Oil & Gas: Oil Sands

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The Sandbox: The landscape is evolving *(all figures C$, unless noted)*

- The Oil Sands landscape is continuing to gain positive traction, which is bullish for the stocks. We highlighted our thesis early this year on the belief that the recent global recession and associated decline in oil prices has led to reduced capital costs as a result of depressed materials and labour demand. We saw further improvement as a result of easing in the capital markets, which has reduced the cost of capital. Now the demand for Oil Sands assets is on the rise, as demonstrated by recent transactions (UTS being the latest). We still see more positive catalysts on the horizon, including further transactions, which could lead to a re-rating of the stocks.
- **The PetroChina/Athabasca Oil Sands JV (joint venture) agreement is not the end for China, in our view.** Unlike past transactions made by the Chinese, this was a significant direct move into the Oil Sands that had a major price tag. Additionally, as per media reports, the Chinese state oil company, CNPC, has been very vocal about wanting to create a strategic alliance with Alberta in order to help meet its energy needs; a spokesman for Alberta was quoted as saying the Province is very interested in greater economic co-operation with China. **We believe if Korean National Oil Corp.'s proposed acquisition of Harvest Energy Trust closes without any backlash from the Canadian government, this could accelerate M&A activity by foreign entities**.
- **Adding to China's moves into the space, the country's sovereign wealth fund, China Investment Corp. "CIC," is making larger overseas investments:** Through a recent US$1.5 billion investment in Teck Resources Ltd. (TCK.a-T: $33.89, Not Rated), CIC has already made a step into the Oil Sands space. CIC could be interested in either a direct or indirect investment in ConocoPhillips' 9.03% interest in Syncrude, in our view. Any investments made in the Oil Sands by CIC could further highlight China's appetite for Oil Sands.
- **New builds are being proposed:** CNRL, Devon Energy, EnCana (Cenovus), and Imperial Oil announced either the sanction of or plan to move towards the sanctioning of new oil sands projects. On November 13, Suncor also announced the restart of Firebag 3 construction. We expect any additional project sanctions to give investors and potential acquirers further confidence in Oil Sands economics.
- **Improvement in Canadian heavy oil differentials appears sustainable:** Canadian heavy oil's access to the U.S. is increasing through new pipe capacity. Additionally, traditional heavy oil sources for the U.S. are in decline (Mexico) and subject to political risk (Venezuela). This helps improve the economics of non-upgraded oil sands projects and reduces the need to build upgraders that are labour and steel-intensive, in our view.
- **There are two new potential direct links between the Oil Sands and Asia.** The Canadian National Railway is looking to ship oil sands production using rail, including possibly to the west coast. Also, the Bank of Montreal's plans to incorporate in China could connect Calgary with China.
- **EnCana (Cenovus), E-T Energy, Ivanhoe Energy, Laricina, Oilsands Quest, Petrobank Energy and Sunshine Oilsands, among others, could demonstrate advancements in in-situ extraction and development.** These events could dramatically improve economics and increase Canada's expected recoverable bitumen potential. They could also provide visibility to the emerging Carbonates. This could be analogous to what has happened in the tight North American oil and natural gas plays.
- **Re-rating is in the early stages, in our view.** First, the market appears to be hesitant to pay for Oil Sands growth. At US$80/Bbl WTI, most of the stocks in our coverage universe are only factoring in currently producing Oil Sands projects. Additionally, the share prices of oil sands pure plays and oil sands levered companies are still 20%-92% below their respective 2008 highs. Any additional transactions and project sanctioning could be a further impetus for a re-rating, in our view. In this report, we look at the oil sands assets of smaller public and private oil sands companies (starting on page 33) to help identify where future transactions could occur. **BUY-rated oil sands levered stocks are: BQI, COS.un, CNQ, ECA, PBG and SU.**

This report was prepared by an analyst employed by a Canadian affiliate, Genuity Capital Markets, and who is not registered as a research analyst under FINRA rules. See last two pages for disclosure and share classification information.

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The Sandbox: The landscape is evolving

We believe the PetroChina/Athabasca Oil Sands (AOSC) JV agreement is just the beginning for China and, perhaps, Asia

Unlike past transactions, this is the first major direct step into the Oil Sands made by the Chinese, which tells us their intentions are real and that they have confidence in the commerciality of Oil Sands. Previous transactions made by Chinese oil companies were minor and included: Sinopec's $105 million acquisition of a 60% w.i. (working interest) in the Northern Lights oil sands mining project from Synenco Energy (now Total Energy) in 2005; the $150 million investment in a 16.69% direct ownership interest in MEG Energy by CNOOC in 2005; and an undisclosed amount paid by Sinopec in April 2009 for an additional 10% w.i. in the Northern Lights project from Total (Exhibit 1).

We believe that PetroChina's recent move, and especially any further moves made by the Chinese, could be a catalyst for other Asian companies to invest in the Oil Sands space. To that end, recall that the Korean National Oil Corp. (KNOC) purchased Newmont Mining's Blackgold in-situ project in July 2006 for $308 million, or $1.01-1.23/Bbl depending on which resource estimate is used (Exhibit 1).

Successful completion of KNOC's proposed acquisition of Harvest Energy Trust could be an indication of the Canadian government's attitude towards national oil companies making corporate acquisitions in the oil sands and heavy oil space

KNOC recently agreed to purchase, for $4.1 billion, Harvest Energy Trust, who controls roughly 42,000 net acres in the Cold Lake and Peace River areas. But given the company's more extensive exposure in light oil and natural gas plays (it makes up a combined 75% of Harvest's upstream revenue and less than 30% of total corporate revenue, including downstream assets), we believe that current oil production and upside from enhanced oil projects were more the motivation for the decision, rather than oil sands.

Nevertheless, this proposed transaction could be a critical test of the Canadian government's view on national oil companies and other foreign entities acquiring Canadian oil & gas companies. Successful completion of the proposed transaction could accelerate M&A activity by other foreign entities, including China, in our view.

The special meeting of Securityholders will be held in Calgary on December 15, 2009 at 10:00 am (MST), and the completion of the arrangement is expected to occur on or about December 22, 2009. Specific details, subject to the receipt of all necessary approvals and other conditions, in respect of the Arrangement will be contained in an Information Circular and Proxy Statement of the Trust, which is expected to be mailed on November 16, 2009.

Exhibit 1: Past Oil Sands acquisitions by China and Korea

			Korea National Oil Corp.'s Estimate	McDaniel & Associates' Estimate		
Buyer	**CNOOC**	**Sinopec**	**Korea National Oil Corp.**	**Korea National Oil Corp.**	**Sinopec**	**PetroChina**
Seller	**MEG Energy**	**Synenco**	**Newmont Mining**	**Newmont Mining**	**Total**	**Athabasca Oil Sands**
Date	4/12/2005	5/31/2005	7/24/2006	7/24/2006	4/1/2009	8/31/2009
Consideration ($mm)	**$150**	**$105**	**$308**	**$308**	**Undisclosed**	**At least $1,900**
Acquisition description	Acquired interest in MEG Energy	Acquired interest in Northern Lights Project	Purchased Newmont's Blackgold In-situ project	Purchased Newmont's Blackgold In-situ project	A price was not disclosed, but the consideration was likely small given Total purchased Synenco for roughly $540mm in cash for a 60% interest in the project or $9mm per 1% w.i. This could imply Sinopec paid about $90mm	PetroChina purchased a 60% non-operating w.i. from Athabasca Oil Sands Corp. in the MacKay River and Dover projects.
Project Location	Athabasca Area	Athabasca Area	Cold Lake	Cold Lake	Athabasca Area	Athabasca Area
Ownership interest in respective project	16.69%	40.0%	100.0%	100.0%	10.0%	60.0%
Extraction Method	In-Situ	Mining	In-situ	In-situ	Mining	In-situ
Estimated Gross Recoverable Resources (MMBbl)	2,000	1,194	250	305	1,657	5,000
Est. Recoverable Resources Net to tbe Acquirer	334	477	250	305	166	3,000
$ per Bbl	$0.45	$0.22	$1.23	$1.01	NA	$0.63

Source: Company reports

As per AOSC, the Chinese have made considerable advancements in in-situ development that are very impressive

On a conference call held on August 31, 2009 to discuss the proposed JV with PetroChina, AOSC stated that management recently visited several of PetroChina's oil facilities in northeastern China. This is where PetroChina operates a number of heavy-oil projects using sophisticated technologies, including various SAGD processes and firefloods. AOSC stated that PetroChina's field developments, operational methods, heavy-oil experience and research facilities are world-class, and as a partner they will bring these very valuable attributes to the MacKay River and Dover oil sands projects which are part of the JV. To the best of our knowledge, this is the first time the outside world has been given some insight into China's progress on in-situ technology, which, if this is the case, could be a key link to further Oil Sands investments in Canada.

China's sovereign wealth fund, China Investment Corp., is making larger overseas investments and, through Teck, it already has made an initial step into the Oil Sands space

In media reports, officials at the CIC stated earlier this year that the fund is investing significantly more overseas this year versus last year. Additionally, Jim Flaherty, Canada's Finance Minister, was recently quoted after a meeting in China with Lou Jiwei, chairman of CIC, saying that CIC "views Canada as a safe place to invest."

Of note, the CIC purchased, by way of private placement, 101.3 million Class B subordinate voting shares of Teck Resources in July 2009 for $17.21/share, or $1.7 billion (US$1.5 billion). This transaction is important to

the Oil Sands space because Teck is a 20% partner in the Fort Hills oil sands mining project and Teck is also UTS' 50% JV partner in oil sands interests outside of Fort Hills (excluding the 50% interest in the Lease 421 area that UTS recently agreed to sell to Imperial Oil and ExxonMobil).

This share purchase roughly gives CIC a 17.5% ownership of Teck's outstanding Class B shares, representing about 17.2% equity and 6.7% of the voting interest in Teck. Of note, Teck's President & CEO, Don Lindsay, was quoted as saying that "Teck sees this investment as an attractive opportunity for the company to establish a relationship with a major Chinese financial investor with a deep understanding of China." Given China's importance in global oil demand, perhaps Oil Sands companies will hold the same view.

Canada's government appears to be more open to Chinese investments

Alberta's Premier, Ed Stelmach, was quoted, in recent press, as welcoming the PetroChina/AOSC deal shortly after it was announced. Additionally, Jim Flaherty was also quoted as saying that additional investments by the Chinese are welcomed, but so long as "they are done on a "commercial basis." The minister recommended that state-run entities like CIC should consider listing shares in Canada or buying stakes in publicly-traded companies as the "easiest" way to avoid problems."[1] Perhaps the minister is suggesting this will keep the entities transparent.

The Canadian support for Chinese investments could be a result of the Obama Administration's negative view towards Oil Sands, which could possibly be creating an opportunity for Asia to step in and claim a stake. With the U.S. attempting to make an about-face on environmental issues and looking to curb its consumption of oil, China could be the alternative market for Canadian Oil Sands. Although, if the U.S. sees China as a threat, it could result in a competitive "bid" for Oil Sands resources, in our view.

UTS' recent asset sale provides further indication of the increased demand for oil sands

On November 2 UTS Energy announced the disposition of its 50% working interest in Alberta Oil Sands Leases 421, 022 and 023 (the "Lease 421 Area"), located east of the Firebag River in northeastern Alberta. Imperial Oil and ExxonMobil have agreed to jointly purchase UTS' working interest for $250 million ($200 million after tax). Imperial Oil (IMO-T: $40.70, Not Rated) and ExxonMobil (XOM-N: US$72.47, Not Rated) are the joint buyers. The Lease 421 Area is located northeast of Total's Northern Lights project (which it owns through the acquisition of Synenco) and directly north of lands owned by Imperial Oil. The transaction is expected to close over the next month and will mark the end of the formal value maximization process that was started in January of 2009 in response to the hostile takeover bid launched by Total E&P Canada Ltd.

We view the transaction as a positive on all fronts because:

1) It dramatically reduces UTS' financial risk on Fort Hills (although timing of potential development is still unknown), leaving it with an estimated $440 million in cash and cash equivalents, plus $695 million of estimated

[1] Bloomberg, August 14, 2009 – *Flaherty in China Sets Stage for Trade, Harper Visit (Update 1)*

remaining earn-in owed to UTS by Teck and Suncor Energy. UTS believes that if a smaller Fort Hills scope is adopted, UTS may be entirely funded based on its current position.

2) Exxon and Imperial are additional buyers of Oil Sands, which further legitimizes the commercial potential of the resource base and is another positive for the space, in our view.

3) There was immediate significant value creation. A resource estimate for the leases has not been disclosed to date. However, in 2006 UTS purchased a 100% interest in Lease 421 for $240,353, or roughly $20.86/acre (on 11,520 acres) and then later sold a 50% interest to Teck in 2007 for $120,177, or 50% of the lease bonus paid. In July 2008, UTS also purchased a 50% interest (Teck bought the other 50%) in Leases 022 and 023, comprising a total area of 21,760 acres gross for $5 million net, or roughly $460/acre. UTS also spent an estimated $12 million net to drill 59 core holes on this land. The three leases combined make up 52 sections or 33,280 gross acres, of which UTS held a 50% interest in with Teck. To that end, UTS is selling its 50% in Leases 421, 022 and 023 for $250 million or roughly $15,000/acre versus its original $5.1 million acquisition cost, plus its estimated $12 million in drilling cost. The high dollar/acre implied by the transaction is the result of the leases being acquired on a bitumen resource estimate.

New builds are being proposed

Canadian Natural Resources, Devon Energy, EnCana Corp. and Imperial Oil announced this year that they will either sanction or plan to move towards sanctioning of new oil sands projects. Specifically:

- Canadian Natural stated on its recent Q3/09 earnings call that it expects to sanction its 45 MBbl/d Kirby SAGD project in late 2010.
- Devon Energy stated on its recent Q3/09 earnings call that it plans to file the regulatory application for the third 35 MBbl/d SAGD phase at Jackfish in 2010.
- EnCana highlighted on its October 1, 2009 Integrated Oil conference call that it will continue to build 30-40 MBbl/d sized SAGD expansions at Christina Lake and Foster Creek every 30-36 months, targeting an average annual oil sands production growth of 10-15%.
- Earlier this year, Imperial Oil sanctioned the first phase of its 300 MBbl/d Kearl oil sands mining project. The Kearl project is envisioned to be developed in three phases. The first phase of the project is anticipated to cost about $8 billion and is expected to begin production in late 2012, with total production expected to average 110 MBbl/d.
- On November 13, Suncor Energy announced plans to restart construction of its Firebag 3 SAGD project. It is also targeting average annual oil sands production growth of 10-12% through 2020. This is an indication of improved oil sands economics, as well as the company's improved financial wherewithal that resulted from the Petro-Canada merger, in our view.
- Total and ConocoPhillips (COP-N: $52.83, Not Rated) are nearing a decision on Surmont Phase 2.

We expect any additional project sanctioning to give investors and potential acquirers further confidence in Oil Sands economics.

Suncor recently stated that it expects there to be fewer players in the Oil Sands space, indicating that there is the potential for acquisitions (maybe not done by Suncor, but perhaps by others).

We can only speculate, but it is viable to suggest, that China's recent investments in the Oil Sands space could force the hands of other players either looking to enter the Oil Sands arena or looking to increase their exposure to do so (although investors have heard this story before).

Larger players may be motivated to dramatically improve and de-bottleneck existing Oil Sands infrastructure

One of the key bottlenecks within the oil sands region is a lack of properly built infrastructure to help accommodate growth. If Oil Sands assets continue to become consolidated amongst fewer, larger players, we believe this could lead to improved labour networks, increased pipeline capacity and more in-house modulation yards.

With respect to more modulation yards, EnCana (Cenovus) already has its own in-house one located in Nisku, which was created to optimize the construction of pipe racks. It is currently large enough to build about 40 modules, and there are plans to potentially increase capacity to 70 module units. The advantages of having an in-house modulation yard are: 1) it allows EnCana to maintain labour continuity, as there is a constant flow of work being done; 2) it is near Edmonton, therefore it can eliminate wasted costs associated with needing everyone on site essentially 100% of the time even when they are not being utilized (i.e., it improves labour productivity); and 3) as per EnCana, it has reduced the level of re-work. It is too early to quantify any cost benefits; however, the timing of completing modules has improved, as per the company. This, along with reduced re-works, has at the very least helped minimize cost overruns and delays.

Suncor stated on its Q2/09 earnings conference call in July 2009 that with its new interest in Syncrude, it sees an opportunity for shared learnings between Suncor and the Syncrude partnership which could potentially help everyone to be more competitive. Rick George, President & CEO of Suncor, further stated that he has been a proponent of "trying to hook all of these (oil sands) plants, including CNRL's or anyone else, up by pipeline to make sure we drive efficiency and also effectiveness across the whole entire system…whether this helps foster that is something we have yet to see." It is encouraging to hear this from the single largest oil sands producer.

BMO and CN Rail – A potential direct link between China and Oil Sands

As per the June 1, 2009 Financial Post article, *China's oil giant seeks alliance with Canada*, "China's state oil company, China National Petroleum Corp. (CNPC) stated at the Alberta Economic Forum in Geneva held on May 4, 2009 (attended by Alberta Premier Ed Stelmach) that it is proposing a strategic alliance with Canada, and particularly Alberta on energy. Additionally, as per the article, "Alberta is very interested in greater economic co-operation with China and there have been ongoing discussions with CNPC." Further to that, as per the Financial Post, CNPC stated that it is seeking the support of Canadian political leaders to help establish a major energy corridor that links Western Canadian supplies to the Chinese market. We believe two direct links could potentially come to fruition through rail plans that are being considered by Canadian National Railway (CNR-T:

$57.10, Not Rated) and the preliminary approval recently given to the Bank of Montreal (BMO-T: $51.45, SELL, Target – $58.00) to incorporate in China.

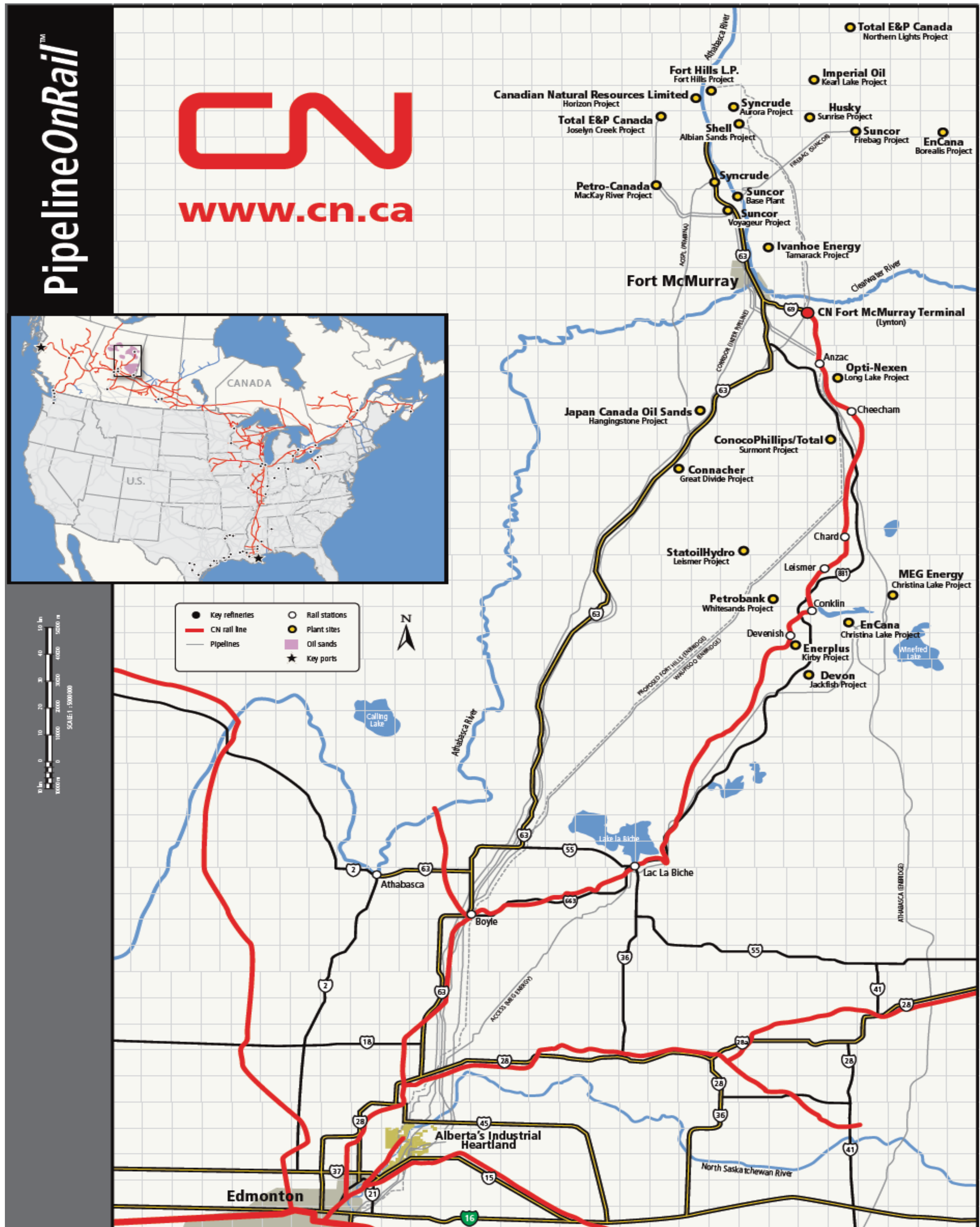
The supply/demand side: Canadian National Railway is looking to ship oil sands production as an alternative to using pipelines. There were some news articles on this earlier in the year, but they did not seem to gain much traction. However, we were told in recent meetings with several oil sands companies that discussions between CN Rail and oil sands companies have accelerated, and therefore we believe any announced deals could spark more interest in oil sands stocks. Key points mentioned are:

- CN Rail is being aggressive in competing with pipeline shipping costs.
- It has done multiple upgrades to its rail systems in anticipation of this potential business opportunity.
- CN Rail has the ability to ship to wherever the best potential market is (market flexibility): **the Gulf Coast and, more importantly, to west coast Canada where it can then be tanked to Asia.**
- It can provide a method of shipping for future projects that do not have access to pipe capacity.
- CN can provide producers with the alternative of not using diluent, due to heat-able railcars (although bitumen shipped to Asia would need to be diluted due to lack of coker capacity there). Wherever bitumen can be shipped without diluent, netbacks should improve, in our view, as refiners penalize producers for diluent.
- It can be a method of transporting diluent back to oil sands producers after unloading bitumen production to refineries/tankers.
- It could be cheaper than building additional pipe capacity, and there would be no need to sign on long-term contracts with CN Rail, as per some of the oil sands companies we spoke with on this topic.
- CN Rail estimates it could ship 2.6 MMBbl/d to the West Coast if 20,000 railcars are added to its fleet.

Facilitating a connection to Asia potentially means that the Chinese and other Asian countries have more of an incentive to go after Oil Sands assets. This reiterates our theme that PetroChina's recent move is just the start of more transactions by China. Additionally, it provides further upside potential to Oil Sands economics, given that it can dramatically reduce the need to use diluent and because it can open up Oil Sands to additional markets (Asia in particular), which is bullish for Canadian heavy oil prices, in our view. Any continued sustainability in improved heavy oil differentials can prevent the need for additional upgraders in Alberta. Consequently, less upgrader construction could reduce labour and steel demand in Alberta, which is another mitigating factor against another hyper-inflation cost cycle.

