

# Canada – Asia Energy Cooperation Conference

## A Review of Asian Investment in Canada's E&P Sector: Economic Drivers and Current Challenges

September 8, 2011

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**Securities**

# TD Securities' Introduction

- **TD Bank Financial Group**

- \$665 billion in assets
- 2<sup>nd</sup> largest company in Canada <sup>1</sup>.
- 82,000 employees and 19 million customers
- One of only a very few major global banks with a AAA credit rating <sup>2</sup>.



## **Bank Financial Group**

- **TD Securities**

- Leading investment dealer in Canada
- Leading debt & equity financier to Canada's energy industry
- #1 in Canadian energy M&A last 5 years

- **TD Securities is #1 in the Oil Sands Sector**

- Leader in raising equity and debt capital
- #1 in trading oil sands stocks
- Leading research
- #1 in oil sands M&A

- **Advised on 4 of the 5 largest Canada-Asia energy deals in the past 2 years**

- CNOOC / OPTI 
- PTTEP / Statoil 
- KNOC / Harvest 
- PetroChina  / Athabasca






















1. By market capitalization  
2. Aaa by Moody's

# Economic Drivers & Current Challenges For New Investment
















**Securities**

# Asian Oil Sands Acquisitions

Acquirer	Date	Interest	JV or 100%	Value	Estimated Recoverable Resources
				(\$mm)	(mmbbl)
  JACOS Japan Canada Oil Sands Limited	1978	Farm-in on Nexen, Imperial & Petro-Canada	JV / 100%	n/a	~2,000
  <b>ENEOS NIPPON OIL CORPORATION</b>	1992	5% in Syncrude from Petro-Canada	JV	n/a	515
  中國海洋石油有限公司 CHINA NATIONAL OFFSHORE OIL CORR	2005	~17% of MEG	n/a	\$77	958
  Sinopec	"	40% in Northern Lights from Synenco	JV	\$105	440
  KOC Korea National Oil Corporation	2006	100% of Blackgold from Newmont	100%	\$308	353
  <b>INPEX</b>	2007	10% in Joslyn from Total	JV	n/a	210
  Sinopec	2009	10% in Northern Lights from Total	JV	n/a	110
  中国石油天然气股份有限公司 PetroChina Company Limited	"	60% in MacKay and Dover from Athabasca	JV	\$1,900	3,060
  Sinopec	2010	9% in Syncrude from ConocoPhillips	JV	\$4,657	930
  中国投资有限责任公司 CHINA INVESTMENT CORPORATION	"	45% in Peace River from Penn West	JV	\$702	900
  <b>ptt</b>	"	40% in KKD from Statoil	JV	\$2,300	1,240
  中國海洋石油有限公司 CHINA NATIONAL OFFSHORE OIL CORR	2011	Corporate acquisition of OPTI (35% Long Lake)	JV	\$1,997	1,829

