

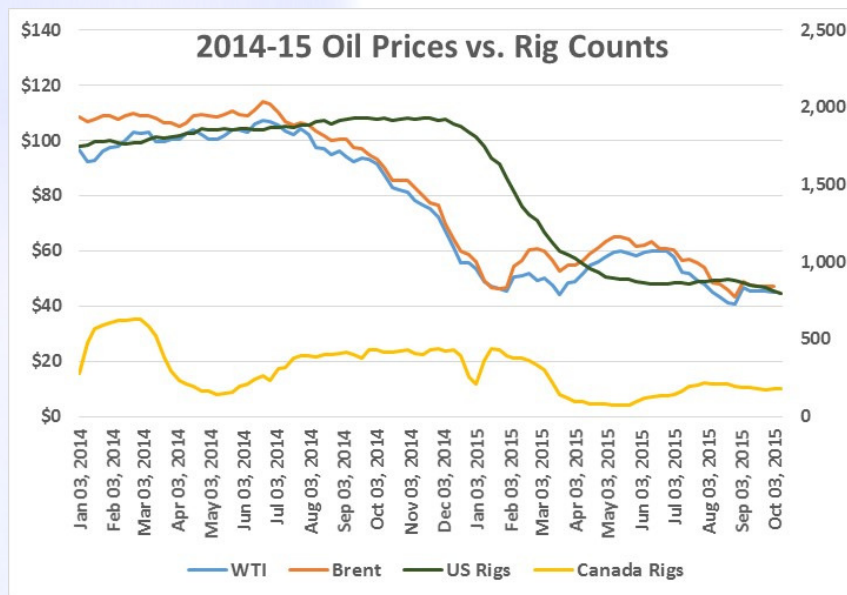
# Here We Are. Now What?

**Allen Brooks**  
Managing Director  
PPHB LP

Presented to:  
**ICoTA Canada Roundtable 2015**  
*October 21, 2015*



# How Did We Get To Where We Are?



- A recap of 2014 – 2015
  - Oil prices collapsed after OPEC meeting
  - Oil & Gas industry capex for 2015 fell 25-30%
  - Lower oilfield activity the result
  - Devastation the outcome
- What other factors were/are at work?
  - Canada's export situation
  - Alberta politics
  - US oil & gas output growth
  - Weak global economics

# Are Oil Prices At A Bottom? Where To Next?

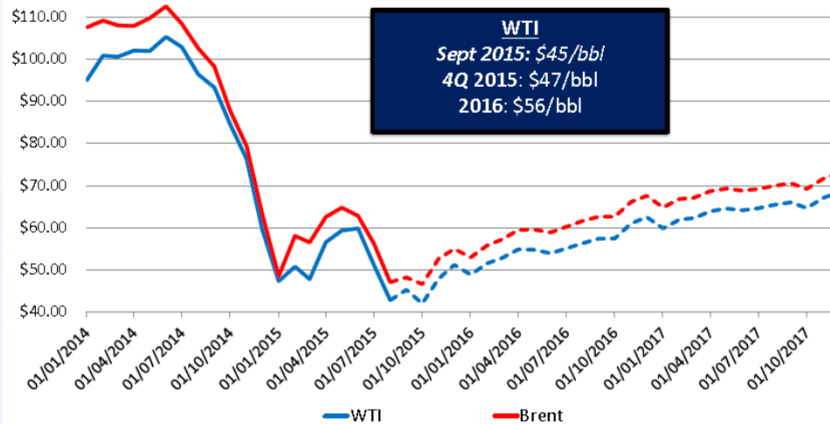
Here are a couple of views

Everyone sees higher prices – when; how high?

Further correction in mid-2015 will allow for beginning of recovery in 2016



2015 Price Forecast

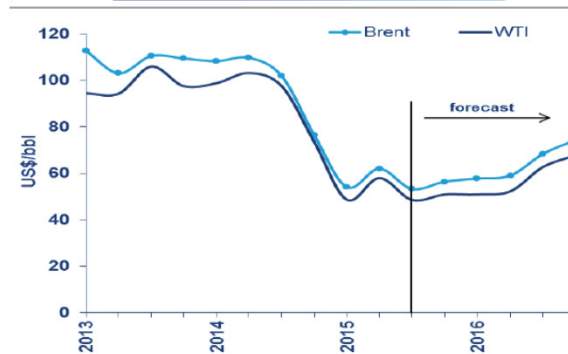


Source: BENTEK

72

Crude oil prices - Brent and WTI show moderate price recovery in H2 2016 as supply and demand rebalance

Quarterly nominal prices and forecast



Source: History - Argus, Forecast - Wood Mackenzie

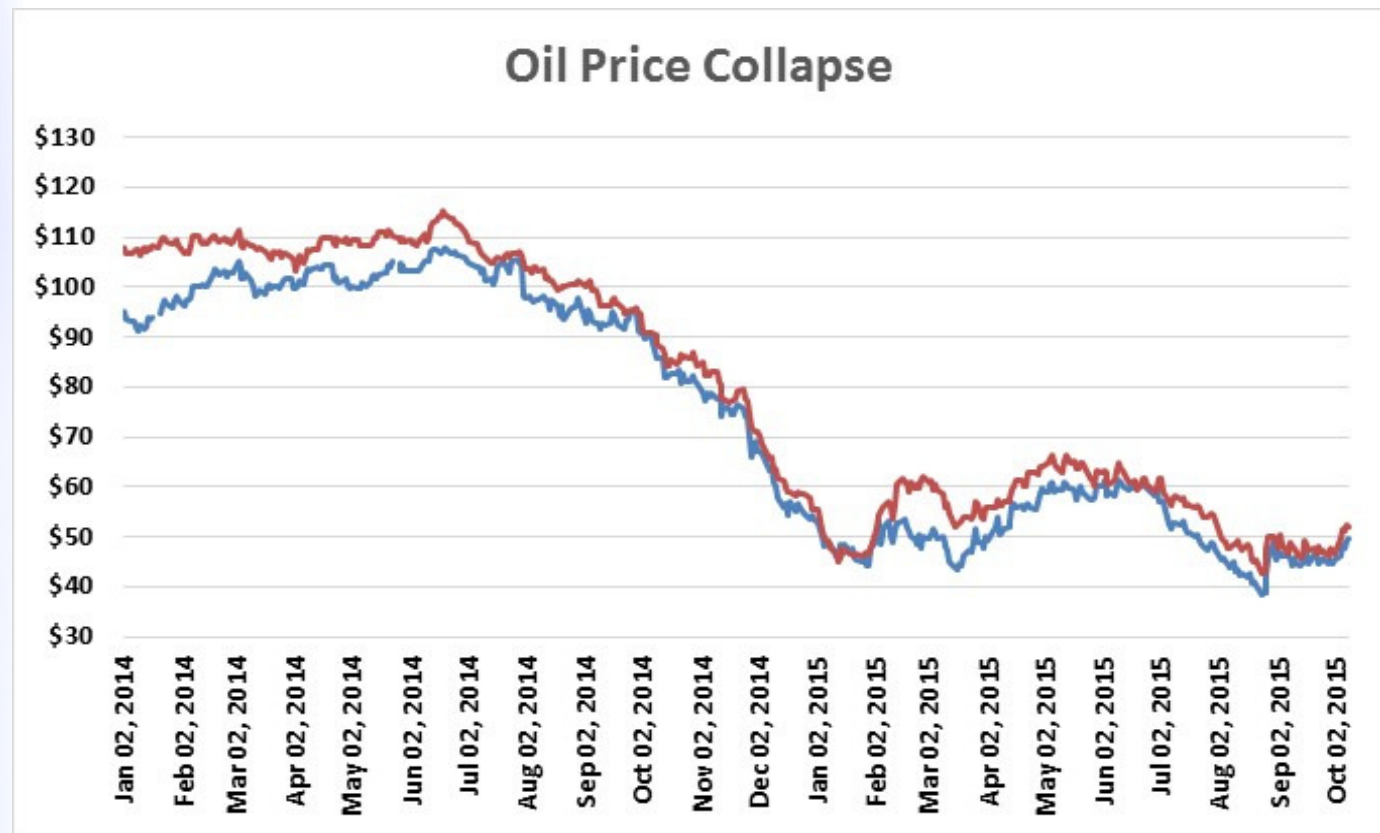
3 Trusted commercial intelligence  
www.woodmac.com



