



“It’s Going to Take Some Time This Time”

Notes for Remarks by:

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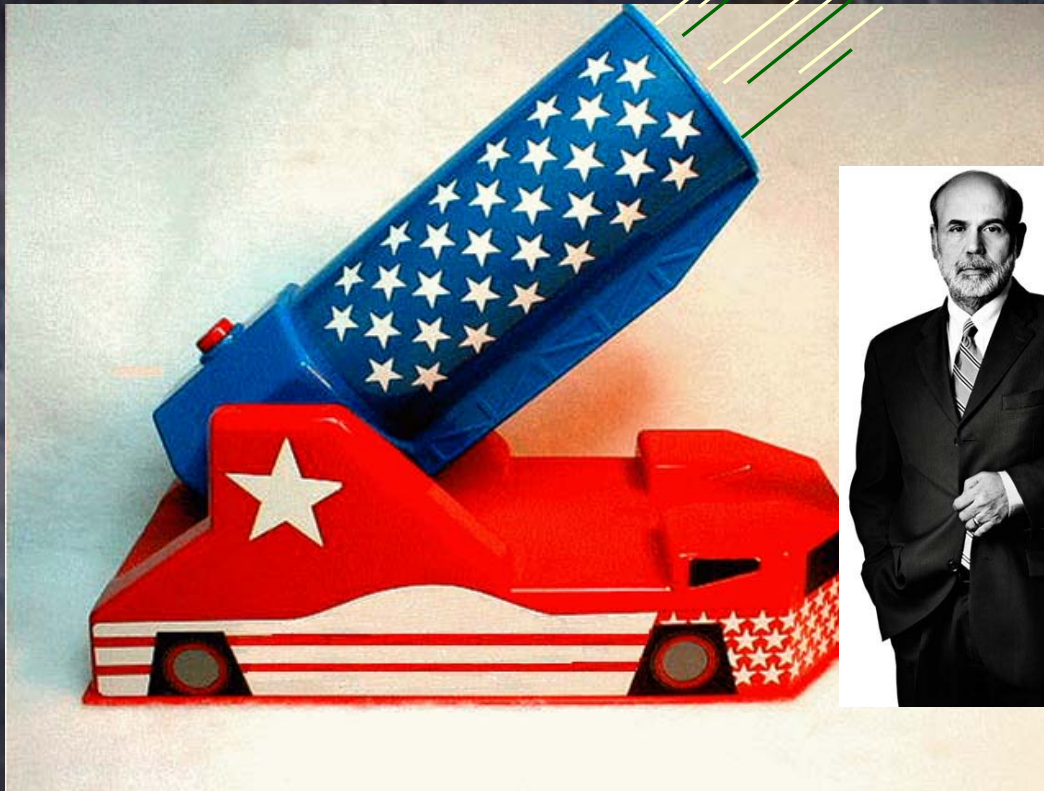
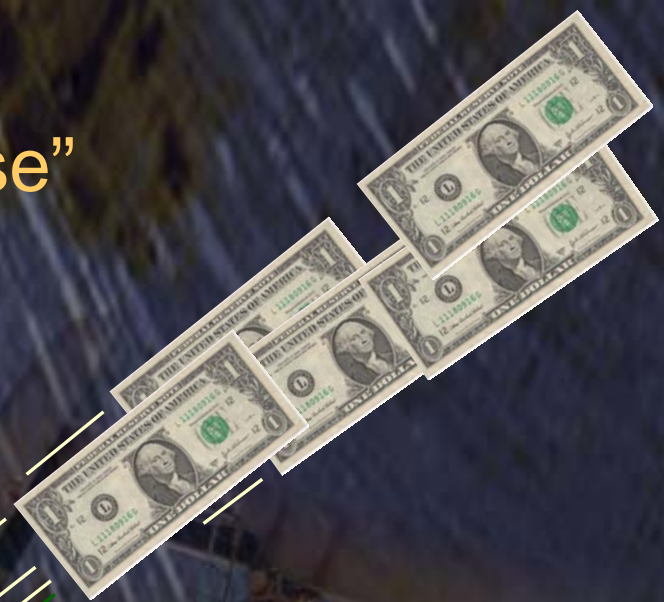
Calgary CFA Society
8th Annual Oil & Gas Forecast Breakfast
Calgary, Alberta
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“It’s Going to Take Some Time This Time”

- Relatively unprecedented set of circumstances
- Due to time allotment, will not try to reiterate that which has been said in the press and well discussed
- Will try to focus on:
 - The “most probable case”
 - The “big picture”
 - Where we perhaps go from here

The “Most Probable Case”

- Governments and central banks have enough firepower to avoid disaster



The “Big Picture”

- The creation of large amounts of money, and its expenditure or “investment” by the U.S. and other countries has significant long – run implications for debt, deficits, unfunded liabilities and inflation.
- However, all of these issues have been temporarily set aside to avoid the world going over the brink, financially.

The “Big Picture”

- There has likely been enough damage done to the “real economy” to prolong a reasonably severe recession, already in progress.
- No one knows how long this recession may last. However, the severity of the events leading up to the recession suggest planning should be for a longer (2 year) rather than a shorter, recession (8 months).

The “Big Picture”

- We are seeing the unwinding of an enormous amount of leverage, both business and personal, including at some investment banks, European banks and other financial players leveraged at the rate of 30 or more to 1. (Roughly 3% equity)

The "Big Picture"

- Part of what we are seeing in the world today is the problem of Mr. Micawber (Charles Dickens)

Micawber Principle

"Annual income twenty pounds, annual expenditure nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery."



