

# INVESTING IN SMALL-CAP OIL & GAS COMPANIES

You can do it. **We can help.**

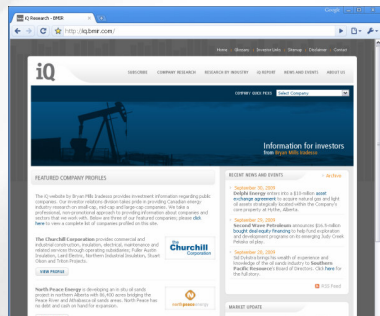
Calgary Small-Cap Conference  
October 6, 2010

Geoffrey Vanderburg  
Editor, iQ Report  
Bryan Mills Iradesso

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## What is Bryan Mills Iradesso?

- Full-service financial communications firm
- 50 full-time staff in Calgary and Toronto
- Locally focused on the energy sector
- Services include research, investor relations, branding, presentations, websites and corporate communications



iq.bmir.com

## Our investor relations clients include:

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Churchill Corporation  
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Delphi Energy Corp.  
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# iQ

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QUARTERLY REPORT

- Every quarter we produce an iQ report for investors comparing the results of junior and intermediate oil and gas companies
- Free subscription available <http://iq.bmir.com>
- The report helps fill an information void for investors as they search for investment opportunities and the story behind the story



James Cameron On Canada Oil Sands: 'Time To Put The Brakes On It'



no.203.078

**Oil and gas land sales break record in A**

High oil inventories could mean new lows

**Government lowers royalties**

Plunging natural gas prices chill sector

**Energy boom erupts  
along great arc of continent**



# TSX Small Cap – 10 Years



31.2%



32.2%

# TSX Energy Index – 10 years



83.8%

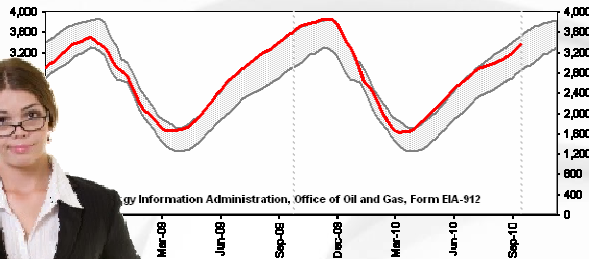


166.4%

## Natural gas storage trends higher

Stocks are 202 Bcf above the 5-year average of 3,212 Bcf

Working Gas in Underground Storage Compared with 5-Year Range

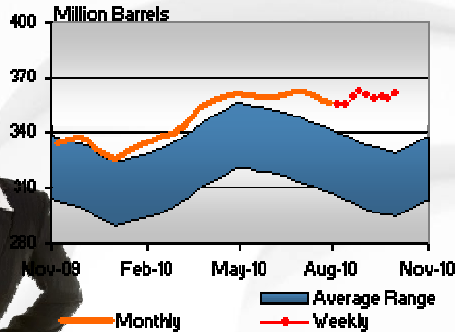


Energy Information Administration, Office of Oil and Gas, Form EIA-912



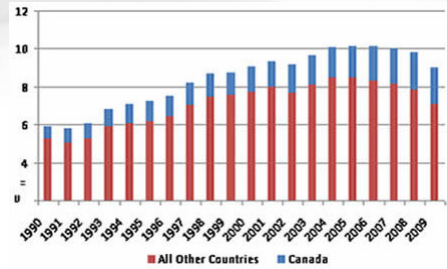
## Oil inventories trend to 20-year high

U.S. Crude Oil Stocks



## Increasing crude oil exports to the U.S.

- Canada is the U.S.'s largest foreign source of oil
- Over the last decade, the share of U.S. crude oil imports from Canada has increased from 13 percent.