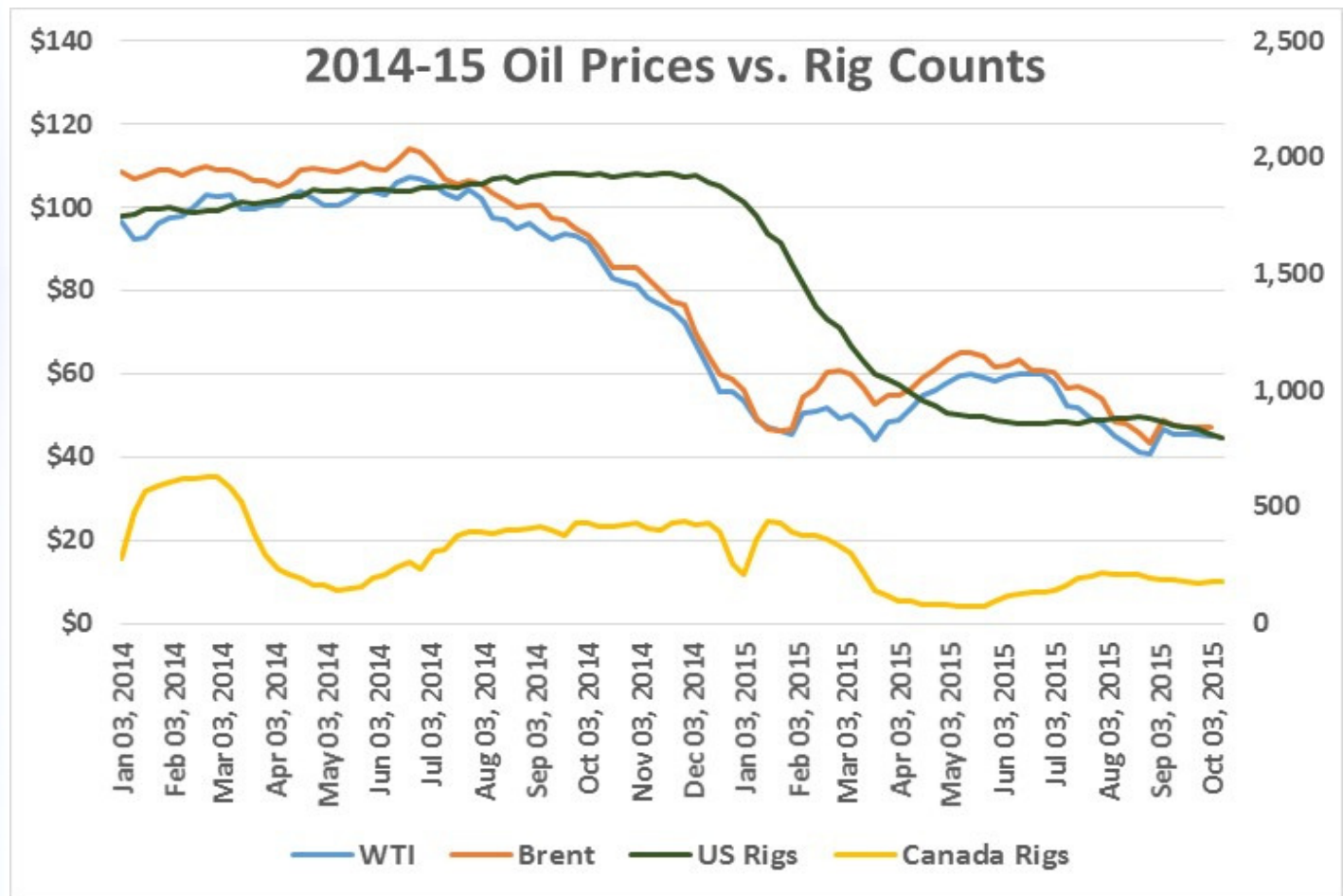
# Key Takeaways

- This cycle has been and will continue to be different from past cycles
- Global forces will play a greater role in the future of the industry
- Consolidation in the industry will be key to recovery
- Until consolidation, expect increased volatility
- Better days ahead – when is unclear but becoming more visible

# Understanding Why This Cycle Has Been Different

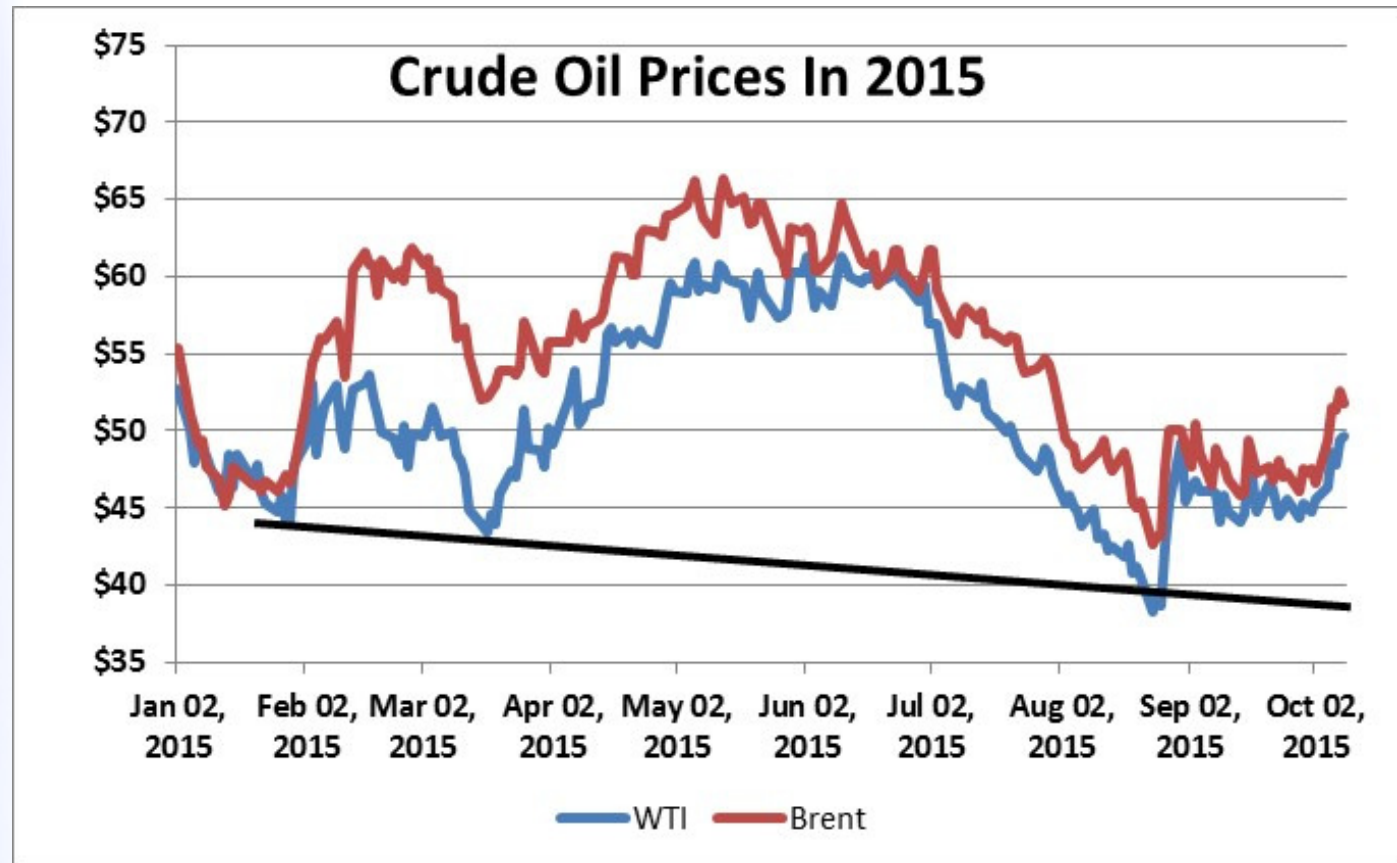


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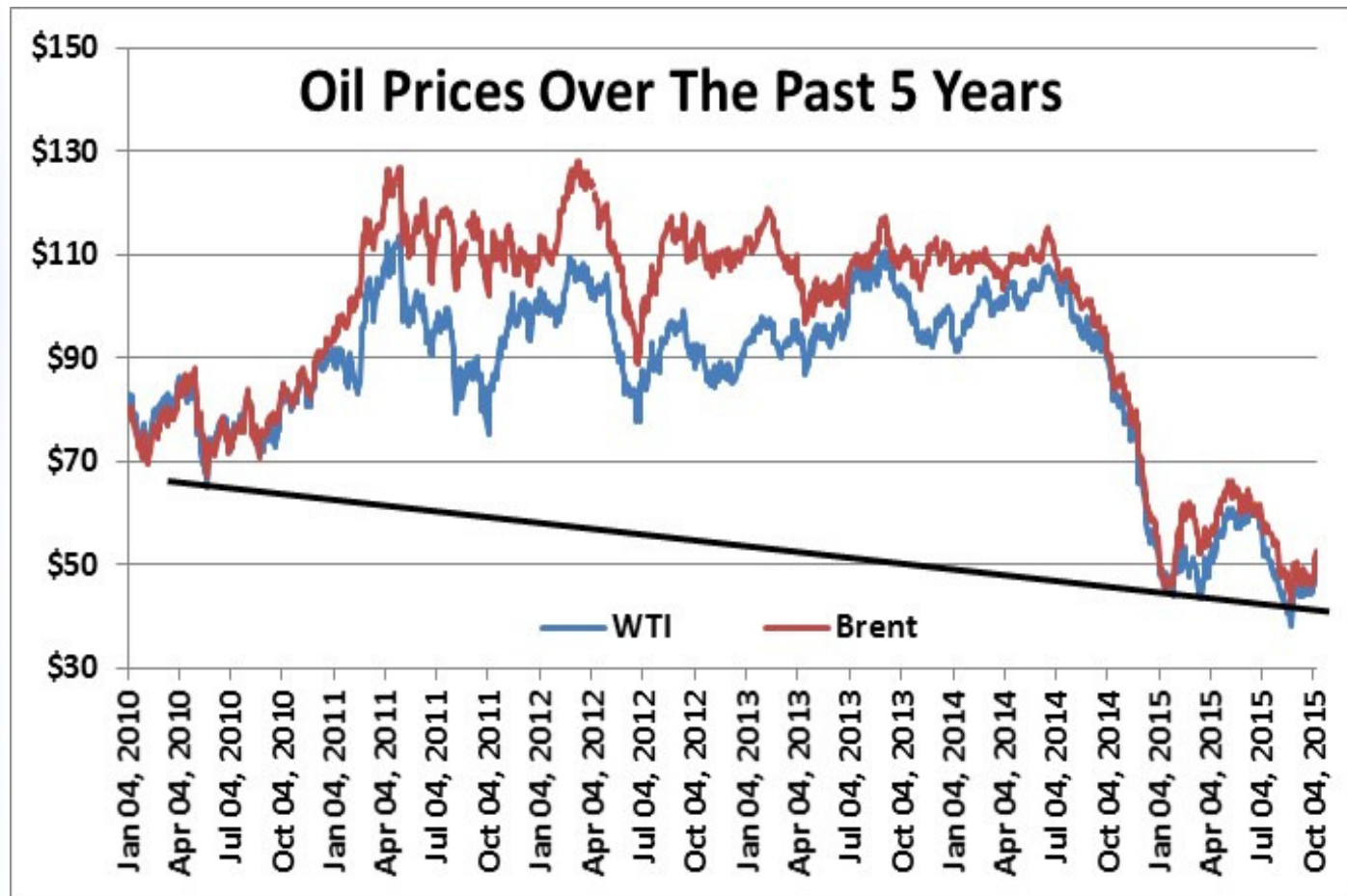