“In Buffett We Trust”



Yet, probably the most trusted person in America has a positive long-term view

Big Issues in the Oil & Gas Industry

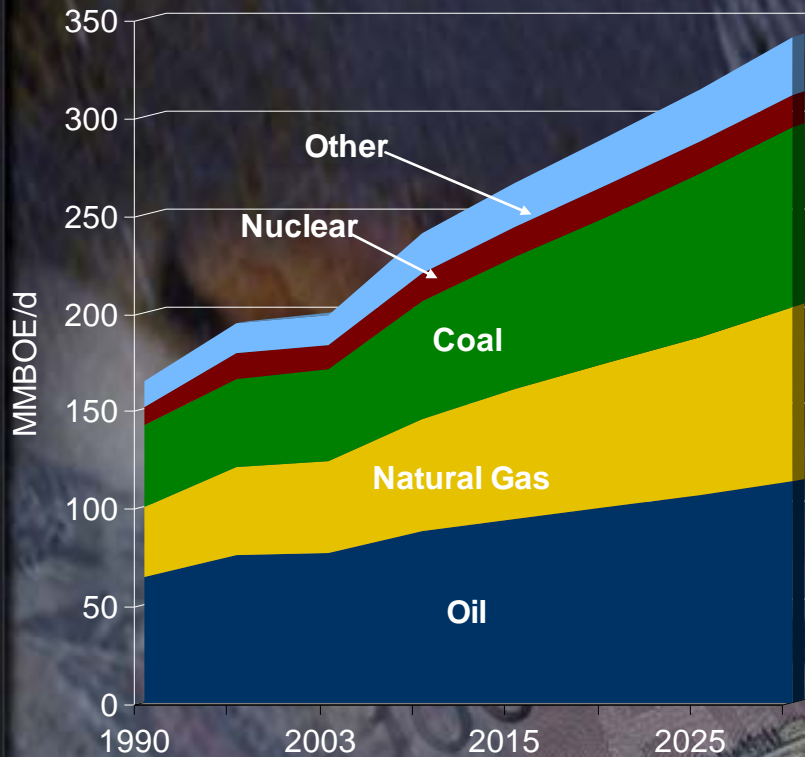
- Visible effects of a weaker global economy on **demand**, and therefore on **commodity prices**
- Uncertainty over which price forecasts to use
- Determining the duration of the recession (and the slower demand)
- Different drivers for crude oil and natural gas

My Prior Scenario (Last Few Years)

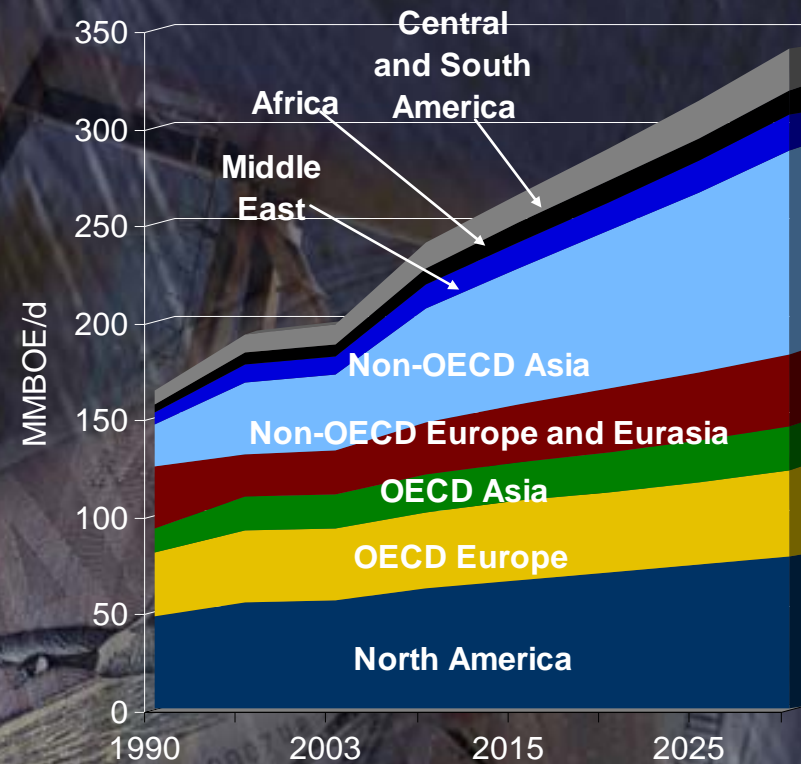
- Global supply of energy is very difficult to add; declines of existing global production are hard to replace
- Global demand for energy will continue to grow in line with economic growth by region (Ex: Asia, Middle East)
- Risk to oil and gas prices: U.S. or global recession
- Economists call it the **law** of supply and demand for a reason
- Note that it is not the **theory** or the **hypothesis** of supply and demand

