INDUSTRIAL ALLIANCE SECURITIES INC.

Small-cap conference presentation
Oct 2014

ELIAS FOSCOLOS – ANALYST ENERGY SERVICES - OCT 2014

A partner you can trust

INDUSTRIAL ALLIANCE
SECURITIES INC.

Profile of Industrial Alliance

Industrial Alliance

- **Founded in 1892**
- **4th Largest life and health insurer in Canada**
- **Over $94 billion in assets under management & administration**
- **Over 4,400 employees**
- **Market capitalization of approximately $4.5 billion (IAG – TSX)**

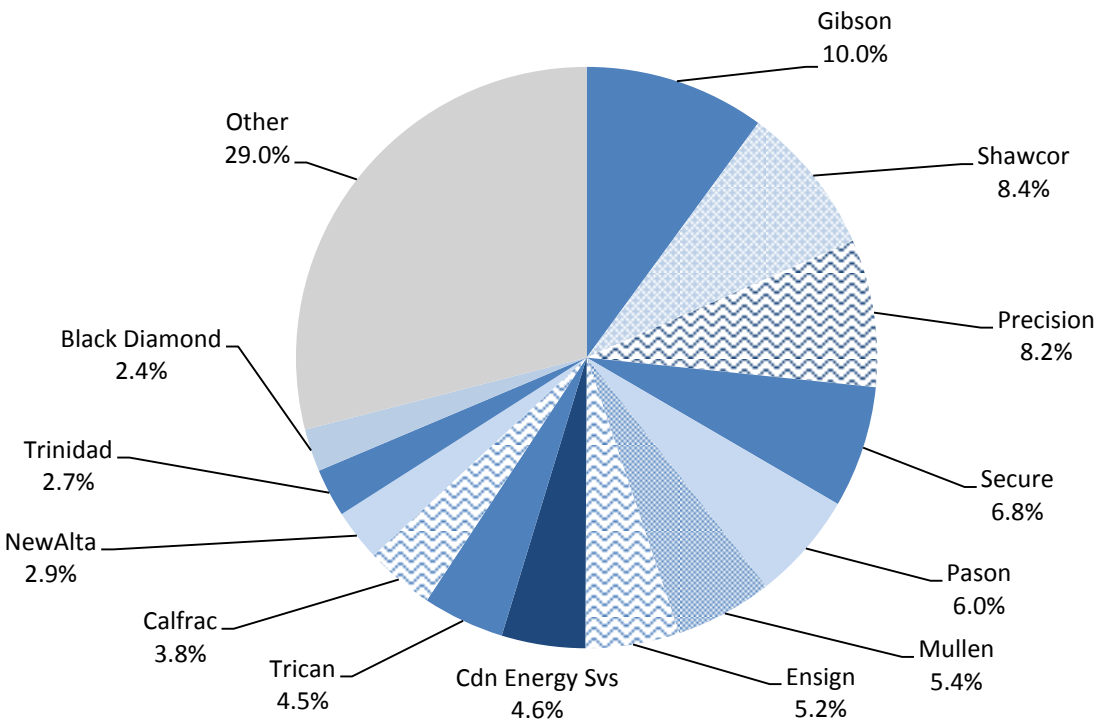
Industrial Alliance Securities

- **A fully-integrated investment dealer with national presence**
- **Capital markets group comprising:**
  - ***Equity Research 10 Analysts - (Energy, Non-Bank Financials, Consumer Products, Industrial Technology, Mining)***
  - ***Sales & Trading***
  - ***Fixed Income***
  - ***Investment Banking***
- **Retail Services Offering:**
  - ***An extensive full-service retail brokerage network with over 250 registered investment advisors across Canada***

What are Energy Services?

- **Energy service companies support energy producers (ex. Suncor.. Imperial Oil.. to small producers)**
- **Currently there are approximately ~65 companies on TSX and TSXV that could be classified as energy service companies.**

WEIGHTING OF ENERGY SERVICE COMPANIES - SEPT 30/14



SOURCE: INDUSTRIAL ALLIANCE SECURITIES

What Kinds of “Services” are Provided?

