



**MNP**  
LLP

# Strategies Produced for Today and Tomorrow

*Rig photos courtesy of Beaver Drilling Ltd.*

## **State of the Canadian Oilfield Services Industry and 2016 Forecasts**

Presented by: David Yager, National Leader Oilfield Services

Date: November 2015

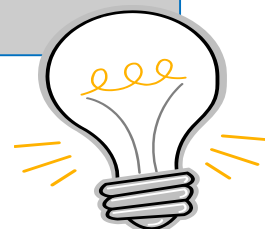
# Program

- 1. What is Oilfield Services?**
- 2. Where have we been?**
- 3. How did we get here?**
- 4. Where are we going?**
- 5. How should OFS manage its business in a challenging market environment**
- 6. About MNP**



# What is Oilfield Service?

E&P company seeks to develop an oil or gas reservoir



1. Exploration
2. Engineering & Consulting
3. Construction
4. Transportation
5. Drilling & Service Rigs
6. Wellhead Services

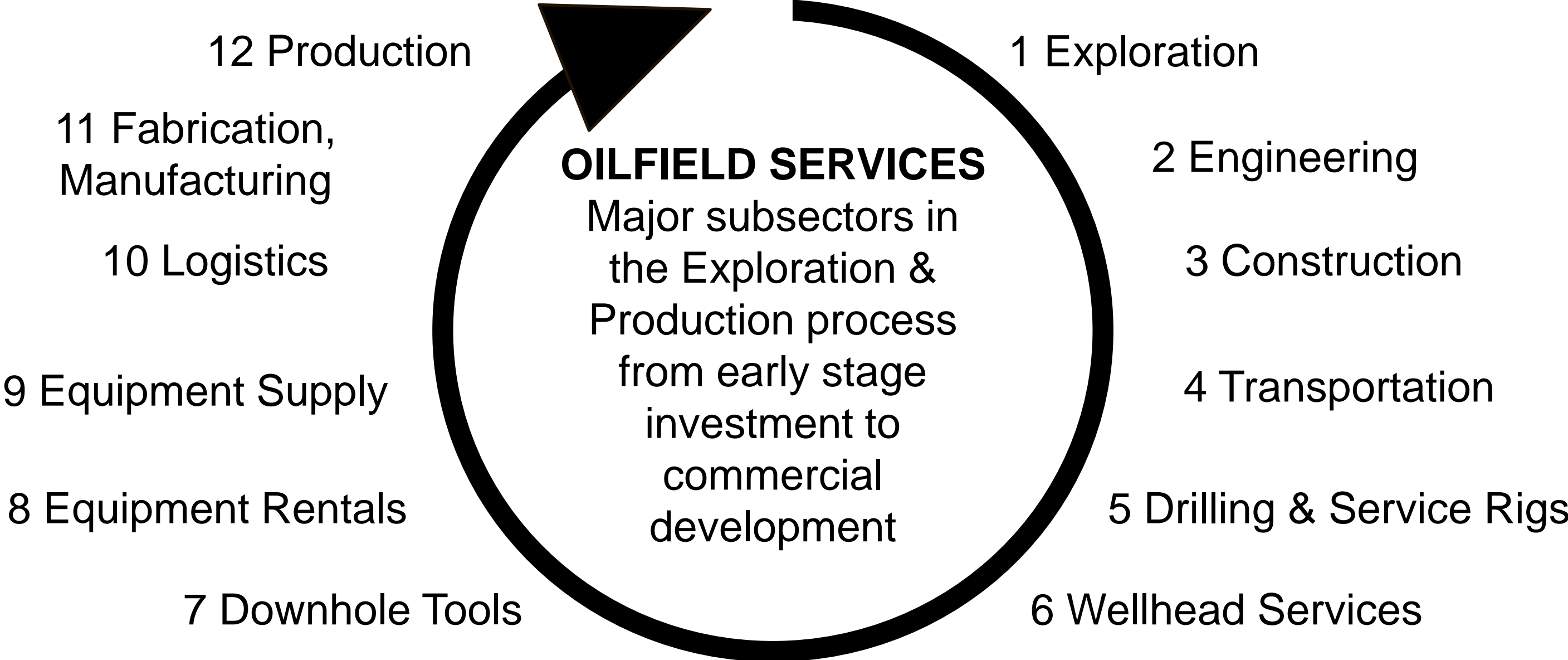
**All the products and services an oil company does not supply itself**



7. Downhole Tools
8. Equipment Rentals
9. Equipment Supply
10. Logistics
11. Fabrication & Manufacturing
12. Production

Delivery of oil or gas to refinery terminal or pipeline access facility

# MNP Oilfield Services Subsectors Through Oil and Gas Development Investment Cycle





# Sources of Revenue for OFS

## WHERE DO PRODUCERS GET THEIR MONEY?

- Cashflow from oil and gas production sales (net of operating expenses)
- E&P capital inflows (debt, equity)

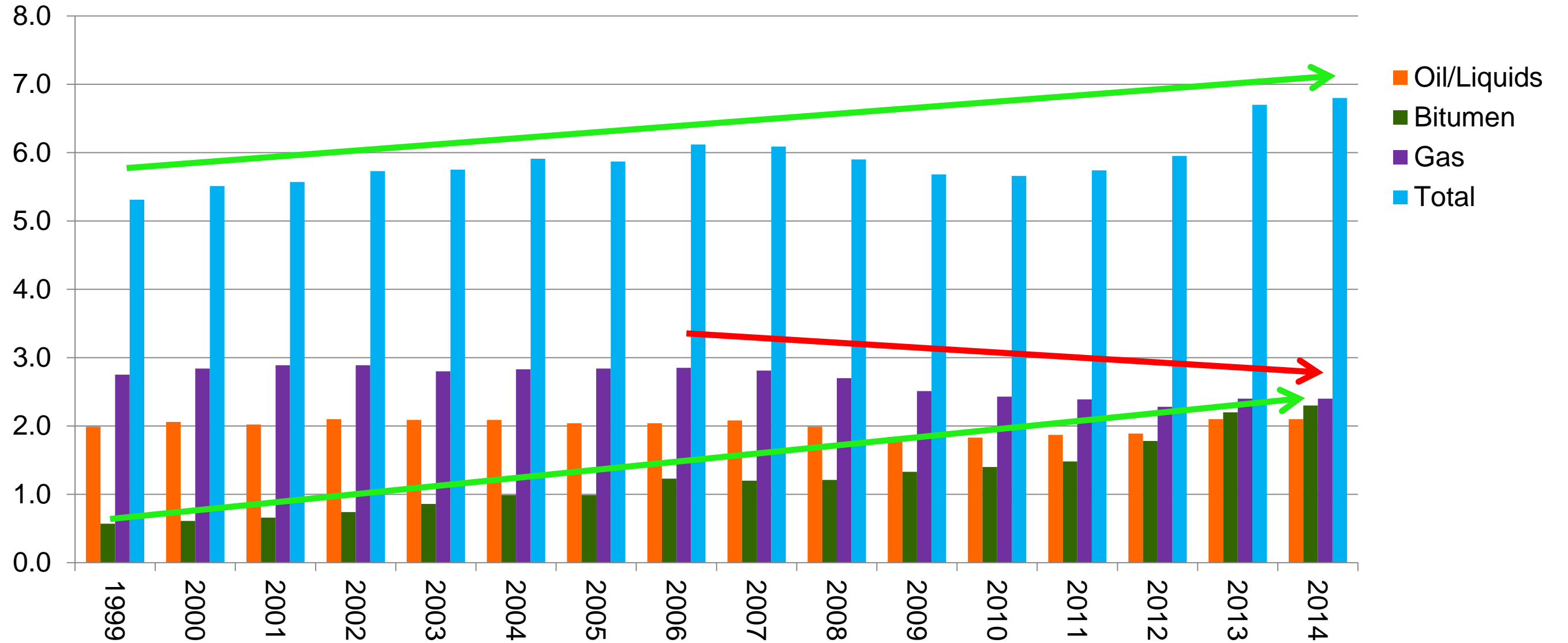
## WHERE DO OFS COMPANIES GETS THEIR MONEY