Source: Company Reports, TD Securities

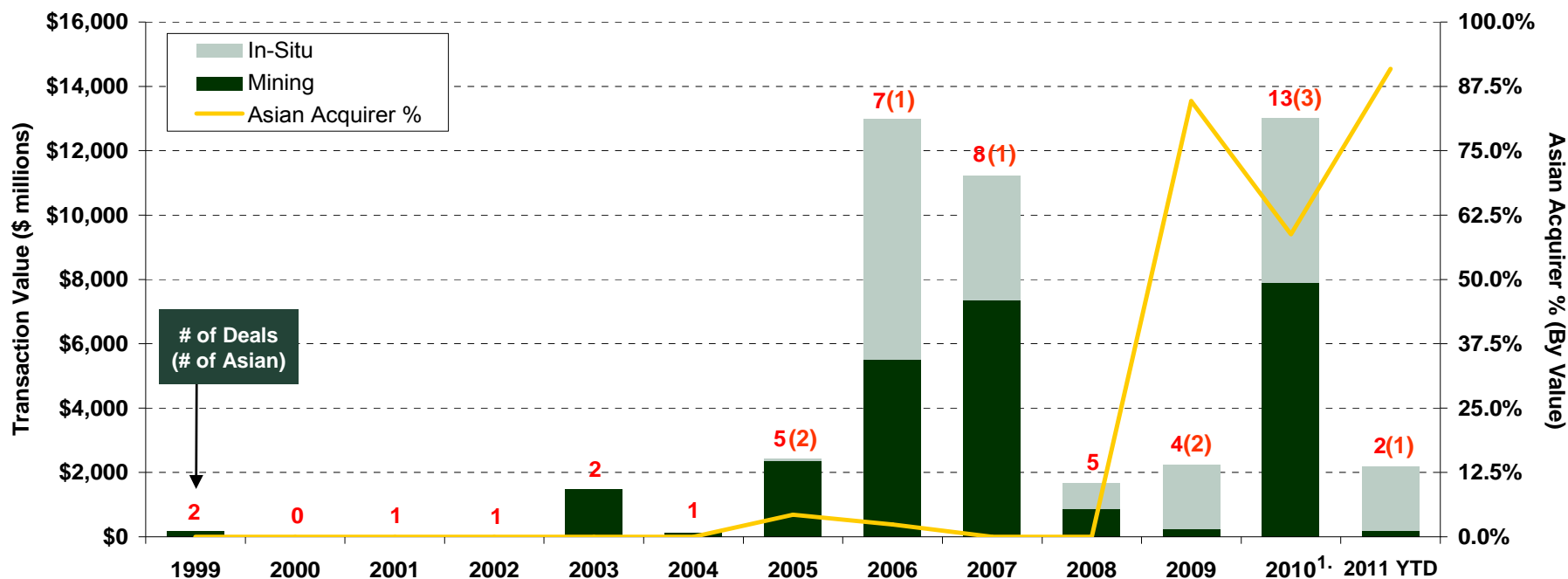
# Other Asian Canadian E&P Acquisitions

Acquirer	Date	Interest	JV or 100%	Value	Conventional Oil & Gas	Unconvent. Gas
 Hutchison Whampoa Limited 	1987	Corporate acquisition of Husky	100%	\$855	✓	
 Hutchison Whampoa Limited 	2000	Corporate acquisition of Renaissance	100%	\$2,608	✓	
  Korea National Oil Corporation	2009	Corporate acquisition of Harvest Energy	100%	\$4,148	✓	
  KOGAS KOREA GAS CORPORATION	2010	50% of Cutbank / Horn River from Encana	JV	\$533		✓
 Mitsubishi Corporation	"	50% of shale gas & other assets from Penn West	JV	\$428	✓	✓
  Korea National Oil Corporation	"	Hunt's Canadian assets	100%	\$521	✓	✓
  PETRONAS	2011	50% of Montney assets from Progress	JV	\$1,096		✓