World Energy Demand Forecast to Grow at 2.0% per Year

By Fuel

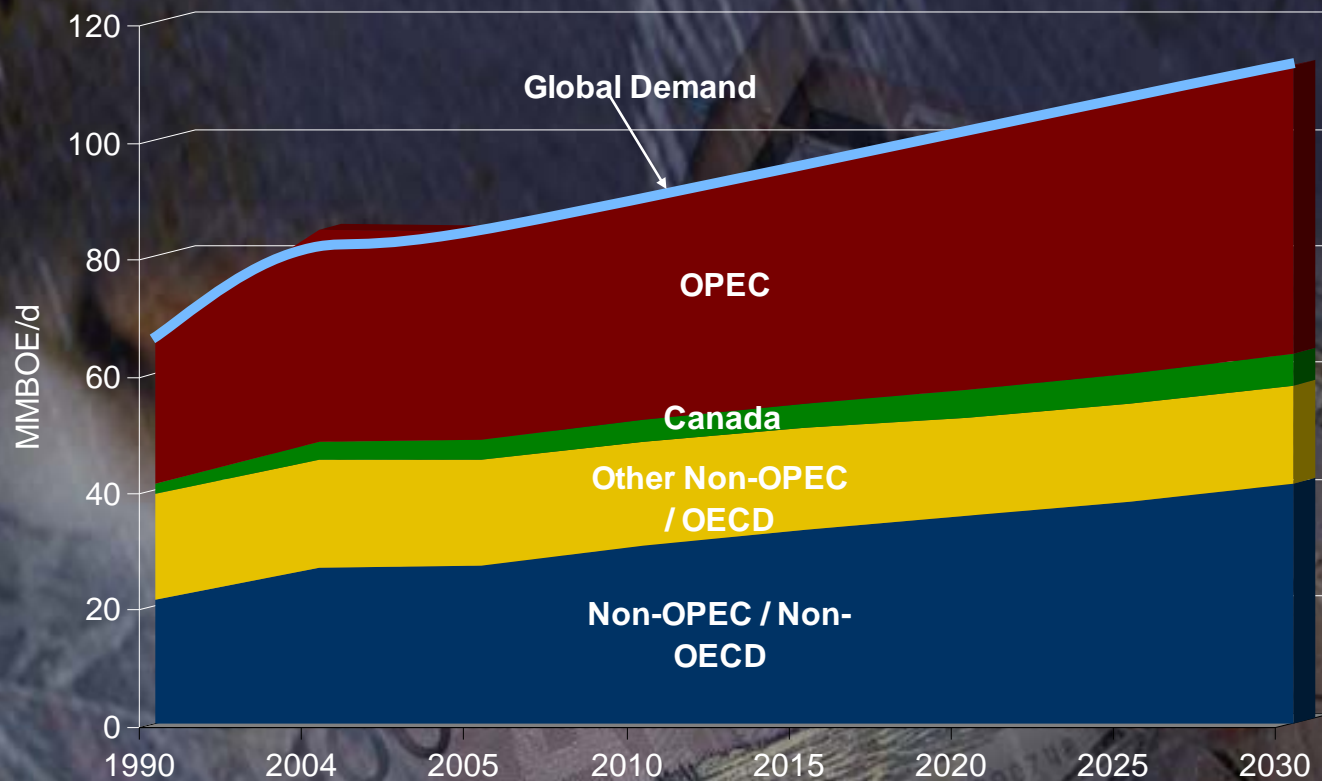


By Region



Source: Energy Information Administration

Global Liquids Demand – Can the Global Oil & Gas Industry Keep Up?