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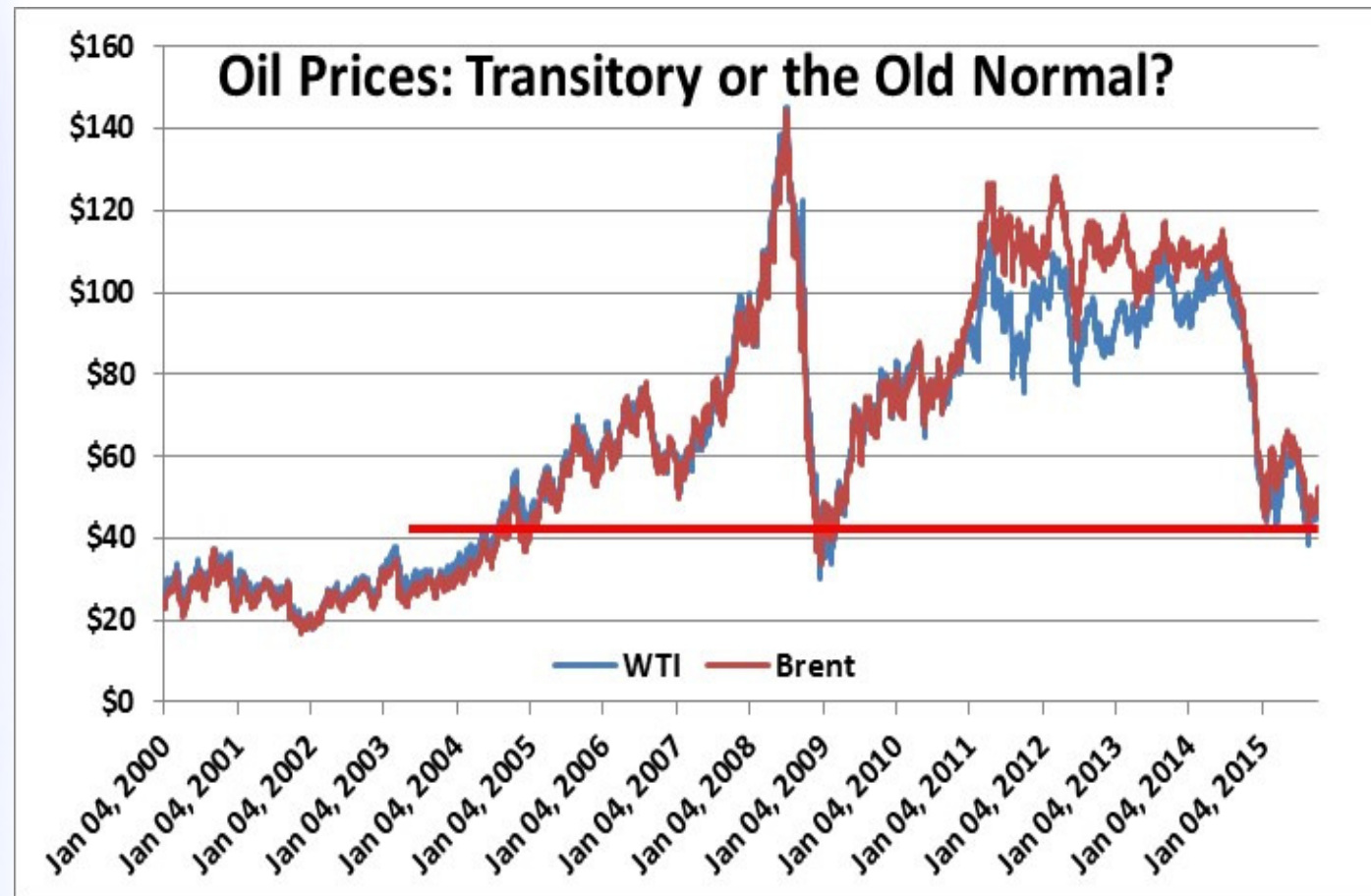


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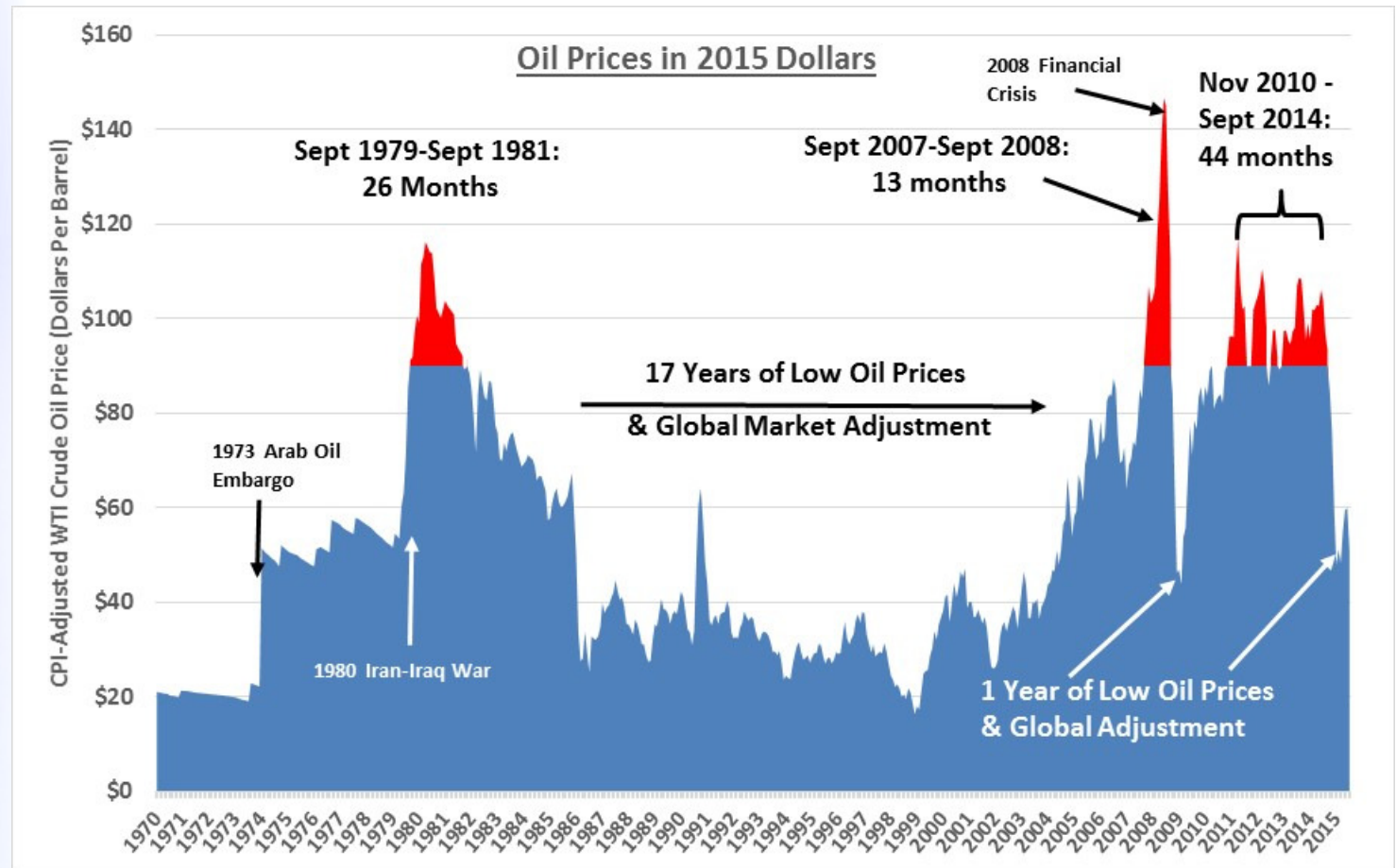