Source: Company Reports, TD Securities

# Pace of Oil Sands M&A Activity 2011 YTD Has Been Slow

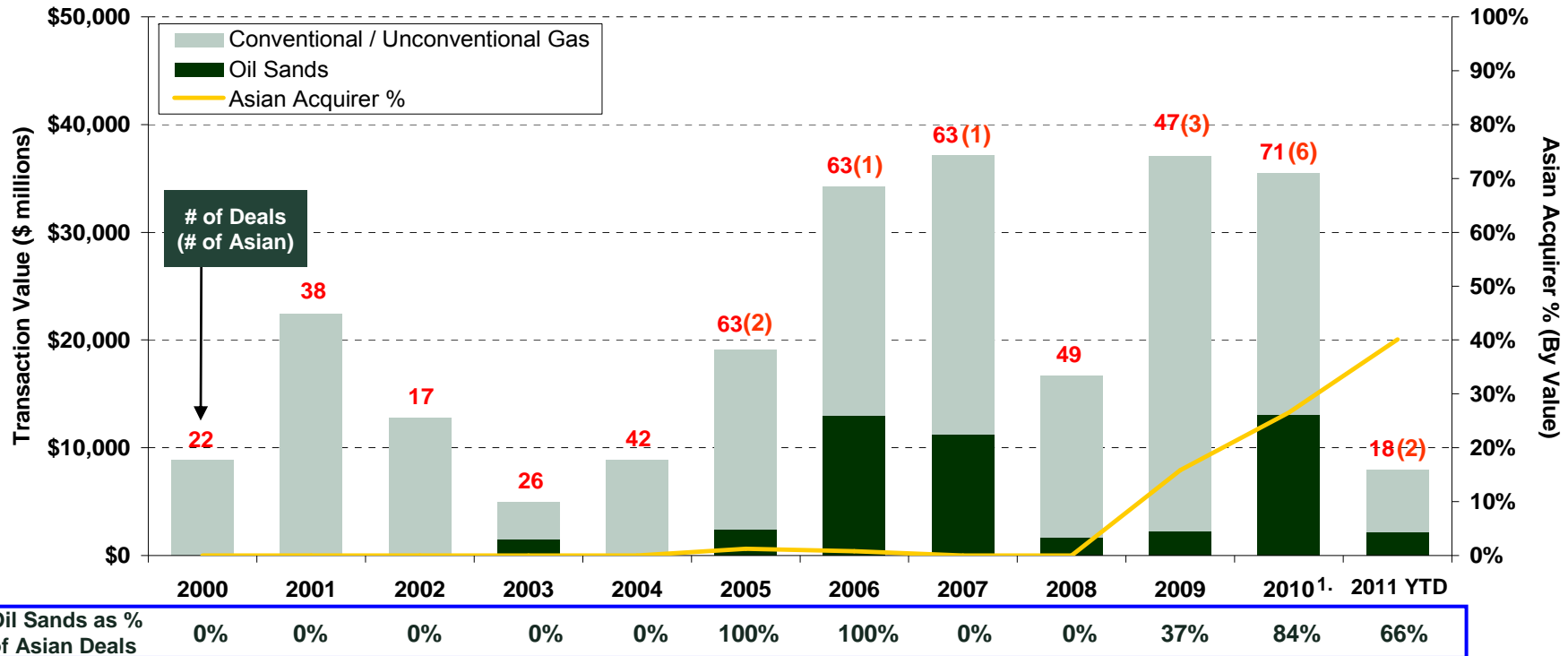
## Oil Sands M&A Transactions



- Direct investment by Asian companies in the oil sands had been negligible until 2008; since then their share of total activity has been very significant
- In the past 6 months there has been only 1 deal announced, CNOOC's US\$2.1 billion acquisition of OPTI Canada
  - Transaction notable as it represents the first corporate acquisition of a Canadian company with domestic energy assets (oil sands or otherwise) by a state-controlled Chinese entity