The capital markets side: The Bank of Montreal announced in late September that China's banking regulator had given the bank preliminary approval to incorporate in that country. We believe this could be a key financial gateway between China and the Oil Sands. Bank of Montreal expects to receive final approval in mid-2010. This would make it the first Canadian bank to incorporate in China.

Exhibit 2: CN Rail's efforts in selling its services to the Oil Sands industry



Source: Canadian National Railway

Technological breakthroughs could lead to further M&A activity

There is currently an estimated 173 billion Bbls of potentially recoverable bitumen in the Alberta Oil Sands region through current technologies and more in Saskatchewan. However, new in-situ technologies are expected to increase total recoverable bitumen to about 300 billion Bbls (at least) in Alberta, plus a yet-to-be determined amount in Saskatchewan.

In-situ is still in the infancy stage of its technological evolution. As such, there are many innovative changes to come that could positively impact recovery potential and reduce the cost side, such as what is being done by EnCana (Cenovus), E-T Energy, Ivanhoe Energy, Petrobank Energy and Resources, Oilsands Quest, and Alberta Oil Sands as well as activities being done by Husky Energy, Laricina Energy Ltd., OSUM Oil Sands Corp., Royal Dutch Shell, and Sunshine Oilsands Ltd. in the emerging bitumen carbonates of Alberta. Any major breakthrough that creates a positive shift-change in economics and recoveries of new resources, such as the carbonates, could be a catalyst for M&A activity, in our view.

From our coverage universe, the companies that could demonstrate breakthroughs in in-situ extraction over the next 12 months are: EnCana (Cenovus), Oilsands Quest, and Petrobank.

- EnCana plans to construct a commercial in-situ project using Solvent Aided Process (SAP), which involves introducing a small amount of hydrocarbon solvent as an additive to the injected steam during the SAGD process. The solvent reduces the viscosity of the bitumen, and thus reduces the heat requirement. This improves the energy efficiency of the SAGD process and, as a result, reduces the SOR of the project. The offset is that not all of the solvent can be recycled. EnCana has already run pilots on SAP, and plans to file a regulatory application in 2010 for a 120 MBbl/d project in the Christina Lake area called Narrows Lake. The first phase is expected to be 40 MBbl/d.
- Oilsands Quest is testing the best recovery method for its lands that are not conducive to high pressure, high temperature processes, due to the lack of a shale-based cap rock. The company plans to commence a test in mid-November of a low-temperature and low-pressure steam process (Test Site 1). The company is also looking to test a form of SAP sometime in the future. Early tests at another test site (called Test Site 3) recently recovered an undisclosed amount of bitumen, which is encouraging. Successful results at Test Site 1 could open up Saskatchewan's oil sands business, where Oilsands Quest already has an estimated 1.9 billion Bbls of Discovered resources at its Axe Lake discovery. The company has an additional roughly 1 billion Bbls of Discovered, plus 673 MMBbls of Undiscovered bitumen resources at its Raven Ridge discovery, which is in Alberta, directly adjacent to Axe Lake. Both discoveries lack an overlying shale layer. Of note, part of EnCana's Borealis project (which is located near Raven Ridge) also exhibits this characteristic, and the company plans to do a pilot test to demonstrate ways to produce the bitumen. In meetings we had with EnCana's management, the company has been confident in its ability to produce bitumen despite the lack of cap rock.
- Petrobank continues to test its THAI process at its Whitesands oil sands pilot project in Alberta and at its Kerrobert conventional heavy oil joint venture with Baytex Energy Trust. This process could dramatically improve netbacks, reduce capital costs, and improve project returns.

> This is because it essentially eliminates the need to consume natural gas, it partially upgrades the bitumen and heavy oil underground, it requires less facilities (no need for water handling), and it is expected to increase the recovery factor to up to 80% for bitumen (from 35-55% for SAGD) and to up to 80% for conventional heavy oil (from 6-10% for conventional drilling). Management also believes that the process can work in reservoirs that are not conducive to SAGD, such as thinner pay zones, reservoirs with leans zones and shale breaks, and possibly reservoirs that lack a cap rock.

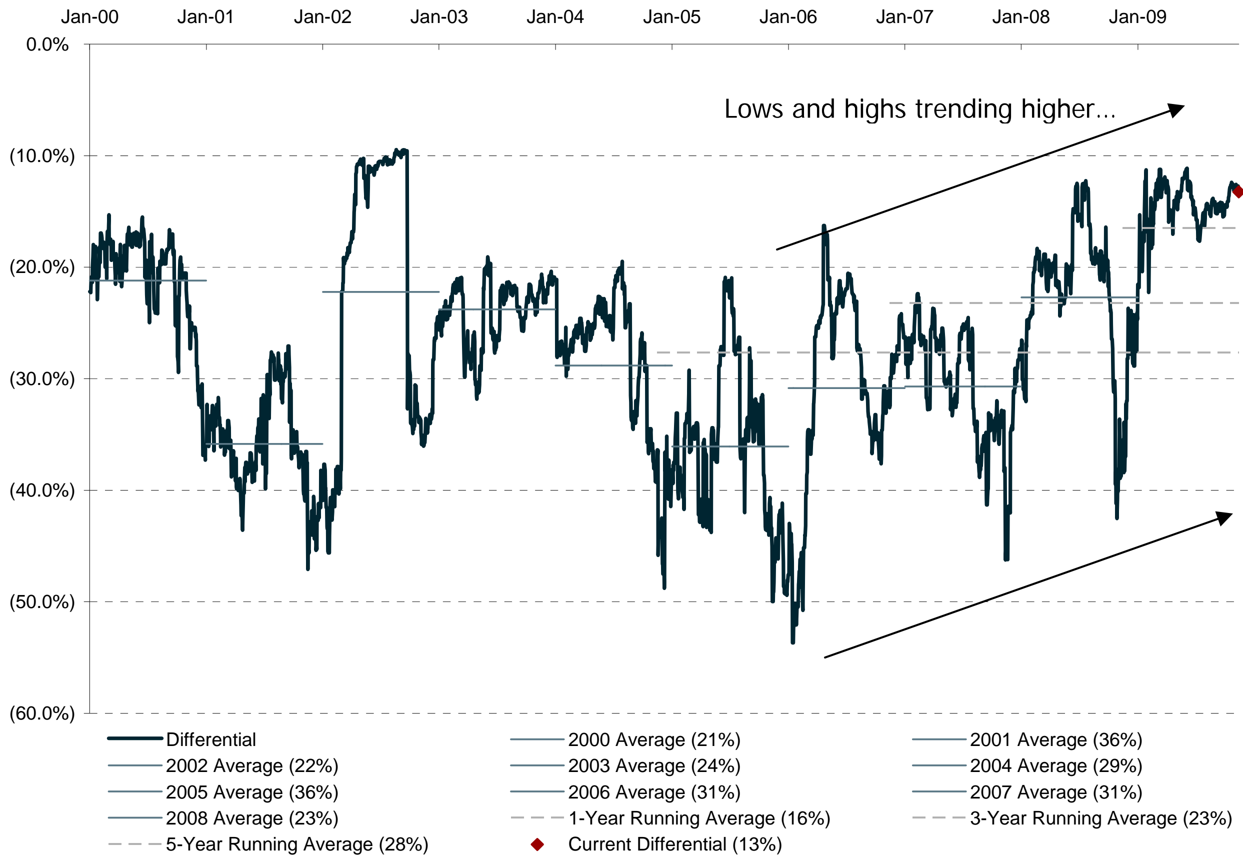
These events could dramatically improve economics and significantly increase Canada's expected recoverable bitumen potential. This could be analogous to what has happened in the tight oil and natural gas plays of North America. Such a shift could provide for a further revaluation of the stocks, in our view.

Improvement in Canadian heavy oil differentials appears sustainable

Canadian heavy oil prices have been extremely strong (on a relative basis) versus WTI since late December 2008, with differentials oscillating between 10%-20%. Additionally, current differentials of 13% are 15 percentage points lower than the five-year average of 28% (Exhibit 3). This is due partially to a seasonal effect (demand for heavy crude oil is stronger during the summer paving season, as it is an input for asphalt) and OPEC cuts (heavy oils are usually the first to be constrained). However, with North America now heading into winter, it also appears to be part of a developing trend of improved long-term Canadian heavy oil differentials. To that end, as seen in Exhibit 3, the trading range for heavy oil differentials has been trending up over the last few years (albeit there are still the seasonal fluctuations in the winter, as expected).

The focus of our previous research reports on this topic has primarily been on the increased pipeline and coker capacity in the U.S. as the reason for this new trend. However, the supply-side is also a factor as well, and this report focuses on how trends on the supply side should also be supportive of increased demand for Canadian heavy oil and thus the improved trading range for Canadian heavy oil differentials going forward.

Exhibit 3: Lloyd blend differential to WTI

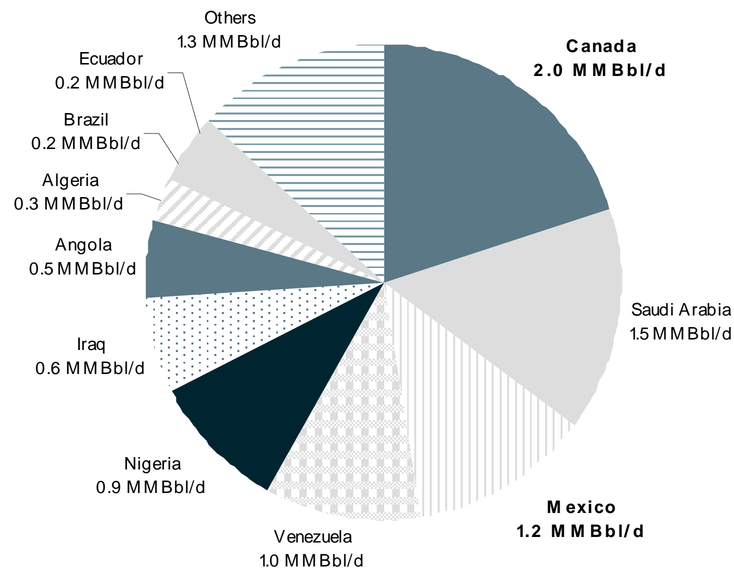


Source: Bloomberg

South American production declines provide support for increased U.S. demand in Canadian heavy oil

Canada, Mexico, Saudi Arabia and Venezuela are the four largest sources of imported crude into the U.S. (see Exhibit 4). Of these, Canada, Mexico and Venezuela are heavy oil focused exporters. However, production and exports from the latter two countries is on the decline, and Venezuela continues to provide political risk.

Exhibit 4: U.S. crude oil imports by source (2008)

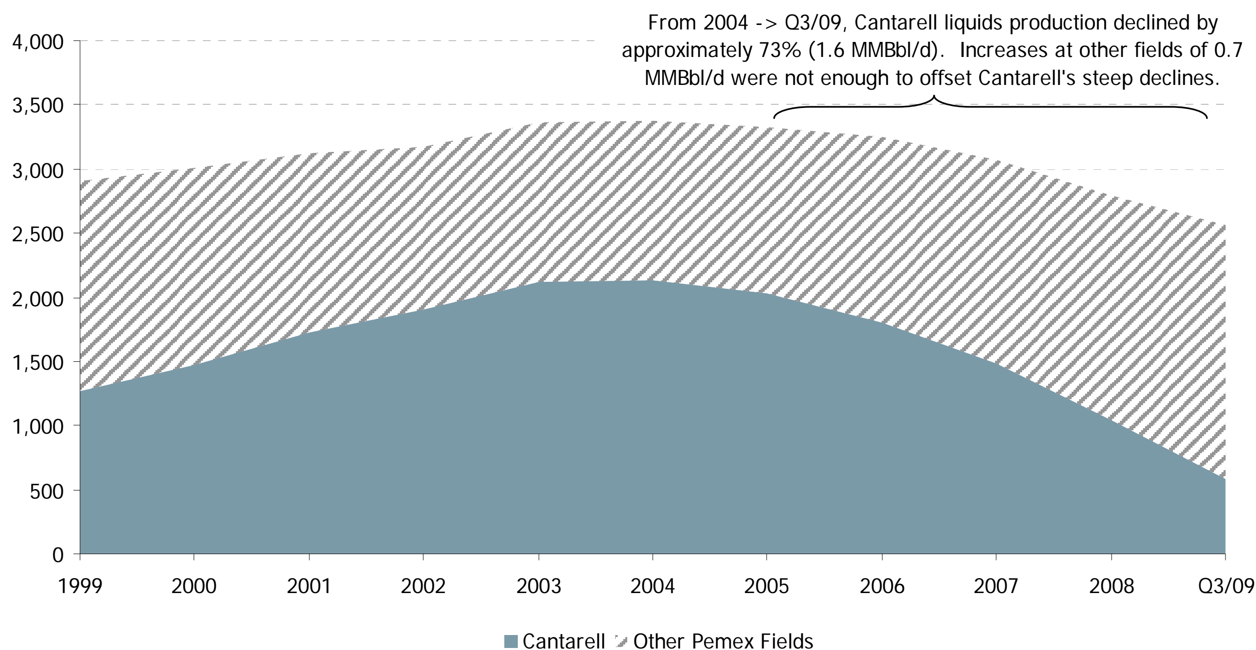


Source: EIA, Genuity Capital Markets Research

Mexico's prolific Cantarell field is undergoing a steep terminal decline, and PEMEX is unable to replace lost volumes

The offshore Cantarell field in the Gulf of Mexico has long been the jewel in PEMEX's (the Mexican national oil company) portfolio of assets. Cantarell produced as much as 2.1 MMBbl/d in 2004, making it the second most productive field in the world behind Saudi Arabia's Ghawar. However, since 2004, production from Cantarell has gone into a steep decline, falling approximately 73%, or 1.6 MMBbls to 583 MBbl/d in Q3/09 (Exhibit 5). Furthermore, PEMEX has been unable to replace this decline at other fields and, consequently, the total company liquids production is down 23% since 2004 to 2.6 MMBbl/d (Exhibit 5). PEMEX expects production from the Cantarell field to stabilize at approximately 500 MBbl/d, which is not too far from the Q3/09 average.

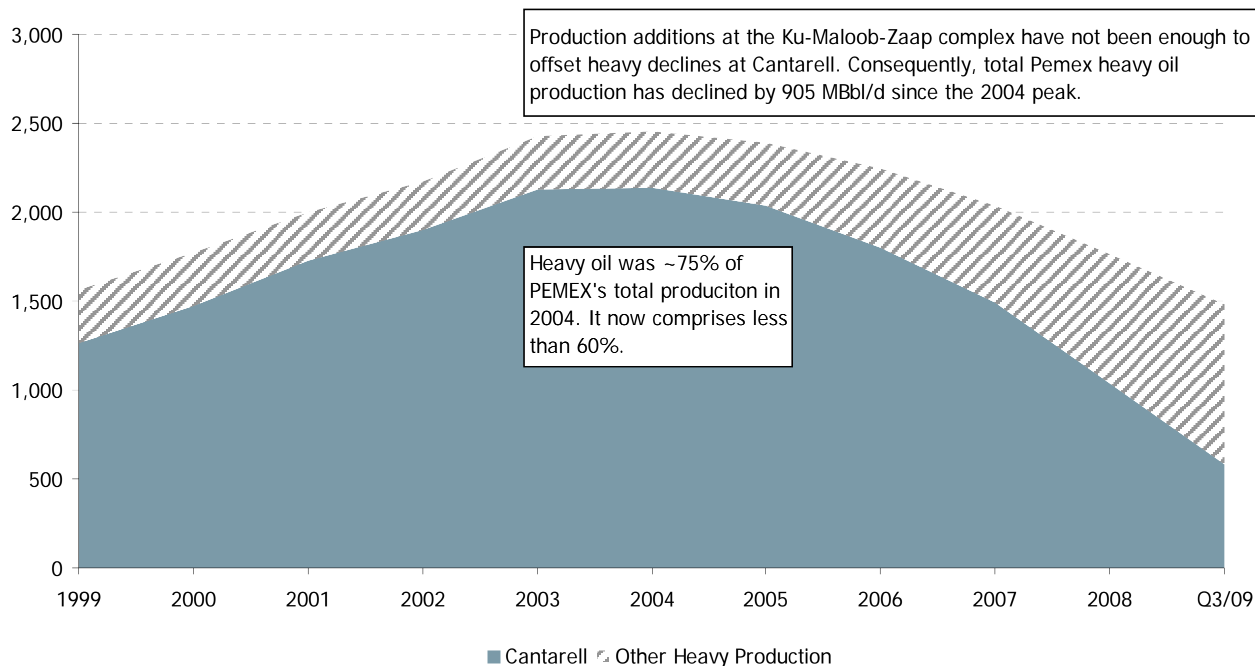
Exhibit 5: Total PEMEX liquids production



Source: Company reports, Genuity Capital Markets Research

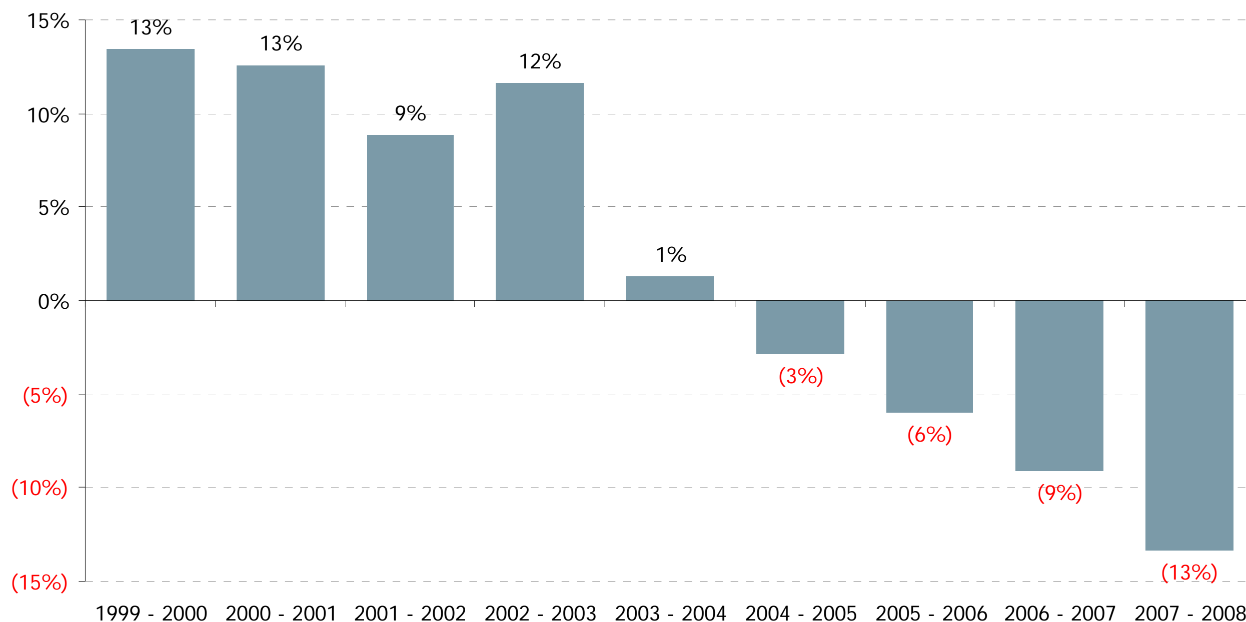
A) **Most of the production declines have been on the heavy oil side, and this decline is accelerating:** Cantarell produces primarily heavy oil, therefore PEMEX's heavy oil production has been more noticeably affected, declining 37%, or roughly 977 MBbl/d from its 2004 peak of roughly 2.46 MMBbl/d to 1.5 MMBbl/d (Exhibit 6). As such, heavy oil comprises of about 60% of PEMEX's total volumes, versus roughly 75% in 2004. The company's major efforts to develop the Ku-Maloob-Zaap complex (another offshore development that would tie back into the Cantarell facilities) have failed to replace the lost volumes. Not only are PEMEX heavy oil production rates declining, but the rate of decline is also accelerating with each year (Exhibit 7).

Exhibit 6: Total PEMEX heavy oil production volumes (MBbl/d)



Source: Company reports, Genuity Capital Markets Research

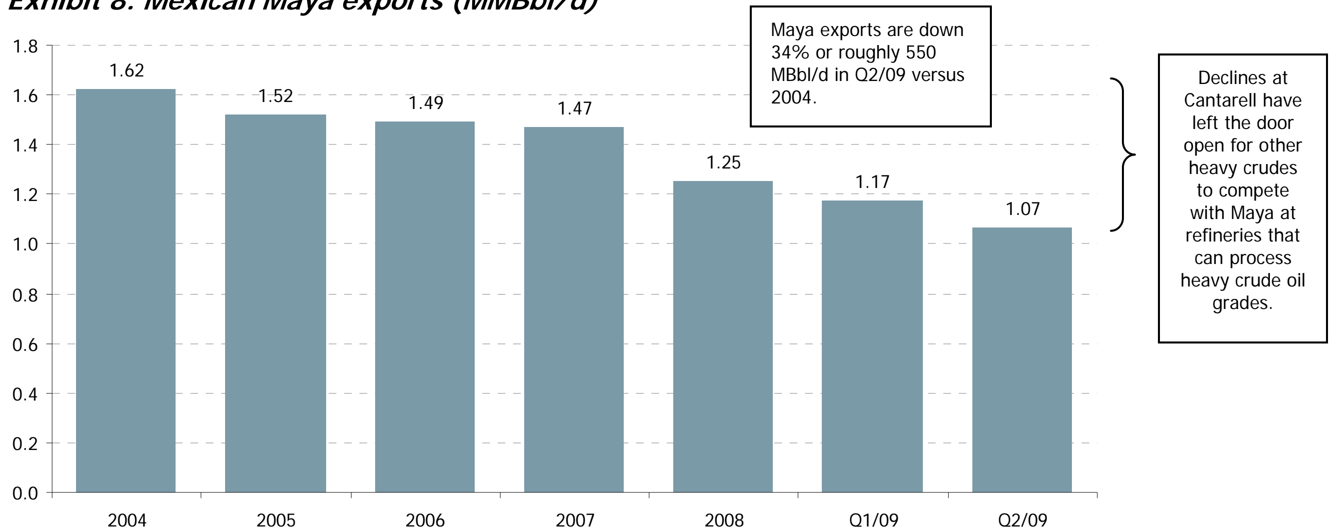
Exhibit 7: YoY heavy oil decline rates have accelerated over time



Source: Company reports, Genuity Capital Markets Research

B) The implication of this lost production has been a dramatic reduction in Mexican exports of Maya crude oil (see Exhibit 8). Since 2004, Mexican exports of Mayan crude oil have declined by approximately 550 MBbl/d, or 34%, to 1.07 MMBbl/d.