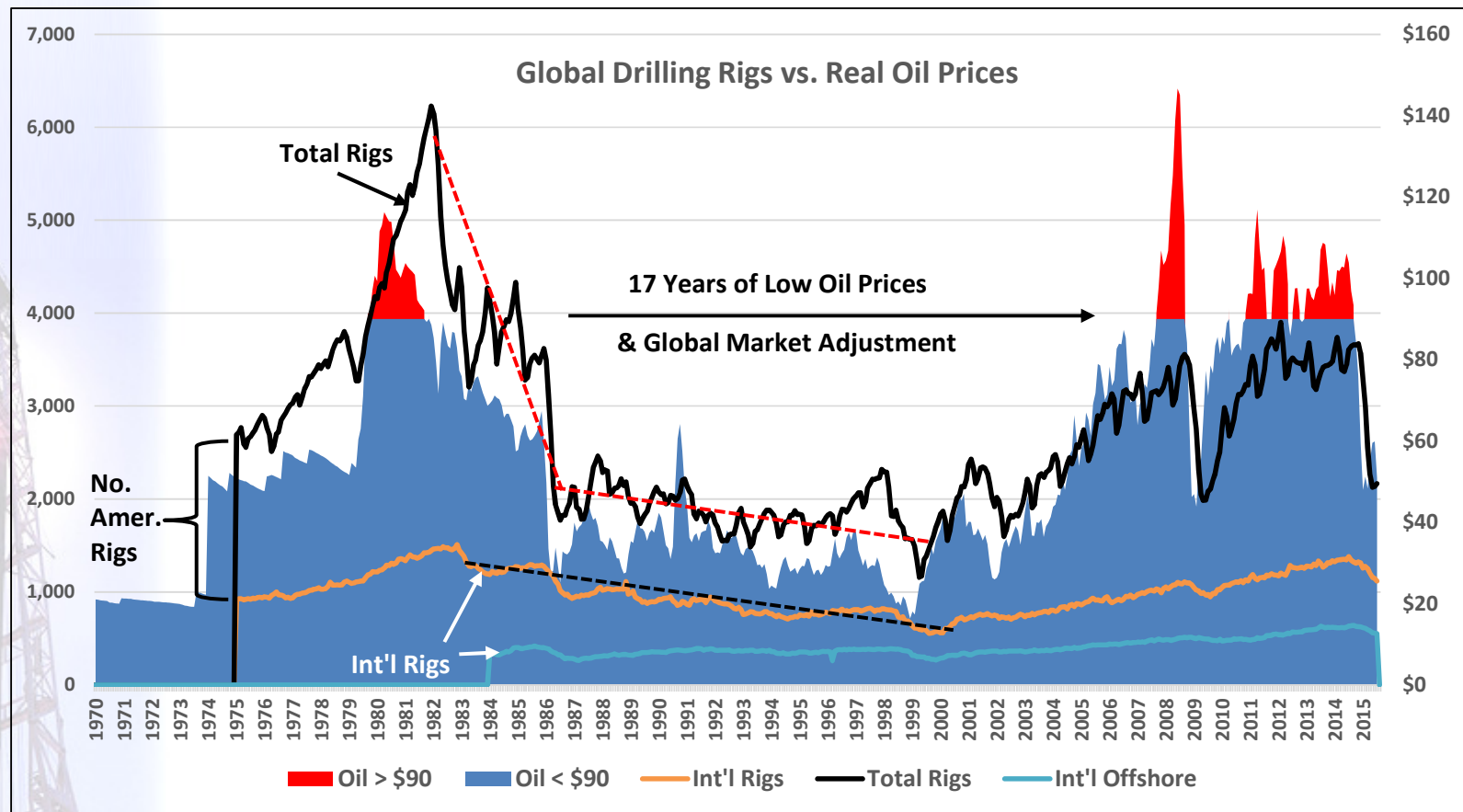
# Understanding Why This Cycle Has Been Different



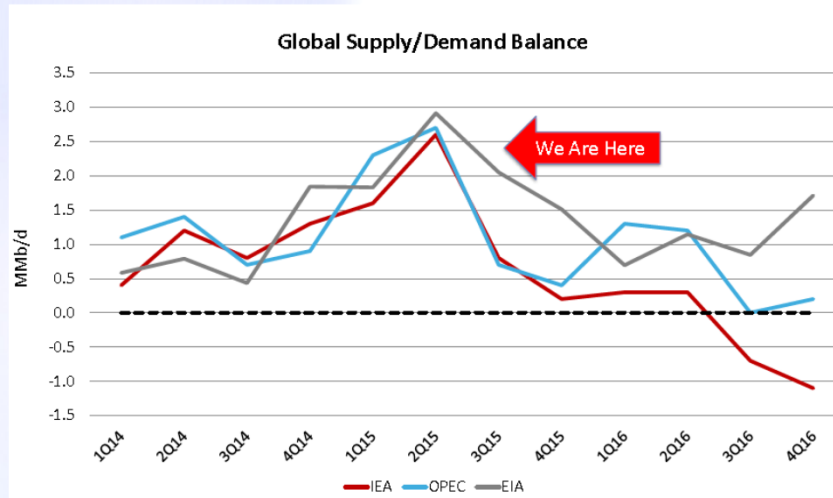
# How The Past May Illuminate The Future



# How The Past May Illuminate The Future



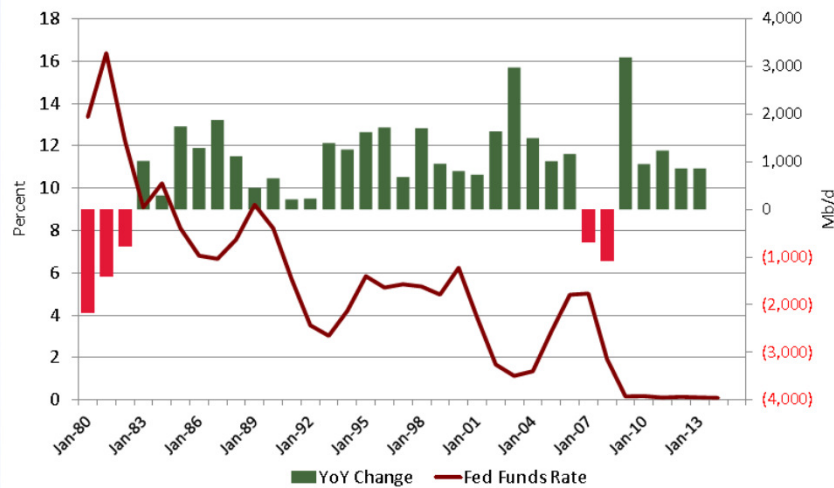
# What Does The Future Hold?



- The “experts” can’t agree
- What are they missing?
  - Supply growth
  - Demand growth
- What other dynamics are at work?
  - Economics
  - Geopolitics
    - International
    - North America
  - OPEC / Saudi strategy
  - Climate change

# Other Considerations for Oil Prices

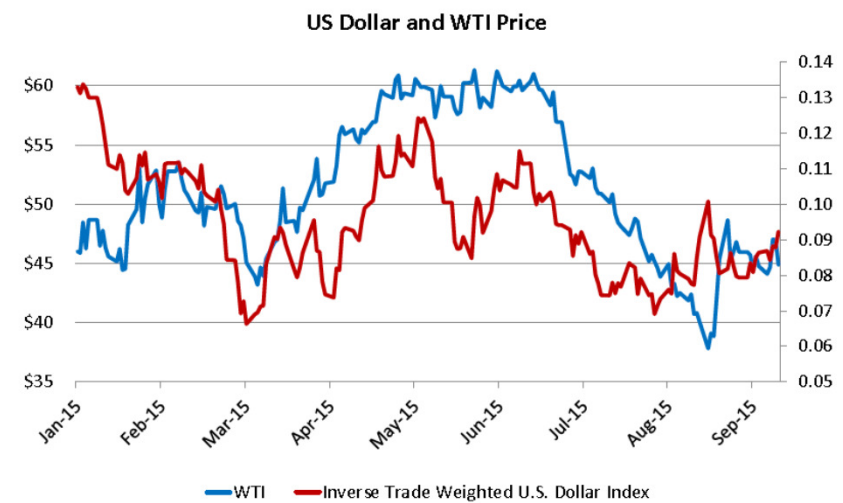
## Will the Fed Help or Hurt?



Source: EIA/STEO, Board of Governors of the Federal Reserve System (US)

Source: Platts

## Could the US\$ Surprise?

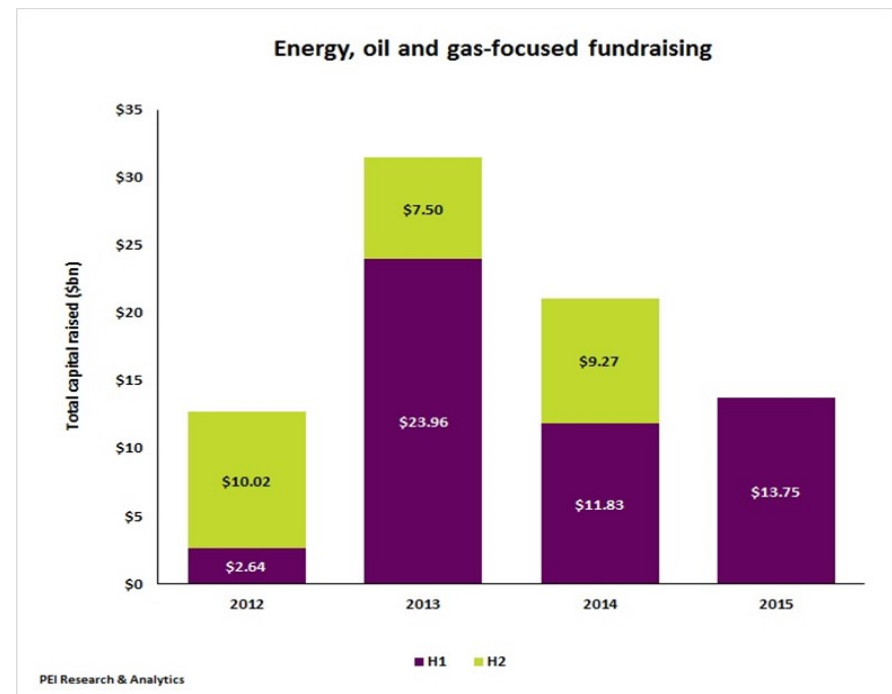
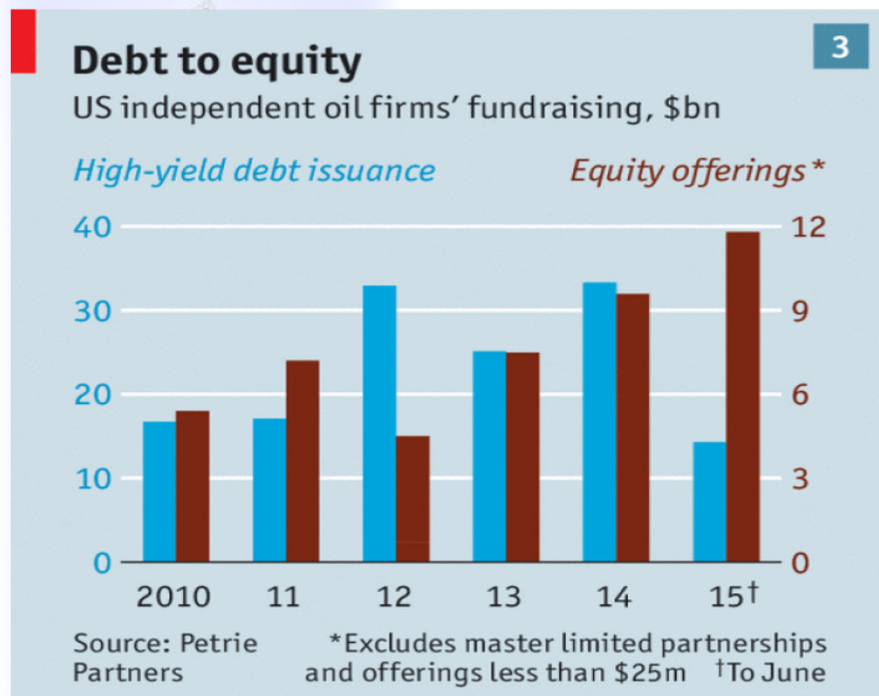