Source: Energy Information Administration

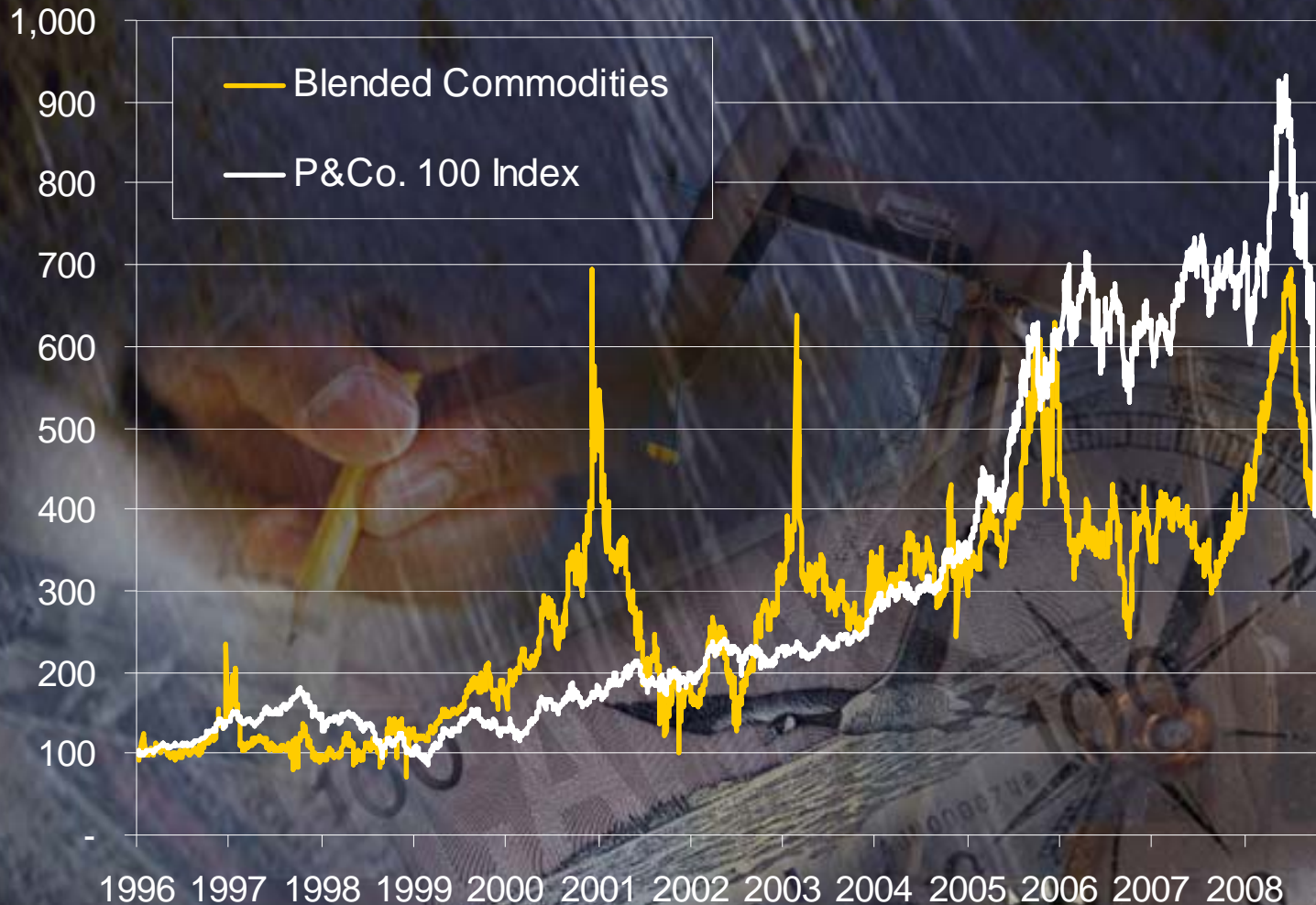
My New Scenario

- Global recession has set back the date for the **collision** of slowly growing supply and faster-growing demand
- Lots of impacts from this setback – alternative energy; hybrid/electric cars; conservation
- Markets do a better job of short-term events and crises than long-term ones
- The long-term energy supply/demand challenge has essentially not changed (unless one's forecast is for depression)

Implications For Oil & Gas Companies

- Oil and gas and oilfield services share prices, over time, tend to reflect the underlying commodity prices