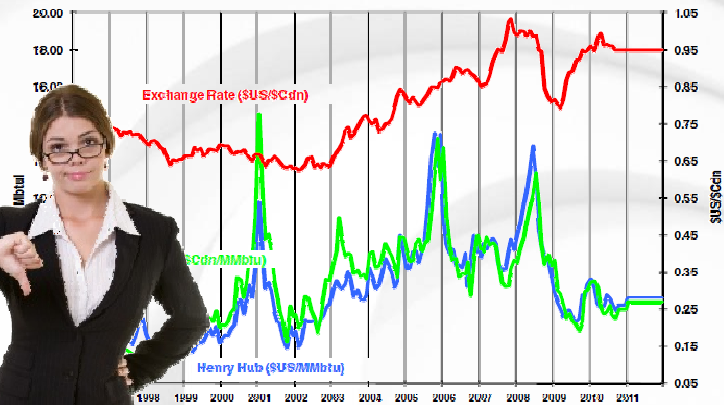
## Oil price trend

Oil Price History and Forecast

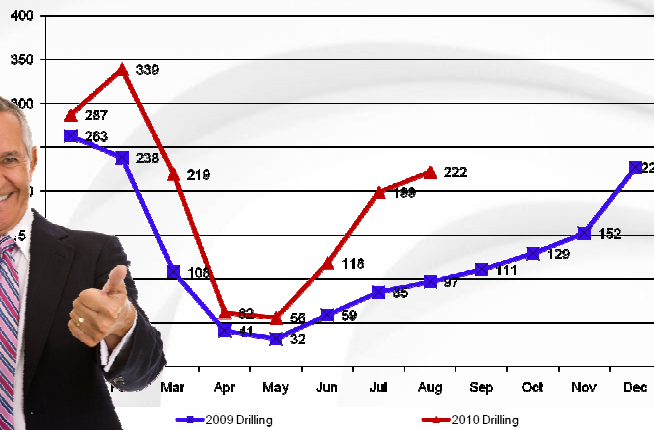


## Natural gas price trend

Natural Gas Price History and Forecast



## Alberta drilling activity trend



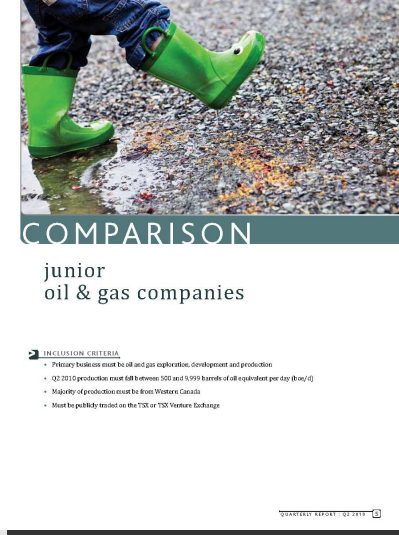








## The 59 juniors



## Where does the data come from?

- Production amounts → Management's discussion and analysis
- Debt calculation → balance sheet
- Expense breakdown → earnings statement
- Cash flow from operations → statement of cash flows
- Share count → notes to financials



## Most meaningful metrics

### Short-term

- Debt to cash flow
- Enterprise value vs production
- Enterprise value vs cash flow

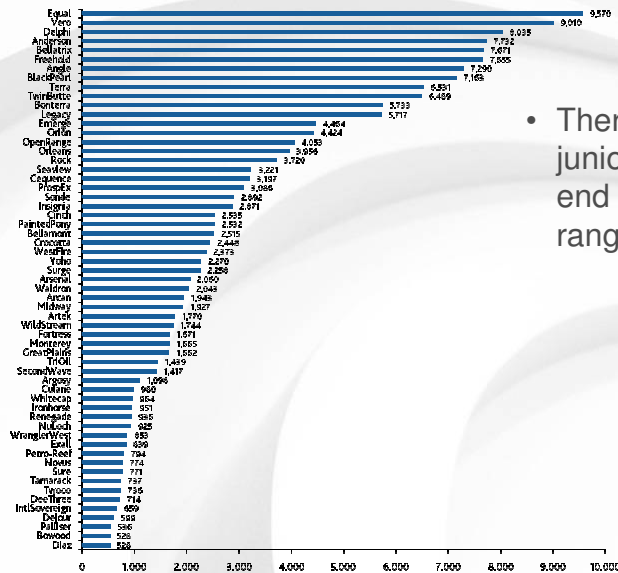
### Long-term

- Depletion, depreciation and accretion per boe
- Cash flow netback

## Less meaningful metrics

### Earnings

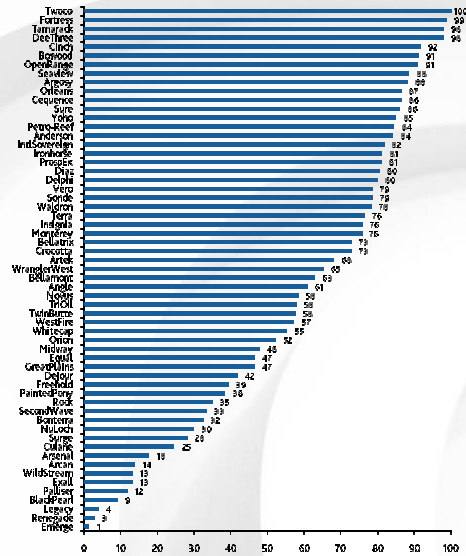
## Q2 production



- There are many more juniors at the bottom end of the production range than at the top