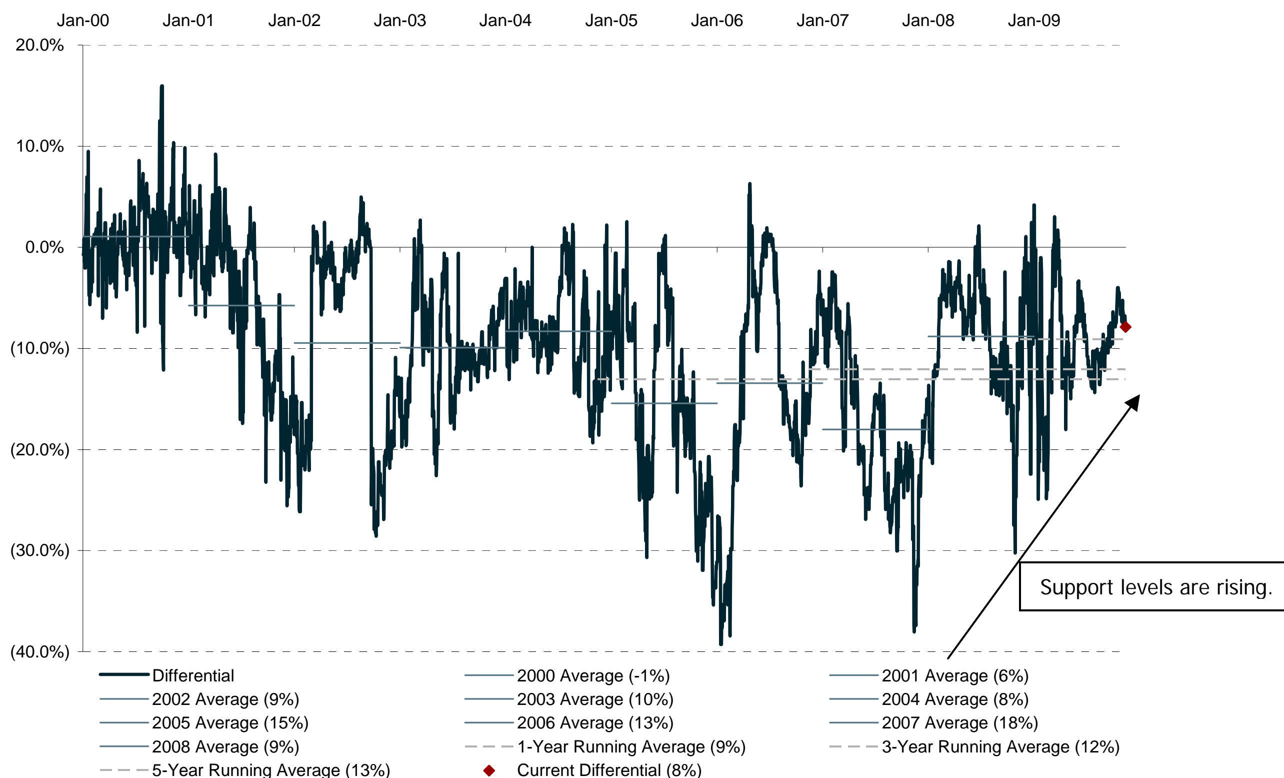
Exhibit 8: Mexican Maya exports (MMBbl/d)



Source: Company reports, Genuity Capital Markets Research

C) **These volumes of Maya can be displaced by Canadian heavy crude blends.** We believe that this rapid decline in Maya volumes (particularly in 2008) has spurred demand for Canadian heavies. And, now that pipeline capacity is connecting the oil sands to the Gulf Coast refining market, we believe that Canadian heavy oil prices will be much more closely linked to Maya in the future. As seen in Exhibit 9, this reduction in Lloyd Blend/Maya differentials seems to be already taking effect.

Exhibit 9: Lloyd blend differential to Maya



Source: Bloomberg, Genuity Capital Markets Research

D) PEMEX heavy oil contracts are not an issue for Canadian heavy oil. PEMEX (through its oil trading subsidiary, PMI) sells most of its crude oil under evergreen contracts that can be phased out (at the option of either party) over a three-month period. However, PEMEX did disclose that it sells a small portion (184,000 Bbl/d, or roughly 15% of total PEMEX exports) under long-term contracts with refineries in the United States (see Exhibit 10). The remaining roughly 85% could be easily displaced by competing crudes that exhibit more visible production growth (so that supply is not at risk) and similar physical properties. We believe a competitor such as Canadian heavy crudes could be a strong candidate.

Exhibit 10: Summary of heavy oil contracts through PEMEX

Purchasing Company	Purchasing Facility	Quantity/Grade of Crude	Expiry
Shell	Deer Park Refinery	170,000 Bbl/d (may be increased)	2023
Hunt	Tuscaloosa, Alabama	14,000 Bbl/d Altamira	Jun-12

Source: PEMEX 2008 10K

Venezuela, comprising 10% of U.S. oil imports, is a key political risk

The country is looking to find alternative markets outside of the U.S., with China being a key alternative.

A) According to a recent article in the Economist, *Latin America tilts to Asia*, "The China Development Bank has lent capital to a $12 billion joint fund that Chinese companies could tap for investment projects in Venezuela. Most of these are likely to be in oil: CNPC, is operating several smallish oilfields and is investing in the Orinoco tar sands. Venezuela provides about 10% of American oil imports, and PDVSA, owns CITGO, an American oil distributor which has several refineries specially adapted to process the country's heavy and sulphurous crude. This mutual dependence has long been a discomfort to Venezuelan President, Hugo Chávez, and he has repeatedly said that he wants to divert Venezuelan oil to China (though transport costs would be much higher). So far Venezuelan oil exports to China have risen from a negligible level to 398 MBbl/d. But PDVSA has announced that it wants to increase the flow to 500 MBbl /d by December. That could be done only by reducing shipments to the United States."

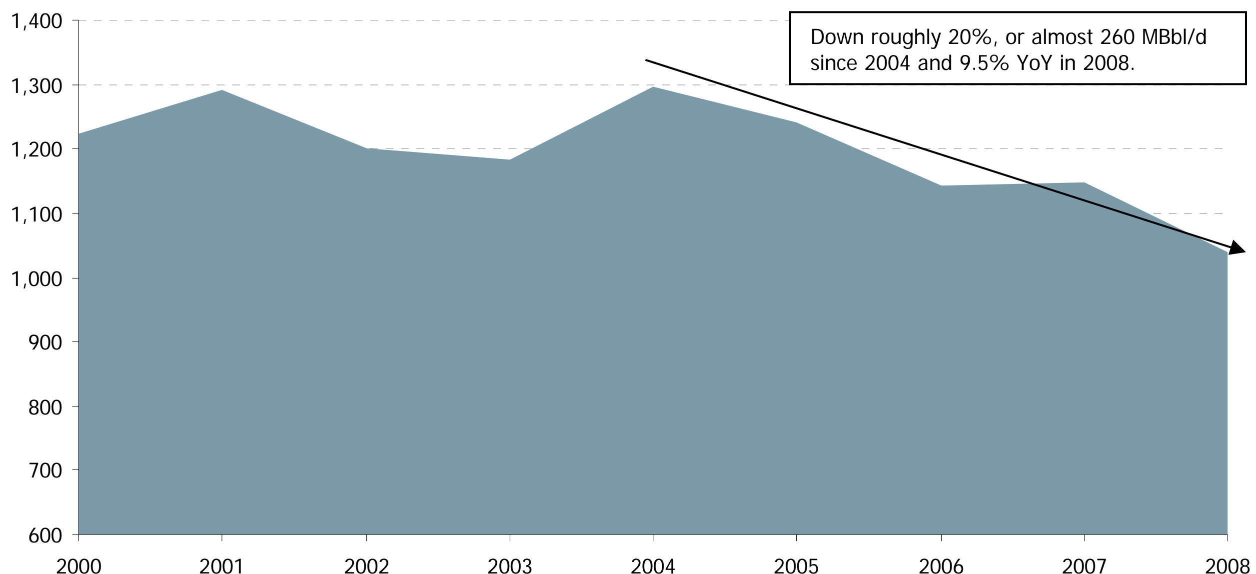
- **Bottom line:** the potential incremental volume to China is about 10% of total average 2008 Venezuelan oil imports to the U.S.

B) As such, as seen in Exhibit 11, from 2004 to 2008 Venezuelan exports to the U.S. were down roughly 20%, or almost 260 MBbl/d. They were also down almost 10% YoY in 2008.

C) Furthermore, as seen in Exhibit 12, over the 2004-2008 timeframe Mexico and Venezuela experienced the largest reduction in crude oil exports to the United States (a combined 700 MBbl/d, of which Venezuela made up 300 MBbl/d of this decline). This deficit was made up by increased imports from Canada, Brazil (both majority heavy producers) and Angola (primarily a light oil producer). However, growth in Brazilian production is expected to be lighter, sweeter grades from the newly-discovered Tupi field. As such, the closest large source of incremental heavy oil production will likely be from Canada.

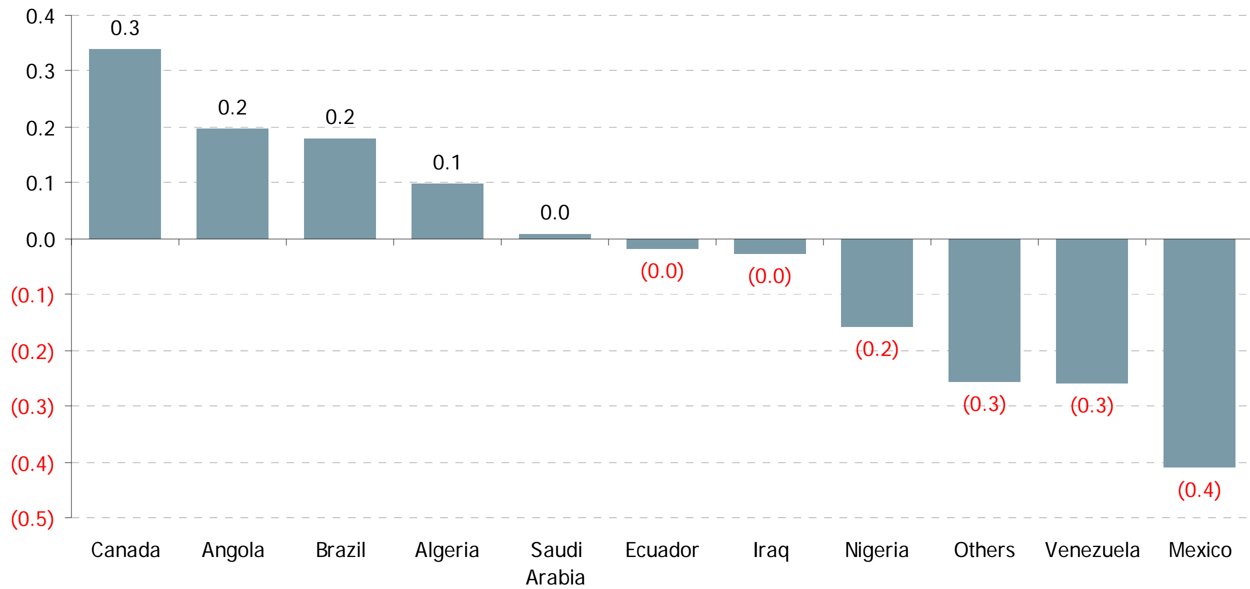
D) YoY 2008, Mexico and Venezuela also showed a combined 300 MBbl/d decline in exports to the U.S (Exhibit 13).

Exhibit 11: Venezuelan oil exports to the U.S. (MMBbl/d)



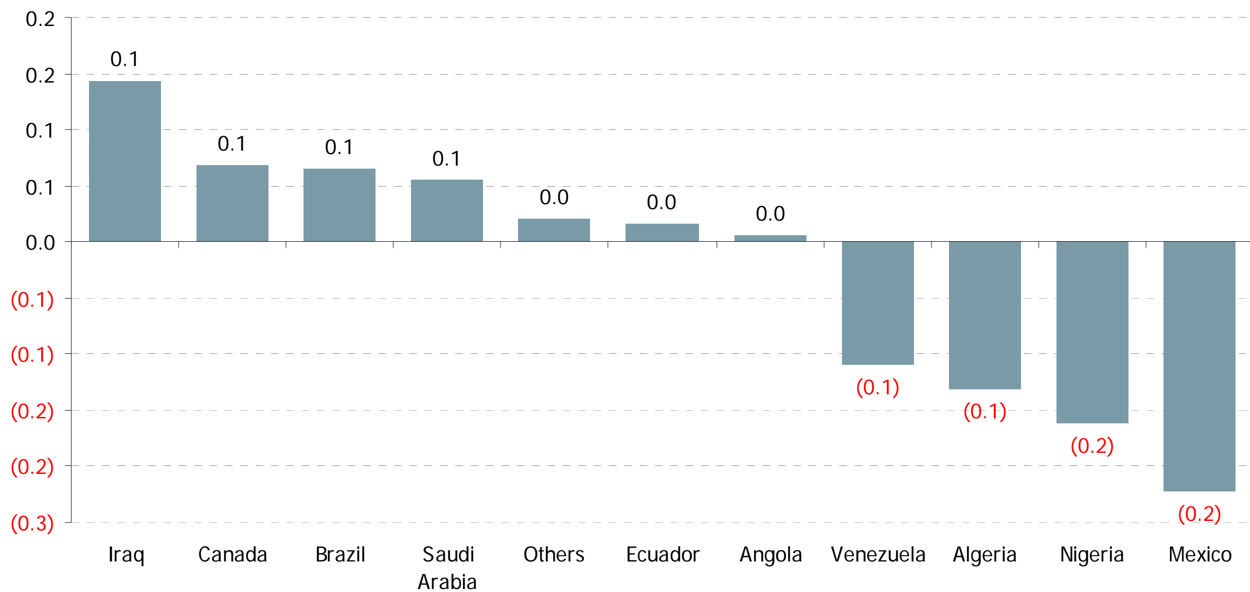
Source: EIA, Genuity Capital Markets Research

Exhibit 12: Change in exports to the U.S. – 2004-2008 (MMBbl)



Source: EIA, Genuity Capital Markets Research

Exhibit 13: YoY change in exports to the U.S. – 2008 (MMBbl)

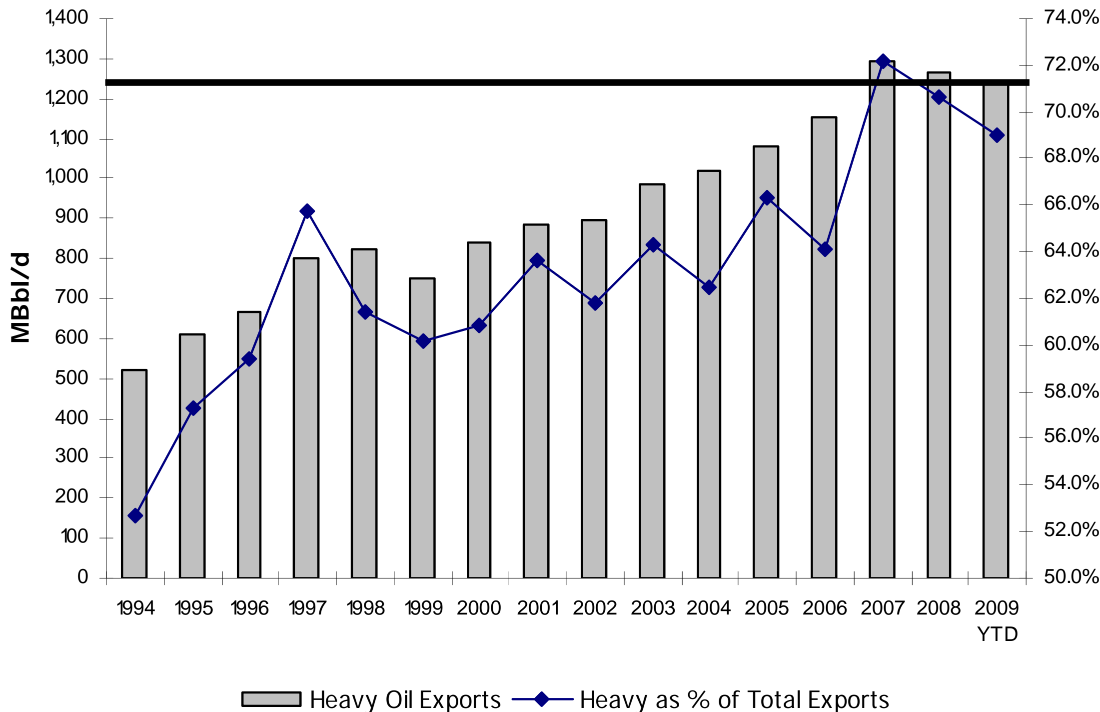


Source: EIA, Genuity Capital Markets Research

Canadian heavy oil exports are on the rise

This demonstrates the increased demand for the product. Of note, however, exports have fallen since reaching a peak in 2007, but only by about 55 MBbl/d, or roughly 4% (Exhibit 14). Nevertheless, we believe that significant declines in Mexican and Venezuelan heavy oil export volumes have opened a door for Canadian heavy crudes to compete.

Exhibit 14: Canadian heavy oil exports

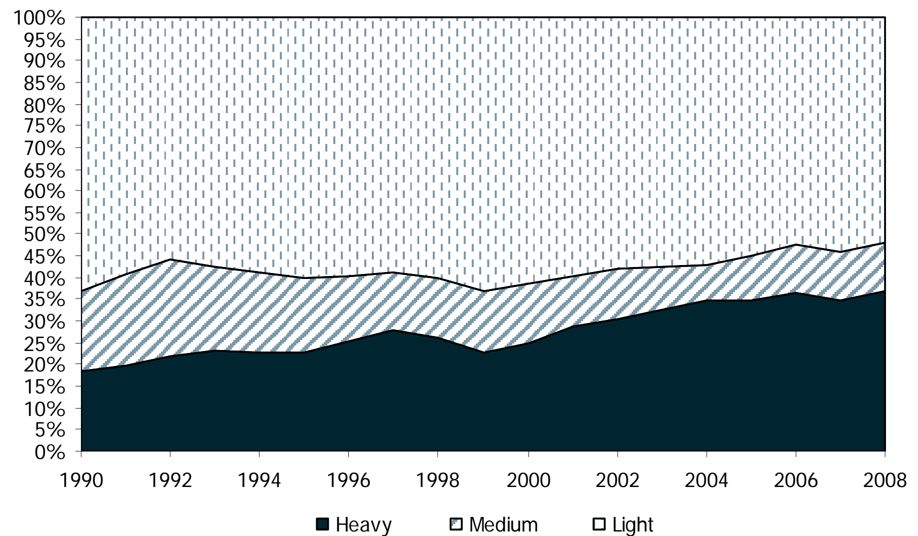


Source: National Energy Board

The U.S. is showing a desire for heavy oil crudes

The import of heavy oil into the U.S. continues to rise. In 1990, heavy oil made up of less than 20% of U.S. crude oil imports, or roughly 3.6 MMBbl/d (see Exhibit 15). This number has been rising steadily for nearly 20 years as refineries invest in heavy oil conversion capacity, thus demonstrating the U.S.' increasing appetite. As we discussed in our July 20, 2009 Sandbox report *Upgrading COS.un to BUY*, this conversion investment is expected to continue through 2015, creating significant increases in heavy oil demand over that time period.

Exhibit 15: U.S. crude oil imports by type



Note: Heavy reflects crudes with API gravity less than 25°; Medium is 25°-30°; Light is 30°+.
Source: EIA, Genuity Capital Markets Research

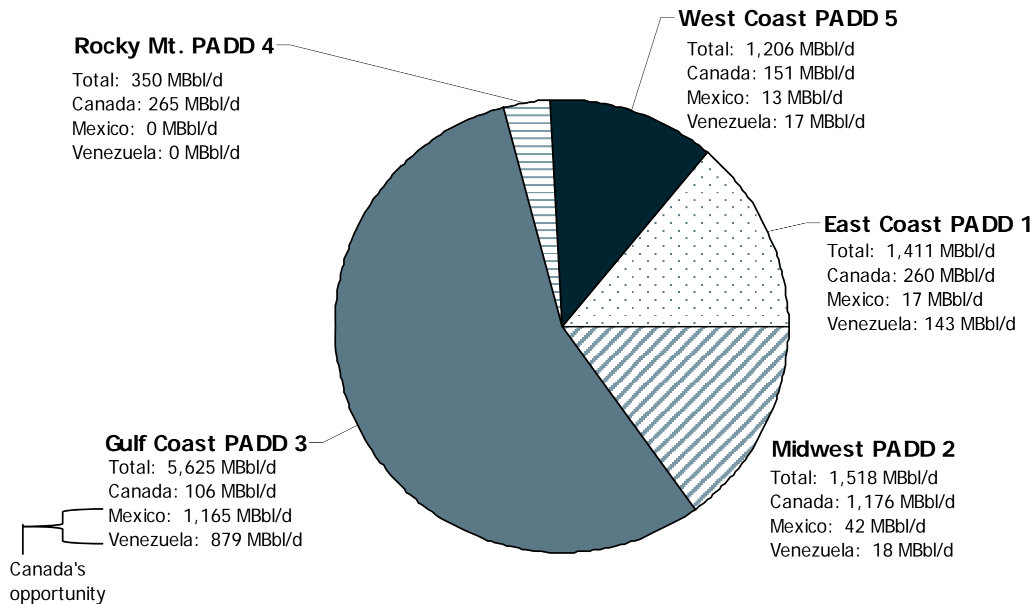
China may be evolving into a new market for Canadian heavy oils, which could compete with U.S. demand

We believe the recent JV between PetroChina and Athabasca Oil Sands Corp. is indicative of China's positive view on the potential of Canada's Oil Sands. Similar to Venezuela, more moves could also be made in Canada by the Chinese that could ultimately result in the export of oil sands to Asia. Both the Alberta Provincial Government and Canadian Federal Government appear to be warming up to a relationship with China (refer back to our discussion on the Bank of Montreal incorporating in China). This would also be bullish for Canadian heavy oil differentials.

There is room for Canadian heavy oil growth to displace Mexican and Venezuelan heavies

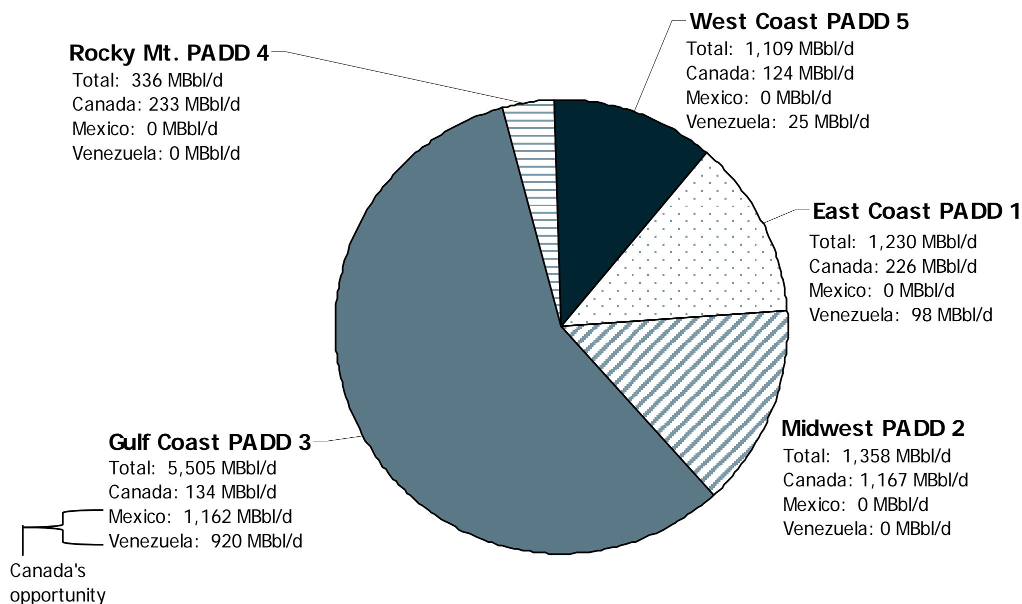
Today, most of Venezuela's and all of Mexico's imports go into PADD 3 (Gulf Coast). On average, there was about 1.2 MMBbl/d from Mexico and 900 MBbl/d from Venezuela, but only roughly 100-135 MBbl/d from Canada. The majority of Canadian crudes (1.2 MMBbl/d) went into PADD 2 (Midwest), and according to the EIA, Canadian crudes made up about 85% of PADD 2's 2009 YTD imports. The current opportunity for Canadian heavies is the potential to replace the combined 2.0 MMBbl/d of crude being exported to the PADD 3 from Mexico and Venezuela.