Commodity and Share Relative Price Performance

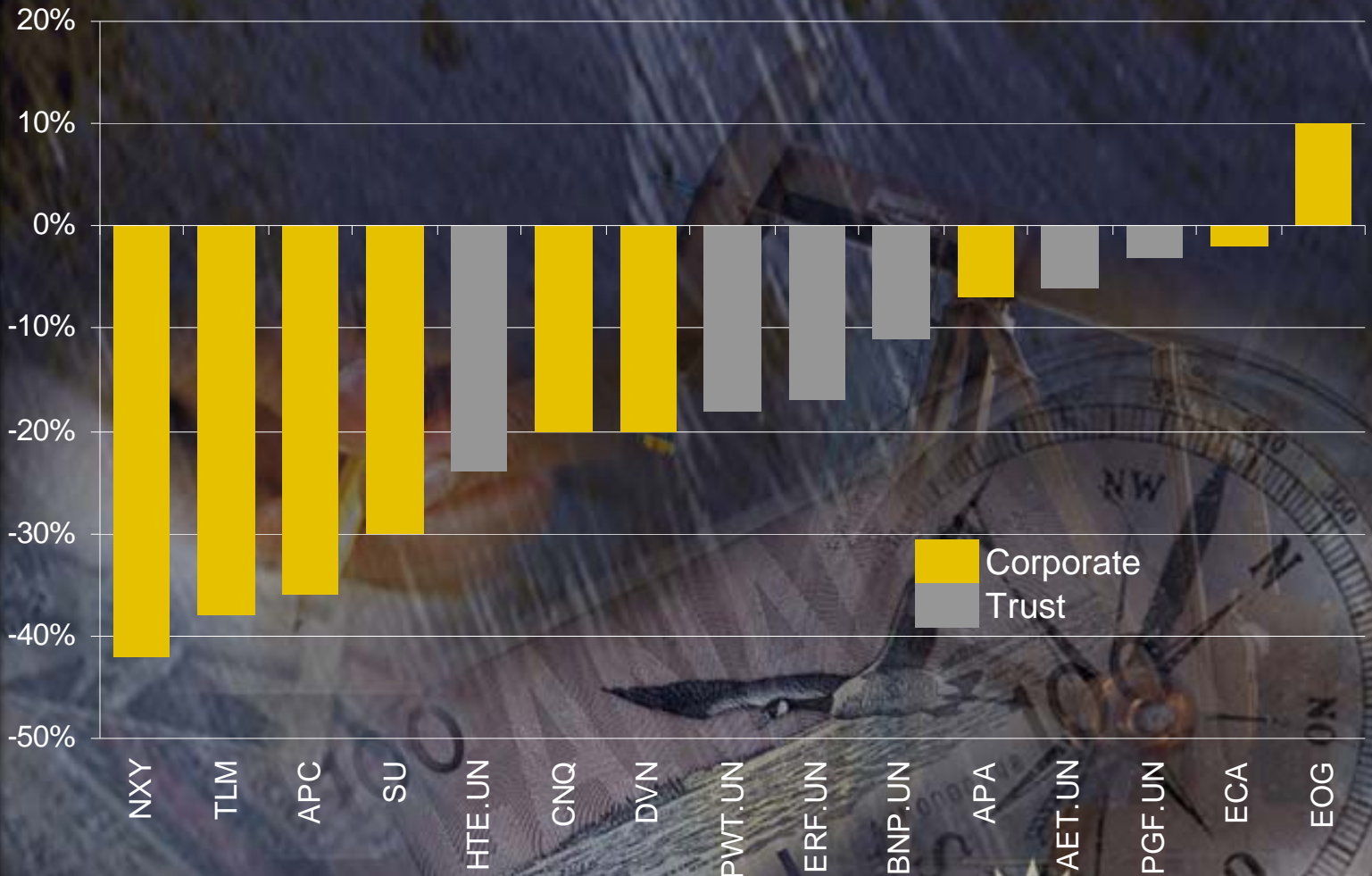


Note: Commodities are blended 25% light oil, 25% heavy oil and 50% natural gas

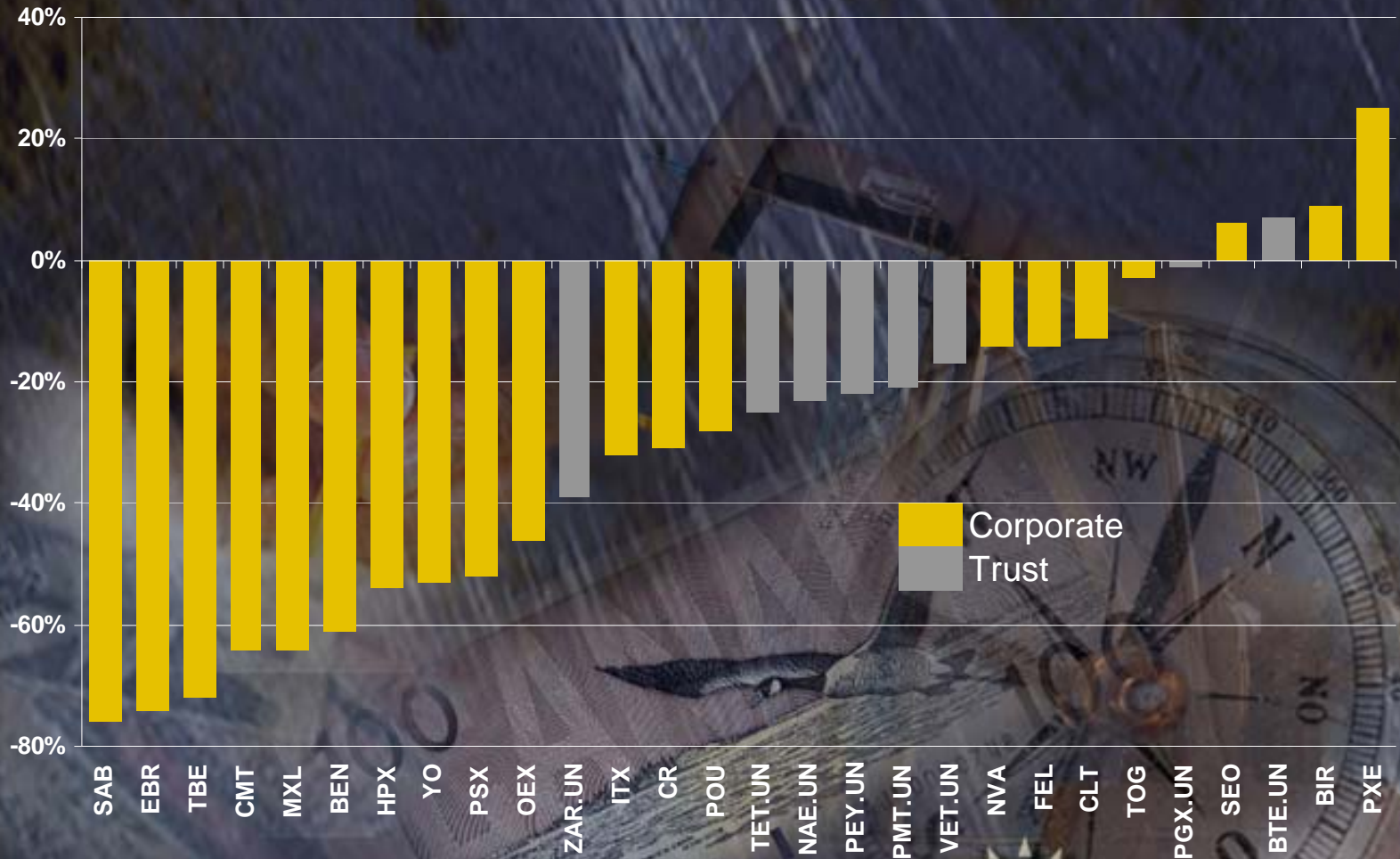
Implications for Oil and Gas Companies

- Thus – shares are appropriately valued if commodity prices stay in current ranges
- Undervalued – if you believe in the supply/demand “collision” when the economy revives
- Overvalued – only if commodity prices “crash” from here

Premium/Discount to After-tax NAV as at October 20, 2008 (over 50 MBOE/day)