- E&P Capital Expenditures (CAPEX)
- E&P operating costs
- Service sector CAPEX



# Production Volumes

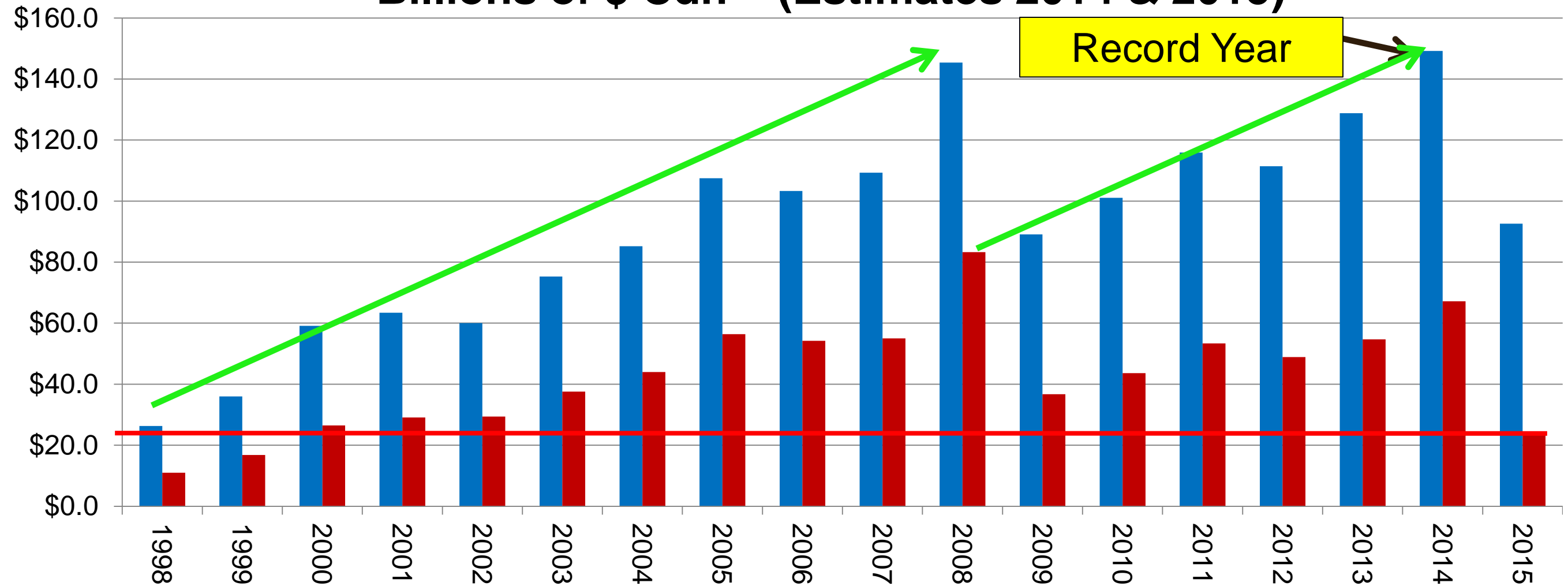
Millions of Barrels of Oil or Natural Gas Liquids  
Millions of Barrels of Oil Equivalent of Gas (@ 6:1) Per Day



SOURCE: ARC Financial

# Revenue/Cashflow 1998 - 2015

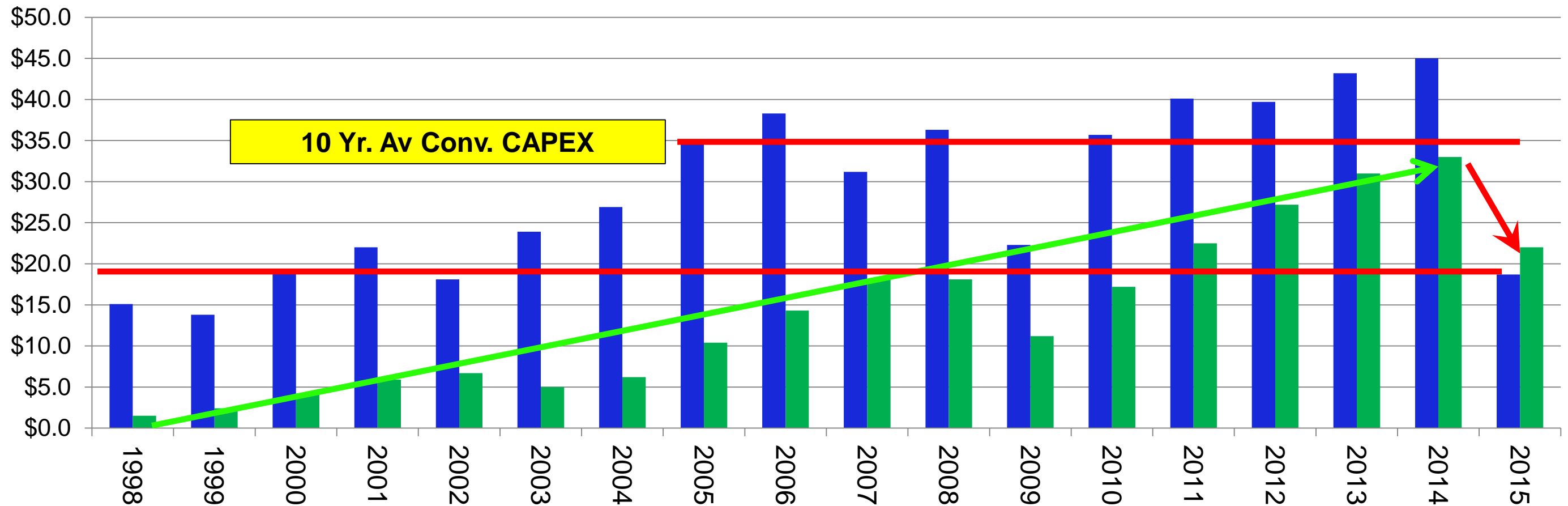
Billions of \$ Cdn – (Estimates 2014 & 2015)



SOURCE: ARC Financial Sep 15/15

# CAPEX Conventional/Oilsands 1998 - 2015

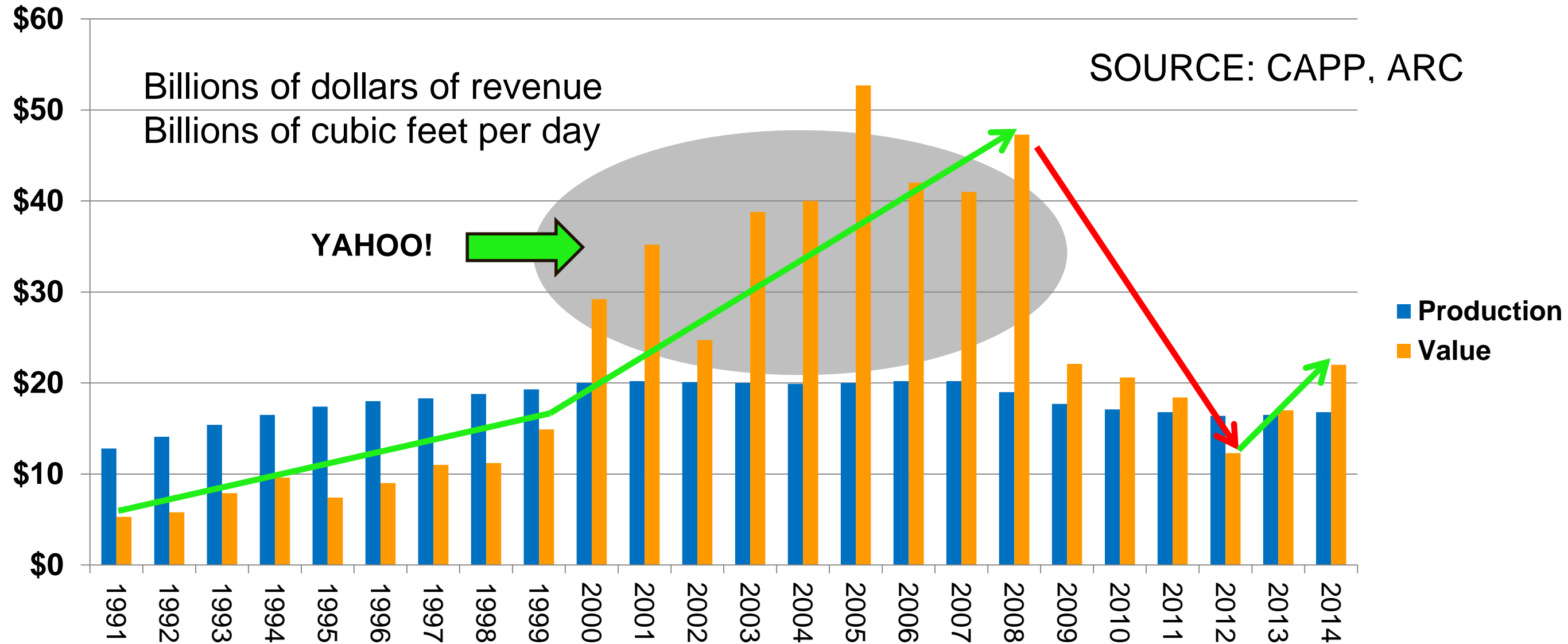
Billions of \$Cdn – (Estimate 2014, 2015)