Most investors would assume energy service companies are drilling companies or drilling related – this not true.

- **Drillers** **(Precision, Trinidad – not covered by IA)**
- **Drilling Related** **(CEU, DAL, HWO, MXX, PSD, SDY, CFL, MTL)**
- **Production Related** **(CEU, CCZ, CMG, EFX, LSI)**
- **Transport** **(DAL, MTL)**
- **Technology/Software** **(CCZ, PSD, CMG, MXX, MCB, PSI, PSD)**
- **Manufacturing** **(EFX, MCB, SDY)**
- **Rental** **(CFL, SDY)**

Many energy service companies have operations outside Canada

- **US** **(CEU, CCZ, EFX, LSI, MXX, MCB, PSI, SDY)**
- **International** **(EFX, HWO, MCB)**

The Macro Picture: The World

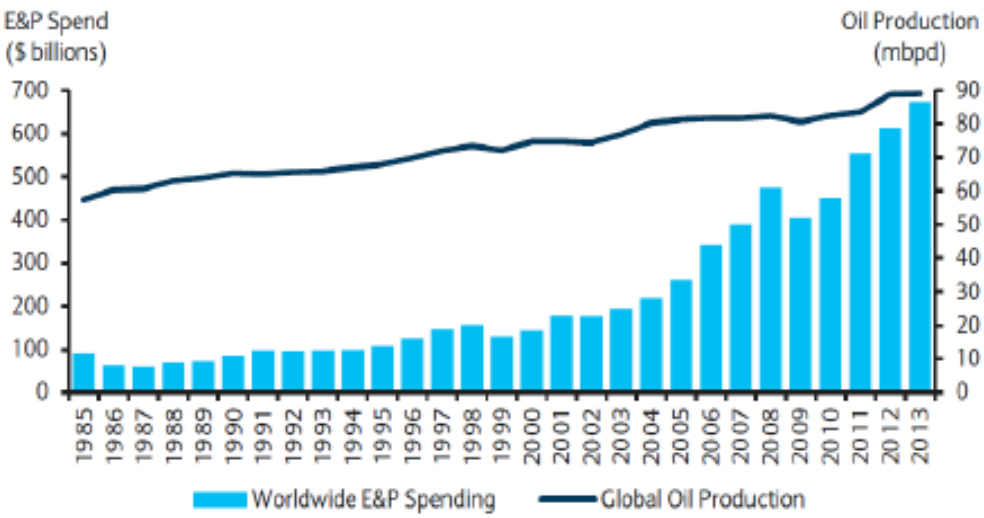
On a global basis more money than ever is being spent on finding, developing and producing conventional & unconventional energy reserves while production is only "inching" upwards.

Additionally, wew production is expensive and it is depleting

Worldwide E&P Capital Spending By Company Type/Region, 2012-2013

($ in Millions)	2012E	2013E	% Change
North America			
U.S. Spending	138,718	139,634	0.7%
Canada Spending	44,431	44,696	0.6%
Total North America:	**$183,149**	**$184,330**	**0.6%**
International			
Supermajors (Int'l Spending)	93,844	102,210	8.9%
North American Independents (Int'l Spending)	21,192	20,083	-5.2%
Latin America	63,263	72,819	15.1%
India, Asia & Australia	93,318	103,620	11.0%
Middle East	26,936	29,826	10.7%
Russia	47,109	50,346	6.9%
Europe	45,012	47,670	5.9%
Africa	23,586	24,639	4.5%
FSU/CIS	1,063	1,201	13.0%
Other	5,715	7,213	26.2%
Total International:	**$421,038**	**$459,627**	**9.2%**
Worldwide Spending:	**$604,186**	**$643,957**	**6.6%**