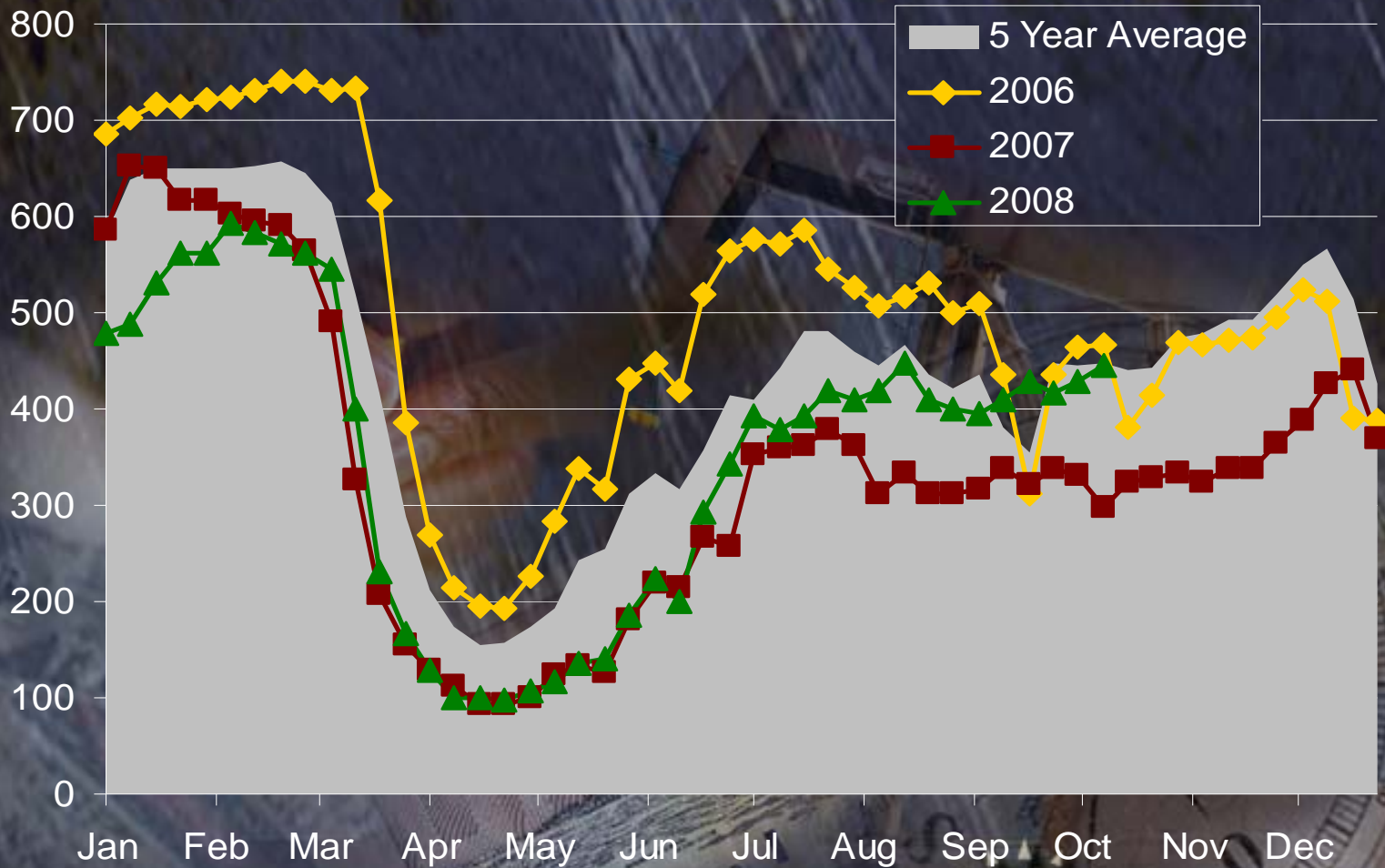
Premium/Discount to After-tax NAV as at October 20, 2008 (under 50 MBOE/day)



Major Market Concerns

- Market is very skeptical of companies with major capital requirements over and above cash flow, cash balances, and established credit lines (oil sands; North Sea; any major project; unless in very strong hands)
- Investors and acquirors still having lots of trouble with oil and gas price forecasts – What forecast is reasonable and prudent?
- Previous forecasts of a major recovery in oil field services in Q4/2008 and Q1/2009 are becoming more subdued