SOURCE: ARC Financial Sep 15/15

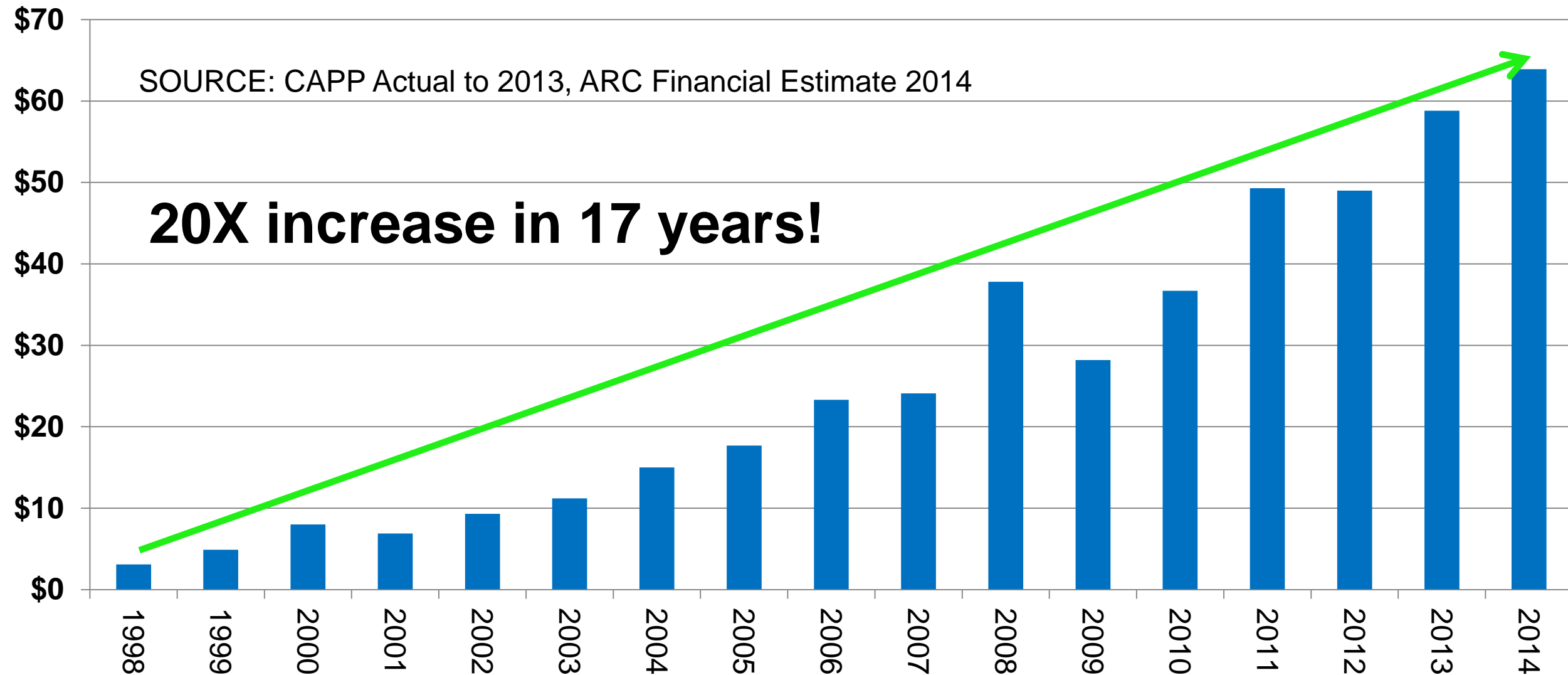


# The Gas Boom – 2000 to 2008

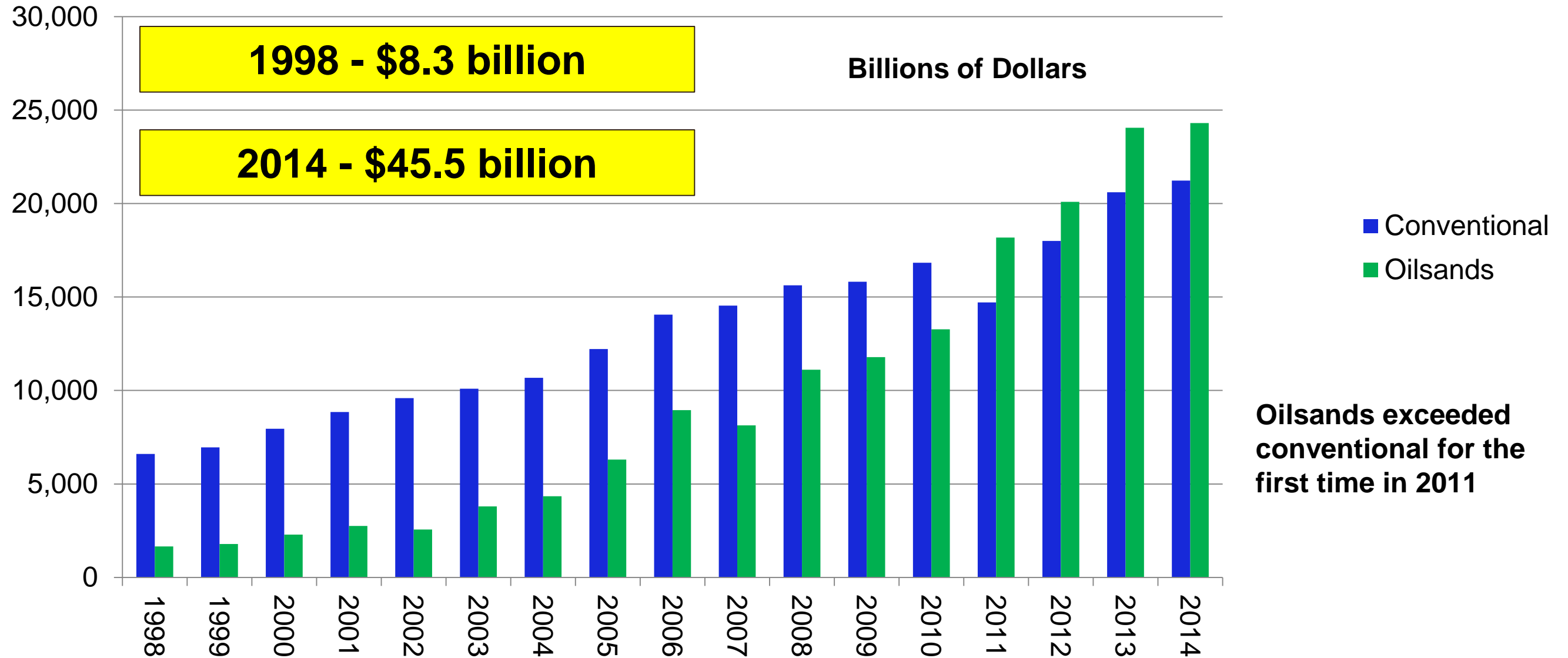


# The Oilsands Boom – 1998 to 2014

Value of Oilsands Production, \$Billions Per Year

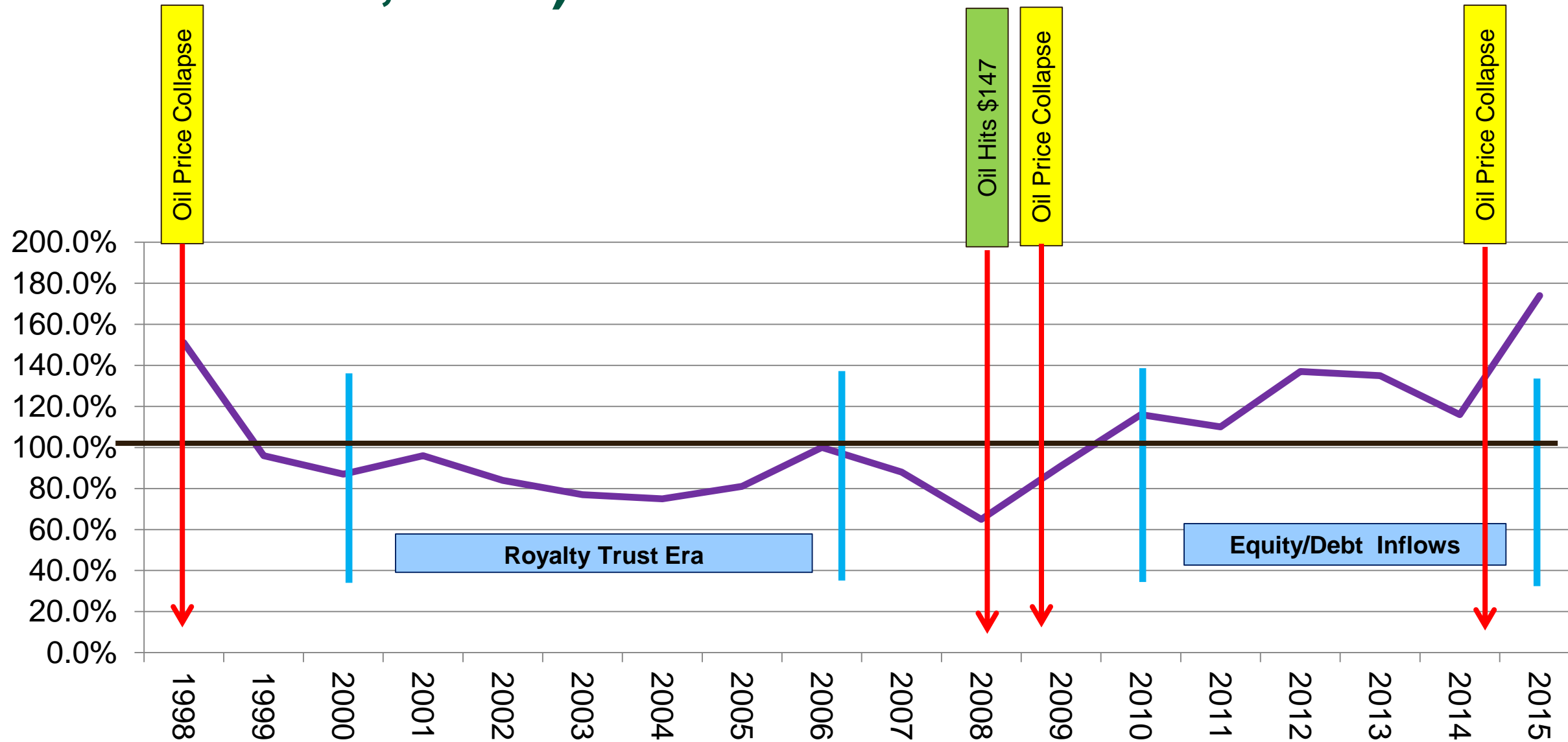


# Production Operating Costs



SOURCE: CAPP

# Reinvestment Ratio: CAPEX/After-Tax Cashflow (Estimates 2014, 2015)



SOURCE: ARC Financial Sep 15/15