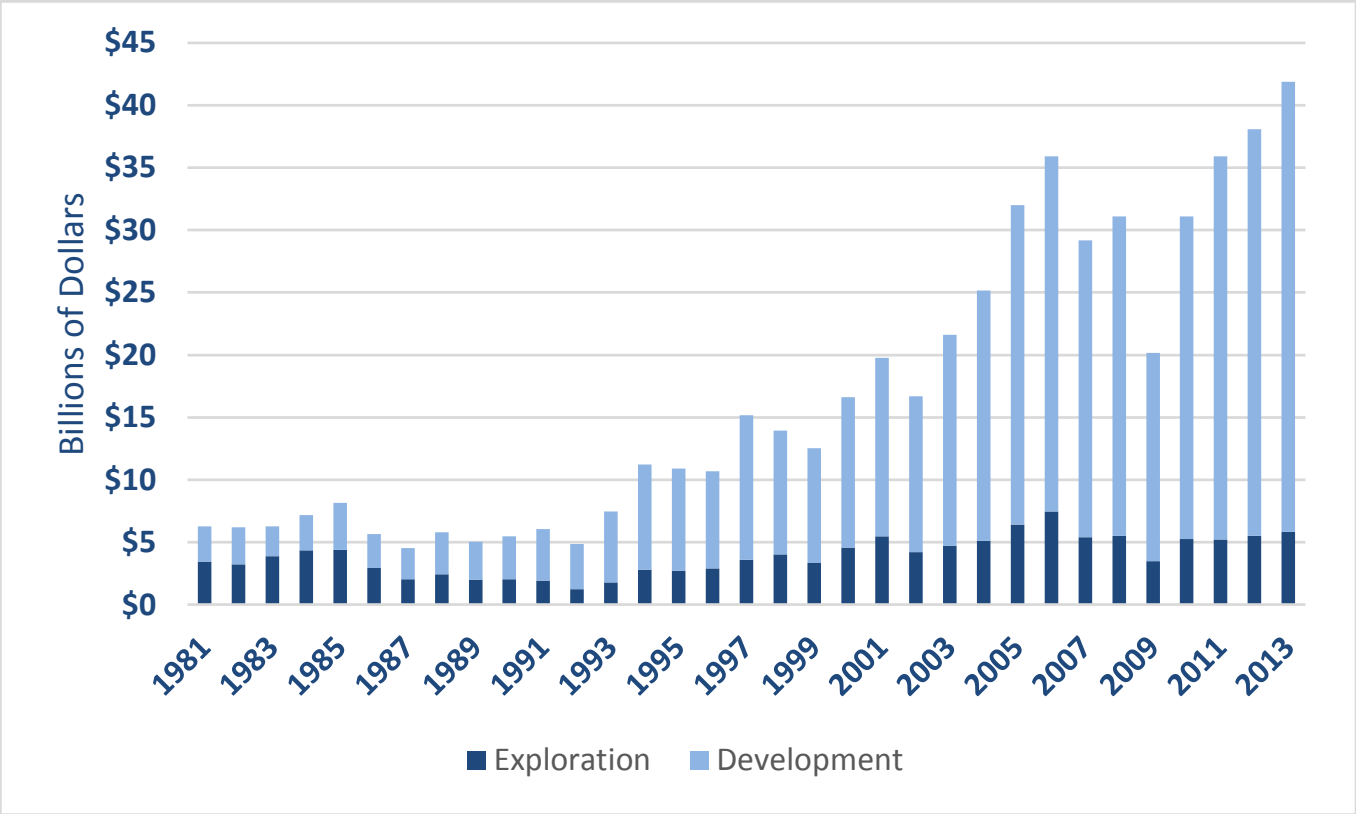
Source: Barclays Research



The Macro Picture: Canada

Canadian spending is following the global trend in upward spending

Spending in Canada on Exploration and Production



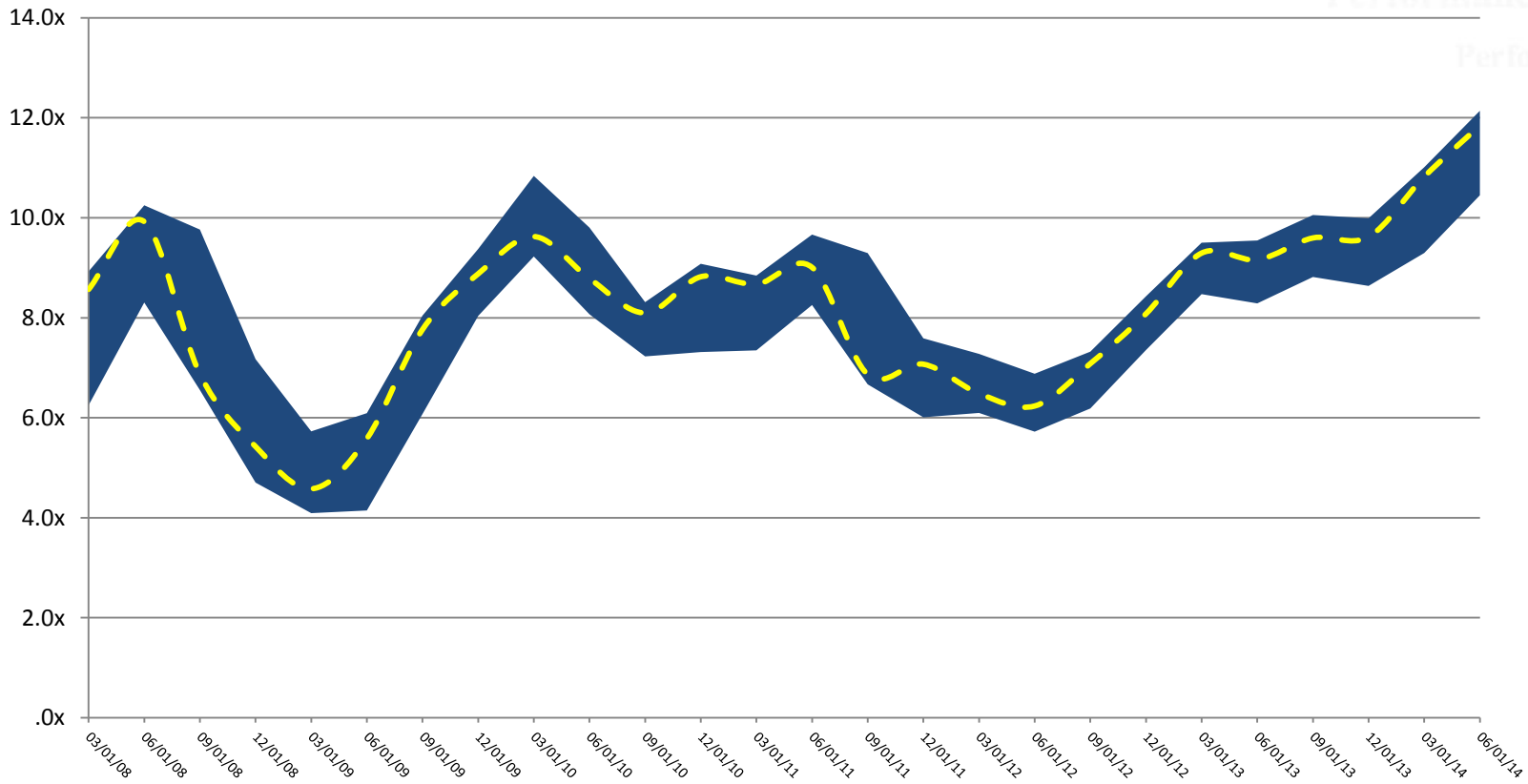
SOURCE: INDUSTRIAL ALLIANCE SECURITIES & CAPP

What are Distinguishing Features of Energy Service Companies?

- **Make money (Earnings & EBITDA)**
  - **All of companies under coverage have EBITDA, the majority have earnings.**
- **Rarely issue equity**
- **High inside ownership**
- **Pay dividends**
  - **Virtually all TSX listed pay dividends (within IA's coverage universe 11 of 11 TSX stocks pay dividends)**
  - **The larger TSXV also pay dividends (within IA's coverage universe 1 of 4 TSXV stocks pay dividends)**
- **Technology Driven**
  - **Many companies are world leaders in their field.**
- **Geographically diverse streams of revenue**
  - **MCB ~95%, EFX ~75% , CEU ~62%, PSI ~70% of revenue outside Canada**

How do the Stocks Trade, Fundamentals?