Source: Platts

# Easy Access to Capital Prolonging the Slump

## Cheap capital has contributed to industry slump

- Public debt & equity markets opened for energy
  - Debt raised
  - Equity raised
- Private equity pool targeting energy at all-time high





# Cheap Capital Problem Due To Low O&G Prices

U.S. onshore oil producers' debt service as a share of operating cash flow  
percent (annualized)



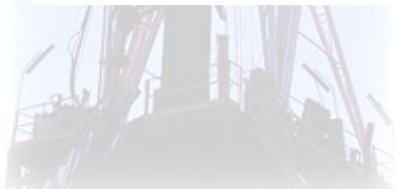
Market Realist<sup>Q</sup>

Source: EIA

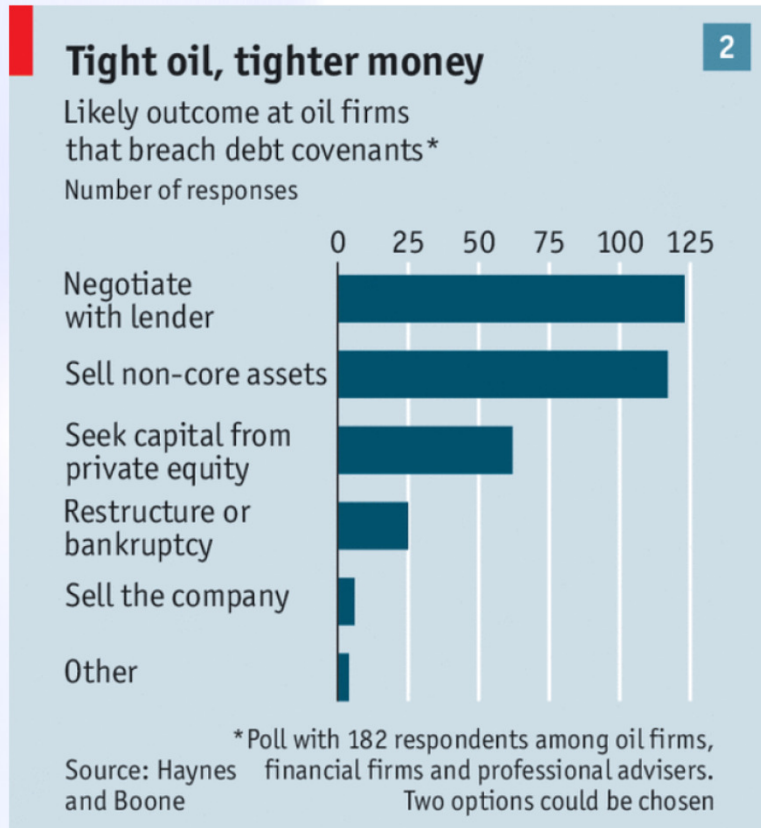
**Pain of low oil & gas prices:**

**1H15 cash flow down \$30b**

**Net debt doubled from 2010  
\$81b to \$169b**

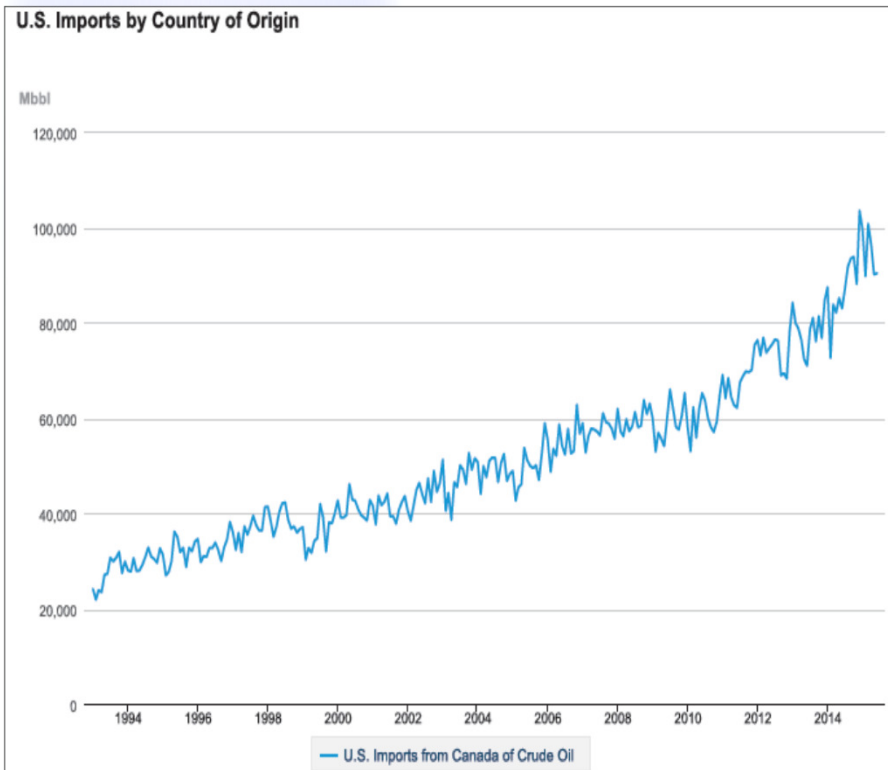


# Dealing With The Downturn Will Alter Industry

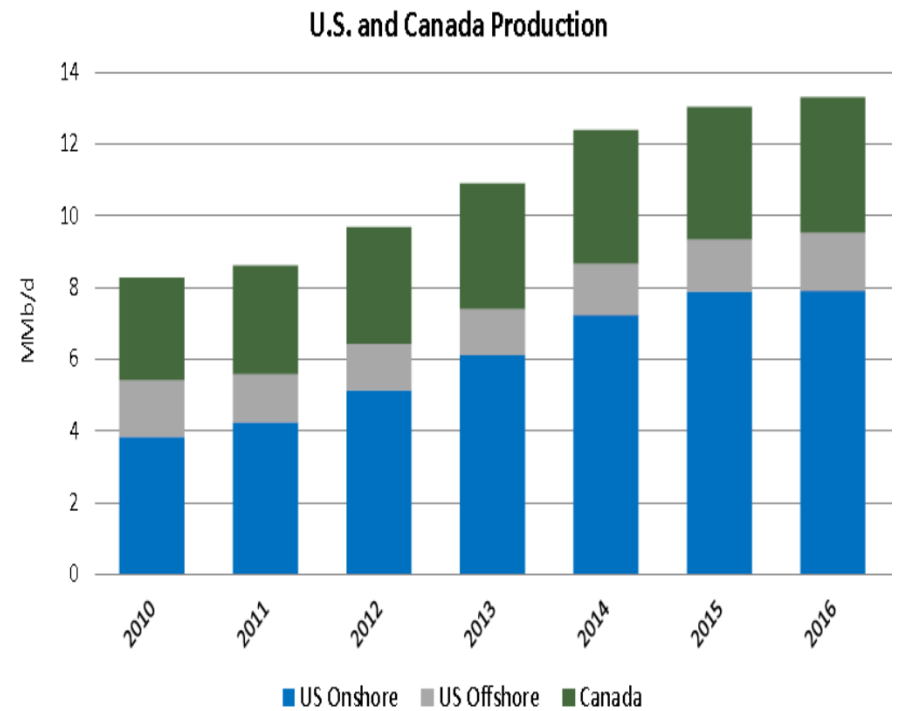
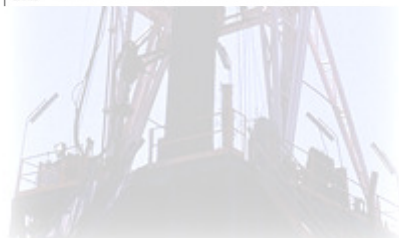


- Layoffs
- Mergers
- Acquisitions
- Divestitures
- Recapitalizations
- Bankruptcies