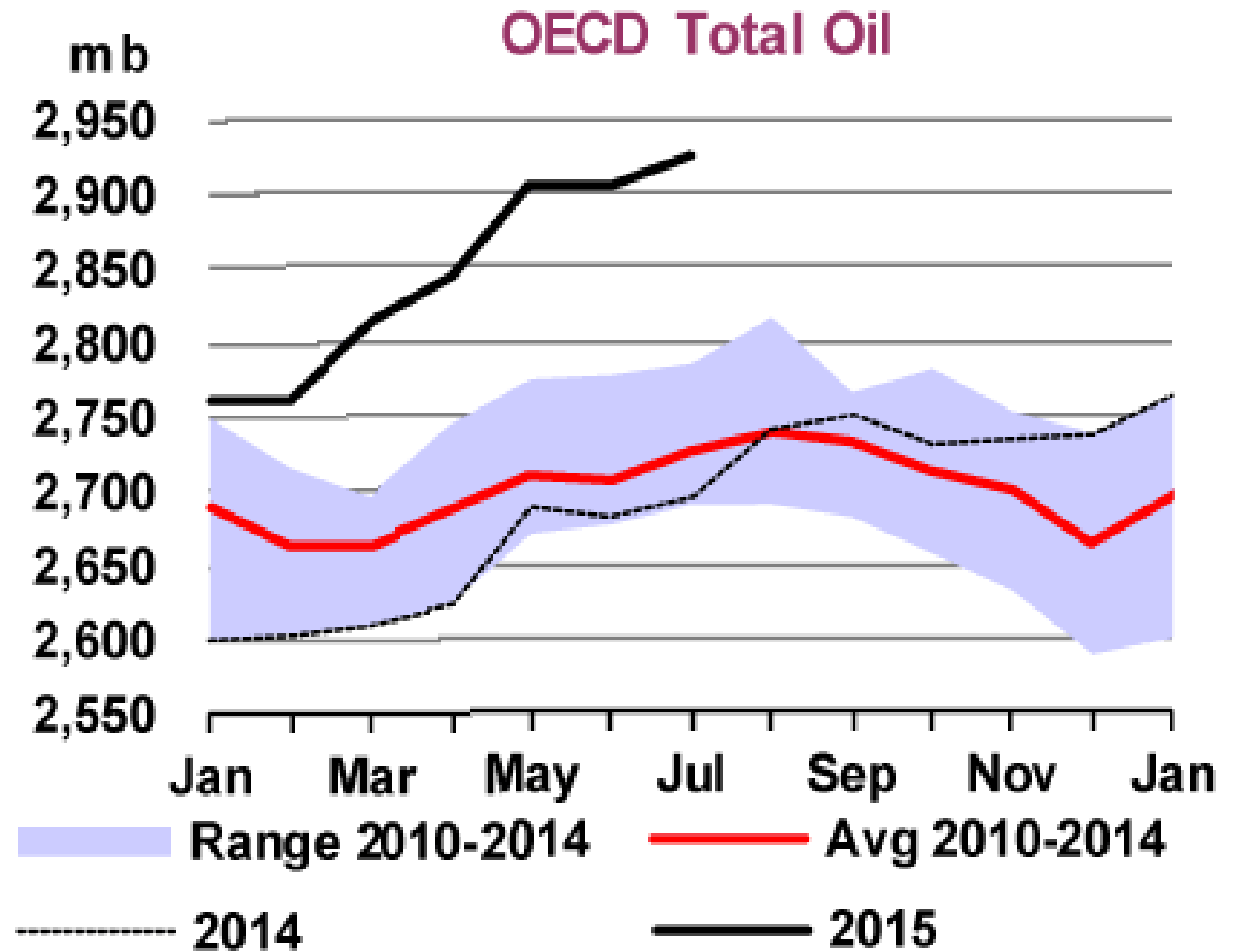
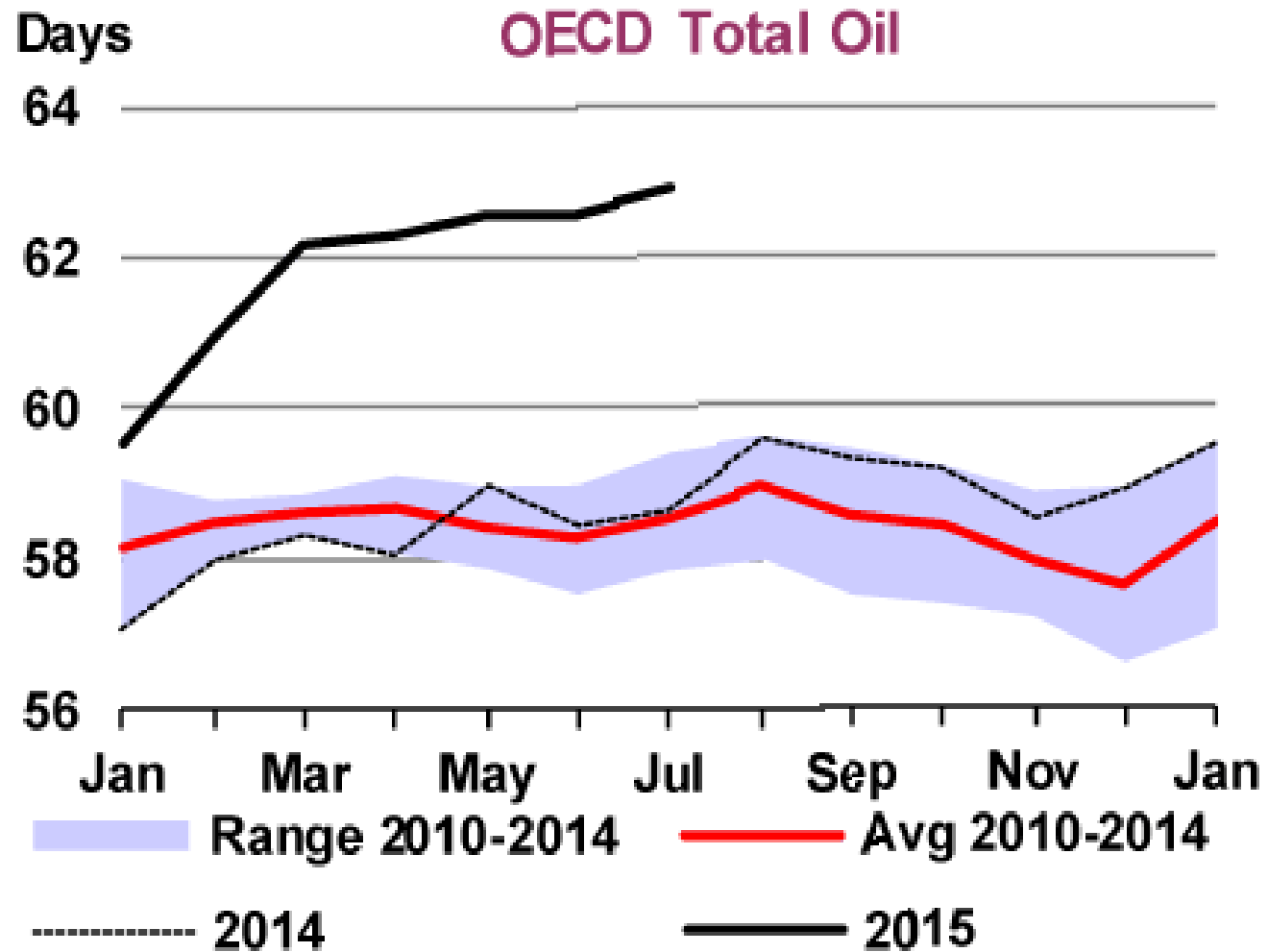
# Why The Price Of Oil Tanked

	Q3 2014	Q4 2014	Q1 2015	Q2 2015
<b>Supply mmb/d</b>	94.17	95.28	95.03	96.31
<b>Demand mmd/d</b>	93.26	93.91	93.55	93.74
<b>Surplus mmb/d</b>	0.91	1.37	1.48	2.57
<b>Average WTI Price</b>	US\$97.78	US\$73.16	US\$48.54	US\$57.84