# Asian Buyers Increasingly Involved in Canadian E&P M&A

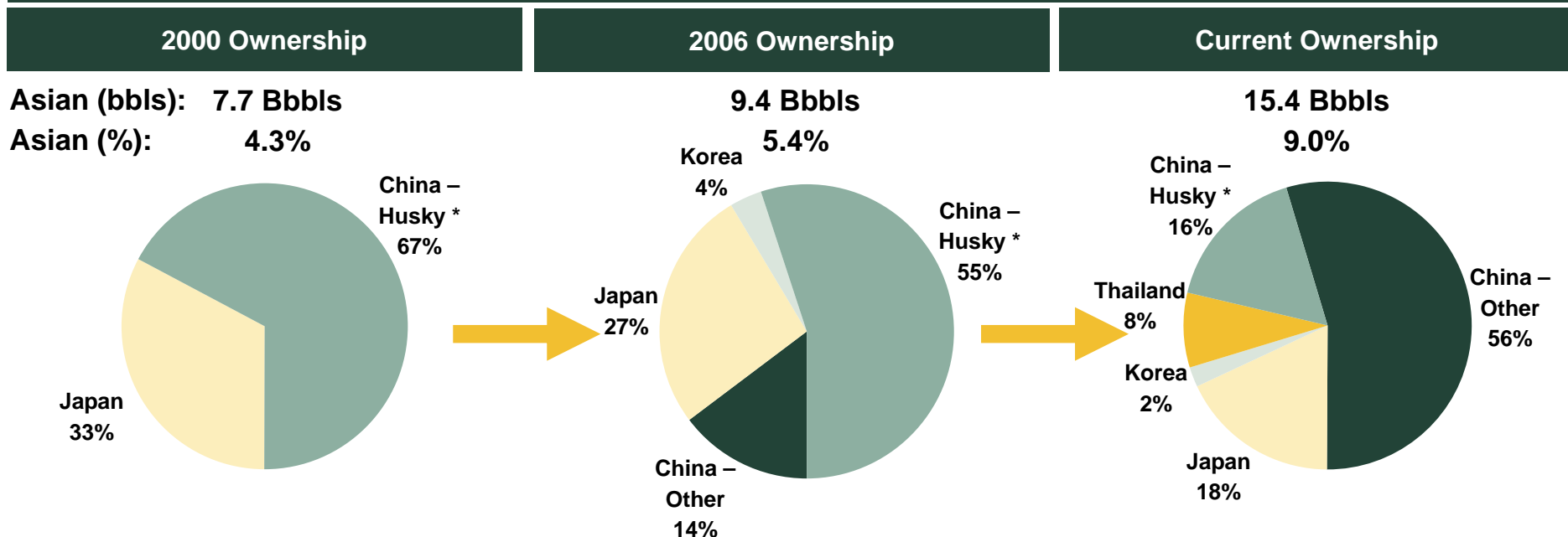
## Canadian E&P M&A Transactions



- The trend of Asian involvement is similar for all Canadian E&P M&A, with a significant pick up in activity starting in 2009
  - Asian acquirers as a % of total Canadian E&P activity is materially lower than for oil sands (~15% - 40% in last 3 years)
- In terms of % of total Asian E&P acquisitions represented by oil sands, it has ranged from ~37% to 84% in the last 3 years

# Asian Oil Sands Ownership is Diversifying

## Diversification of Asian Ownership in the Oil Sands



- Asian ownership has steadily increased over the past decade
  - Chinese ownership of the oil sands (excluding that held by Husky) has increased by the largest margin, with the most recent acquisition that of OPTI by CNOOC
  - Japanese ownership started in 1978 and remains relatively unchanged in terms of barrels
  - Since 2006 both Korea and Thailand have entered the oil sands with investments in in-situ projects
  - India still noticeably absent

Source: Based on 170 billion bbls of reserves per the ERCB's Alberta's Energy Reserves 2010 and Supply / Demand Outlook / Overview Report. Breakdown includes direct holdings and indirect pro-rata interests held by CNOOC in MEG and CIC in Teck.

\* Husky's is 70.7% owned by Hutchison Whampoa / Li Ka-shing



# Economic Drivers For Increased Investment in Canada Oil Sands by Asian Companies

1. Friendly investment environment in Canada
2. Oil sands represent ~50% of the “accessible” oil reserves in the world
3. Higher sustained oil prices starting in 2004-2005
4. Significant technological advances – both mining and SAGD – which have materially lowered the cost structure
5. High capital intensities / minimum project sizes better suited for lower cost of capital NOCs & IOCs
6. Long-term, non-declining nature of the resource, competitive fiscal (both tax & royalty) regime, etc.

## Economic Drivers For Increased Investment in Unconventional Gas Resources by Asian Companies

1. Huge amounts of undeveloped unconventional gas in Western Canada (shale and other)
2. Long-term LNG prices in Asia expected to be \$12-\$16/Mcf
3. North American, and Canadian, natural gas price outlook quite muted
  - Forward NYMEX curve below \$6/mmbtu – Canadian AECO even lower
4. Very healthy potential profit margin with expected costs to process and transport gas to Asia estimated at \$2-\$3/Mcf

# Major Challenges Investing in Oil Sands & Canada's Unconventional Gas Plays

## Oil Sands

1. Lack of pipeline export capacity out of Cushing area to Gulf Coast depressing prices of Canadian light & heavy crudes vs. their international peers
  - Situation expected to be corrected in next few years once new capacity built (either Keystone XL or other proposed projects)
2. Limited export capacity to US Gulf & Canadian West Coast
  - Proposed Keystone XL and Northern Gateway pipelines facing considerable regulatory, environmentalist and First Nations group headwinds
3. Pace of development, and expected cost escalation, picking up again
  - Increasing concerns regarding availability of skilled labour

## Unconventional Gas

1. Potential regulatory delays & opposition by environmental and First Nations groups