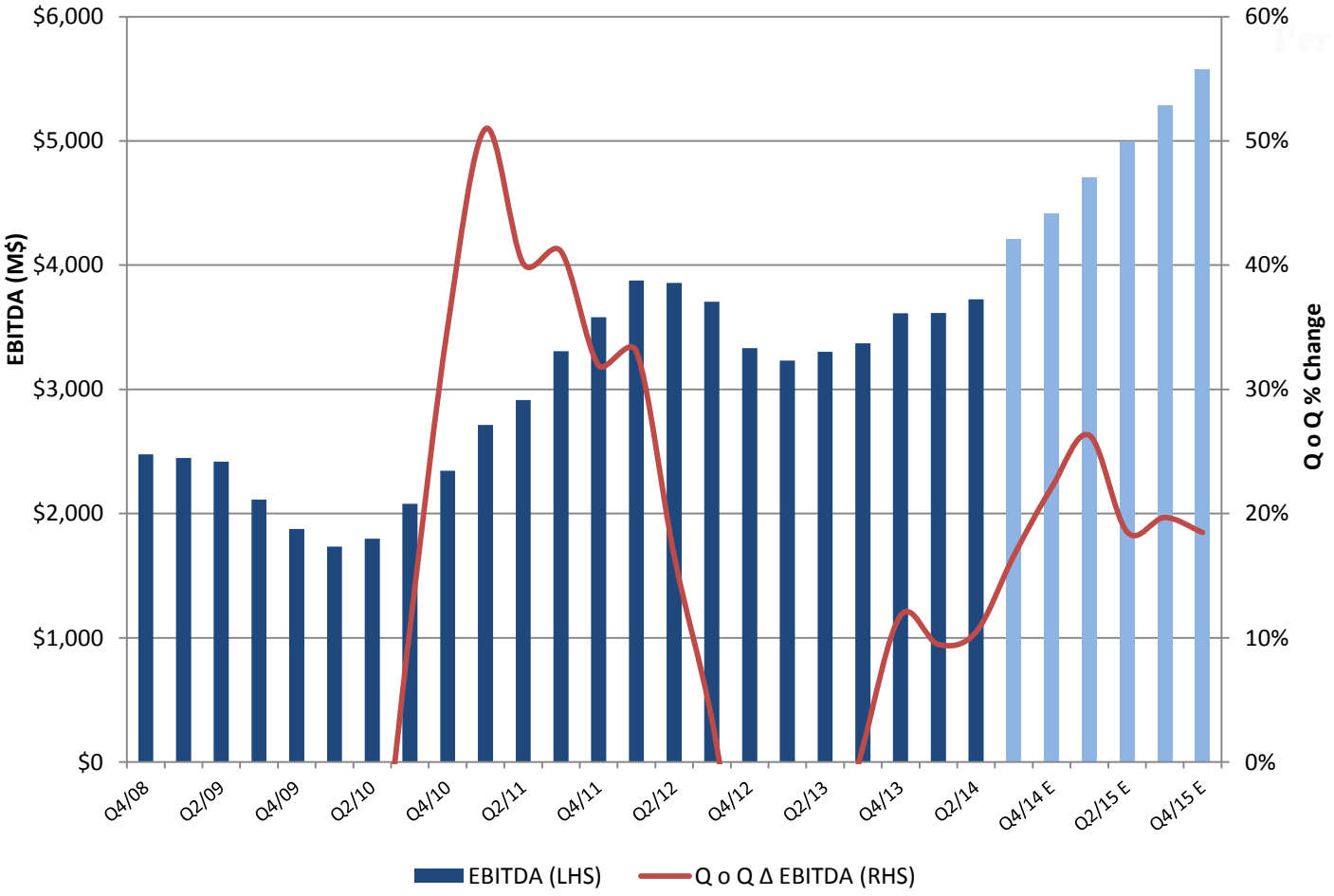
EV/EBITDA Multiple Looks Rich ….. but



Source: Industrial Alliance Securities - Sept Energy Services Synopsis

How do the Stocks Trade, Fundamentals?