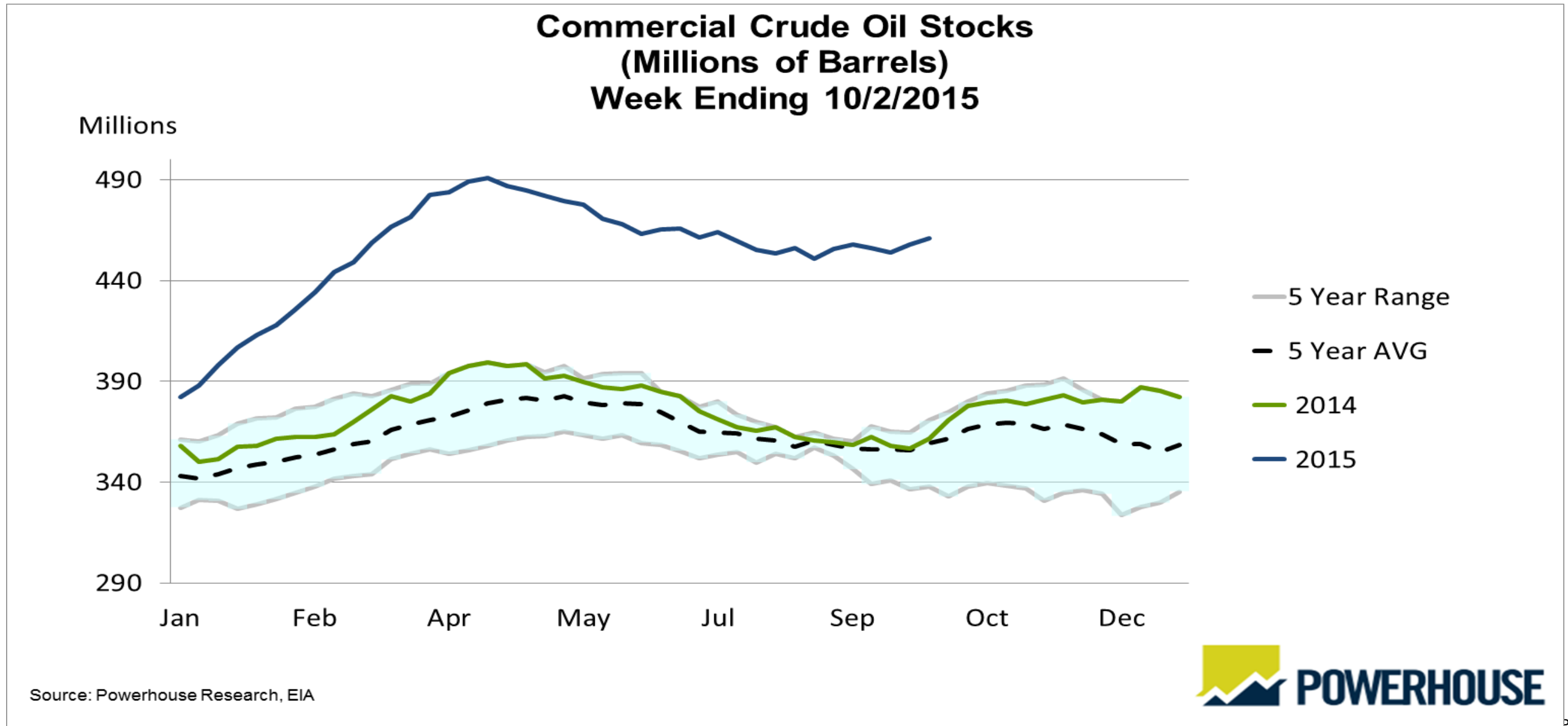
*Source: International Energy Agency*



# Oil Storage, OECD

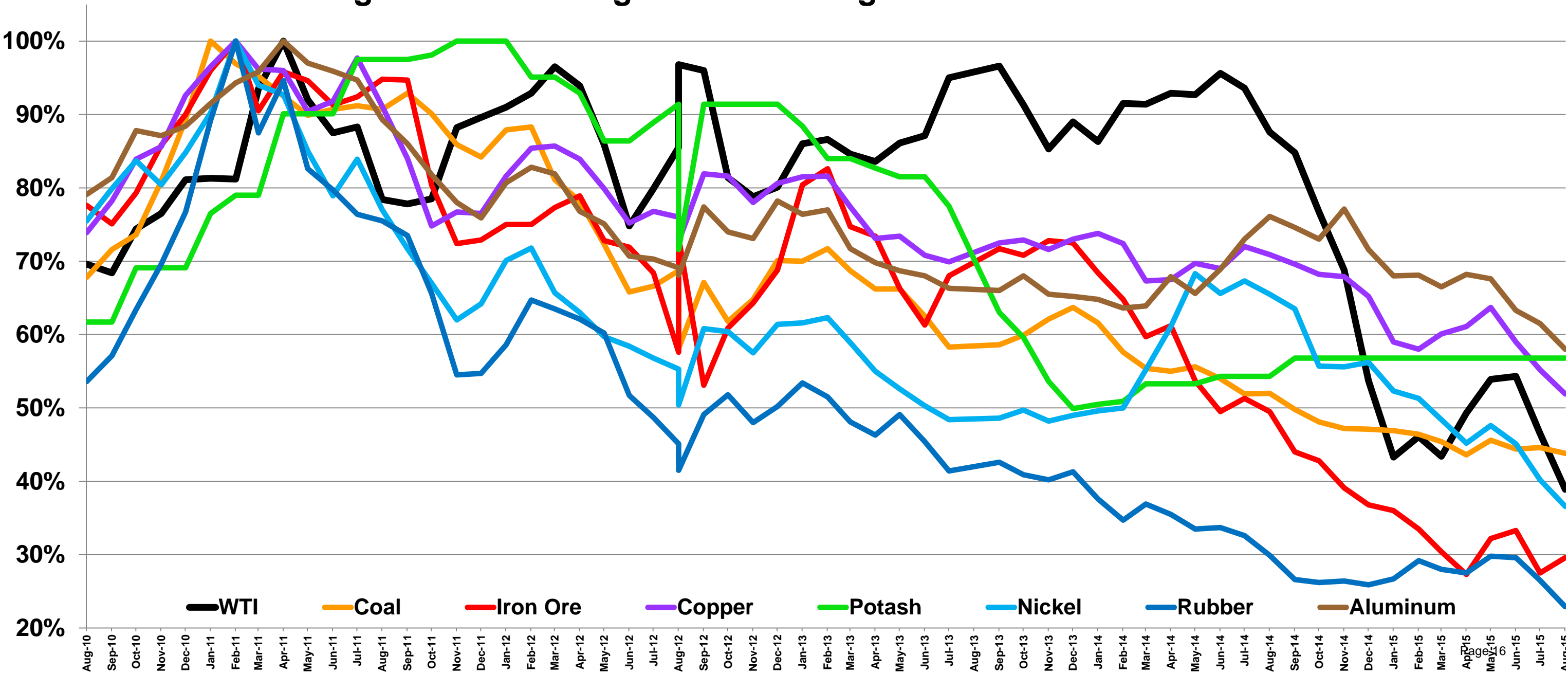


# Oil Storage, USA

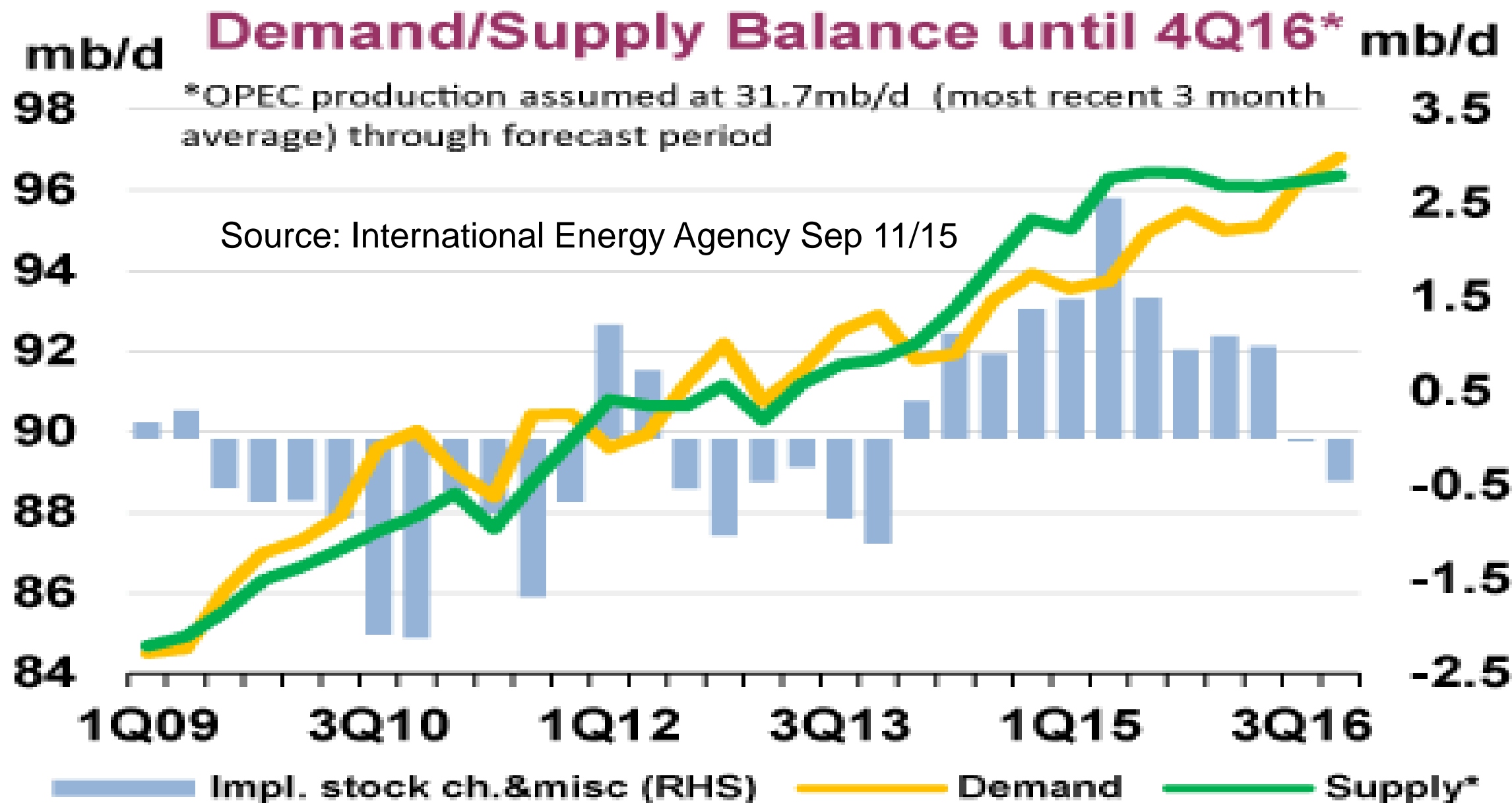




# WTI and Other Commodities as a Percentage of Their Five-Year Highest Price - August 2010 to August 2015



# World Oil Supply/Demand 2015, 2016



## A Few Facts Not Included In These Charts

- **U.S. light tight crude production is down at over 600,000 b/d since April, First Energy figures 1 million b/d by year-end, more next year**
- **The U.S. shale estimates in the IEA data is wrong. U.S. cannot maintain light tight oil production after idling 1,000 rigs**
- **Worldwide CAPEX on new oil projects is down an estimated US\$200 billion, about one-third**
- **Iran is probably exporting oil overland right now without telling anybody so they may not be able to increase production as much as thought**
- **There is no risk premium in oil prices despite shooting wars in Iraq, Syria and Yemen**



# PSAC Drilling Forecast – Nov 3/15

	2013	2014	2015 F	2016 F	Change
Wells Drilled	11,066	11,194	5,340	5,150	-3.6%
Meters Drilled (millions)	22.9	25.1	13.4	13.6	+1.5%
Rig Operating Days	112,153	113,813	61.0	58.1	-4.8%
Days Per Well	10.2	10.2	11.4	11.3	-1.0%
Meters Per Well	2,069	2,247	2,500	2,650	+6.0%

- On a rig released basis
- Price Assumptions: WTI US\$53.00 AECO Cdn\$2.75



# National Bank Financial Forecast – Nov 3/15

	2015	2016 Strip	2016 NBF
WTI	US\$49.79	US\$49.53	US\$65.00
AECO Gas	Cdn\$2.75	Cdn\$2.93	Cdn\$3.25