# Canada is America's Biggest Supplier of Crude Oil



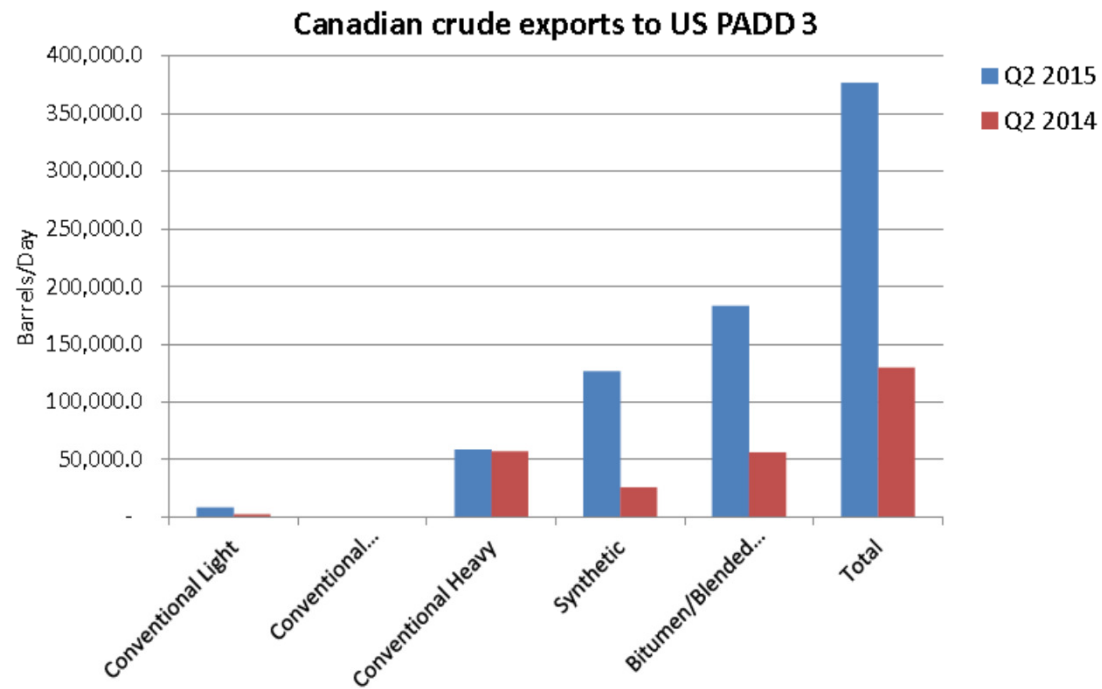
Source: U.S. Energy Information Administration



Source: Platts/Bentck

# Increased Canadian Oil To US Midcontinent

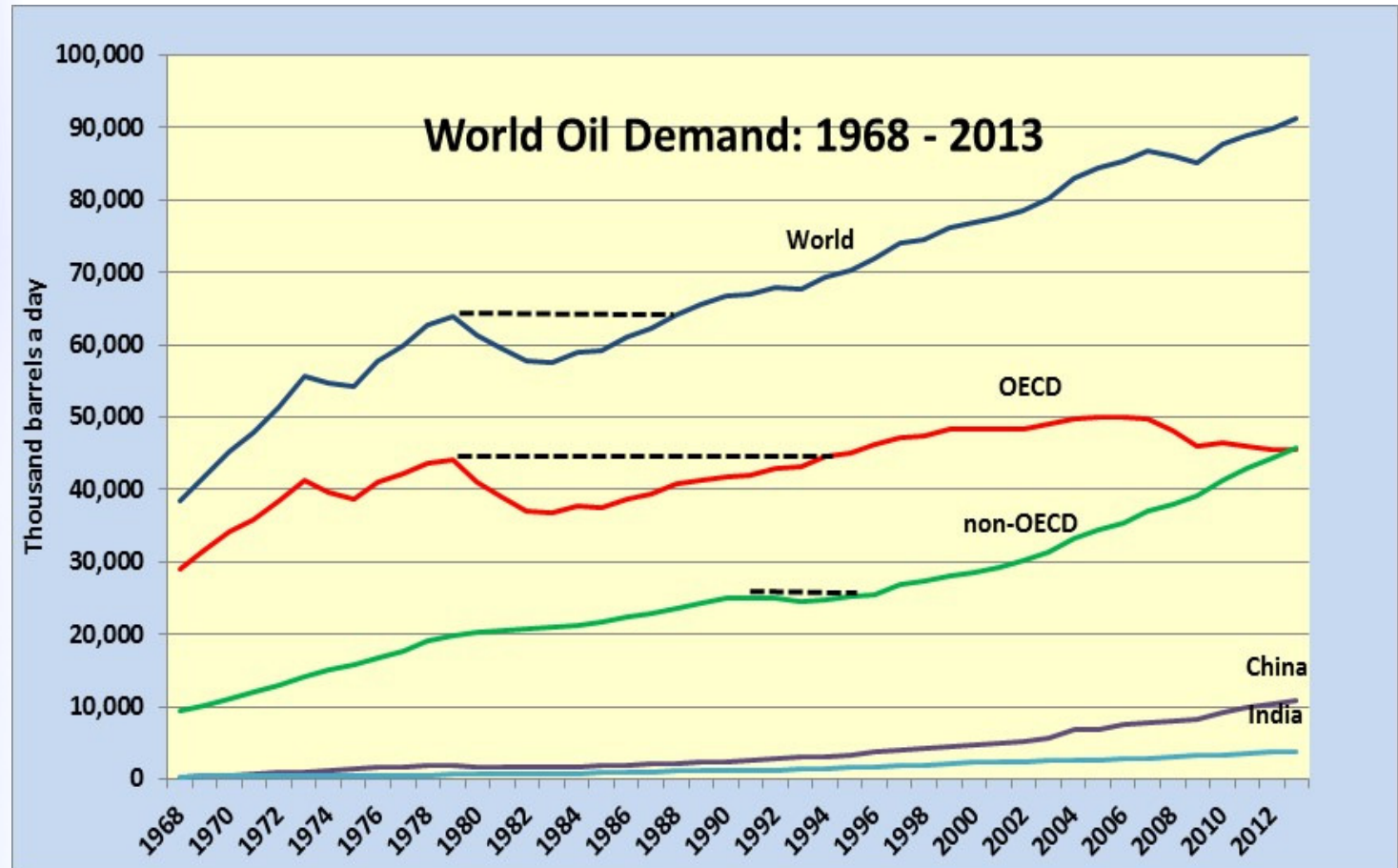
## Canada Needs To Develop Non-US Export Markets



Source: National Energy Board

Source: Platts

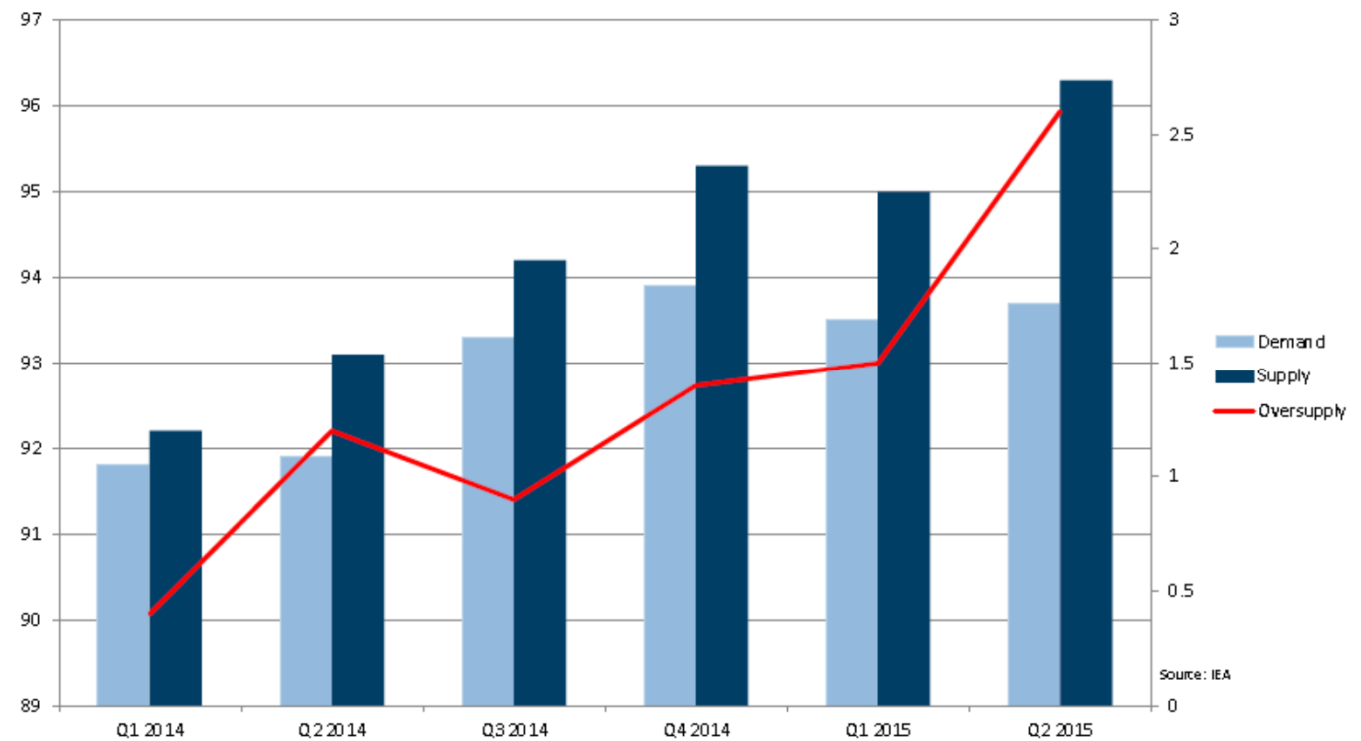
# The Bet Is Always On Developing Economies