Western Canadian Rig Count – Number of Rigs On Track with Five Year Average

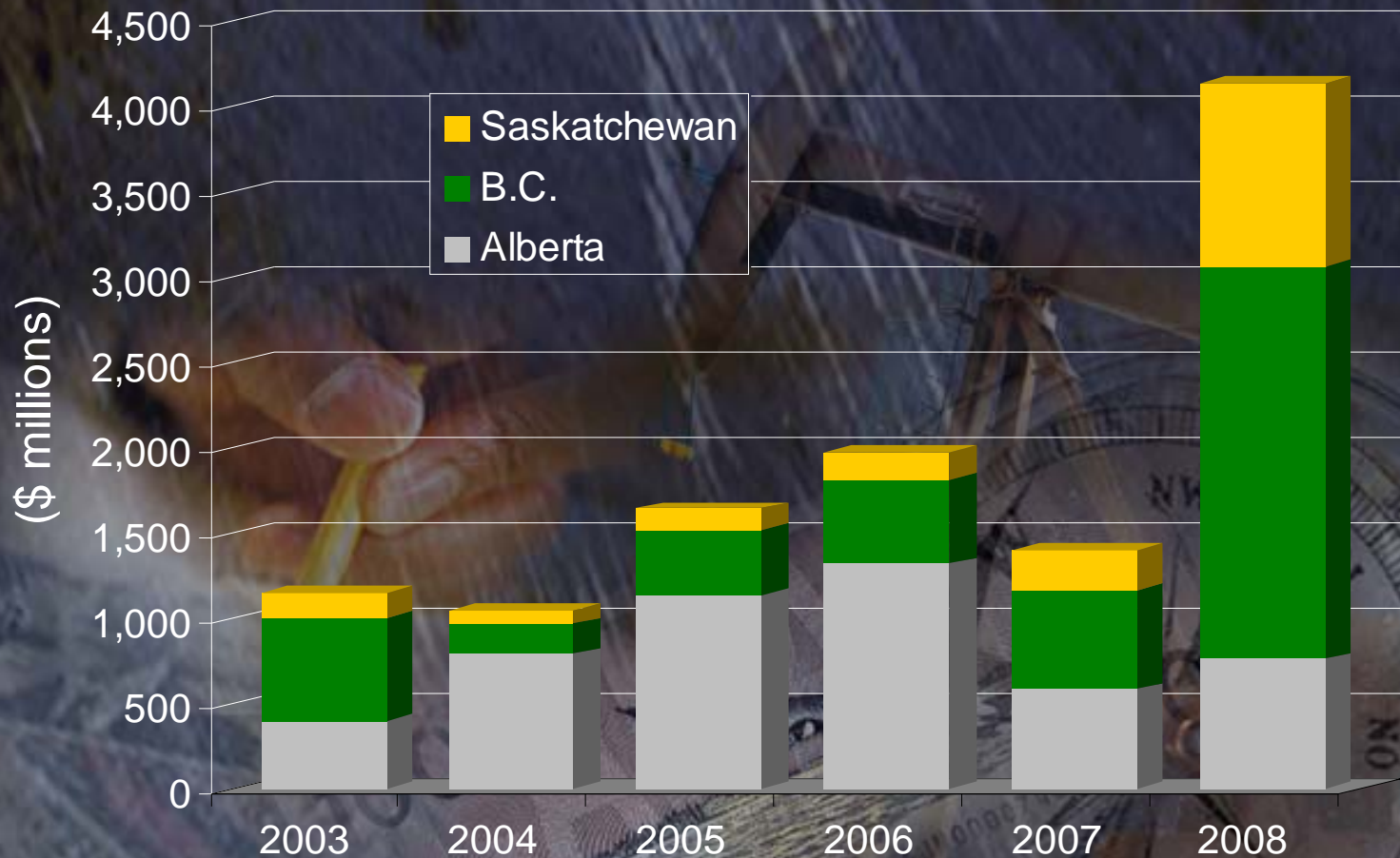


Major Market Concerns

- Some worries about Alberta land sales and conventional oilfield activity levels in 2009
- Land prices lower because companies bid based on the “total return” (including new royalties)
- B.C. and Saskatchewan have some of the “hot” plays

Year-to-Date Western Canada P&NG Land Sales

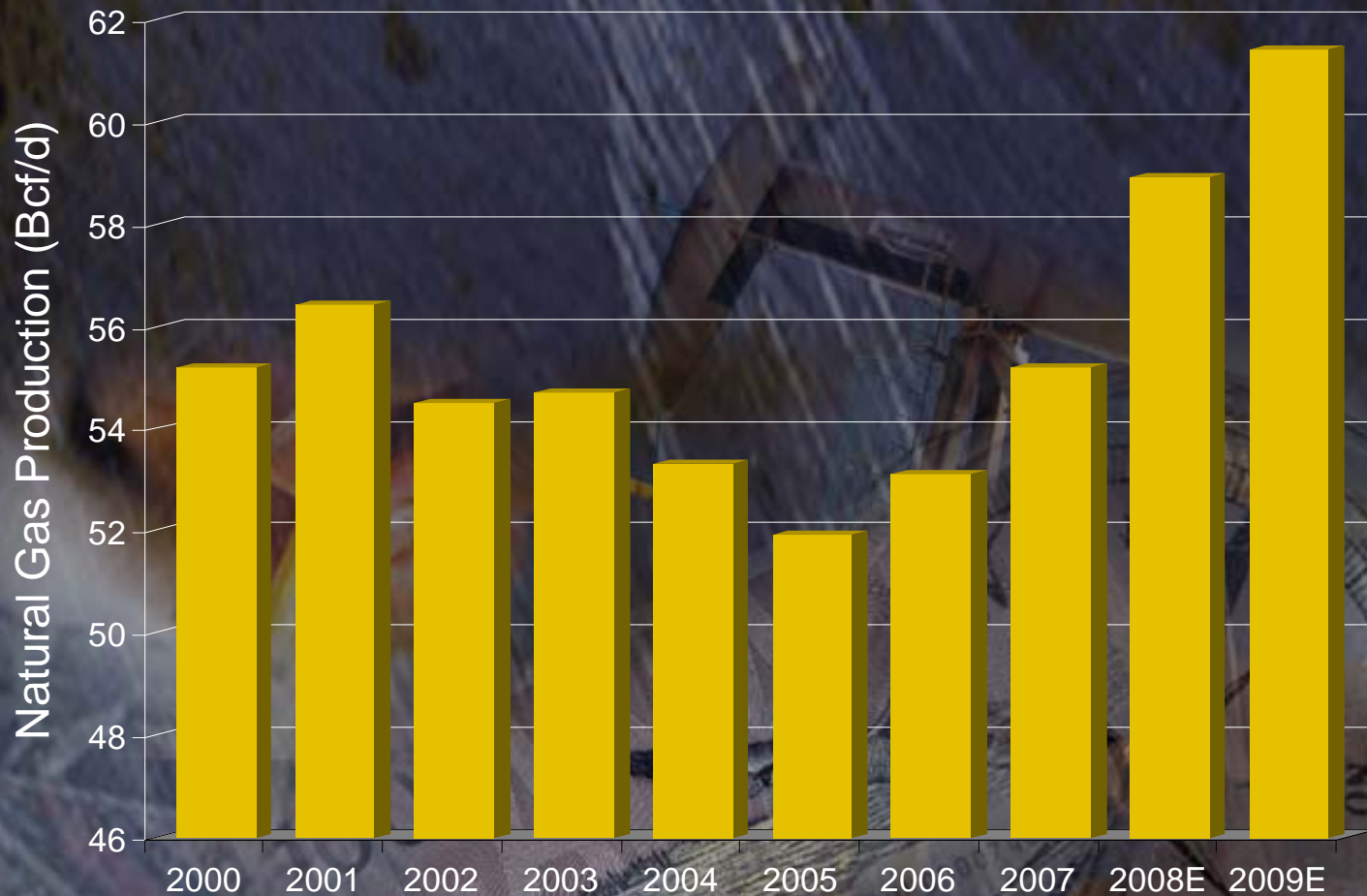
Lots of Capital to B.C. and Saskatchewan