Exhibit 16: Imports of oil by PADD-2008 Average



Source: EIA

Exhibit 17: Imports of oil by PADD-2009 YTD average



Source: EIA

Exhibit 18: Country breakdown of imports into PADD 1

	2008 Avg	% of Total		2009 YTD Avg	% of Total
Total	**1,411**	**100%**	**Total**	**1,230**	**100%**
Nigeria	323	23%	**Canada**	**226**	**18%**
Canada	**260**	**18%**	Nigeria	142	12%
Saudi Arabia	152	11%	Angola	141	11%
Venezuela	**143**	**10%**	**Venezuela**	**98**	**8%**
Angola	129	9%	Saudi Arabia	91	7%
Chad	74	5%	Gabon	69	6%
Azerbaijan	71	5%	Azerbaijan	64	5%
Mexico	**17**	**1%**	Chad	62	5%
Other	244	17%	Norway	58	5%
			Other	279	23%

Source: EIA

Exhibit 19: Country breakdown of imports into PADD 2

	2008 Avg	% of Total		2009 YTD Avg	% of Total
Total	**1,518**	**100%**	**Total**	**1,358**	**100%**
Canada	**1,176**	**78%**	**Canada**	**1,167**	**86%**
Saudi Arabia	146	10%	Saudi Arabia	93	7%
Algeria	75	5%	Angola	40	3%
Mexico	**42**	**3%**	Other	58	4%
Venezuela	**18**	**1%**			
Other	60	4%			

Source: EIA

Exhibit 20: Country breakdown of imports into PADD 3

	2008 Avg	% of Total		2009 YTD Avg	% of Total
Total	**5,625**	**100%**	**Total**	**5,505**	**100%**
Mexico	**1,165**	**21%**	**Mexico**	**1,162**	**21%**
Saudi Arabia	918	16%	**Venezuela**	**920**	**17%**
Venezuela	**879**	**16%**	Saudi Arabia	649	12%
Nigeria	577	10%	Nigeria	489	9%
Iraq	393	7%	Angola	317	6%
Angola	271	5%	**Canada**	**134**	**2%**
Algeria	224	4%	Other	1,835	33%
Kuwait	187	3%			
Colombia	107	2%			
Canada	**106**	**2%**			
Brazil	103	2%			
Other	696	12%			

Source: EIA

Exhibit 21: Country breakdown of imports into PADD 4

	2008 Avg	% of Total		2009 YTD Avg	% of Total
Total	**350**	**100%**	**Total**	**336**	**100%**
Canada	**265**	**76%**	**Canada**	**233**	**69%**
Other	86	24%	Other	103	31%

Source: EIA

Exhibit 22: Country breakdown of imports into PADD 5

	2008 Avg	% of Total
Total	**1,206**	**100%**
Saudi Arabia	287	24%
Iraq	212	18%
Ecuador	172	14%
Canada	**151**	**12%**
Venezuela	**17**	**1%**
Mexico	**13**	**1%**
Other	353	29%

	2009 YTD Avg	% of Total
Total	**1,109**	**100%**
Saudi Arabia	217	20%
Ecuador	150	13%
Iraq	141	13%
Canada	**124**	**11%**
Venezuela	**25**	**2%**
Other	453	41%

Source: EIA

Coking capacity in the U.S.

As per the EIA, PADD's 2 and 3 currently have roughly 1.8 MMBbl/d of combined coking capacity, with about 1.4 MMBbl/d of this being in PADD 3. This equates to bitumen capacity of 2.8 MMBbl/d in PADD 3 and 833 MBbl/d in PADD 2, as roughly half of a bitumen barrel is comprised of heavy ends (Exhibit 23). Due to pipeline limitations, not all of this capacity could theoretically be a home for Canadian heavy oils. But one potential de-bottleneck outside of PADD 2 could be PADD 5, as TransCanada is in discussion with parties to transport 400 MBbl/d of western Canadian crude oil by pipeline to California, which currently has about 529 MBbl/d of coking capacity and thus 1.1 MMBbl/d of bitumen capacity. California currently has about 1.1 MMBbl/d of combined coking and hydrocracking capacity (Exhibit 23. The one potential bottleneck from a refinery perspective is with CITGO, which has 288 MBbl/d of bitumen capacity in PADD 3 and 93 MBbl/d in PADD2 (Exhibit 24). It is logical to believe this would be pretty much reserved for Venezuelan crude. However, it is not a dramatic amount.

Exhibit 23: Total coking capacity in the U.S. by PADD

	Coking Capacity (Bbl/d)	Total Bitumen Capacity (Bbl/d)
PADD 1	102,500	205,000
PADD 2	416,590	833,180
PADD 3	1,392,600	2,785,200
PADD 4	70,100	140,200
PADD 5 California	529,000	1,058,000
PADD 5-Other Lower 48s	83,700	167,400
Total U.S.	**2,594,490**	**5,188,980**

Canadian opportunities. (arrows pointing to PADD 2, PADD 3, PADD 5 California)

Source: EIA-capacity of Operable Petroleum Refineries by State as of January 1, 2009

Exhibit 24: CITGO's coking capacity in the U.S. by PADD

	Coking Capacity (MBbl/d)	Total Bitumen Capacity (MBbl/d)
PADD 1	0	0
PADD 2	46,420	92,840
PADD 3	144,000	288,000
PADD 4	0	0
PADD 5 California	0	0
PADD 5-Other	0	0
Total U.S.	**190,420**	**380,840**

Source: EIA-capacity of Operable Petroleum Refineries by State as of January 1, 2009

Expansions

In PADD 2, there are plans in place to increase the processing of additional Canadian crude oil volumes (Exhibit 25). Exhibit 26 provides a summary of major refinery upgrades announced to occur in PADD 3. As per CAPP, not all of these are specifically designed to process Canadian crude oil; however, many companies have confirmed that their respective refineries are looking to increase their Canadian crude oil diet.

Exhibit 25: Planned expansions at PADD 2

Operator	Location	Current Capacity (thousand b/d)	Scheduled In-Service	Description
ExxonMobil	Joliet, IL	239	TBD	Increased ability to process heavy crude oil
WRB Refining	Roxana, IL	306	2011 (originally end 2009)	Add a 65,000 b/d coker; increase total crude oil refining capacity by 50,000 b/d; double heavy oil refining capacity to 240,000 b/d
BP	Whiting, IN	160	2012 (originally 2011)	Construction of new coker and a new crude distillation unit
Marathon	Detroit, MI	100	Mid 2012 (originally Q4 2010)	Increase heavy oil processing capacity by 80,000 b/d and increase total crude oil refining capacity to 115,000 b/d
BP	Toledo, OH	155 (60 heavy)	Dependant on market conditions (originally 2015)	Reconfigured to process 120,000 b/d of bitumen (180,000 b/d total capacity)
Husky	Lima, OH	165	TBD	Conversion to process 105,000 of heavy crude oil (170,000 b/d total)
Valero	Memphis, TN	195	2012 (originally 2009)	Cat-cracking unit upgrade

Source: CAPP

Exhibit 26: Planned expansions at PADD 3

Operator	Location	Current Capacity (thousand b/d)	Scheduled In-Service	Description
Marathon Oil	Garyville, LA	256	4Q 2009	Increase capacity to 425,000 b/d
Valero	St. Charles, LA	250	2012 (originally 2011)	New 50,000 b/d hydrocracker and 10,000 b/d expansions to the crude and coker units
Holly	Artesia, NM	85	2009	Additional 25,000 b/d capacity and capability to run up to 40,000 b/d of heavy crude oil
Motiva Enterprises	Port Arthur, TX	285	2012 (originally late 2010)	Increase capacity to over 600,000 b/d
Valero	Port Arthur, TX	310	2011 (originally 2010)	New 50,000 b/d hydrocracker. Plans for previously announced 45,000 b/d coker addition is on hold
WRB Refining	Borger, TX	146	2009+	Debottleneck to add 20,000 b/d bitumen capacity

Source: CAPP

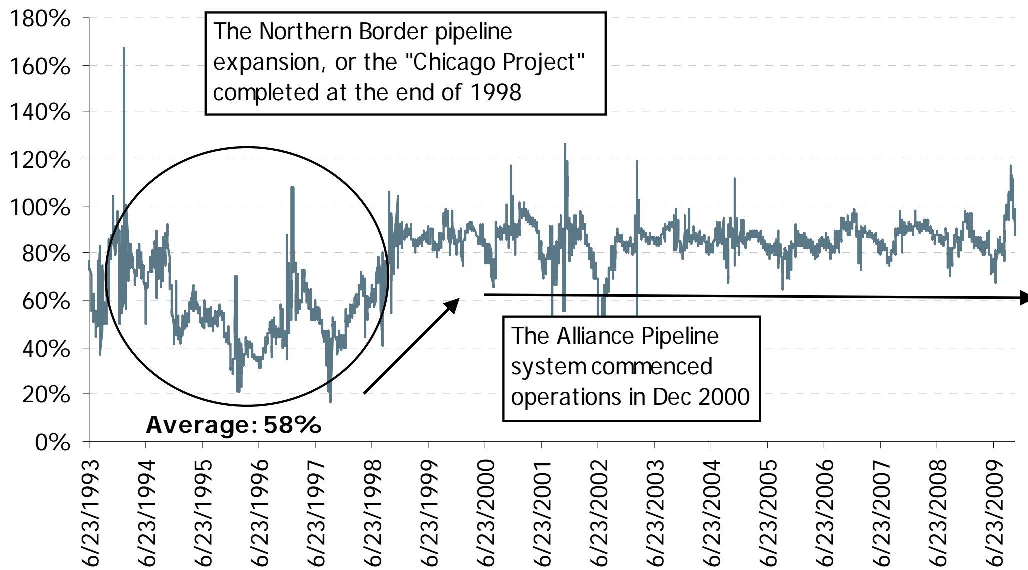
The AECO analogy

We believe that the addition of new pipe capacity to the U.S. could result in the same sustainable reduction in Canadian heavy oil differentials that occurred with AECO natural gas price differentials in the late 1990s. As shown in Exhibit 27, throughout most of the 1990s (1993 is the earliest date available on Bloomberg) AECO natural gas prices mostly traded at a significant and volatile discount to NYMEX natural gas prices. This was due to a lack of export capacity to the U.S. However, according to the EIA, between 1990 and 2008, pipeline capacity from Canada to the United States increased by 181% to 18.1 Bcf/d. Over the period of 1998 to 2000, in particular, a number of pipeline expansion projects were undertaken and, in our opinion, contributed significantly to the swift and dramatic reduction and sustainability of the AECO differential. They are:

- The $839 million expansion of the Northern Border pipeline, which connects from the Montana-Saskatchewan border near Port of Morgan to Chicago, Illinois. Dubbed the "Chicago Project," the expansion was completed at the end of 2008 and increased the pipeline's capacity by 42% (or 700 Mmcf/d) to its current 4.2 Bcf/d capacity.
- The construction of the $3.1 billion Alliance Pipeline system that was designed to deliver 1.325 Bcf/d of natural gas from Northeast British Columbia and Northwest Alberta to the Chicago, Illinois area, where it interconnects with the North American pipeline grid. The pipeline began operations in December of 2000.

We feel this provides further confidence in our belief that the improved Canadian heavy oil differential trend is sustainable.

Exhibit 27: Historical AECO/NYMEX differential



Source: Bloomberg, Genuity Capital Markets Research

Improved economics should drive more M&A

We believe the recent global recession was the "reset button" needed to bring life back into the Oil Sands business. With capital costs down in Oil Sands and heavy oil differentials improving, we believe the breakeven oil price for non-upgraded SAGD projects may have fallen 25-40% from the US$80/Bbl WTI oil price that we believe was needed to achieve a 10% IRR during the peak of the hyper-inflation cycle (Exhibit 28). Thus, if our analysis and assumptions are correct, these projects make a lot of sense at today's oil price. Many of the players are taking the position that they will now manage the growth in order to prevent another hyper-inflation cycle. Both Canadian Natural Resources and Suncor are two major players to recently state that there will be more of a focus on returns as opposed to trying to grow as fast as possible. We believe this means that the competition for labour and materials could be kept, to some extent, at a more manageable pace. The risk to this theory is that if oil prices spike then there could be an associated rush to build new projects (oil sands and other projects that can compete for labour and materials), which can result in cost inflation once again, in our view.

Exhibit 28: The economics have likely improved

Estimated Approximate Break Even Oil Price

	Low End	High End
Hyper-inflation	$80.00	
Potential new cost	$50.00	$60.00
Reduction	-38%	-25%

Notes: 1) All assume a 40,000 Bbl/d SAGD, ex-upgrader, project with an SOR of 3.0x; 2) Hyper-inflation case assumes $40,000 per Bbl/d construction cost and a bitumen realized price of 52% of WTI ;3) Potential new cost-Low End assumes $28,000 per Bbl/d construction cost and a bitumen realized price of 58% of WTI.; and 4) Potential new cost-High End assumes $32,000 per Bbl/d construction cost and a bitumen realized price of 58% of WTI.

Source: Company reports

Where will the next transactions be?

A key question is whether or not there will be corporate acquisitions in oil sands. As previously mentioned, we believe interested players are waiting with bated breath to see if KNOC's proposed acquisition of Harvest Energy Trust closes successfully without any potential backlash from the Canadian government before making a move. Nevertheless, even if there is backlash, potential acquirers do not need to make corporate acquisitions in order to gain access to meaningful amounts of oil sands resources.

1) Athabasca Oil Sands Corp. and UTS Energy are prime examples of how a company can gain significant access to the oil sands without making a corporate acquisition; that is, through joint ventures and asset purchases.
2) OPTI Canada recently announced that it has commenced a review of its strategic alternatives. To that end, excluding Long Lake Phase 1, the company has interest in over 1 billion Bbls of net contingent resources and another 310 MMBbl of net prospective resources that could be up for negotiation during the review process.

3) Memories of spiraling cost inflation and the credit crisis is likely causing smaller oil sands companies to look to dramatically reduce their financial and operating exposure in projects. Therefore, investments from larger entities, whether it be an investment entity like CIC, a national oil company like CNOOC, PetroChina, or Sinopec, or some other large oil company, could be a welcoming option.

In this report we provide a high level view of the Oil Sands assets of smaller public and private oil sands companies in order to help identify where future transactions could occur (see Appendix 1 starting on page 33). Public companies with the greatest acreage position are: Penn West Energy Trust and Oilsands Quest. Private companies appear to provide the greatest exposure based on both resources and land positions. Amongst those, the ones that stand out are: Athabasca Oil Sands Corp., Laricina Energy, MEG Energy, and Sunshine Oilsands Ltd. (Exhibit 29). Of note, in this report we are not differentiating companies based on asset quality, nor are we trying to come up with a risked assessment.

Exhibit 29: Companies with Oil Sands assets that may attract attention[2]

Company	Ticker	Reported Discovered OBIP (Best Estimate) (MMBbls)	Reported Estimated Recoverable Resources (Best Estimate) (MMBbls)	Reported Estimated Recoverable Resources (Best Estimate) (Bbls/Share)	Net Acres	Net Estimated Recoverable Bbl Per Acre
Public Companies:						
Alberta Oil Sands Corp.	AOS-T	3,500	1,377	13.2	77,568	17,748
Baytex Energy Trust	BTE.un-T	5,250	n.a.	n.a.	67,200	n.a.
Connacher Oil and Gas	CLL-T	n.a.	586	1.4	97,440	n.a.
Ivanhoe Energy	IE-T	752	491	1.8	24,000	20,458
North Peace Energy	NPE-T	2,500	250	3.3	86,400	2,894
OPTI Canada	OPC-T	n.a.	1,424	5.1	90,720	15,697
Oilsands Quest	BQI-A	3,250	151	0.5	753,371	200
PennWest Energy Trust	PWT.un-T	8,500	n.a.	n.a.	1,235,000	n.a.
Southern Pacific Resources	STP-T	3,440	139	0.6	144,128	963
UTS Energy	UTS-T	n.a.	1,716	3.6	153,075	11,210
Average			**767**	**3.7**	**272,890**	
Private Companies						
Athabasca Oilsands Corp.	n.a.	100,000	7,000	35.6	1,550,000	4,516
E-T Energy Ltd.	n.a.	1,200	920	13.4	10,560	87,116
Laricina Energy Ltd.	n.a.	5,280	4,134	80.7	181,767	22,743
MEG Energy	n.a.	6,000	3,354	23.0	448,000	7,487
OSUM Oil Sands Corp	n.a.	11,000	2,159	32.2	84,152	25,656
Sunshine Oilsands Ltd.	n.a.	9,100	1,300	21.9	1,000,640	1,299
Value Creation Inc	n.a.	n.a.	n.a.	n.a.	275,200	n.a.
Average			**3,144**	**34**	**507,188**	

Source: Company reports, Genuity Capital Markets Research

[2] For UTS, assumes that the sale of Lease Area 421 is completed.

Genuity

The re-valuation of the stocks is in the early stages, in our view

The current market appears hesitant to pay for Oil Sands growth. To that end, the share prices of almost all of the stocks in our coverage universe are trading at a premium to our NAV's if we exclude future oil sands projects (Exhibit 30). Our NAV's assume US$80/Bbl long-term WTI oil prices, or approximately US$4.30/Bbl below strip. Any additional transaction and project sanctioning could be a further impetus to a re-rating.

Of note, we estimate that Nexen and OPTI's share prices are factoring in 90% and 70% of the value for Long Lake, respectively. Some could view this as being too much, given that the project was still only at about 17% of peak bitumen capacity as of their joint October 28 updates. If we give both companies 90% and 70% of the estimated value for Phase 1, our target prices for both would be equal to their latest share prices (Exhibit 30).

Exhibit 30: The market is largely not paying for Oil Sands upside yet

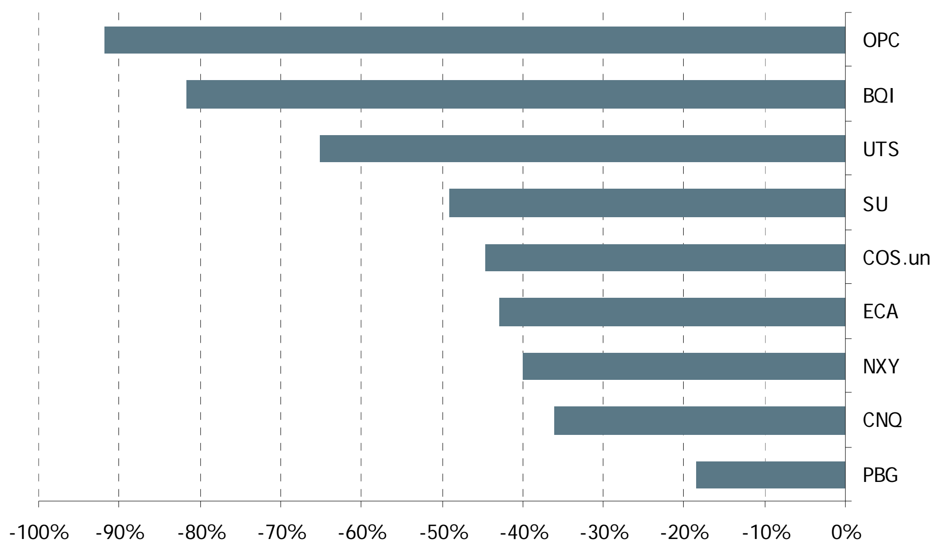
Company	Symbol	Estimated Value Ex-Future Oil Sands Projects ($/Share)	Last Price ($/Share)	% Difference
Canadian Natural Resource	CNQ	$76.00	$70.18	8%
Canadian Oil Sands Trust	COS.un	$34.00	$30.49	12%
EnCana Corp. (US$)	ECA	$60.00	$55.56	8%
Nexen Inc.	NXY	$27.00	$25.93	4%
OPTI Canada	OPC	$5.90	$2.04	189%
Petrobank Energy & Resources	PBG	$55.00	$49.75	11%
Suncor Energy Inc.	SU	$40.00	$36.89	8%
If we only give NXY and OPC	NXY	$26.00	$25.93	0%
~90% and 70% of Long Lake Phase 1	OPC	$2.00	$2.04	-2%
Value, respecitively				

Note: 1) Our target price for OPTI is currently based on 0.4x our NAV to account for its significant financial risk. The $5.92/share, ex-future oil sands projects valuation, is 1x NAV, as is the $2.15/share value if we give the company only 70% of its 35% share of Long Lake Phase 1's estimated value. 2) In this exercise, our NAV ex-oil sands for PBG has been reduced by $6.00/share. This $6.00/share is the estimated oil sands/heavy oil value that is currently in PBG's share price, based on PBN and PMG's latest share prices.

Source: Company reports

Additionally, the share prices of Oil Sands pure plays and Oil Sands levered companies are 20-92% (52% on average) below their respective 2008 highs. This further justifies, in our view, that there is more upside to the stocks if positive trends in the Oil Sands space continue (Exhibit 31).

Exhibit 31: Share prices relative to their respective 2008 highs



Source: Bloomberg

Genuity Research's Oil Sands survey – Positive trends intact for additional spending in Oil Sands

Genuity Research's Infrastructure team published a note this morning *Genuity Oil Sands survey – Optionality argument is REAL – Industrial arms will BENEFIT.* The following is a brief excerpt from it:

Over the course of September and October, we conducted a survey pertaining to the state of Oil Sands, asking a number of companies involved in designing, engineering and construction of these massive projects how they view the current environment.

We were specifically interested in the overall activity level, what types of projects are privileged by clients now (mining versus in-situ), and whether the positive labour and productivity trends some have alluded to since the beginning of this year are transpiring and sustainable.

Our findings are summarized in Exhibit 32.