EBITDA IS PROJECTED TO GROW.



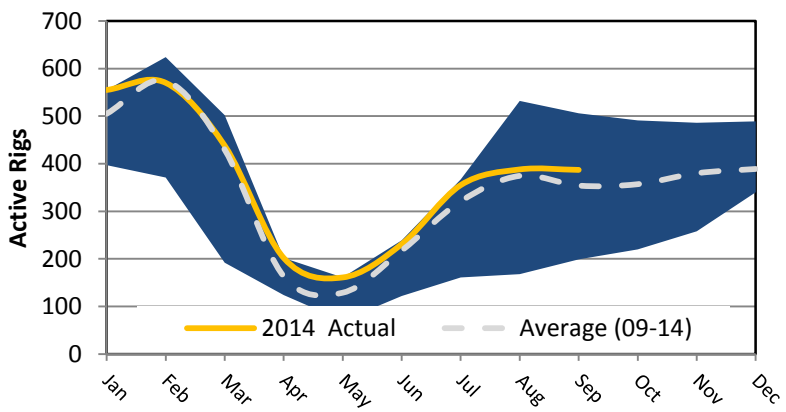
SOURCE: INDUSTRIAL ALLIANCE SECURITIES - SEPT ENERGY SERVICES SYNOPSIS

What Drives EBITDA ~ Rig Count

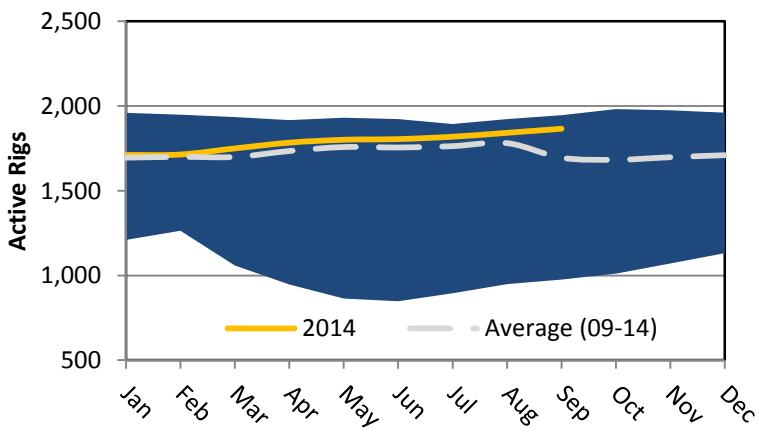
Commodity Prices → E&P Company Spending → Rig Count → Production → Service Co's EBITDA

- **Canadian rig counts have cyclicality, while US rig counts are more stable throughout the year.**