Major Energy Market Concerns

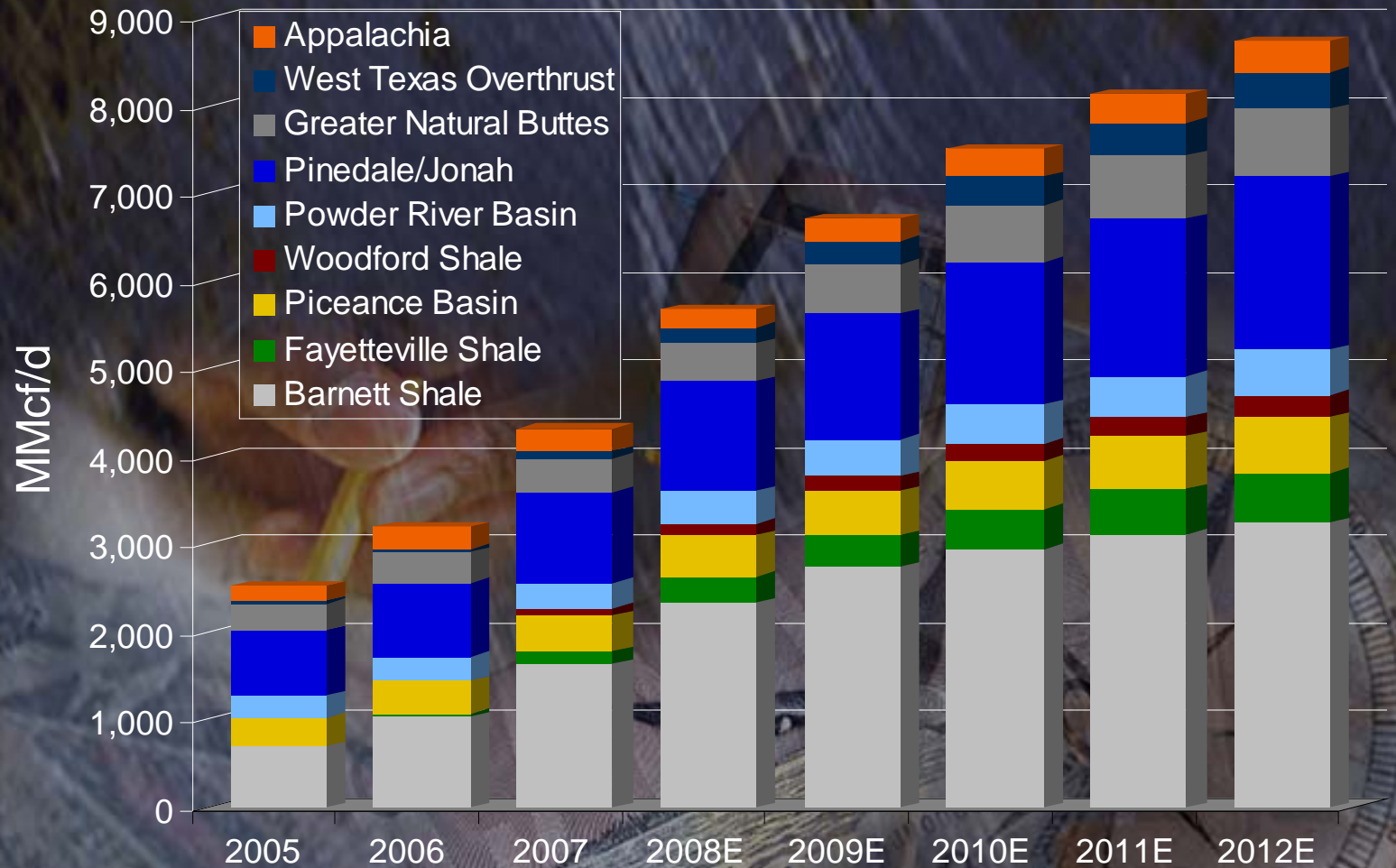
- Some worries about natural gas prices for 2009
- Significant additions to U.S. reserves and production in recent years - effectively capping prices
- LNG in North America less of a worry, though, as it is more attracted to Asian and European markets by higher prices

US Marketed Natural Gas Production



Source: Energy Information Administration

US Natural Gas Production by Region



Source: Energy Information Administration

“Most Probable Case”

- One to two somewhat subdued years in the oil and gas industry; then back on the prior track
- Not a disaster for the next two years; just less buoyant
- Lots of opportunities coming out of this, but care is needed in trying to capture them
- Businesses and individuals need to watch their liquidity first; debt will be reduced in many sectors of the economy
- Those with long-term money (pension funds, endowments, large corporations) can start finding new investments, any time now, and “average in”
- Most others will likely wish to see more evidence of the “bottom”, and the time frame to recovery

Conclusion

“So it’s one more round for experience
And I’m on the road again
And its going to take some time this time”

Carole King

Michael J. Tims

October 22, 2008