Exhibit 32: Genuity Research's Oil Sands survey - September/October 2009

		Aggregate response
Activity level pulse		
1	Are you seeing bid activity in oil sands-related space pick up since Nov 2008?	~ 15-20% (range flat to +50%)
Mining or in-situ?		
2	Is it coming more from in-situ projects or from mining projects?	> in-situ but depends on co's positioning
Bidding trends		
3	Are fixed cost bids going to be a reality again?	Yes (unequivocal response)
Labor trends		
4	Has the supply of local labor opened up?	Yes (but tightening is expected in recovery)
5	Do you expect further reductions in labor costs in 2010E?	No
6	What is the overall cost reduction you are expecting to see from the peak?	~15% down (range 5-30% down)
7	Is it possible to quantify any improvement in labor productivity vs. the peak?	~15% (range 5-25%)
8	Do you expect labor productivity to continue to improve, or will it slip again?	Stable but sliding again if demand picks up
What are clients saying?		
9	What are clients' biggest concerns now?	Stable oil price, access to capital (less of an issue)

Source: Genuity Capital Markets Research

Appendix 1

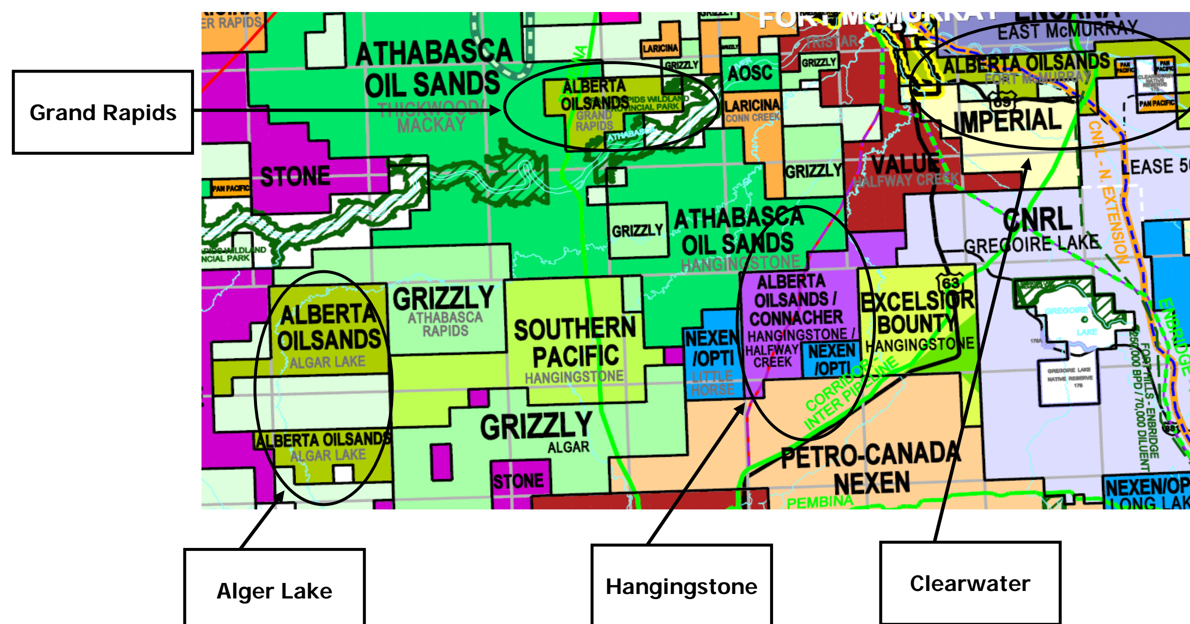
In this section, we look at the potential proceeds that various smaller public and private oil sands companies could yield (based on a blue sky case) if they were to try to sell assets in today's potentially heated asset market. Our analysis looks at this based on estimated recoverable bitumen resources and oil sands/heavy oil acreage positions.

- We value bitumen resources at $0.25 to $0.75/Bbl. We either use a company's published contingent resource (P50) estimate, or if one is not available or the company currently does not have a significant contingent resource relative to its acreage position, then we apply a 15% recovery factor to the reported P50 discovered resource estimate. The 15% recovery factor is below the standard 35-55% recovery factor applied to SAGD projects in an attempt to err on the conservative side.
- We value acreage positions at $5,000 to $15,000 per acre. The low end of the range is based on the PetroChina/Athabasca Oil Sands JV, and the high end of the range is based on UTS' recent asset sale.

Alberta Oil Sands Inc. (AOS-T: $0.27, Not Rated)

- Alberta Oil Sands controls 89,920 gross (77,568 net) acres of oil sands leases (in-situ), with a resource base of roughly 3.5 billion Bbls of estimated gross bitumen in place. In total, the company sees six possible projects with potential recoverable resources of 1.4-2.5 billion Bbls. Applying a simple 30-year reserve life to this resource potential implies total production potential of roughly 125 to 225 MBbl/d.
- Of this amount, Alberta Oil Sands has two projects that have a combined 350 MMBbls of contingent resources assigned to them: Clearwater West and Clearwater East. These projects also have an estimated production potential of 15 MBbl/d and 10 MBbl/d, respectively. Regulatory approval for Clearwater West is expected in Q3/10, with first steam expected late 2010/early 2011.
- Management is taking a methodical approach to studying various extraction methods (SAGD, Solvent + Steam, and a new technology called ElectroMagnetic SAGD). We believe the results could provide further visibility on Alberta Oil Sands' asset base to either the market or an outsider, especially given its large resource potential. We also believe it is the right thing to do given the mishaps seen at other projects, such as Long Lake.
- Alberta Oil Sands recently announced the arrangement of a $10 million senior committed credit facility and also announced it is raising roughly $10.4 million through a bought deal financing. Assuming the financing will be closed and fully subscribed, AOS will have an estimated $15.7 million of net working capital. **Genuity Capital Markets is a part of the aforementioned bought deal syndicate.**

Exhibit 33: Alberta Oil Sands Inc.'s Oil Sands opportunities



Source: Company reports, Divestco.

- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** Using the mid-point of the aforementioned 1.4-2.5 billion Bbl of Estimated recoverable resource estimate; at $0.25-0.75/Bbl, it would imply potential proceeds of $345-1,030 million or $3.31-9.93/share.

Exhibit 34: Simple dollar per Bbl analysis ($/share)

Alberta Oil Sands Inc.

	Low Case	Mid Case	High Case
Estimated Recoverable (MMBbls)	1,377	1,377	1,377
Times: Possible consideration ($/Bbl)	$0.25	$0.50	$0.75
Equals: Potential Proceeds ($mm)	**$344.2**	**$688.4**	**$1,032.5**
Divided by: Shares (mm)	104.0	104.0	104.0
Equals: Potential Proceeds per share	**$3.31**	**$6.62**	**$9.93**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of oil sands acreage on a dollar/acre basis:** $5,000 to $15,000 per acre implies that Alberta Oil Sands could yield total potential proceeds of $388 million to 1.2 billion or $3.73-11.19/share. **This analysis does not take into account the potential prospectivity of the company's full acreage position. And, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.**

Exhibit 35: Simple dollar per acreage analysis ($/share)

	Low Case	High Case
Net Oil Sands Land Acerage	77,568	77,568
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$387.8**	**$1,163.5**
Divided by: Shares (mm)	104.0	104.0
Equals: Potential proceeds per share	**$3.73**	**$11.19**

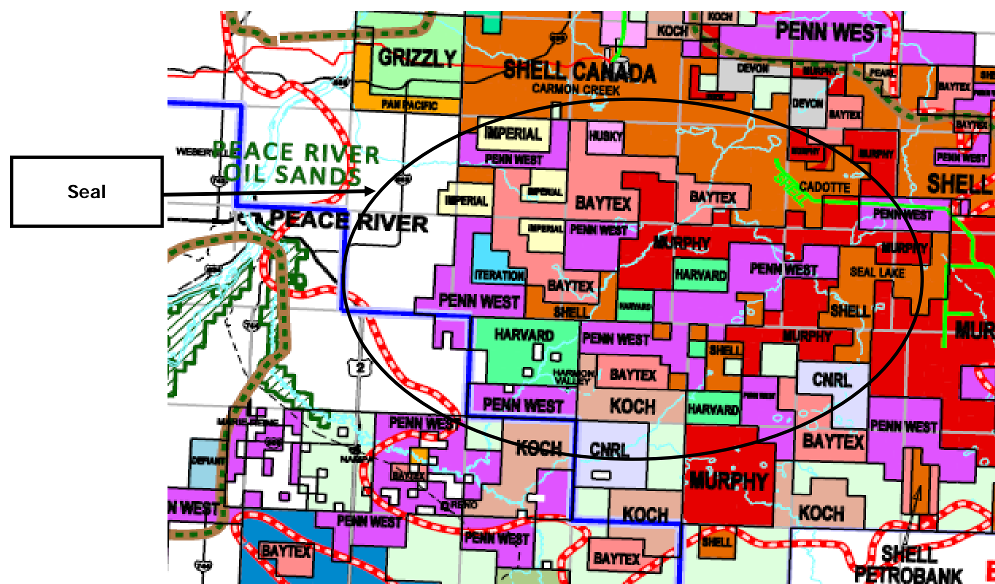
Source: Company reports, Genuity Capital Markets Research

- Note, we do not cover Alberta Oil Sands, and therefore we are not making a stock recommendation on it in this report. The above is for informational purposes in order to help highlight oil sands exposure of various players in light of the macro-investment thesis discussed in this report.

Baytex Energy Trust (BTE.un-T: $26.95, Not Rated)

- Heavy oil accounts for roughly 60% of Baytex's current production and more than 65% of oil-equivalent reserves. Baytex's heavy oil operations consist predominantly of cold primary production, without the assistance of steam injection.
- In some cases, Baytex's heavy oil reservoirs are waterflooded, occasionally with hot water. Baytex's heavy oil fields often have multiple productive zones, some of which can be commingled within the same producing wellbore.
- The Heavy Oil business unit possesses a large inventory of development projects within the operating area of west-central Saskatchewan, as well as within the areas of Cold Lake/Ardmore and Peace River in Alberta. The company's net undeveloped lands in the Heavy Oil business unit totalled approximately 348,000 acres at year-end 2008.
- Baytex's oil sands property is at Seal, located in the Peace River oil sands area of northern Alberta. Baytex holds a 100% working interest in 105 sections of long-term oil sands leases. In certain parts of this land base, heavy oil can be produced using horizontal wells, at initial rates of 150 to 250 bbl/d per well, without employing more cost-intensive methods such as steam injection. Seal has an estimated resource potential of 50 MMBbls of OOIP per section or approximately 5.3 billion Bbls of total OOIP.

Exhibit 36: Baytex's oil sands opportunities



Source: Company reports, Divestco

- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** Applying a 15% recovery factor and $0.25-0.75/Bbl to the 5.3 billion Bbl Discovered resource estimate implies roughly 788 million Bbls of potential recoverable resources. $0.25-0.75/Bbl to this would equate to $197-591 million, or $1.83-5.48/share of potential proceeds.

Exhibit 37: Simple dollar per Bbl analysis ($/share)

Baytex Energy Trust	Low Case	Mid Case	High Case
P50 Discovered OBIP (MMBbls) at SEAL	5,250	5,250	5,250
Times: Recover Factor	15%	15%	15%
Equals: Undeveloped Resources @ $0.63/Bbl	788	788	788
Times: Possible consideration ($/Bbl)	$0.25	$0.50	$0.75
Equals: Potential proceeds ($mm)	**$197**	**$394**	**$591**
Divided by shares (mm)	107.8	107.8	107.8
Equals: Potential proceeds per share	**$1.83**	**$3.65**	**$5.48**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of oil sands acreage on a dollar/acre basis:** $5,000 to $15,000 per acre just to its oil sands acreage implies that Baytex could yield total potential proceeds of $336-1,008 million or $3.12-9.35/share. **This analysis does not take into account potential prospectivity of the company's full acreage position and, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.**

Exhibit 38: Simple dollar per acreage analysis ($/share)

	Low Case	High Case
Net Oil Sands Land Acerage	67,200	67,200
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$336.0**	**$1,008.0**
Divided by: Shares (mm)	107.8	107.8
Equals: Potential proceeds per share	**$3.12**	**$9.35**

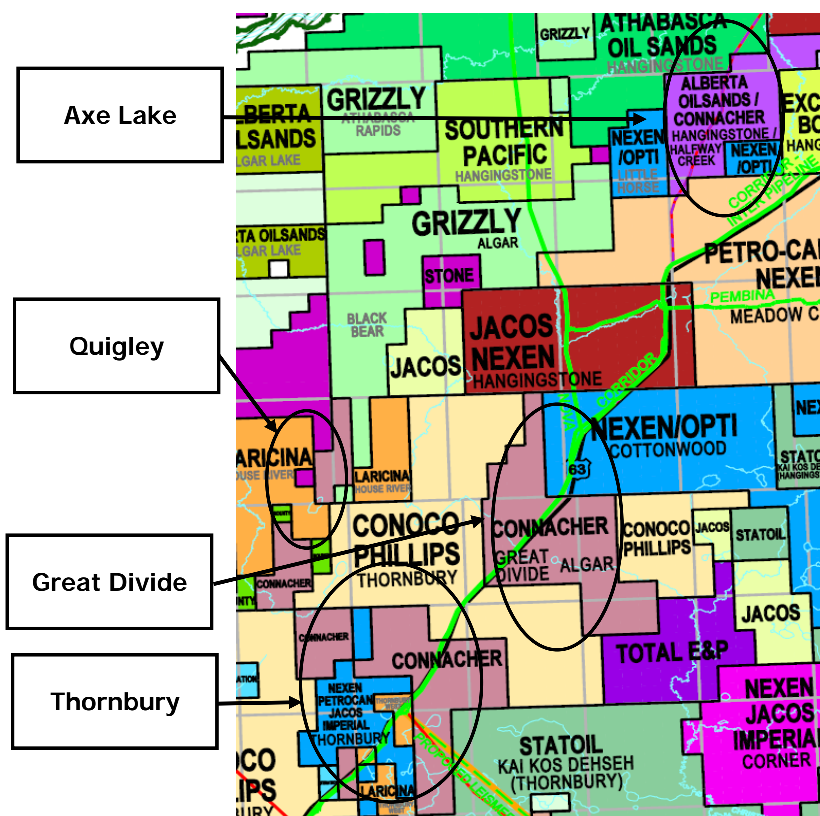
Source: Company reports, Genuity Capital Markets Research

- Note, we do not cover Baytex Energy Trust and therefore we are not making a stock recommendation on it in this report. The above is for informational purposes to help highlight oil sands exposure of various players in light of the macro-investment thesis discussed in this report.

Connacher Oil & Gas (CLL-T: $0.98, Not Rated):

- Connacher controls interest in roughly 98,000 net "in-situable" acres. At year-end 2008, the company's independent resource evaluator assigned 2P plus Best Estimate Contingent and Best Estimate Prospective Resources of 585 MMBbls to the company's acreage; of this amount, 83 MMBbls is considered Prospective.
- The company currently has 10 MBbl/d of current bitumen production capacity at its 100%-owned Great Divide project, which commenced commercial production in March 2008. This was just four years from the first purchase of lands in the region and has already yielded over 3 MMBbls of bitumen production.
- Connacher's goal is to reach 50 MBbl/d of bitumen production by 2015. The company is currently constructing its second 10 MBbl/d phase at Algar. As per management, construction at the Algar project is currently proceeding on time and under budget, with a target to complete the plant and tie in the associated seventeen SAGD horizontal well pairs in early April 2010. Thereafter, it is expected to take approximately one month to commission the plant. Steaming of the well pairs is expected to start in May 2010 and last approximately three months before first production in approximately August 2010. Thereafter, ramp-up towards full plant capacity is anticipated to occur between start-up and year-end 2010 or early 2011. The completion of Algar will double Connacher's capacity at Great Divide to 20 MBbl/d of bitumen.

Exhibit 39: Connacher Oil & Gas' oil sands opportunities



Source: Company reports, Divestco.

- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** $0.25-0.75/Bbl applied to the bitumen resources outside of the Great Divide Phase 1 implies that Connacher could yield $98-295 million or $0.24-0.73/share in proceeds.

Exhibit 40: Simple dollar per Bbl analysis ($/share)

	Low Case	Mid Case	High Case
Non-Great Divide Resources (MMBbls)	393.0	393.0	393.0
Times: Potential Consideration ($/Bbl)	$0.25	$0.50	$0.75
Total potential proceeds ($mm)	**$98.25**	**$196.50**	**$294.75**
Divided: Shares (mm)	403.6	403.6	403.6
Total potential proceeds per share	**$0.24**	**$0.49**	**$0.73**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of undeveloped oil sands acreage (i.e., ex Great Divide and Algar) on a dollar/acre basis:** $5,000 to $15,000 per acre implies that Connacher could yield an estimated $415 to $1.25 billion or $1.02 to $3.07/share in potential proceeds. This analysis does not take into account potential prospectively of the company's full acreage position and, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.

Exhibit 41: Simple dollar per acreage analysis ($/share)

	Low Case	High Case
Net Oil Sands Land Acerage (Ex-Great Divide and Algar)	82,720	82,720
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$413.6**	**$1,240.8**
Divided by: Shares (mm)	403.6	403.6
Equals: Potential proceeds per share	**$1.02**	**$3.07**

Note; Connacher's acreage is position used in this exercise is an estimated amount, excluding Great Divide and Algar.

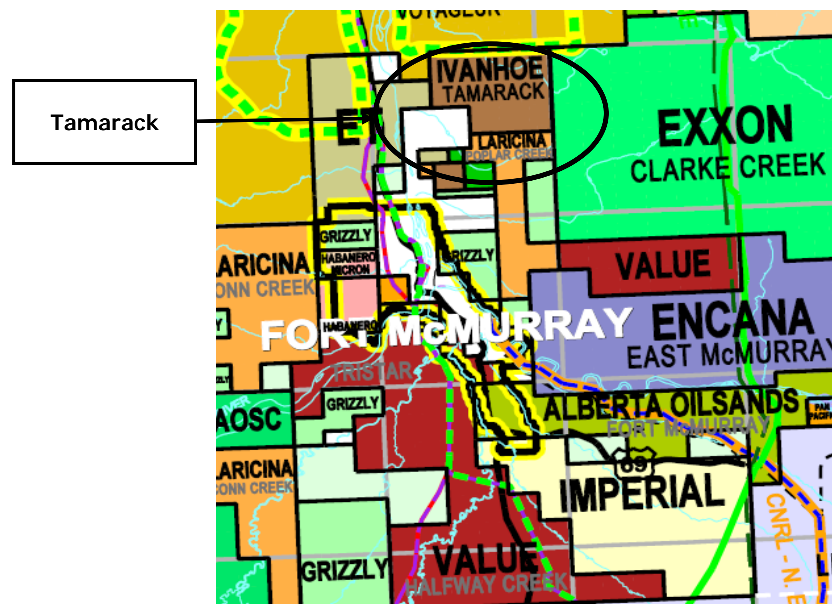
Source: Company reports, Genuity Capital Markets Research

- Note, we do not cover Connacher and therefore we are not making a stock recommendation on it in this report. The above is for informational purposes to help highlight oil sands exposure of various players in light of the macro-investment thesis discussed in this report.

Ivanhoe Energy (IE-T: $2.61, IVAN–NASDAQ: US$2.51, Not Rated)

- Ivanhoe Energy is a combined oil sands/heavy oil technology and oil sands resource play. The company is more unique than others because its technology is also believed to be applicable to other heavy oil assets in other countries that Ivanhoe has ownership interests in.
- Ivanhoe controls almost 24,000 net "in-situable" acres in Alberta, with a 100% w.i. on Leases 6 and 10, which it acquired from Talisman Energy (TLM-T: $18.27, BUY, Target – $23.00) in mid-2008.
- Lease 10, now called the Tamarack Project, is expected to be Ivanhoe's first oil sands project. Tamarack is a 6,880-acre contiguous block located approximately 10 miles (16 km) northeast of Fort McMurray, immediately south of Suncor's Steepbank and Millennium projects. The block adjoins leases held by ExxonMobil (XOM-T: $72.47, Not Rated), Laricina Energy and E-T Energy. As part of the transaction, Talisman Energy has back-in rights in Tamarack of up to 20% for a period ending in mid-2011.
- A March 2009 reserves evaluation conducted by GLJ Petroleum Consultants Ltd. estimated that the Tamarack Project contains best-estimate (P50) contingent resources of 441 MMBbls of bitumen. The company believes that this would support a project with an estimated capacity of approximately 50 MBbl/d.

Exhibit 42: Ivanhoe's oil sands opportunities



Source: Ivanhoe Energy, Divestco.

- With respect to Ivanhoe's oil sands technology, management plans to implement, as part of its oil sands and heavy oil resource development, a proprietary and patented heavy oil upgrading process called "HTL," or "Heavy-to-Light." HTL is an upgrading process that can be located in the heavy oil field and completely integrated with upstream field operations. The HTL process converts heavy oil to lighter oil, eliminating the need for blending to transport the oil. In addition, coke and gas by-products from the upgrading process is converted underground to steam or power that can be used to feed the needs of the SAGD production process. As a result, it eliminates the need to buy large volumes of natural gas. In addition, integrated HTL upgrading allows the producer to capture the majority of the value differential between light and heavy oil. All of this is carried out in HTL facilities that, as per management, are cost effective at scales as low as 15-20 MBbl/d. Therefore, this type of technology has commercial potential, in our view, through licensing agreements.
- HTL is based on the proven concept of thermal cracking and carbon rejection. The key innovation, as per management, is speed. HTL incorporates ultra-short processing times, compared to significantly longer times for conventional technologies such as delayed coking. HTL upgrading does not require catalysts, hydrogen (hence, low natural gas needs), or significant pressure. The net result is relatively small scale, low cost facilities, as per management.
- Technology risk is expected, by the company, to be low. As per management, HTL is a close analogue to Fluid Catalytic Cracking, which is a common processing unit found in most refineries worldwide. While HTL is a patented and proprietary technology, the fundamental engineering, equipment and materials handling aspects underlying HTL are well understood by the industry, according to Ivanhoe Energy. Therefore, this could be a sought after technology by way of a corporate acquisition or partnership, in our view.

- Ivanhoe recently announced a major technical breakthrough in the ongoing enhancement of HTL which confirms that the technology now enables the production of "bottomless" synthetic crude oil through a simplified operation that delivers lower capital and operating costs.
- Prior to Ivanhoe's development breakthrough, bottomless synthetic crude produced by the HTL technology required recycling of a portion of the processed oil through the core of the HTL facility until the required level of upgrading was achieved. While this is an effective and economically attractive process, it also required over-sizing of the HTL equipment and presented engineering and operational complexities, as per the company. The breakthrough, as per management, reduces the amount of oil required to be recycled through an HTL plant by greater than 80%. That is, the company can now produce bottomless synthetic crude with minimal recycling, which allows equipment to be downsized and provides for a simpler operating environment.
- Tamarack activities in Q3/09 were focused on engineering, fulfilling regulatory application requirements, and surveying and procuring key services and vendors for the winter 2009-2010 drilling and testing program. Tamarack plans to initiate field operations in January 2010. Significant progress was achieved during the quarter on engineering the integrated SAGD/HTL facility, as well as infrastructure planning – principally, bridge, road and power planning. The company successfully submitted the Oil Sand Evaluation and Mineral Surface Lease applications for the winter activities and expects to receive approvals for both submissions in Q4/09. In addition, surveying and road-use agreements for 31 proposed drilling locations were completed.
- Ivanhoe stated that it is on schedule with baseline field studies and stakeholder engagement activities, which support the Environmental Impact Assessment (EIA). The company intends to submit the EIA and other regulatory applications in mid-2010.
- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** Applying $0.25-0.75/Bbl to Ivanhoe's 491 MMBbl resource estimate would equate to $123-368 million or $0.44-1.32/share of potential proceeds. While Ivanhoe's resource potential within its own lands is not significant relative to its peers, its technology can be applied to other companies' in-situ resources, which could make the company more appealing from either a JV or acquisition perspective and also increase the value of its bitumen beyond our simple analysis. In this exercise, we have not applied any value to the technology, but we note that management believes HTL is applicable to all of Ivanhoe's heavy-oil projects, including: the Tamarack Project in Canada, the Pungarayacu Project in Ecuador, and additional target opportunities identified in the Middle East, Asia, Africa, Latin America and Canada.