E&P CAPEX (Conventional)	\$22.2B	\$17.6B	\$26.7B
Well Count	7,555	6,285	8,633
Active Rigs (Average)	209	175	240
Rig Utilization (Annual)	27%	22%	31%

NBF sees short-term spending reductions (based on current prices and tight credit) followed by a recovery with commodity prices in H2 2016

# Capital Expenditures – CAPP Nov 3/15

Billions of Cdn\$	2013	2014	2015 F	2016 F	Change
Oilsands	\$31.0	\$33.0	\$23.0	\$21.0	-9%
Western Canada Conventional	\$39.0	\$42.0	\$21.0	\$18.0	-14%
<b>CAPEX – 4 Year Summary</b>					
Billions of Cdn\$	2013	2014	2015 F	2016 F	Change
Total CAPEX	\$74	\$81	\$48	\$42	-13%

## 2016 Drilling Forecast- CAPP Nov 3/15

Year	2013	2014	2015	2016	Change
Wells	11,065	11,255	5,300	4,800	-9%

# 2015 Trends By MNP Sector

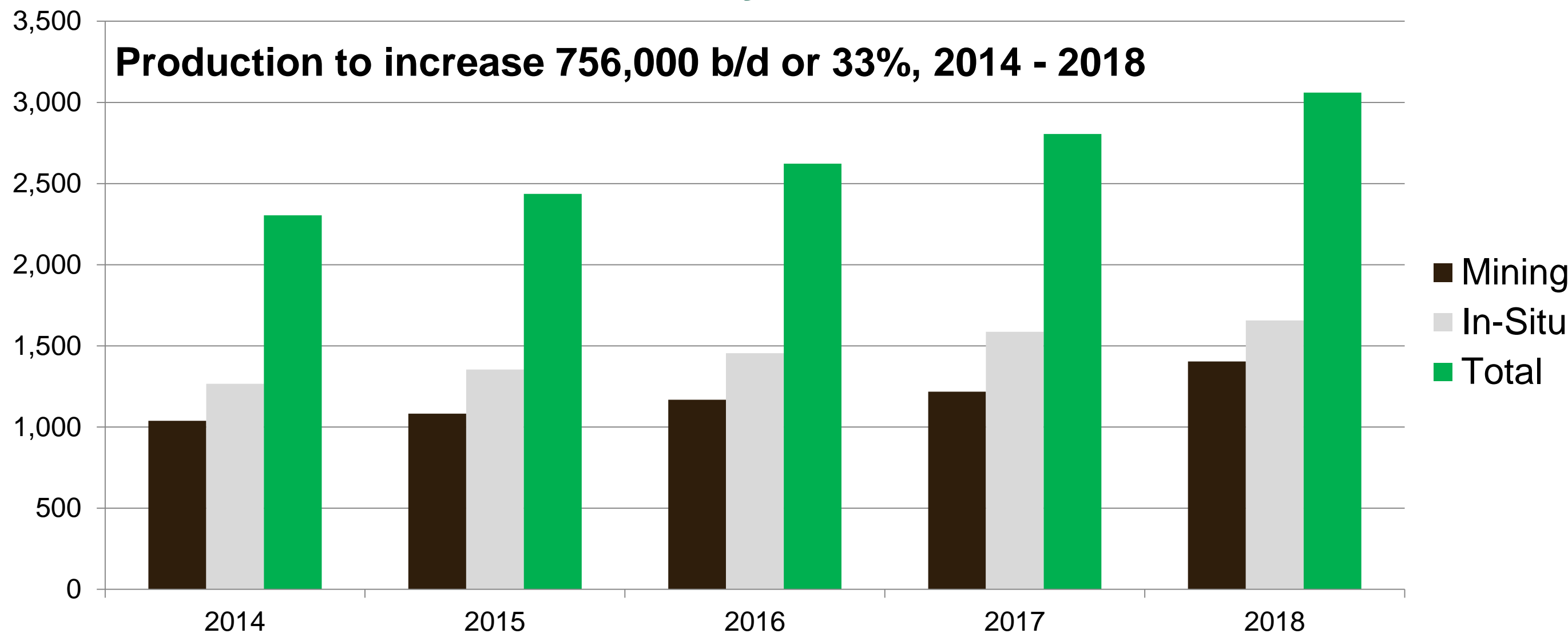
Exploration		Downhole Tools	
Engineering & Consulting		Equipment Rentals	
Construction		Supply	
Transportation		Logistics	
Drilling & Service Rigs		Manufacturing & Fabrication	
Wellbore Services		Production	

# Rebound By Sector

OFS Activity Sector	Outlook
Production Services – keep the cash flowing	Continuing, pricing main challenge
Facilities & Pipelines – processing plants and gathering systems	Expanding with production volume, pricing pressure main problem
Shale Oil Drilling	Down for now but first to recover with oil prices
Oilsands sustaining CAPEX	Ongoing because of harsh operating conditions, pricing main challenge
Oilsands growth CAPEX	Winding down as construction finishes, no new projects, no recovery imminent