CANADIAN RIG COUNTS



US RIG COUNTS

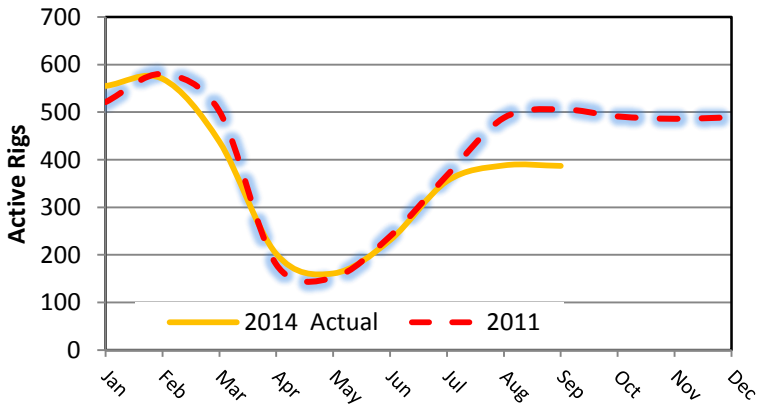


SOURCE: INDUSTRIAL ALLIANCE SECURITIES, CAPP, BAKER HUGHES - SEPT ENERGY SERVICES SYNOPSIS

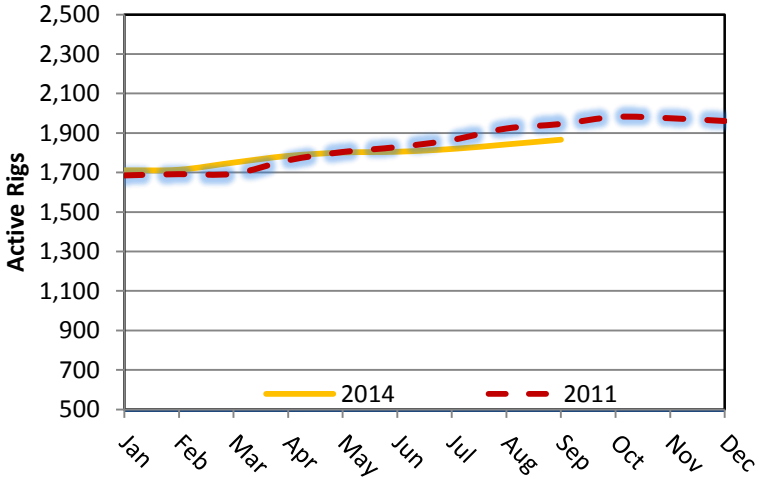
Rig Count in Canada and US

- **The best year for energy service companies was 2011.**
- **In Canada, until recently rig count was on track for a record second ½ of year, but the upward trend stalled in July**
- **US rig counts are still trending higher**