Exhibit 43: Simple dollar per Bbl analysis ($/share)

	Low Case	Mid Case	High Case
Estimated Recoverable (MMBbls)	491	491	491
Times: Possible consideration ($/Bbl)	$0.25	$0.50	$0.75
Equals: Potential Proceeds ($mm)	**$122.8**	**$245.5**	**$368.3**
Divided by: Shares (mm)	279.7	279.7	279.7
Equals: Potential Proceeds per share	**$0.44**	**$0.88**	**$1.32**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of oil sands acreage on a dollar/acre basis:** $5,000 to $15,000 per acre, just to its oil sands acreage, implies that Ivanhoe could generate roughly $120-360 million or $0.43-1.29/share in proceeds. **This analysis does not take into account potential prospectivity of the company's full acreage position and, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.**

Exhibit 44: Simple dollar per acreage analysis ($/share)

	Low Case	High Case
Net Oil Sands Land Acerage	24,000	24,000
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$120.0**	**$360.0**
Divided by: Shares (mm)	279.4	279.4
Equals: Potential proceeds per share	**$0.43**	**$1.29**

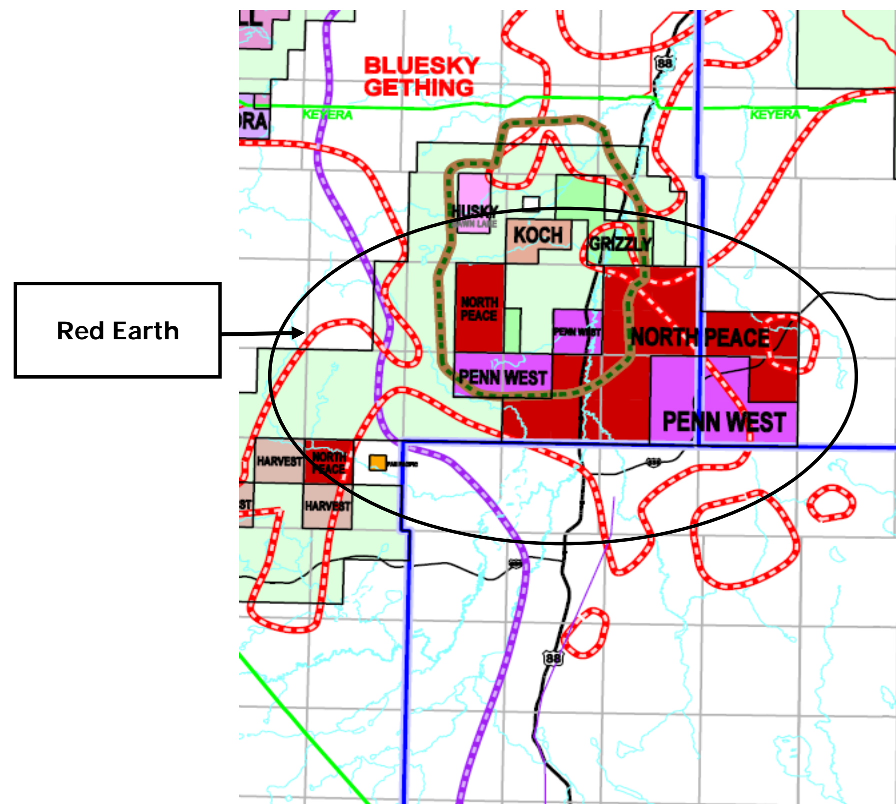
Source: Company reports, Genuity Capital Markets Research

- Note, we do not cover Ivanhoe Energy and therefore we are not making a stock recommendation on it in this report. The above is for informational purposes to help highlight oil sands exposure of various players in light of the macro-investment thesis discussed in this report.

North Peace Energy (NPE-T: $0.40, Not Rated)

- North Peace controls 86,400 net acres (100% w.i.) of oil sands leases in the Peace River area which require Cyclic Steam Stimulation (CSS) extraction.

Exhibit 45: North Peace's oil sands opportunities



Source: Company reports, Divestco

- The company commenced operations on two of four potential wells on its 1 MBbl/d Red Earth CSS pilot project. As per North Peace, the first well is in the second steam cycle, while the second well is in the first production cycle. The company expects to provide an operational update on November 25.
- Sproule and Associates estimates there is 2.0 to 3.1 billion Bbls of Discovered bitumen in place on these lands, with a mean estimate of 2.5 billion Bbls on its land base.
- At North Peace's current commercial focus area, management has identified about 750 MMBbls of bitumen in place, and 250 MMBbls is recoverable on 22 sections, which the company feels is sufficient to support 30 MBbl/d of production. The company's land has sufficient initial delineation that continues to confirm Sproule's estimate: 340 pre-existing third party wells, plus 17 NPE wells with core work-up. It also has good cap rock which consists of over 45 metres of shale and a contiguous resource with sufficient thickness. As per management, the 22 sections in the current commercial focus area have an average of 12 metres of net pay. Additionally, there is extensive infrastructure in the

area and underutilized takeaway capacity in the area associated with conventional production that has already matured.

- NPE is also currently evaluating whether to do a 3 MBbl/d pilot or move to a 10 MBbl/d commercial project. The company estimates that it will cost about $80 million to construct a 3 MBbl/d project, or $26,667 per Bbl/d. At this capital cost intensity, it would cost an estimated $267 million to build a 10 MBbl/d project and $800 million to achieve 30 MBbl/d of production. Management's goal is to take the most methodical approach in order to help determine the best way to commercially develop the asset base. Given some of the mishaps seen at other projects, such as Long Lake, we believe this is prudent.
- The company has roughly $13 million of cash on hand, which management believes is enough for currently planned spending through the end of 2010.

Exhibit 46: North Peace's business plan

Step One (current economic conditions)

- Evaluate key pilot project parameters
  - Injection pressures, oil production, produced water quality and quantity, produced gas quality and quantity, steam-oil ratios
- Additional delineation work to increase repeatability of pilot results
- Add additional horizontal wells to existing pilot (limited changes to existing facilities)
- FEED work for 3,000 bbl/d pilot expansion
- Regulatory application for 3,000 bbl/d pilot expansion
- Evaluate potential exploration locations

Step Two (improved economic conditions)

- Financing and construction for 3,000 bbl/d pilot expansion

Step Three (long-term)

- Drill additional delineation wells for a 10,000 bbl/d project
- Complete front-end engineering for 10,000 bbl/d commercial project
- Regulatory application
- Financing and construction
- Commission 10,000 bbl/d project
- Future Commercial Phases within Block B South

Source: North Peace Energy's Q3/09 presentation

Exhibit 47: North Peace's financial standing

Total capital raised to date	$82 million
Land purchase (100% WI)	$25 million
Delineation drilling (17 wells + water wells)	$11 million
Resource assessment (geology, lab work, etc)	$1 million
Pilot construction	$16 million
Up front pilot startup & pilot monitoring costs	$1 million
Horizontal wells (complete & equip)	$5 million
Cumulative G&A, operating costs etc (2005 – 2009)	$10 million
Current Working capital (estimate)	**$13 million**

Source: North Peace Energy's Q3/09 presentation

- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** Applying a 15% recovery factor and $0.25-0.75/Bbl to the aforementioned 2.5 billion Bbl Discovered resource estimate would

equate to 465 MMBbls of potential recoverable bitumen and imply potential proceeds of $94-281 million or $1.23-3.69/share.

Exhibit 48: Simple dollar per Bbl analysis ($/share)

	Low Case	Mid Case	High Case
P50 Discovered OBIP (MMBbls)	2,500	2,500	2,500
Times: Recover Factor	15.0%	15.0%	15.0%
Equals: Potential Recoverable (MMBbls)	375	375	375
Times: Possible consideration ($/Bbl)	$0.25	$0.50	$0.75
Equals: Potential Proceeds ($mm)	**$93.8**	**$187.5**	**$281.3**
Divided by: Shares (mm)	76.2	76.2	76.2
Equals: Potential Proceeds per share	**$1.23**	**$2.46**	**$3.69**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of oil sands acreage on a dollar/acre basis:** $5,000 to $15,000 per acreage implies that North Peace's acreage position is worth $432 million to $1.3 billion or $5.67-17.01/share. **This analysis does not take into account potential prospectivity of the company's full acreage position and, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.**

Exhibit 49: Simple dollar per acreage analysis ($/share)

	Low Case	High Case
Net Oil Sands Land Acerage	86,400	86,400
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$432.0**	**$1,296.0**
Divided by: Shares (mm)	76.2	76.2
Equals: Potential proceeds per share	**$5.67**	**$17.01**

Source: Company reports, Genuity Capital Markets Research

- Note, we do not cover North Peace Energy and therefore we are not making a stock recommendation on it in this report. The above is for informational purposes to help highlight oil sands exposure of various players in light of the macro-investment thesis discussed in this report.

Oilsands Quest (BQI-A: $1.21, BUY, Target – $3.00)

- Oilsands Quest provides significant opportunity scale, as it controls 753,371 oil sands acres with a 100% w.i. All of this is in-situ. The company also controls (with a 100% w.i.) almost 490,000 net oil shale potential acres in Saskatchewan.
- 82% of the company's oil sands acreage is in Saskatchewan, which has a much more favourable royalty regime than Alberta, as shown in Exhibit 50.

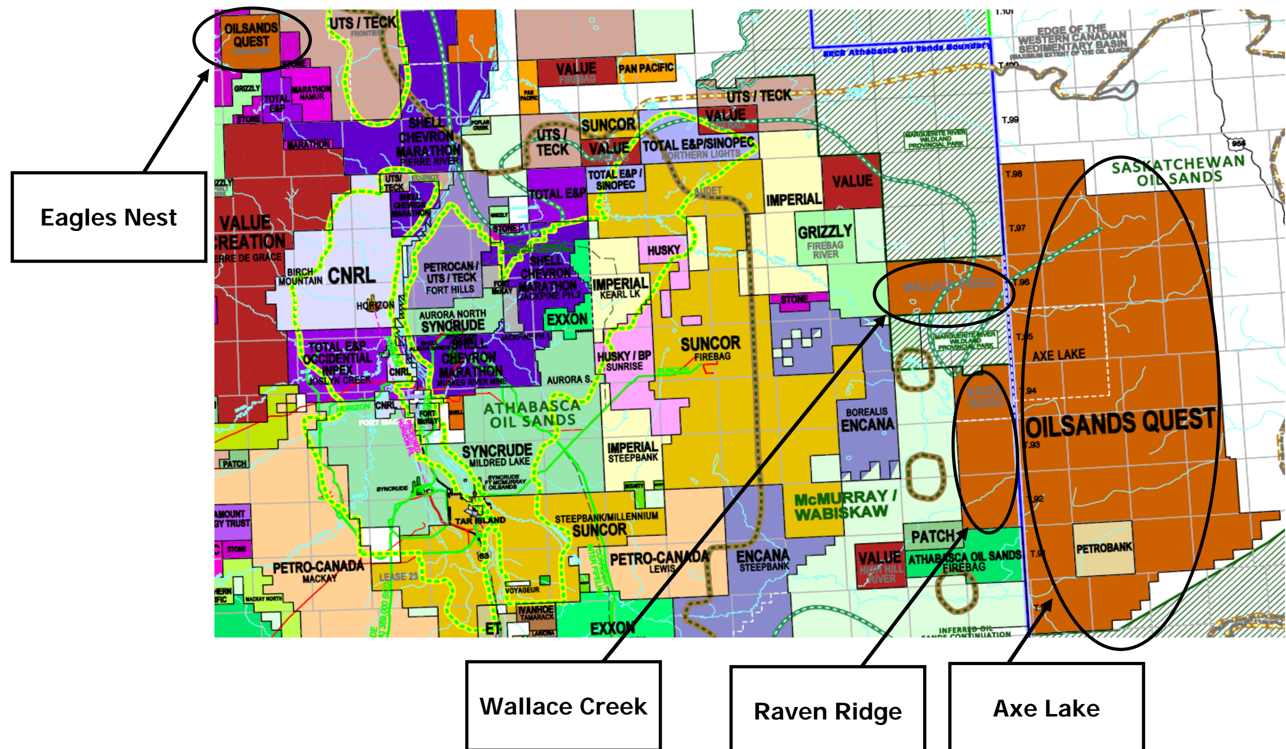
Exhibit 50: Alberta versus Saskatchewan royalty regimes

	Alberta	Saskatchewan
Pre-Payout	Start at 1% of gross bitumen revenues and increase for every dollar above $55/Bbl, to a maximum of 9% when oil is priced at $120/Bbl or higher	1% on gross bitumen revenues. No sliding scale.
Post-Payout	Start at 25% of net bitumen revenues and increase for every dollar oil is priced above $55/Bbl to 40% when oil is priced at $120/Bbl or higher	20% on operating income. No sliding scale.

Source: Genuity Capital Markets Research

- Management has continuously stated over the years that it will look to form a JV with a larger player – one who ideally not only brings financial capacity, but also a knowledge base.
- Oilsands Quest is about to commence testing at its Test Site 1, which we believe could be a key share price catalyst, as it will test the reservoir's production potential through a low-pressure/low-temperature hot water and steam process. Positive results would help remove the "cap rock" overhang that remains and increase the underlying value of the company's oil sands resource base, in our view.
- The company currently only has a contingent resource estimate of 151 MMBbls (P50), which we view as somewhat irrelevant at this point in time, as a successful test result, in our opinion, could dramatically increase this number. However, with respect to total resource potential, Oilsands Quest has a P50 Discovered and Undiscovered resource estimate of 3.3 billion Bbls and 2.3 billion Bbls, respectively. Of this amount, roughly 2.9 billion Bbls of P50 Discovered resources and 0.67 billion Bbls of P50 Undiscovered resources are assigned to Oilsands Quest's Axe Lake and Raven Ridge discoveries, which are currently the main focus of the company. The remaining resources are applicable to Oilsands Quest's Eagles Nest discovery, located adjacent to the south of UTS and Teck's 50/50 joint in-situ acreage (Exhibit 51), which is known to contain a cap rock. Of note, the company's resource estimate covers only approximately 11% of its acreage position, demonstrating the potentially significant opportunity scale.

Exhibit 51: Oilsands Quest's oil sands opportunities



Source: Company reports, Divestco.

- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** Applying a 15% recovery factor and $0.25-0.75/Bbl to the aforementioned 3.2 billion Bbl Discovered resource estimate would equate to 487 MMBbls of potential recoverable bitumen and imply potential proceeds of $121-365 million or $0.37-1.12/share. But this would only cover about 11% of the company's land base. Also, recall that lab tests have suggested recoveries using low-temperature, low-pressure steam could yield recoveries as high as 70-80%. Therefore, there is significant upside potential to this analysis, in our view.

Exhibit 52: Simple dollar per Bbl analysis (US$/share)

	Low Case	Mid Case	High Case
P50 Discovered OBIP (MMBbls)	3,250	3,250	3,250
Times: Recover Factor	15.0%	15.0%	15.0%
Equals: Potential Recoverable (MMBbls)	488	488	488
Times: Possible consideration ($/Bbl)	$0.25	$0.50	$0.75
Equals: Potential Proceeds ($mm)	**$121.9**	**$243.8**	**$365.6**
Times: FX Rate (US$/C$)	$0.92	$0.92	$0.92
Divided by: Shares (mm)	302.4	302.4	302.4
Equals: Potential Proceeds per share (US$)	**$0.37**	**$0.75**	**$1.12**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of undeveloped oil sands acreage on a $/acre basis:** $5,000 to $15,000 per acreage implies that Oilsands Quest's total acreage position is worth $3.8-11.3 billion or $11.51-

40.43/share. **This analysis does not take into account potential prospectivity of the company's full acreage position and, as mentioned, before is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.** However, even applying this analysis to 15% of the company's acreage position implies that it could yield an estimated $565 million to $1.7 billion of potential proceeds, which would still be significant.

Exhibit 53: Simple dollar per acreage analysis (US$/share)

	Low Case	High Case
Net Oil Sands Land Acerage	753,371	753,371
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$3,766.9**	**$11,300.6**
Times: FX Rate (US$/C$)	$0.92	$0.92
Divided by: Shares (mm)	302.4	302.4
Equals: Potential proceeds per share	**$11.51**	**$40.43**

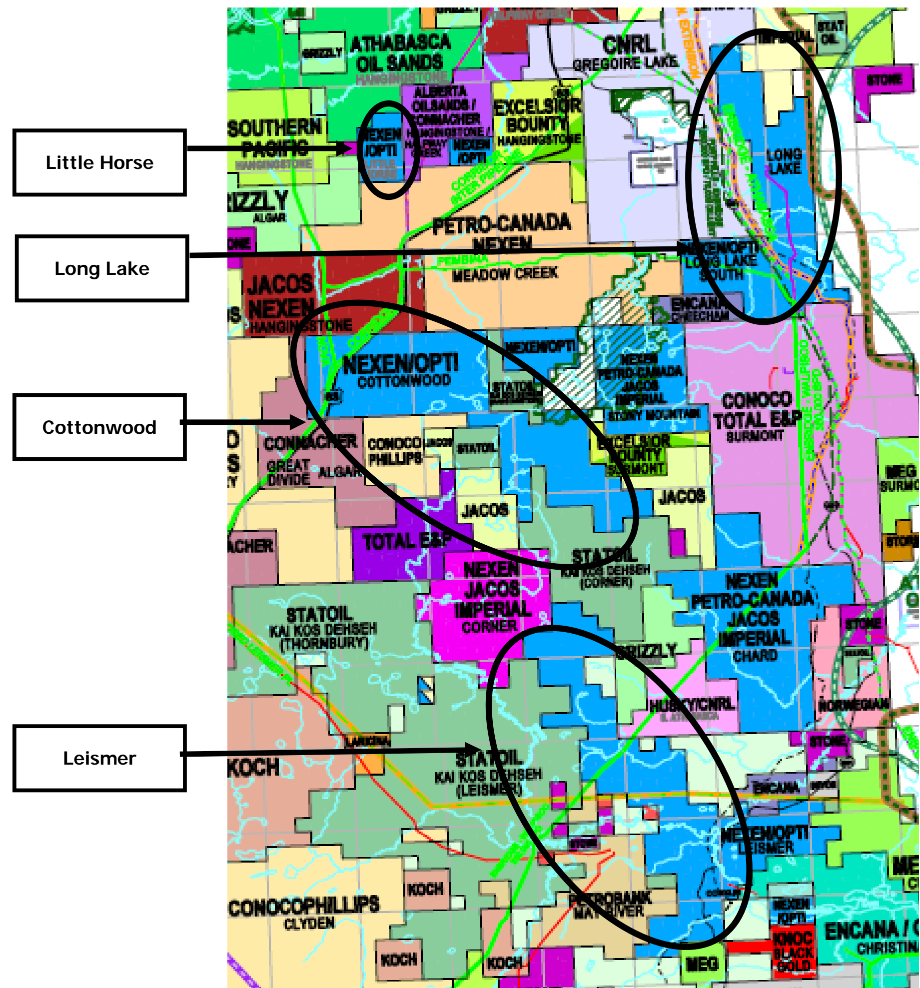
Source: Company reports, Genuity Capital Markets Research

- With $53.6 million of cash at September 1, 2009, we believe the company will need funds, either through the market or a JV, or a combination of both, to realize commercial production. Management has been vocal about not wanting to go alone on the commercial development of its asset base.

OPTI Canada (OPC-T: $2.04, HOLD, Target – $2.15)

- The question around OPTI's strategic review process is whether or not it will result in the company selling itself. As per our November 4 OPTI Canada note *Another review of strategic alternatives*, the risk of expecting a corporate sale is that any potential acquirer is required to pay a 1% premium to the par value of the US$1,750 million Senior Secured Notes. At today's FX rate, any potential acquirer of OPTI would be required to pay the noteholders almost $1,900 million before paying equity holders anything. Even if an acquirer were to purchase the notes "quietly" on the open market prior to making an acquisition of the equity, (assuming no such action has occurred yet), the most recent market prices of US$82.00 for the 7.875% notes (the company issued a total US$750 million on July 5, 2007) and US$83.00 for the 8.250% notes (the company issued on December 15, 2006) equates to a combined purchase price of $1.5 billion just for the notes before equity holders get paid.

Exhibit 54: OPTI's oil sands opportunities



Source: Company reports, Divestco.

- OPTI controls an interest in roughly 74,000 acres outside of Long Lake Phase 1, which has a combined 1.1 billion Bbls of contingent and 310 MMBbls of prospective resources assigned to them. This provides OPTI with the option to sell its assets to help remove its financial risk, in our view.
- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** At $0.25-0.75/Bbl, we believe OPTI could yield an estimated $64-952 million, or $0.23-3.38/share, depending on how much it would look to sell (Exhibit 55). These would be assets that the market may not be currently giving the company any value for, which could provide an opportunity for investors that are not concerned with a potentially long review process and share price volatility.