# Global Supply/Demand Challenge



Global supply/demand (m)balance



Source: IEA

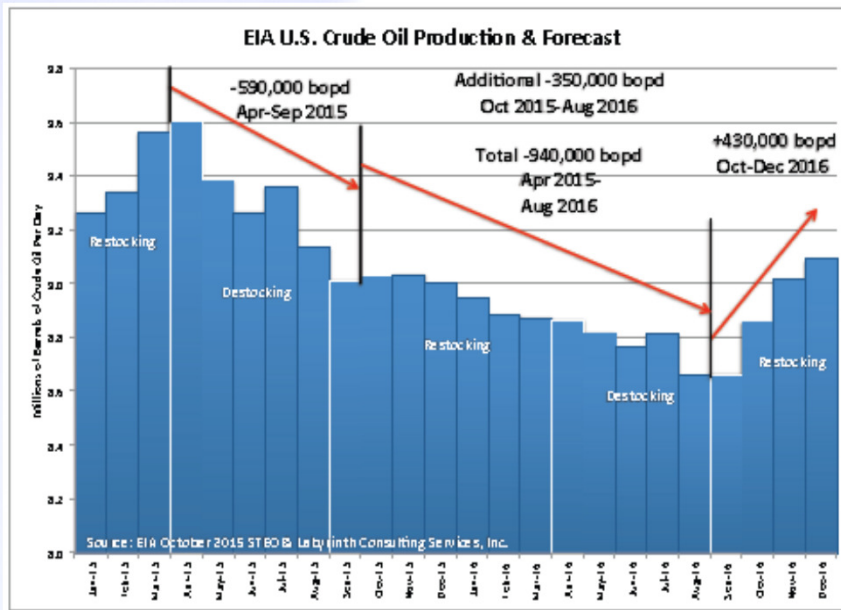
Source: EIA

Source: Platts



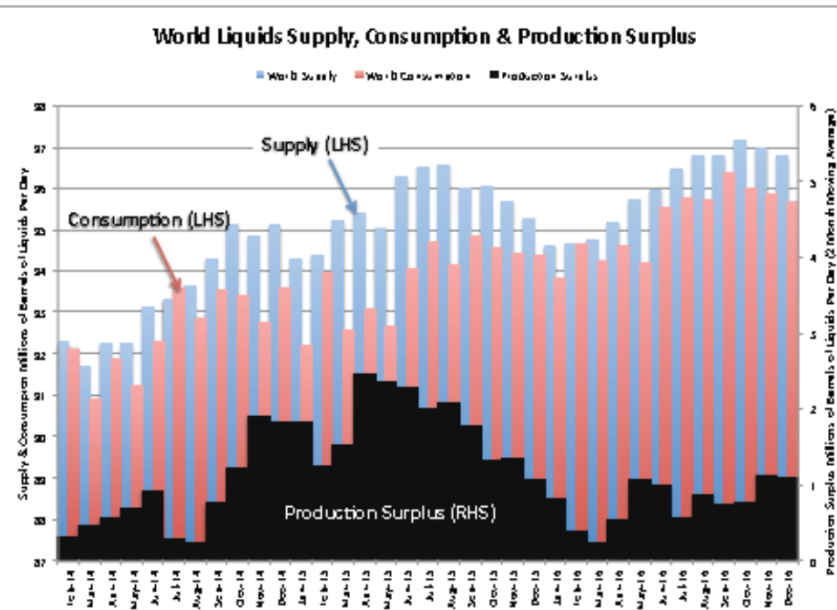
# Simple Market Solution Difficult To Manage