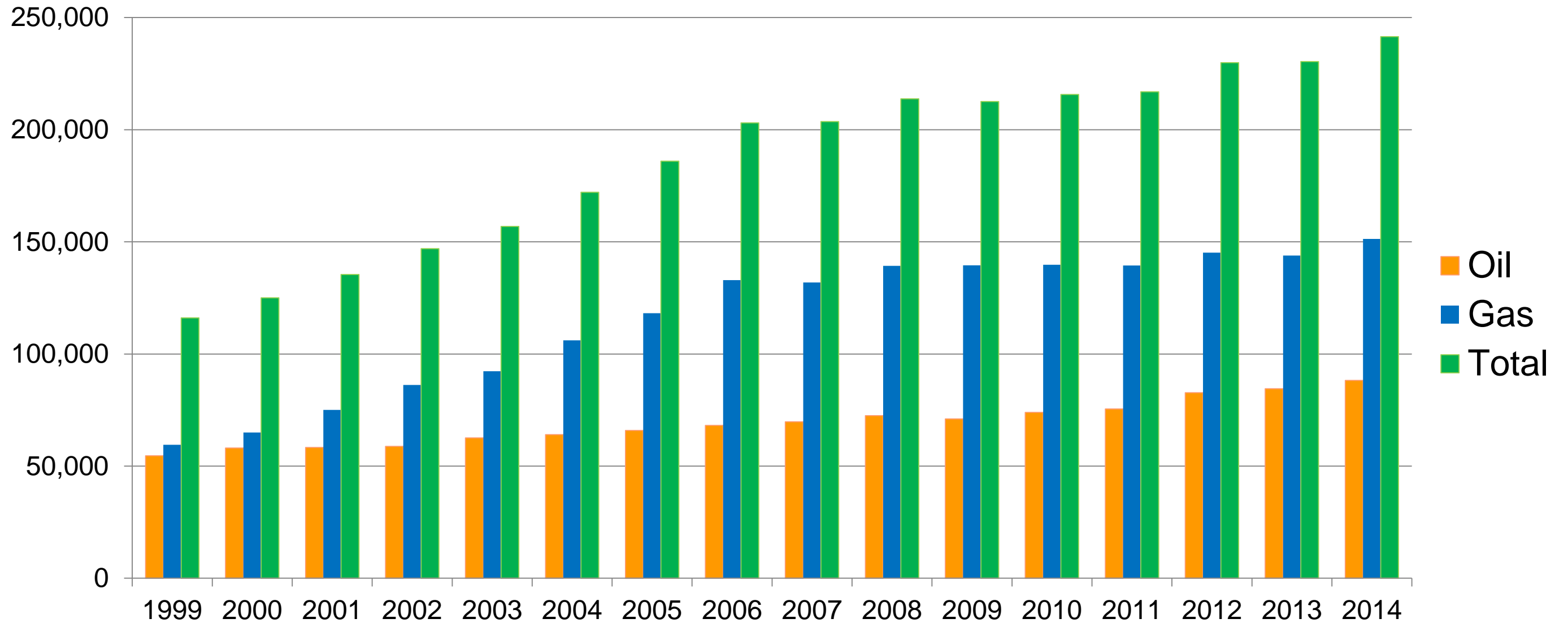


# Oilsands Production Growth to 2018 – Millions of Barrels Per Day



Source: CAPP Crude Oil Forecast June 2015

# Operating (Producing) Oil & Gas Well Base



Source: CAPP Statistical Handbook 2014

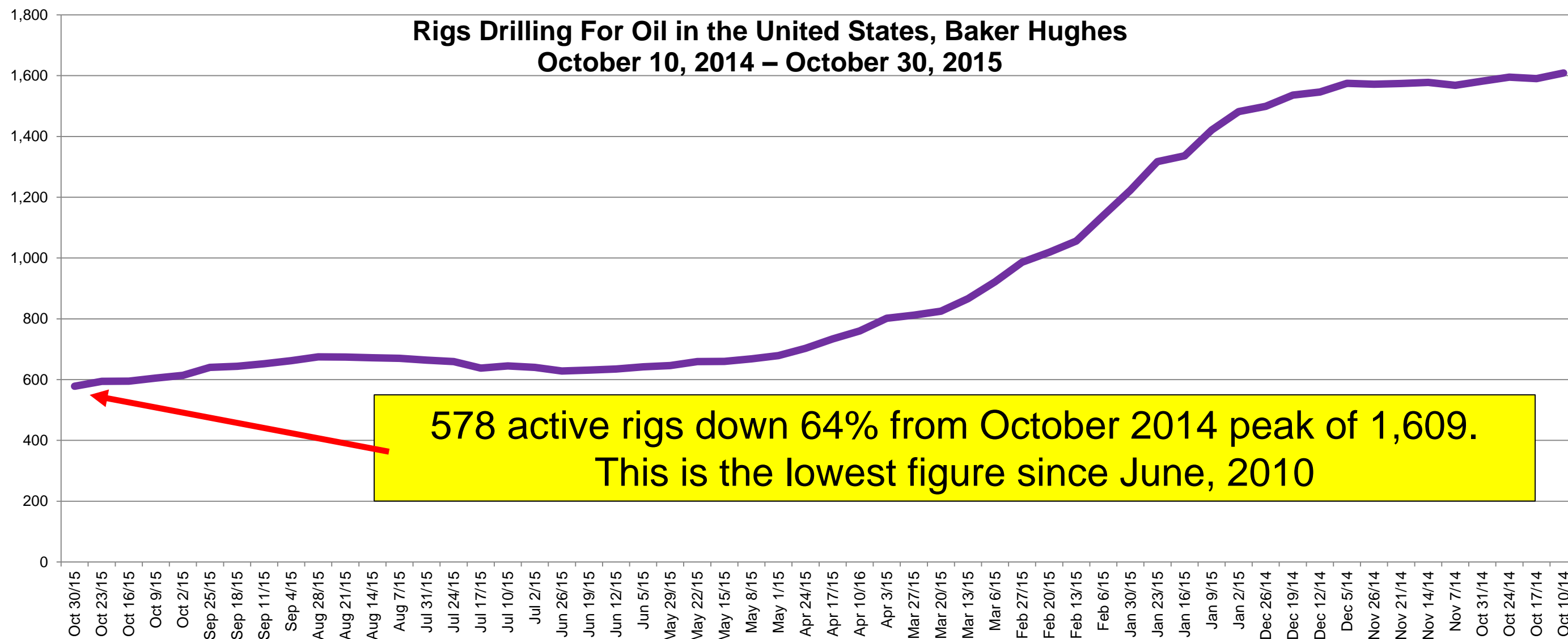
# 2015 Drilling Compared to Prior Years

Date	Active Drilling Rigs	Change*
November 2, 2015	186	
November 4, 2014	404	-54%
November 5, 2013	417	-55%

Source: June-Warren Nickles Rig Locator November 2, 2015

\*2015 compared to prior year

# U.S. Active Oil Drilling Rigs Since October 2014



# North Dakota Drilling Activity

Year	2015	2014	2013	2012	2011
	69	193	181	187	195
		-64%	-62%	-63%	-65%

## North Dakota Active Rig Count For November 2, 2011 – 2015

Year over year change 2015 compared to prior year

*Source: North Dakota Department of Mines & Resources*

# Funds Available to OFS MNP Model, \$Billions

Source	2014	2015 F	2016 F
E&P Capex (CAPP)	\$81	\$48	\$42
E&P Operating Costs (1/3, CAPP)	\$15	\$16	\$17
OFS CAPEX (MNP)	\$10	\$5	\$2
Less – land sales, licenses, permits	(\$2)	(\$1)	(\$1)
Total	\$104	\$68	\$60
Change		-35%	-12%

OFS CAPEX Includes: third party operated pipelines, processing plants & production storage facilities: drilling rigs, well servicing equipment, rental equipment

# Major Positive Potential Changes

- **LNG Project Announced – B.C. tax changes in place: will somebody commit?**
- **Export Pipelines – if construction begins on any of four major oil pipelines**
- **Oil Price Recovery – when global supply and demand near balance and drive the short sellers out of the market**
- **Oilsands Production Rising – which will grow support services**



# What Should OFS Managers Do?

- **Don't hope the market will bail you out**
- **Figure out your costs to the nearest penny**
- **Make friends with your banker and stay on his good side**
- **Develop a strategy to ensure your company survives with whatever business comes in the door**
- **Protect your investment/equity through a merger with a competitor**