Exhibit 55: Estimated implied potential proceeds to OPTI if it were to sell assets outside of Long Lake 1[3]

	Potential Proceeds at --$/Bbl--			Potential Proceeds at --$/Bbl--				
	$0.25 ($mm)	$0.50 ($mm)	$0.75 ($mm)	$0.25 ($/Share)	$0.50 ($/Share)	$0.75 ($/Share)	Contingent Resources (MMBbls)	Prospective Resources (MMBbls)
Remainder of Long Lake	$63.50	$127.00	$190.50	$0.23	$0.45	$0.68	254	
Leismer	$167.00	$334.00	$501.00	$0.59	$1.19	$1.78	668	
Cottonwood	$86.75	$173.50	$260.25	$0.31	$0.62	$0.92	192	310
Total potential proceeds ($mm)	**$317.25**	**$634.50**	**$951.75**	**$1.13**	**$2.25**	**$3.38**	1114	310

Source: Company reports, Genuity Capital Markets Research

Potential proceeds of undeveloped oil sands acreage on a $/acre basis: $5,000 to $15,000 per acreage implies that OPTI's total acreage position outside of Long Lake Phase 1 is worth $454 million to $1.4 billion or $1.61-4.83/share. **This analysis does not take into account potential prospectivity of the company's full acreage position and, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.**

Exhibit 56: Estimated implied potential proceeds to OPTI if it were to sell assets outside of Long Lake 1 (on a $/acre basis)

	Low Case	High Case
Net Oil Sands Land Acerage (Ex-Long Lake Phase 1)	77,952	77,952
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$389.8**	**$1,169.3**
Divided by: Shares (mm)	281.8	281.8
Equals: Potential proceeds per share	**$1.38**	**$4.15**

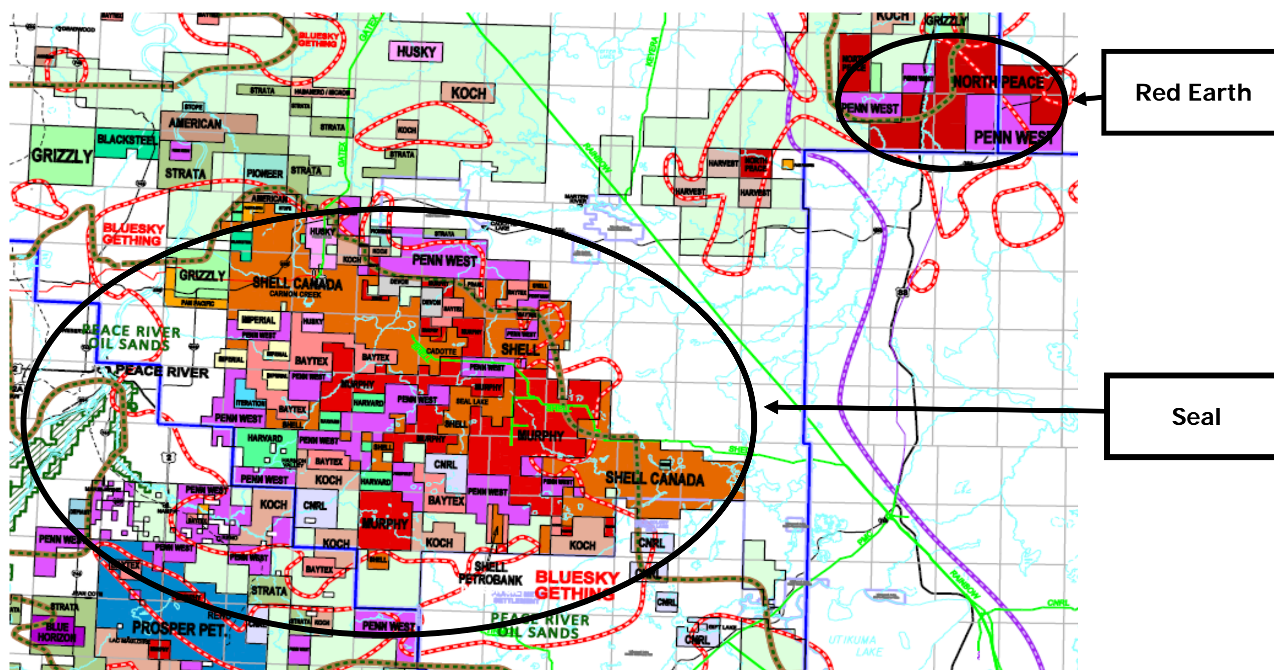
Source: Company reports, Genuity Capital Markets Research

Penn West Energy Trust (PWT.un-T: $18.77, PWE–NY: US$17.85, Not Rated)

- Penn West's oil sands acreage is a small component of its entire asset base, but it is a decent size for a company that would want to enter the oil sands space or expand existing exposure. The company owns over 450 net sections at SEAL in the Peace River Oil sands area in northern Alberta. In total, the company has 1.2 million net oil sands/heavy oil acres.

[3] In this analysis, we value the prospective resources at Cottonwood at $0.125/Bbl to $0.375/Bbl due to the higher risk nature of the classification versus the contingent resources.

Exhibit 57: Penn West's oil sands opportunities



Source: Company reports, Divestco

- As at September 30, 2007, Sproule Associates independently estimated that Penn West's share of Discovered Resources (on just 20% of its land in the Peace River Oil Sand project) is 1.7 billion barrels.
- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** Applying a 15% recovery factor and $0.25-0.75/Bbl to the aforementioned 8.5 billion Bbl Discovered resource estimate would equate to roughly 1.3 billion of potential recoverable bitumen and imply potential proceeds of $319-956 million or $0.76-2.28/share.

Exhibit 58: Simple dollar per Bbl analysis ($/share)

PennWest Energy Trust	Low Case	Mid Case	High Case
P50 Discovered OBIP (MMBbls) at SEAL	8,500	8,500	8,500
Times: Recover Factor	15%	15%	15%
Equals: Undeveloped Resources	1,275	1,275	1,275
Times: Possible consideration ($/Bbl)	$0.25	$0.50	$0.75
Equals: Potential Proceeds ($mm)	**$319**	**$638**	**$956**
Divided by shares (mm)	419.4	420.2	420.2
Equals: Potential Proceeds per share($mm)	**$0.76**	**$1.52**	**$2.28**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of undeveloped oil sands acreage on a $/acre basis:** $5,000 to $15,000 per acreage implies that Penn West's total oil sands acreage position is worth $6.2-18.5 billion or $14.72-44.17/share. **This analysis does not take into account potential prospectivity of the company's full acreage position and, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.**

Exhibit 59: Simple dollar per acreage analysis ($/share)

	Low Case	High Case
Net Oil Sands Land Acerage	1,235,000	1,235,000
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$6,175.0**	**$18,525.0**
Divided by: Shares (mm)	419.4	419.4
Equals: Potential proceeds per share	**$14.72**	**$44.17**

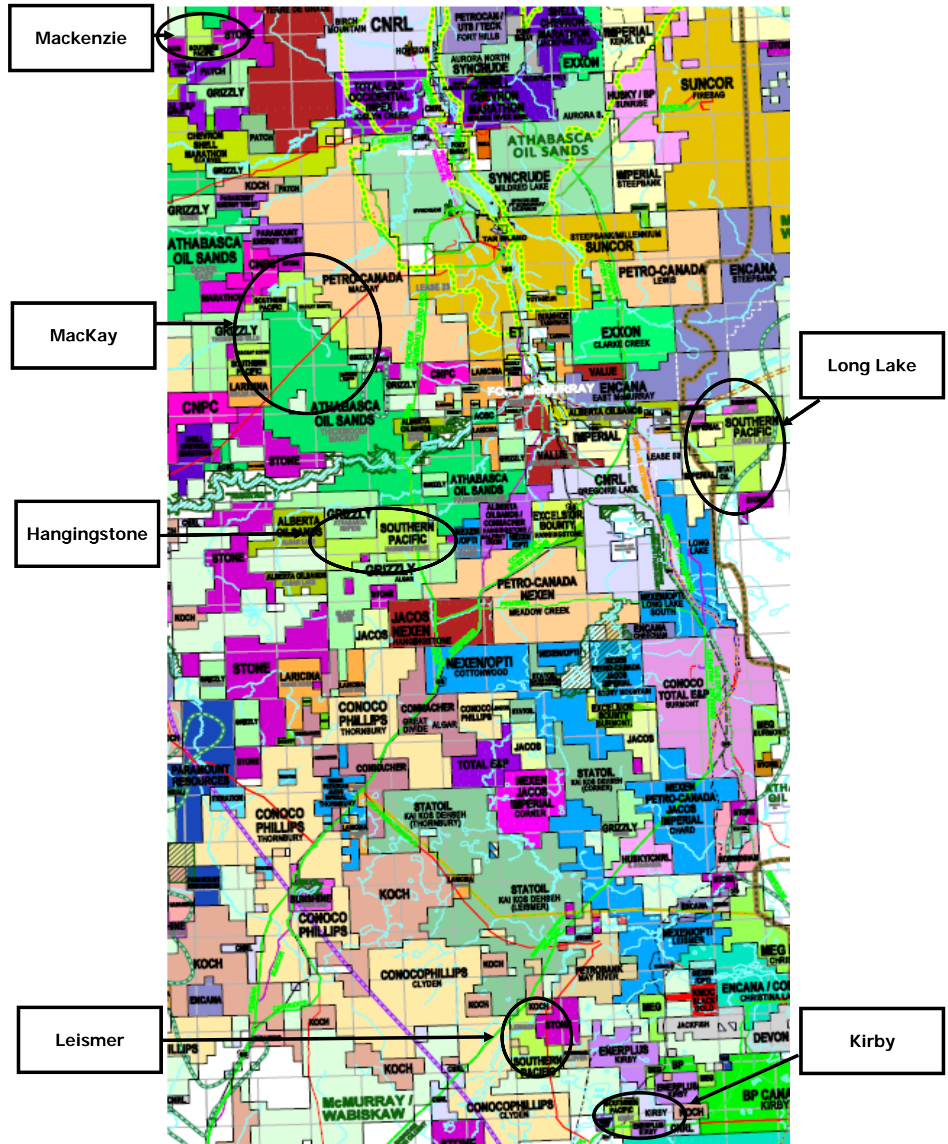
Source: Company reports, Genuity Capital Markets Research

- Note, we do not cover Penn West Energy Trust and therefore we are not making a stock recommendation on it in this report. The above is for informational purposes to help highlight oil sands exposure of various players in light of the macro-investment thesis discussed in this report.

Southern Pacific Resources (STP-T: $0.75, Not Rated)

- Southern Pacific controls 144,128 net acres, or almost 236 net sections of "in-situable" oil sands acreage in five core areas.
- The company submitted regulatory applications this past May to develop a 12 MBbl/d SAGD project on its McKay block.
- Southern Pacific's acreage appears to provide significant upside potential. First, only 6 of 269 sections are dedicated to the first STP-McKay Project. Second, as per Southern Pacific's independent evaluators, the company's exploration acreage at McKay, Long Lake, Hangingstone, Leismer and Kirby have a total 3.44 billion Bbls of estimated discovered resources. The company also has a 2P and 3P reserve estimate of 150.7 MMBbls and 240.5 MMBbls, respectively.
- Southern Pacific also has roughly 180 Bbl/d of conventional production located in Alberta to provide it with near-term cash flows.

Exhibit 60: Southern Pacific's oil sands opportunities



Source: Company reports, Divestco

- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** Applying a 15% recovery factor and \$0.25-0.75/Bbl to the aforementioned 3.4 billion Bbl Discovered resource estimate would equate to roughly 480 MMBbls of potential recoverable bitumen and imply potential proceeds of \$166-500 million or \$0.75-2.26/share.

Exhibit 61: Simple dollar per Bbl analysis ($/share)

	Low Case	Mid Case	High Case
P50 Discovered OBIP (MMBbls)	3,440	3,440	3,440
Times: Recover Factor	15.0%	15.0%	15.0%
Equals: Potential Recoverable (MMBbls)	516	516	516
Add: STP-McKay Project 2P Reserves (MMBbls)	151	151	151
Times: Possible consideration ($/Bbl)	$0.25	$0.50	$0.75
Equals: Potential Proceeds ($mm)	**$166.7**	**$333.4**	**$500.0**
Divided by: Shares (mm)	221.6	221.6	221.6
Equals: Potential Proceeds per share	**$0.75**	**$1.50**	**$2.26**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of undeveloped oil sands acreage on a $/acre basis:** $5,000 to $15,000 per acre, just to its oil sands acreage, implies potential proceeds of $721 million to $2.2 billion or $3.25-9.76/share. **This analysis does not take into account potential prospectivity of the company's full acreage position and, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.**

Exhibit 62: Simple dollar per acreage analysis ($/share)

	Low Case	High Case
Net Oil Sands Land Acerage	144,128	144,128
Times: Possible Land Consideration	$5,000	$15,000
Equals: Potential Proceeds ($mm)	**$720.6**	**$2,161.9**
Divided by: Shares (mm)	221.6	221.6
Equals: Potential proceeds per share	**$3.25**	**$9.76**

Source: Company reports, Genuity Capital Markets Research

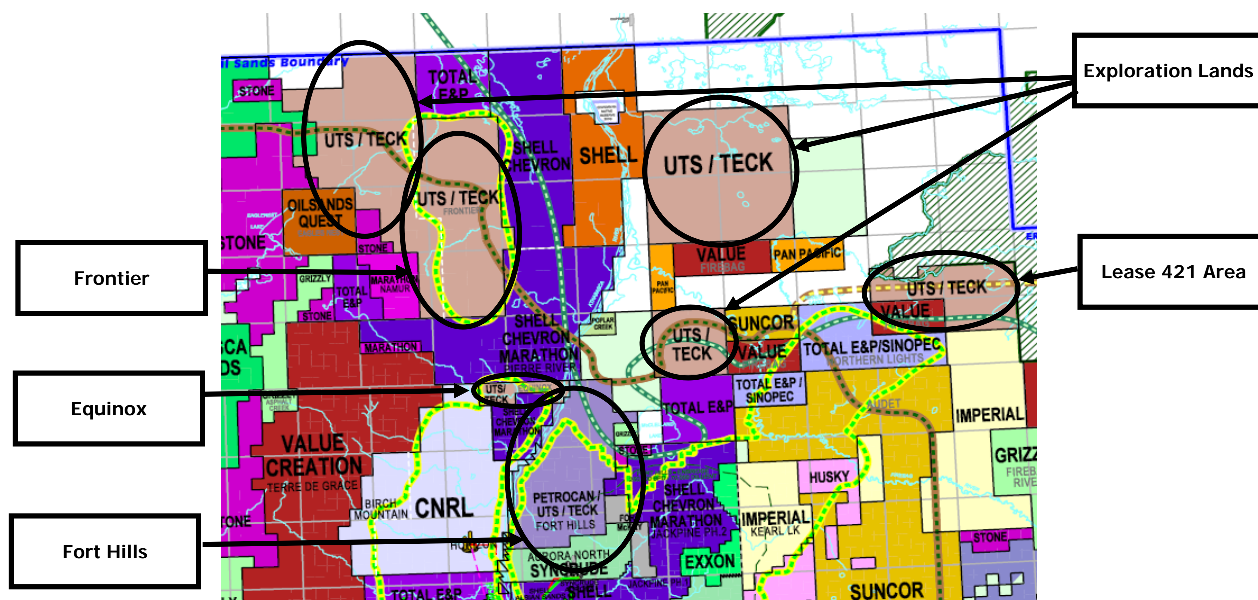
- Note, we do not cover Southern Pacific and therefore we are not making a stock recommendation on it in this report. The above is for informational purposes to help highlight oil sands exposure of various players in light of the macro-investment thesis discussed in this report.

UTS Energy (UTS-T: $2.13, HOLD, Target – $2.45)

- UTS announced on November 2, 2009 the disposition of its 50% working interest in Alberta Oil Sands Lease Nos. 421, 022 and 023 (the "Lease 421 Area"), located east of the Firebag River in northeast Alberta. Imperial Oil and ExxonMobil have agreed to jointly purchase UTS' working interest for $250 million.
- The deal is positive for UTS, in our view, as it reduces the company's financial risk on Fort Hills. The deal leaves it with an estimated $440 million in cash and cash equivalents, plus $695 million of estimated earn-in owed to UTS by Teck and Suncor.
- There currently is not a resource estimate for the leases. However, in 2006 UTS purchased a 100% interest in Lease 421 for $240,353, or roughly $20.86/acre (on 11,520 acres) and then later sold a 50% interest to Teck in 2007 for $120,177, or 50% of the lease bonus paid. In July 2008, UTS also purchased a 50% interest (Teck bought the other 50%) in Leases 022 and 023, comprising a total area of 21,760 acres

gross for $5 million net, or roughly $460/acre. The three leases combined make up 52 sections or 33,280 gross acres, of which UTS held a 50% interest in with Teck. UTS is selling its 50% in Leases 421, 022 and 023 for $250 million, or roughly $15,000/acre, versus its original $5.1 million acquisition cost. It is also selling another estimated $10-11 million net to drill 59 gross core holes, implying significant value creation without knowing the resource estimate. The high dollar/acre is the result of the leases being acquired on an undisclosed bitumen resource estimate.

***Exhibit 63: UTS' sands opportunities*[4]**



Source: Company reports, Divestco.

- Suncor Energy stated on November 13 that it will not provide clarity on Fort Hills until Q4/10. We would not be surprised to see UTS continue with a strategy of 'exploit and sell,' as it did with its 50% interest in the Lease 421 area, in order to create shareholder value. To that end, UTS also holds an additional 140,853 net acres outside of Fort Hills that could be monetized.
- **Potential proceeds of undeveloped oil sands acreage on a dollar/Bbl basis:** Applying $0.25-0.75/Bbl to UTS' 940 million Bbls of estimated net P50 recoverable bitumen resources outside of Fort Hills implies potential proceeds of $235-705 million or $0.49-1.48/share. Note that UTS does not have any booked in-situ resources, and this figure is based on its non-Fort Hills mining assets.

[4] UTS announced on November 2, 2009, the sale of its 50% working interest in the "Lease 421 Area" to Imperial Oil and ExxonMobil for $250 million.

Exhibit 64: Simple dollar per Bbl analysis ($/share)

	Low Case	Mid Case	High Case
UTS Undeveloped Resource outside of Fort Hills (MMBbl)	940.0	940.0	940.0
Times: Possible consideration ($/Bbl)	$0.25	$0.50	$0.75
Equals: Potential proceeds for non-Fort Hills Assets ($mm)	**$235.0**	**$470.0**	**$705.0**
Divided by: Shares (mm)	476.9	476.9	476.9
Equals: Potential Proceeds per share	**$0.49**	**$0.99**	**$1.48**

Source: Company reports, Genuity Capital Markets Research

- **Potential proceeds of undeveloped oil sands acreage on a $/acre basis:** $5,000 to $15,000 per acre implies potential total proceeds of $704 million to $2.1 billion or $1.48-4.43/share. **This analysis does not take into account potential prospectivity of the company's full acreage position and, as mentioned before, is not based on a qualitative analysis. Therefore, it should be viewed as an unrisked, blue sky case.**

Exhibit 65: Simple dollar per acreage analysis ($/share)[5]

	Low Case	High Case
UTS acerage outside of Fort Hills	140,853	140,853
Times: Possible land consideration ($/acre)	$5,000	$15,000
Implied Proceeds for non-Fort Hills acerage ($mm)	**$704.3**	**$2,112.8**
Divided by: Shares (mm)	476.9	476.9
Equals: Potential Proceeds per share	**$1.48**	**$4.43**

Source: Company reports, Genuity Capital Markets Research

[5] Assumes the sale of Lease Area 421 is completed.

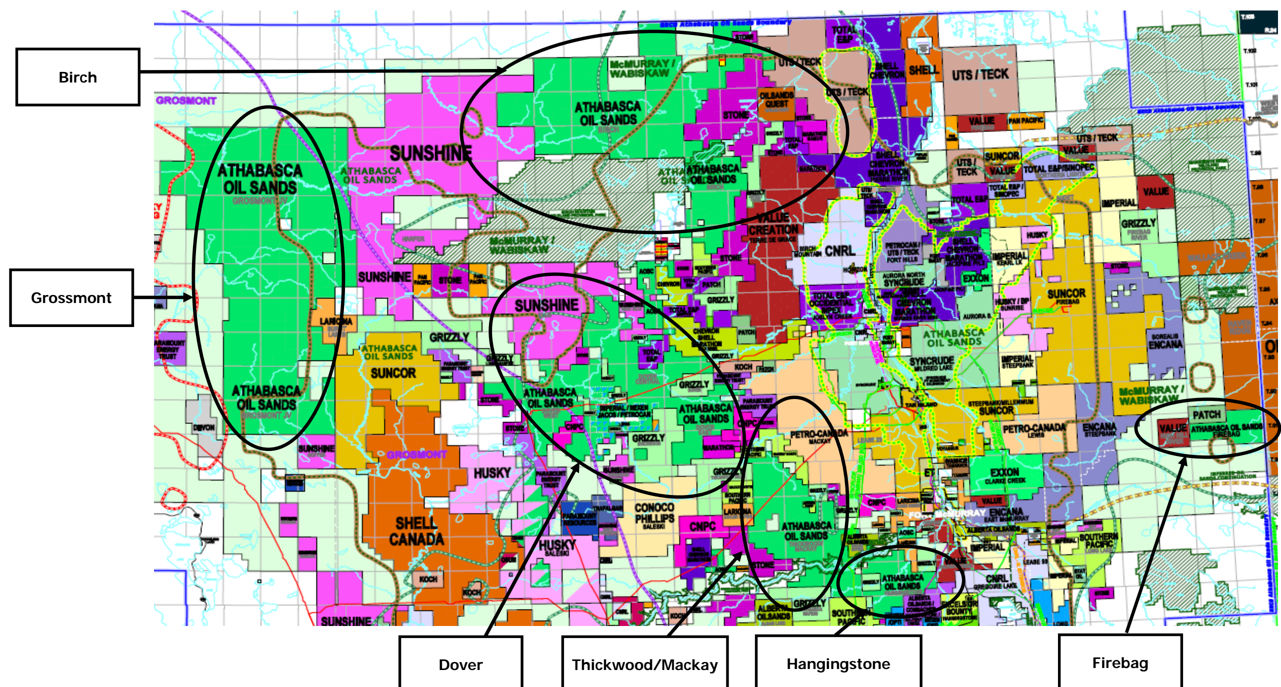
Private companies appear to provide greater opportunity scale, making them potentially more attractive to a potential acquirer, JV, or CIC Investment:

When compared to the public companies discussed in this report, the private companies, on average, have P50 estimated discovered resources of 22 billion Bbls (6.5 billion Bbls when excluding Athabasca Oil Sands Corp.). This compares to the average roughly 4 billion Bbls of estimated discovered resources that the public companies provide. The private companies also control an average roughly 510,000 net acres (with a range of 10,500 to 1.5 million), which compares to the average 272,000 net acres (with a range of 67,000 to 1.2 million) for the public companies discussed in the previous section. Therefore, they may be more attractive to any potential outside acquirer or investor. As such, we believe the PetroChina/AOSC deal is very positive for the private companies.

Athabasca Oil Sands Corp.

- Post closing of the PetroChina transaction, AOSC will still be amongst the largest lease holders of oil sands acreage in the Athabasca region, with a net working interest of over 1.5 million acres. The company's leases are located within 15-30 kilometres from other major oil sands projects and players.