**US Output Down in 2015;  
Up In 2016**



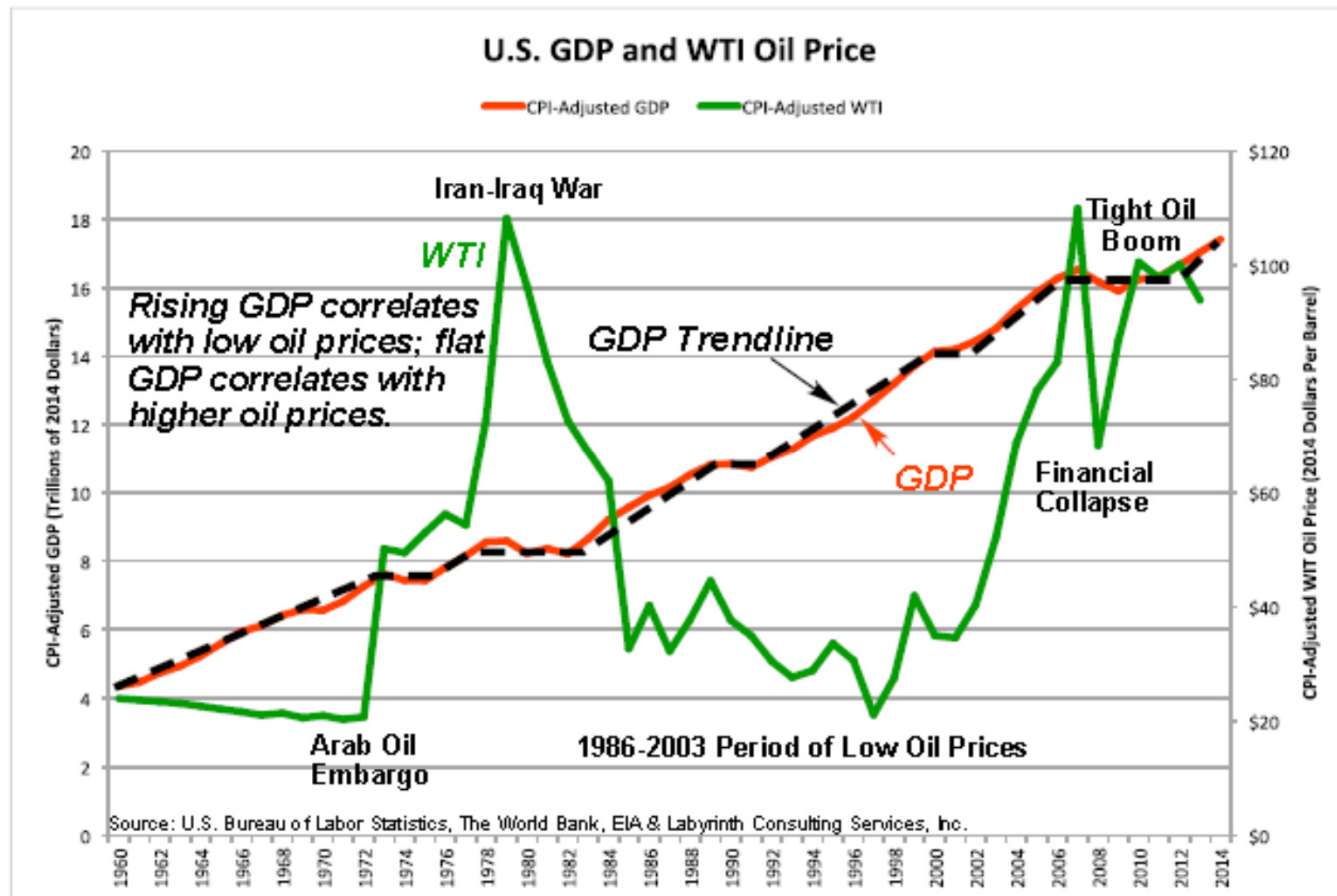
Source: Art Berman

**2015 Global Demand Up;  
Growth in 2016 Slowing**



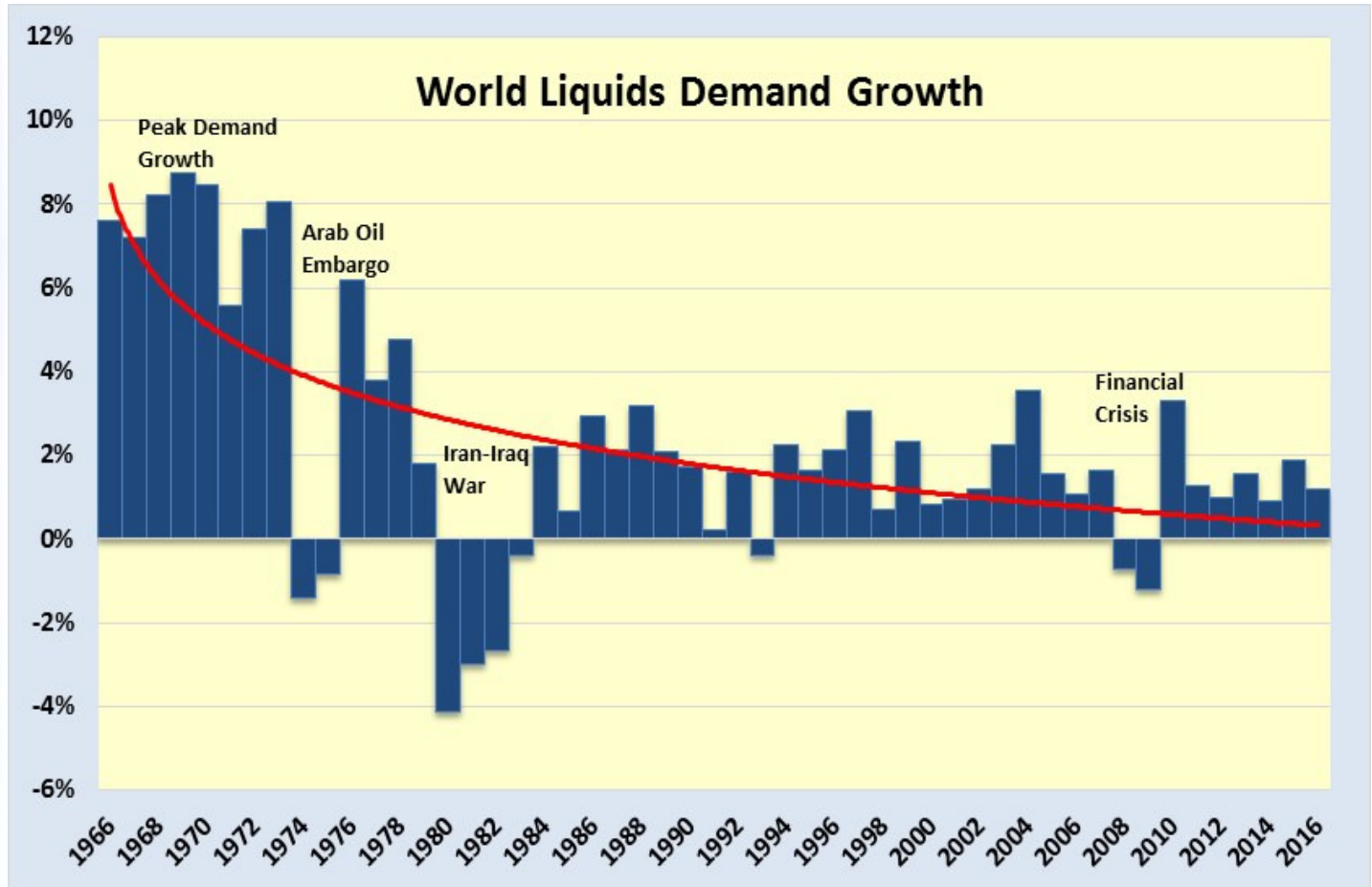
Source: Art Berman

# Oil And Economy Tied Closely Together

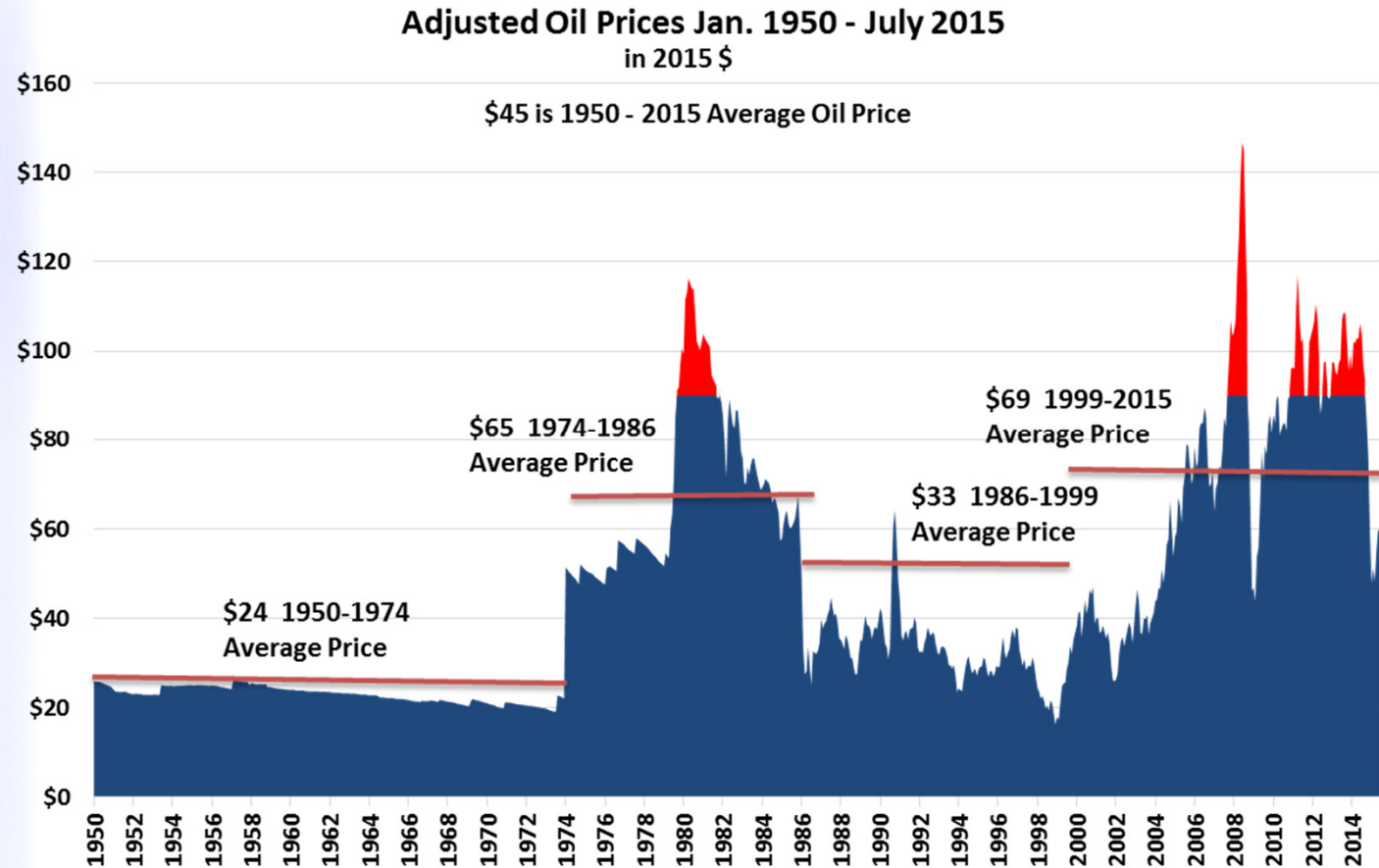


Source: Art Berman

# Slowing Economies Headwind For Energy

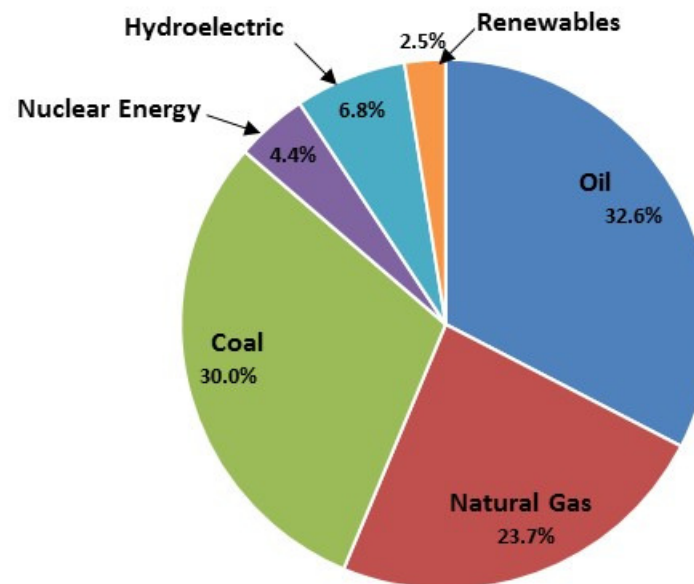


# Can Oil Price History Help Define New Normal?



# Fossil Fuels Are Key To World Energy Consumption

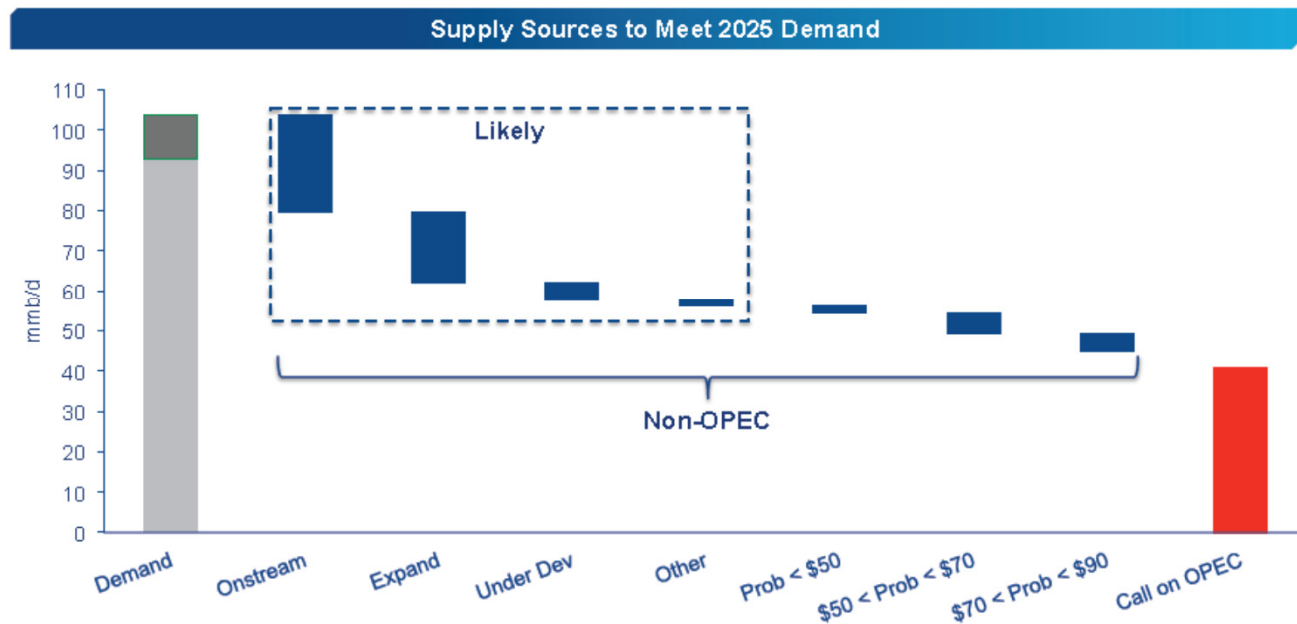
World Primary Energy Consumption by Fuel - 2014



**Fossil Fuels Account For 86.3% of World Primary Energy Consumption**

# Some Good News For Energy Industry

To balance the global market in 2025, more supply is needed than non-OPEC sources already in development



Source: Wood Mackenzie

4 Trusted commercial intelligence  
www.woodmac.com

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# Thank You