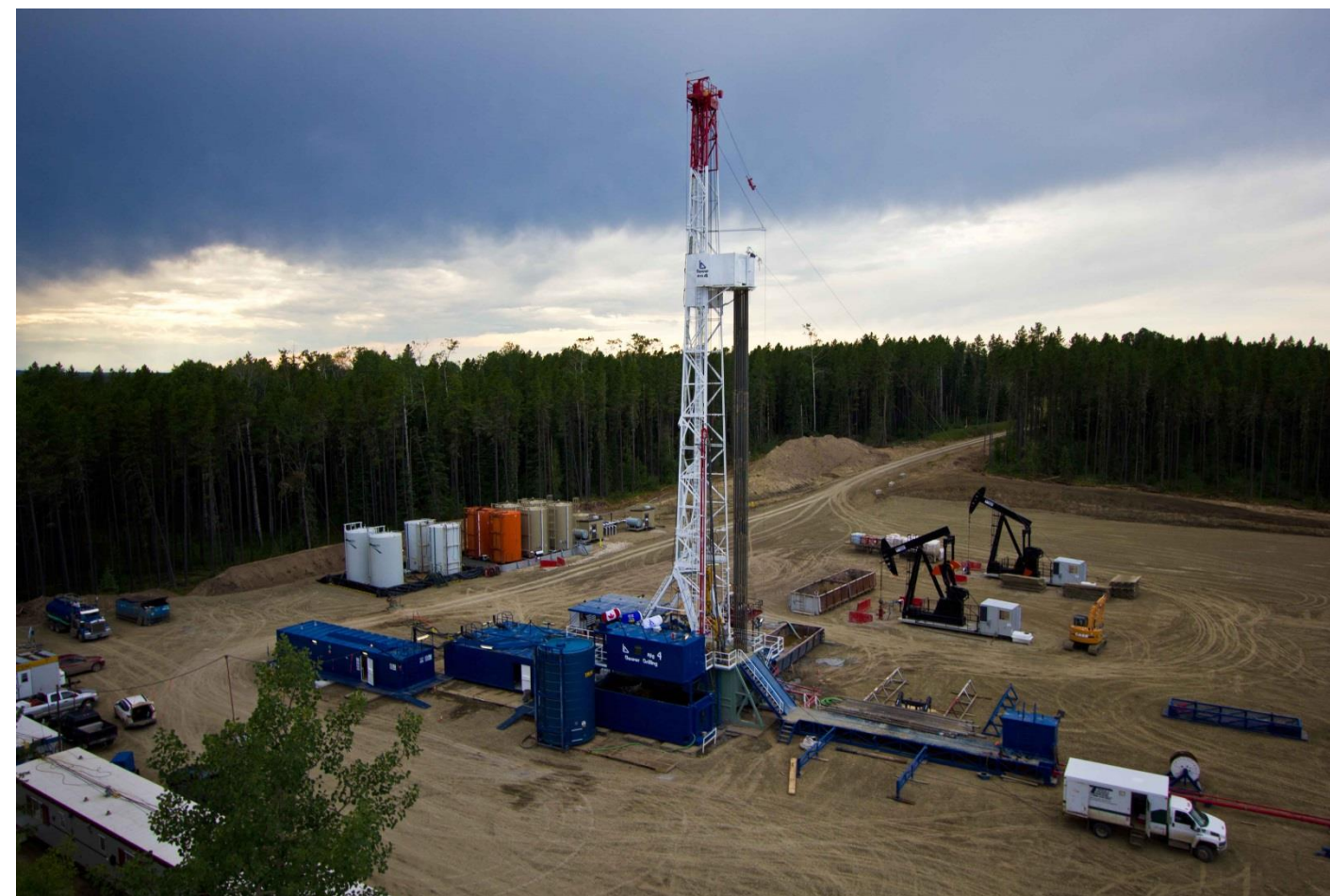
# Don't hope the market to bail you out

- **Holding tight for recovery won't work because the timing of the turnaround is unknown**
- **No major investment or spending decisions will be made until the majority are confident the bottom has been reached**
- **Work to protect your investment by not selling assets or issuing equity (selling all or part of the company) at current valuations**



# Figure out your costs to the nearest penny

- Know the exact cash costs of every sale or job
- Don't move unless you know the cash gain will zero or better
- You have to have some cash profit on every sale or job to keep the company afloat





# Stay friends with your banker

- **Get ahead of the game with your banker...give plenty of notice of tough times**
- **Give your loans manager whatever he wants and needs because he has to sell your continued support to credit**
- **If you don't have the internal resources hire somebody! MNP can do that**
- **Bankers don't want your company or your assets but they need your help**



# Make your business work with whatever business is out there

- If you have revenue and a cash profit of sales or jobs you have a chance
- Business will pick up once people figure the bottom has been reached
- Be merciless in cutting costs to prevent having to sell assets or all or part of the company at current valuations
- Be cautious of credit/collection risk in this market



# Consider a merger with a competitor to protect your investment

- It is better to own part of something bigger with a chance that 100% of a company that may not survive
- Valuation with a competitor is simple as long as they are the same
- Oil service must reduce the CEOs and managers per dollar of revenue to retool to a smaller market (Ensign & Precision in 1980s)
- Bringing in an equity investor/partner who can provide strategic help (financial administration, capital, M&A experience) may be an option



# Conclusions – Special “Good News” Section

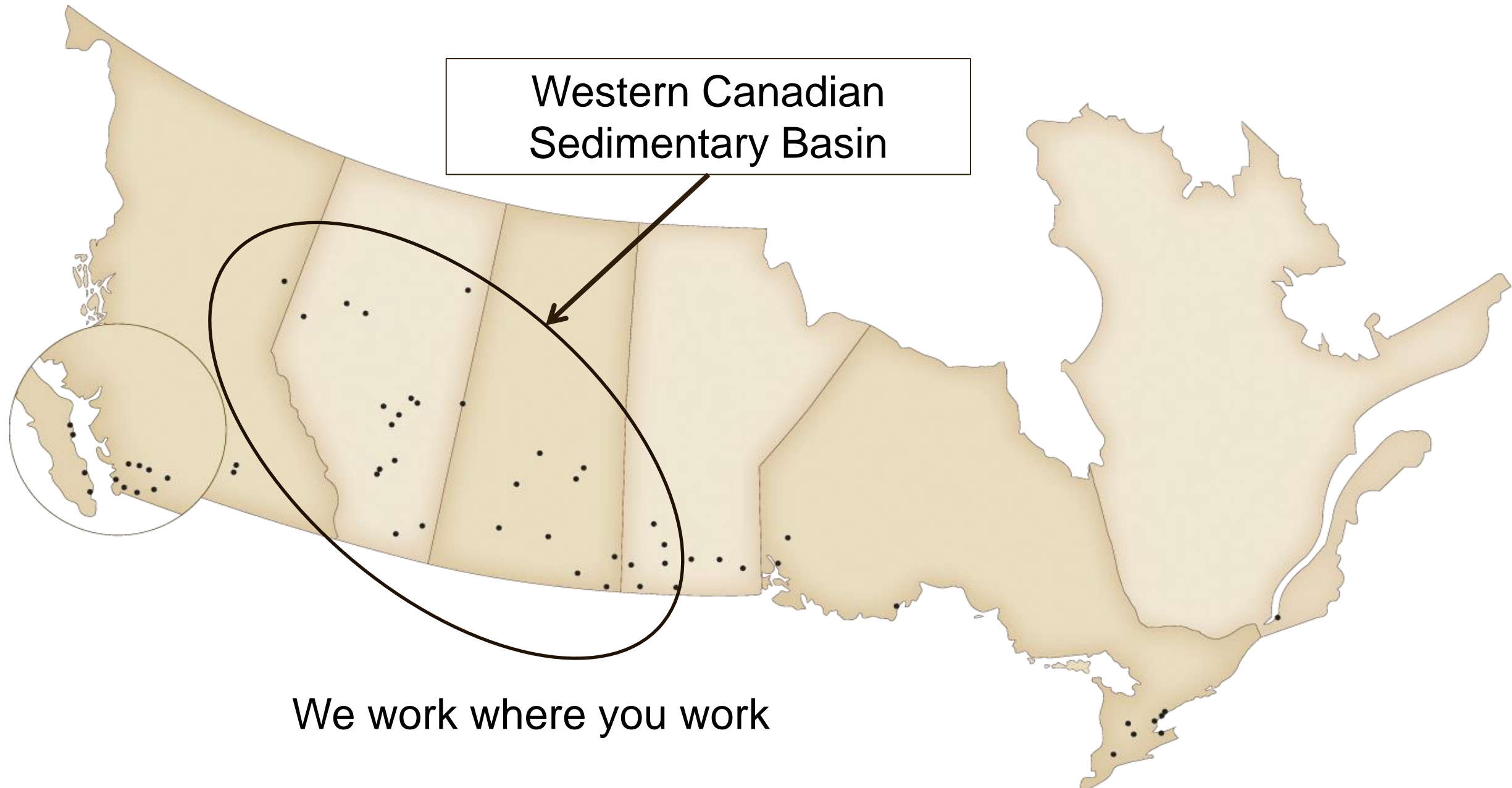
- It's got to get better because it can't get worse
- We've got to be at or very close to the bottom
- The herd is always wrong
- The banks don't want your assets or company if you can come up with any reason for them to work with you
- Canada is the 5<sup>th</sup> largest hydrocarbon jurisdiction in the world and demand growth shows we're not quitting oil anytime soon



*Maybe...I've  
been wrong  
before*



# Where We Operate



We work where you work

# About MNP

- **Fifth largest tax, accounting and business advisory services firm in Canada.**
- **Offices in strategic locations throughout all the major producing areas of the Western Canadian Sedimentary Basin.**
- **Experience with over 5,500 oilfield services clients.**
- **Over 150 dedicated OFS professionals.**
- **Member of the major OFS industry associations.**
- **Only professional services firm with an on-hands industry specialist.**
- **Corporate restructuring specialists in all major Canadian centres.**
- **Alberta based corporate recovery specialists experienced in the major Alberta industries.**



# OUR PEOPLE

## “Think Global, Act Local”

- **Over 75 offices from Montreal to Vancouver Island.**
- **Member of Praxity Global Alliance of Independent Firms giving us worldwide presence.**
- **We have specialists located in the areas necessary to meet the local needs of our OFS clients.**