CDN Rig Counts 2014 vs 2011



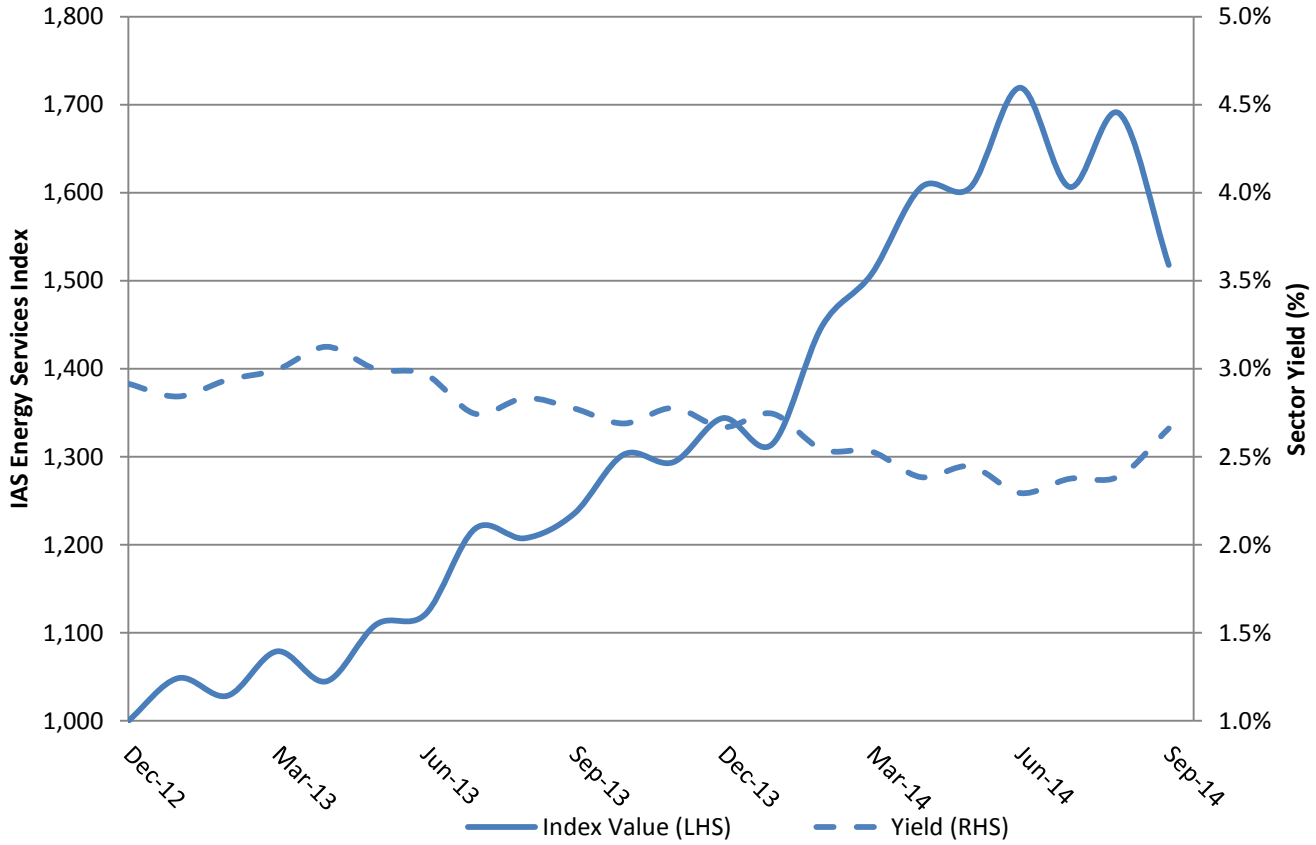
US Rig Counts – 2014 vs 2011



Source: Industrial Alliance Securities, CAPP & Baker Hughes

How Have Stocks Performed?

INDUSTRIAL ALLIANCE ENERGY SERVICE INDEX 31/12/12 – 30/9/14



SOURCE: INDUSTRIAL ALLIANCE SECURITIES

IA Coverage Universe as of Oct 3rd

INDUSTRIAL ALLIANCE ENERGY SERVICE COVERAGE UNIVERSE

Company	Ticker	Price ($/sh)	Yield (%)	Target Price ($/sh)	Projected Return (%)	Rating	Analyst	Prev. Report Date
Canadian Energy Svcs	CEU	8.69	3.8%	8.25	-1%	Sell	E. Foscolos	14/8/2014
CERF Inc.	CFL	3.10	7.7%	4.00	37%	Buy	E. Foscolos	1/10/2014
Computer Modelling Grp.	CMG	11.31	3.5%	17.50	58%	Buy	S. Li	14/8/2014
CriticalControl	CCZ	0.44	0.0%	1.00	127%	Spec Buy	S. Li	12/8/2014
Dalmac Energy Inc.	DAL	0.38	0.0%	0.50	32%	Spec Buy	E. Foscolos	30/09/2014
Enerflex Ltd.	EFX	18.46	1.6%	24.00	32%	Strong Buy	E. Foscolos	8/8/2014
High Arctic Energy Svcs.	HWO	4.36	4.1%	6.50	53%	Buy	E. Foscolos	14/8/2014
Lonestar West	LSI	3.00	0.0%	4.75	58%	Strong Buy	S. Li	2/9/2014
MATRRIX Energy Tech.	MXX	0.70	0.0%	1.20	71%	Spec Buy	E. Foscolos	2/9/2014
McCoy Global	MCB	5.40	3.7%	7.20	37%	Buy	E. Foscolos	17/9/2014
Mullen Group	MTL	24.70	4.9%	29.00	22%	Buy	E. Foscolos	19/8/2014
Pason Systems	PSI	30.58	2.2%	41.50	38%	Top Pick	S. Li	8/8/2014
Pulse Seismic Inc.	PSD	3.19	2.5%	3.70	18%	Buy	E. Foscolos	2/10/2014
Strad Energy Services Ltd.	SDY	4.87	5.7%	6.25	34%	Strong Buy	E. Foscolos	7/8/2014

As at October 3, 2014

SOURCE: INDUSTRIAL ALLIANCE SECURITIES

The elephant,

a symbol of our 120 years
of strength and solidity

INDUSTRIAL ALLIANCE
SECURITIES INC.