## Q2 gas weighting

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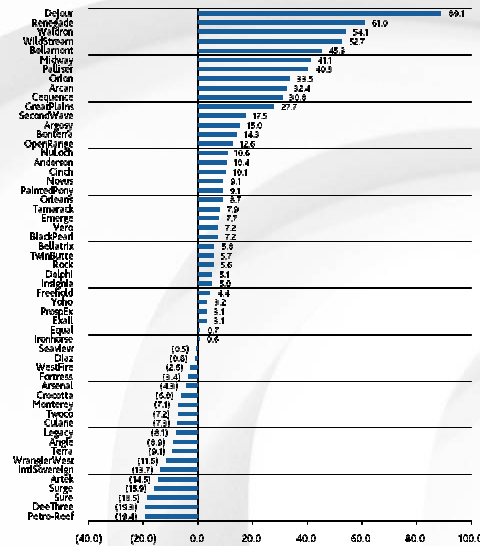
The median natural gas weighting is declining:

- 75% in Q3 2009
- 71% in Q1 2010
- 65% in Q2 2010

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## Q2 change in production

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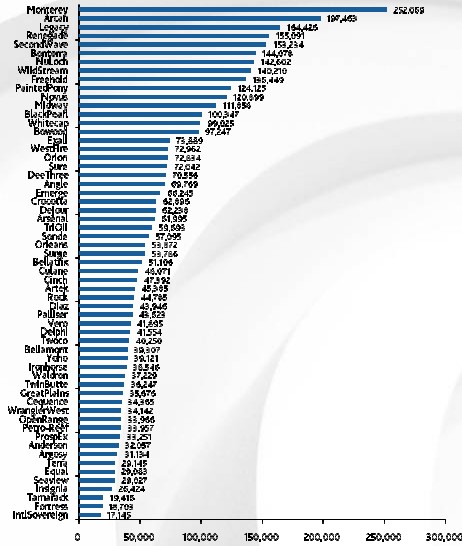
Median = 5.6%

- Increasing production is not easy to do due to natural decline rates of approximately 20 percent

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## Q2 enterprise value

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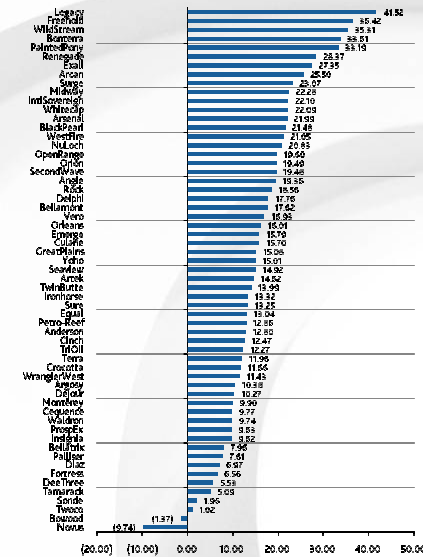
Median = \$51,106 boe/d

- Companies that are high on this chart may be there because investors deem them to have strong growth prospects.
- The median intermediate had an enterprise value of \$63,949/boe

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## Cash flow netback

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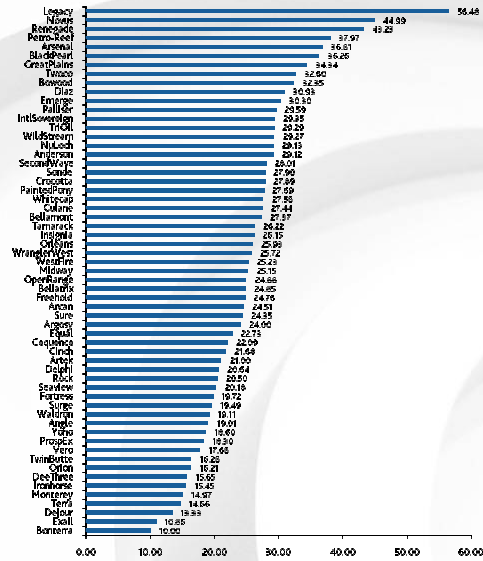
Median = \$14.92/boe

- Companies near the top of this chart are seeing the most economic benefit from existing production.

