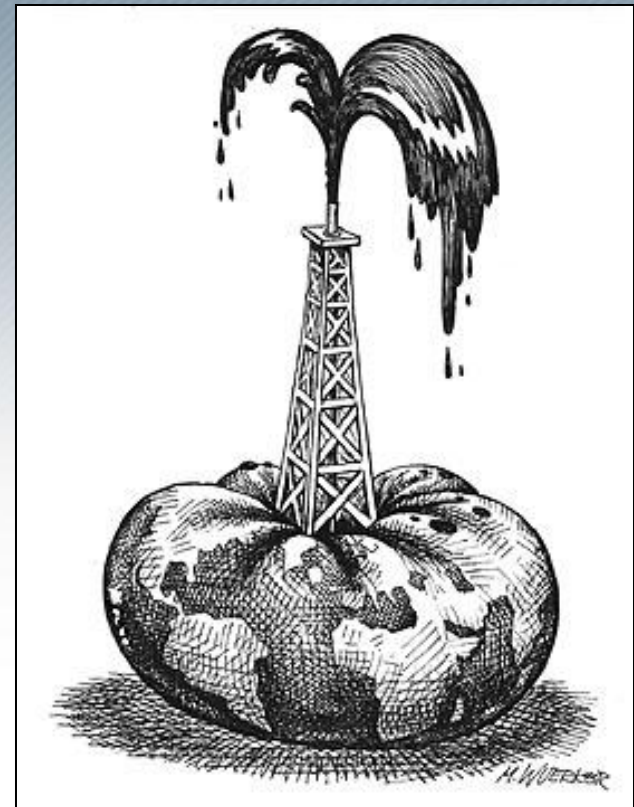
HOW TO PARTICIPATE

- **Aging Infrastructure**
 - *Asset integrity*
 - *Corrosion control*
 - *Replacement technologies*
 - *Engineering and construction*
 - *Consumable products (valves, pumps, gaskets, etc.)*
 - *Long-term infrastructure maintenance*



HOW TO PARTICIPATE

- **Resource Nationalism**
 - *Non-traditional service roles*
 - *Consolidated value chains*
 - *Resource allocation capacity and capability*
 - *Pull-through opportunity*



HOW TO PARTICIPATE

- **Bankrupt Service Industry?**
 - *Consolidation*
 - *Corporate Divestitures*
 - *Management Buyouts*
 - *Asset Rationalization*



SUMMARY

- The best energy service investments will be in companies that:
 - *Save the customer money*
 - *Are capable of participating in the current trends*
 - *Have a history of anticipation and the ability to execute*