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## DD&A per boe

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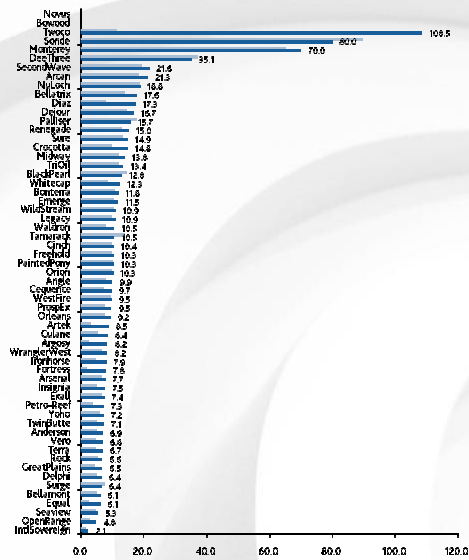
Median = \$25.15

- Depletion, depreciation and accretion expenses are a writedown of assets as they are used up
- DD&A are an approximation of finding, development and acquisition costs

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## Q2 cash flow multiple

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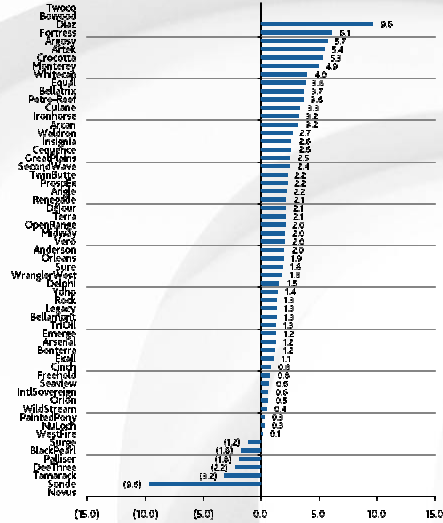
Median = 7.7 times

- The market capitalization to annualized cash flow multiple changes based on the market's view of a company's prospects.

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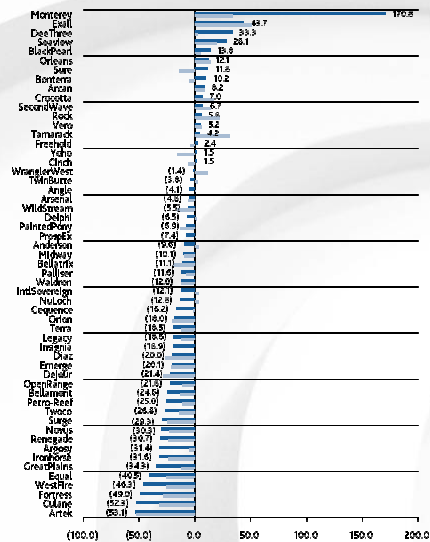
# Q2 net debt to cash flow



Median = 2.0 times

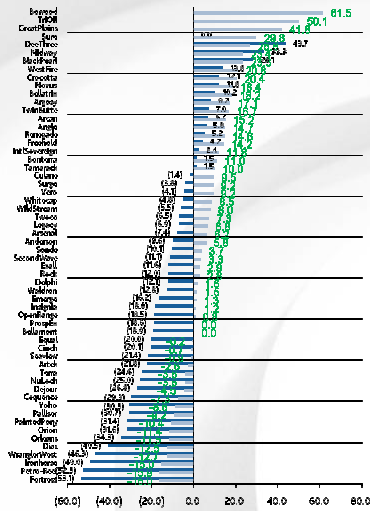
- Shows how long it would take in years to become debt free if cash flow remained steady

# Total return

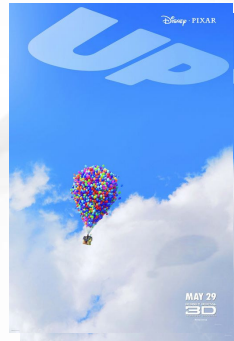


Median = -11.1% from April through August

# September 2010 return



Median = 4.8%  
TSX Composite = 3.5%



# How to pick the perfect play

Dig deeper than the platitudes



People

Finance

Assets

Momentum

## People power

- ☑ Have they done it before?
- ☑ Are their interests aligned with shareholders?
- ☑ Do they offer the right blend of expertise?
- ☑ Are they decisive?
- ☑ Do they under promise and over deliver?

## The bottom line

- ☑ What is the debt position?
- ☑ Are their financial reports easy to understand?
- ☑ Who are the significant investors?
- ☑ Is the company able to live within its means?
- ☑ Does the company offer a capitalization advantage for potential mergers and acquisitions?

## All set with assets

- ☑ What are the netbacks (margins)?
- ☑ How big are the reserves/resources?
- ☑ Is there repeatability?
- ☑ What are the risks?
- ☑ Who are the neighbours?

## Show me the momentum

- ☑ Are the company's assets wells positioned?
- ☑ Does the management team like to do deals?
- ☑ Is there a track record of drilling the right wells?
- ☑ Is the company able to execute?
- ☑ Is the company telling its story to investors?

## Things to remember about small-caps

1. Reward is risky
2. Knowledge is power
3. You can do it, but get professional help



## Disclaimer

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