Exhibit 66: AOSC's Athabasca Region Asset Base



Source: Company reports, Divestco

- The company has a P50 contingent recoverable resource estimate of almost 7.0 billion Bbls, based on SAGD technology, and, according to management, ultimate production levels are potentially greater than 500 MBbl/d gross. The company's first commercial project is going to be at its 188,000 gross acre MacKay River project, which has an estimated 1.7

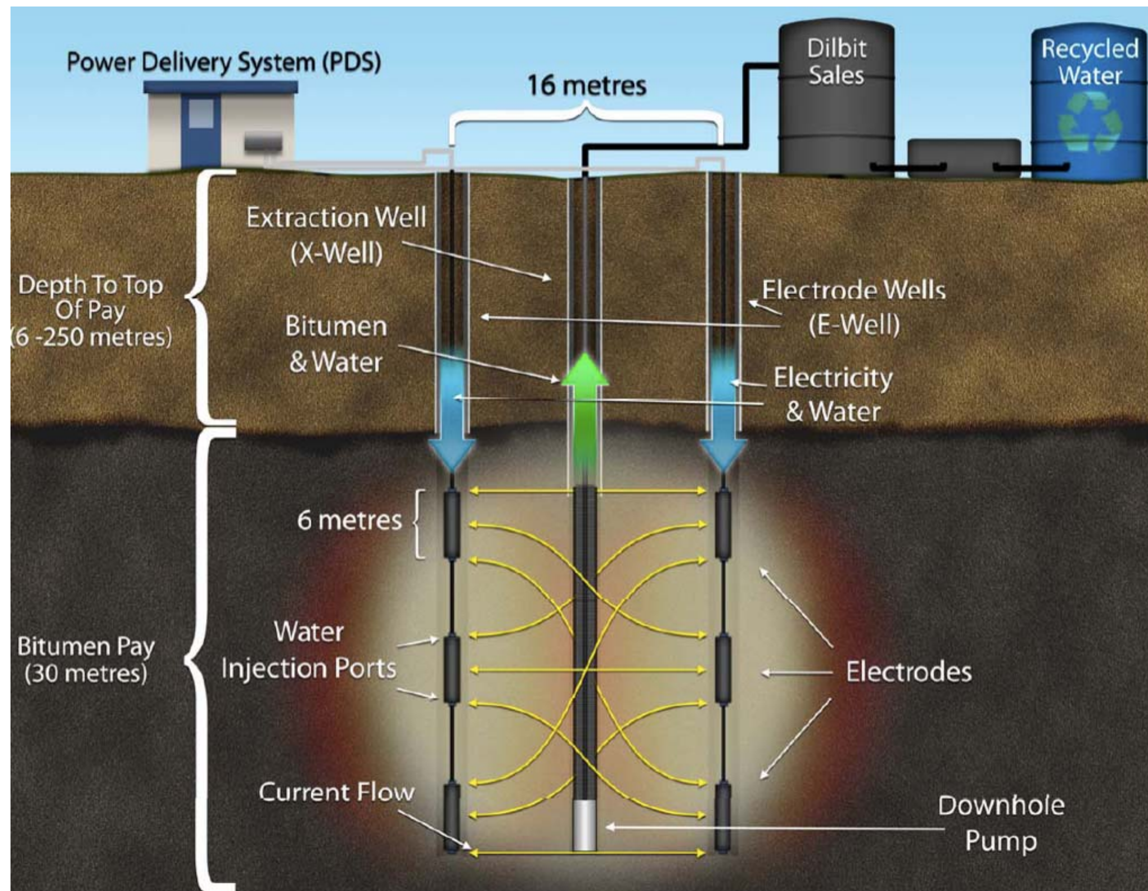
billion Bbls of estimated contingent resources (Best Estimate) and expected production potential of 150 MBbl/d gross bitumen. The first phase to get to this level of production is expected to be 35 MBbl/d gross.

- Owing to the roughly $1.9 billion cash to be received as consideration for the potential JV with PetroChina, Athabasca Oil Sands will have a little over $1.9 billion in cash on the books and a negative net debt position of ($1.7 million) when accounting for the face value of its $400 million of senior secured debentures (due July 30, 2011).
- At a capital cost intensity of $30,000 per Bbl/d, AOSC's net 40% w.i. cost for the first 35 MBbl/d phase at MacKay River is roughly an estimated $420 million, or roughly $1.4 billion below its estimated cash position.
- We estimate that at a capital intensity of $30,000 per Bbl/d of bitumen production, AOSC will need to spend roughly $1.8 billion net to its 40% w.i. to achieve this full production capacity of 150 MBbl/d gross at MacKay River.

E-T Energy Ltd.

- E-T energy is a unique company, like Ivanhoe Energy, in that it has controlling interests in oil sands leases and is also working on a step-change in-situ technology called Electro-Thermal Dynamic Stripping Process (ET-DSP™). This process uses in-situ electrical heating to extract bitumen at depths of 75-150 metres, where it is too deep to mine and too shallow to SAGD (also known as the "no man's land"). It is recognized as the third commercially viable process for the recovery of bitumen from the Athabasca oil sands by a leading independent petroleum engineer. Electro-thermal heating of the Alberta Oil Sands has been studied since the 1970s, according to management.

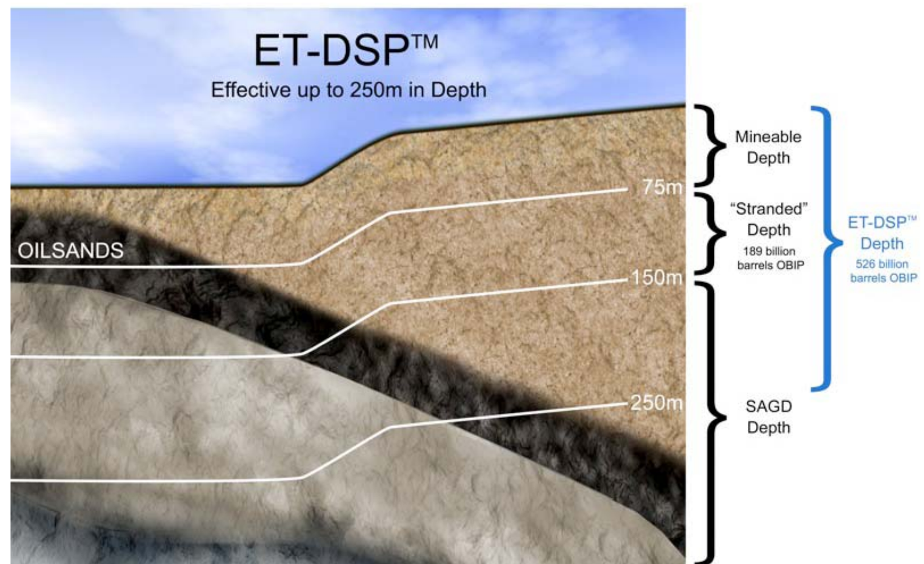
Exhibit 67: ET-DSP™ at work



Source: E-T Energy Ltd.

- E-T Energy estimates that its technology could unlock up to 189 billion Bbls of OBIP of "stranded" reserves, plus an additional 337 billion Bbls that lie as deep as 250 metres; i.e., it can be a technology shift-change for many SAGD-able areas. Recovery rates are expected to be roughly 75%, which equates to approximately 395 billion Bbls of reserves that could potentially be recovered by the industry in Alberta using E-T's technology.

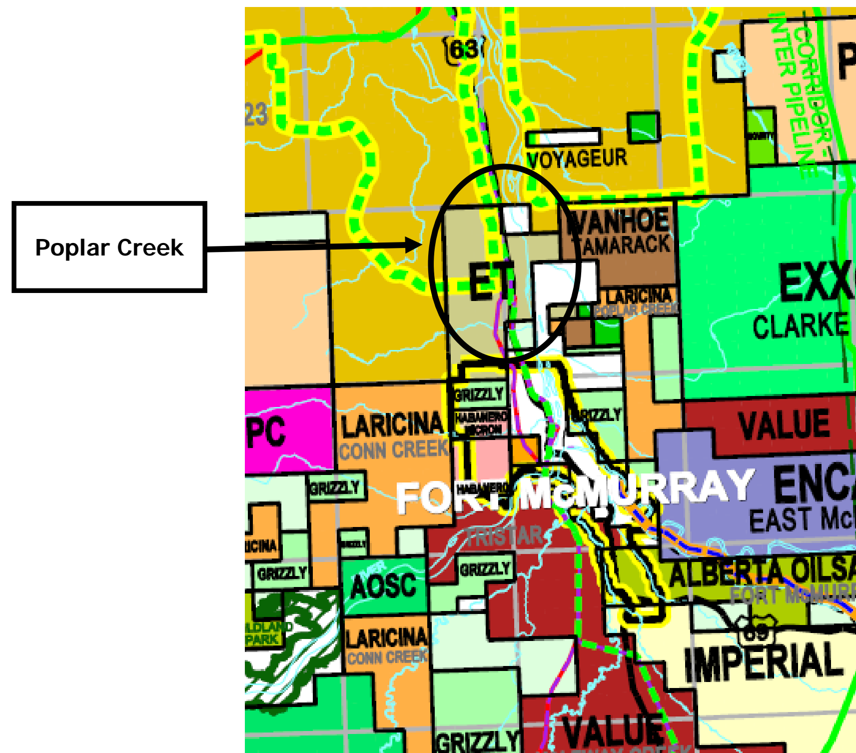
Exhibit 68: ET-DSP™ effective up to 250 metres in depth



Source: E-T Energy Ltd.

- According to management, ET-DSP™ is significantly less capital intensive than SAGD. To that end, the development capital cost intensity is expected to be $10,000-12,000 per Bbl/d versus roughly $35,000-40,000 for SAGD in last year's heated market. Additionally, operating costs are estimated to be $7-8/Bbl versus roughly $18-22/Bbl for SAGD.
- E-T Energy holds a 100% w.i. in oil sands leases on 16.5 contiguous sections (10,560 acres) of land, which is located immediately north of the Town of Fort McMurray called E-T Energy Poplar Creek. The company currently has an economic contingent resource estimate of 840 MMBbls of oil in place.
- Due to its proximity, Poplar Creek has access to key infrastructure, including major electrical transmission lines, labour, supplies, the major highway, the main airport and other primary infrastructure. Three high voltage power lines and Enbridge's trunk line to the Athabasca terminal run through Poplar Creek.
- In September 2007, E-T completed a 12-month proof of concept pilot at its Poplar Creek lease. The original proof of concept demonstrated an equivalent SOR of only roughly 0.6x and recovery factors of over 70%. Additionally, over the past two years, the company has been executing a series of extended field tests to optimize the design and operation of the technology.
- As per the company's latest presentation, detailed engineering for Phase 1 (10 MBbl/d) is expected to occur this quarter, with construction and first production targeted for Q3/10 and Q2/11, respectively (contingent upon regulatory approval). E-T plans to also submit the regulatory application for Phase 2, which is expected to be 100 MBbl/d in size.
- The company has 66.3 million shares outstanding (68.8 million fully diluted) and insiders control about 75%.
- E-T has a worldwide right to the ET-DSP™ technology.

Exhibit 69: E-T Energy's oil sands acreage position



Source: Company reports, Divestco

Laricina Energy Ltd.

- Laricina Energy Ltd. is a privately-owned oil sands development company led by the former President & CEO of Deer Creek Energy, Glen Schmidt. The company has raised over $450 million of equity capital since 2005. Management and directors control 7.0% of the company. Other major shareholders include income trust Enerplus Resources Fund (ERF.un-T: $24.10, Not Rated), with an 11% interest, and private equity company Lime Rock Partners with an approximate 21% interest.
- Laricina is a play on the next large Canadian oil resource play, the emerging carbonates. To that end, the company has accumulated over 180,000 acres of land, with exposure to the established McMurray and Grand Rapids formations and the emerging Alberta carbonate oil sands formations. These lands have been independently verified by GLJ (July 2009) as having estimated contingent resources of 4.1 billion barrels (best estimate) or 7.7 billion barrels (high estimate).
- GLJ's economic evaluation determined a NPV_{10} pre-tax of $8.5 billion on the best estimate resource, using a base SAGD recovery process over approximately 90% of the company's resource base. This increased to more than $13 billion, incorporating SC-SAGD at Germain and Saleski.

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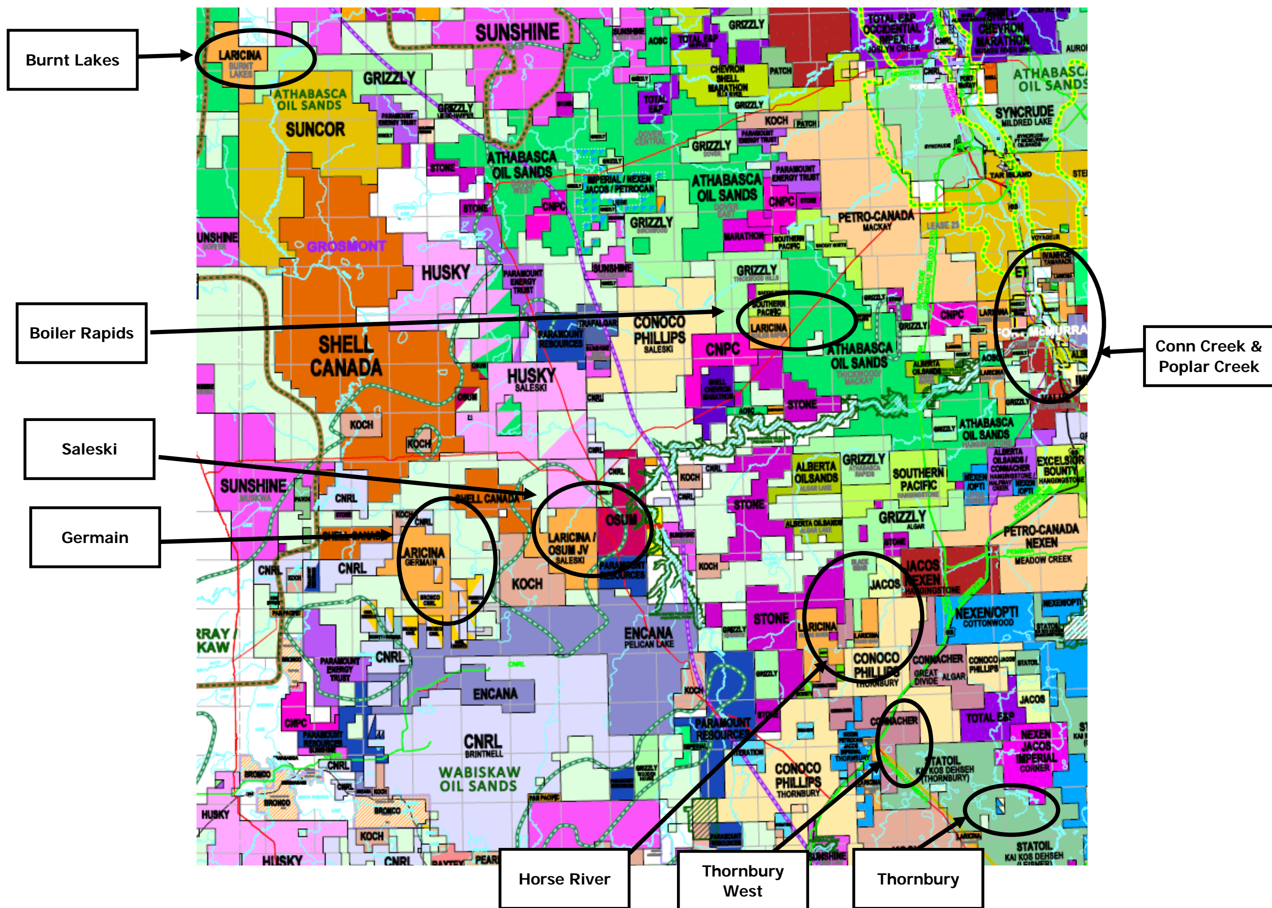
Exhibit 70: Laricina Energy Ltd. landholdings



Source: Company reports, Divestco

- **Germain:** Germain covers 44,895 acres, or 70 sections of land (Laricina controls a 96% w.i.), with the potential for 1.5 billion barrels (net to Laricina) of recoverable resources and the potential for up to 180 MBbl/d of production (gross to project), as per the company. The majority of this resource (1.1 billion Bbls) is located in the Grand Rapids formation. This is a typical SAGD project that would be enhanced using Laricina's patent-pending Solvent-Cyclic SAGD process. The company received regulatory approval at the end of October for the 1,800 MBbl/d SAGD pilot. Laricina is expected to file an amendment this quarter for an increase to a 5 MBbl/d commercial demonstration project to incorporate SC-SAGD, which would start-up in late 2012 at a go-forward cost of $250 million for its initial stage. Of note, the capital cost efficiency for this pilot is high. The initial phase is not the efficient phase, as the company incorporates solvents, recycles and monitors the process. Laricina believes it can build commercial projects at $25,000 per Bbl/d.
- **Saleski:** Saleski covers 6,944 acres (60% Laricina, 40% OSUM), with the potential for 1.4 billion Bbls (net to Laricina) of recoverable resources and the potential for up to 270 MBbl/d of production (gross to project). The resource is located in the emerging Grosmont C & D carbonate formations. Management believes that this project is within the Grosmont "sweet spot," where there is no gas cap and very high vertical

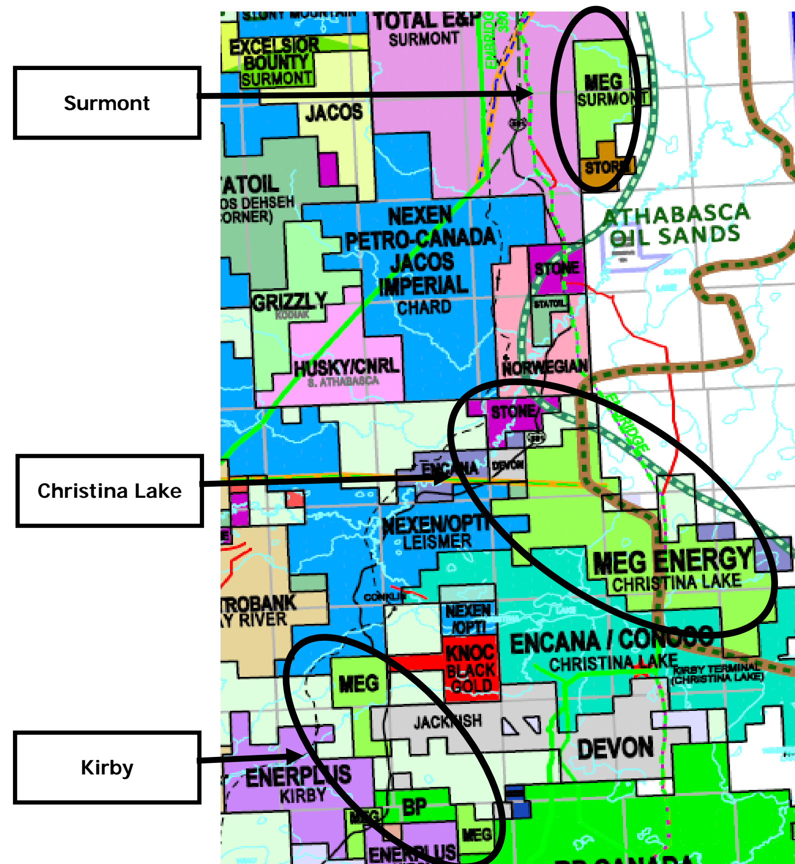
and horizontal permeability, which, according to management, is very important in a carbonate reservoir. Approvals are in place for a 1.8 MBbl/d SAGD pilot project. Construction is underway, with first steam expected in late 2010 or early 2011 at a go-forward cost of $70 million (net to Laricina) and is fully-funded with cash on hand. In October, an amendment was filed to incorporate solvents once base SAGD is demonstrated. The project is located within 33 km of Germain, providing for potential synergies in a commercial development scenario. The company believes SAGD will work due to the high permeability of the reservoir.

- **Burnt Lakes:** Burnt Lakes is a 100%-owned project covering 4,384 acres (6.85 sections). The company has identified the potential for 0.5 billion barrels of resource, or up to 45 MBbl/d of production potential. However, this land is still in early stages of delineation.
- **Poplar and Conn Creeks:** These projects target the McMurray formation. Poplar (50% Laricina, 50% Enerplus) is nearly fully delineated, has the potential for up to 25 MBbl/d and directly offsets the Ivanhoe Tamarack project. Conn Creek (100%-owned) is at an earlier stage of delineation.

MEG Energy Corp.

- MEG owns a 100% working interest in 448,000 acres, with its principal asset being 51,200 acres of oil sands leases in the Christina Lake area, which form the basis of MEG's Christina Lake Regional Project.
- The majority of MEG's efforts have been devoted to Phase 1 (3 MBbl/d) and Phase 2 (cumulative 25 MBbl/d) of the Christina Lake Regional Project.
- MEG also owns a 50% interest in a 343-km dual pipeline system, known as the ACCESS Pipeline, which runs from its oil sands leases in Christina Lake to near Edmonton, Alberta.

Exhibit 71: MEG Energy's oil sands acreage position



Source: Company reports, Divestco

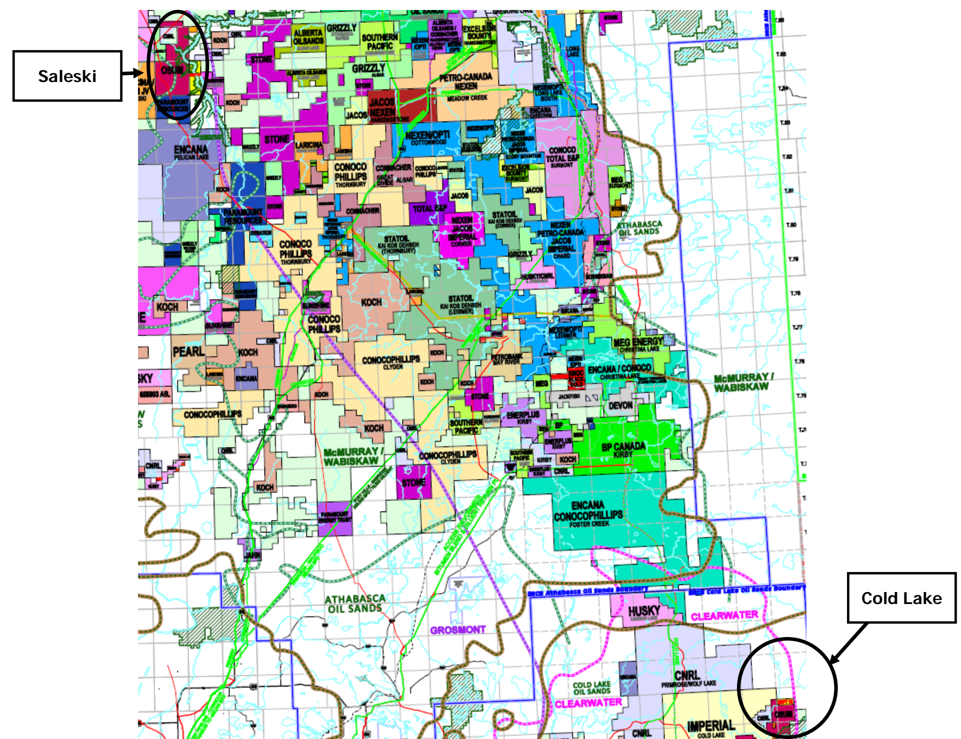
- An independent reservoir engineering firm estimates that MEG's Christina Lake Regional Project contains over six billion barrels of bitumen in place and approximately 2.8 billion Bbls of remaining recoverable resources, of which approximately 1.0 billion barrels are classified as proved plus probable reserves. Based on this resource estimate, MEG believes that it can increase its ultimate production capacity at the Christina Lake Regional Project to approximately 210 MBbl/d, sustainable for over 30 years.
  - As per the company's website, Phase 1 of the Christina Lake Regional Project (CLRP) is currently producing, while Phase 2 was expected be operational in Q3/09. In addition, MEG has recently obtained regulatory approval for Phase 2B, which will increase the production capacity of the central processing facility to 60 MBbl/d. The Phase 2B plant would be located immediately adjacent to the existing Phase 1 and 2 processing facilities
  - MEG has recently submitted an application for a further expansion (Phase 3) of the CLRP in order to develop the remainder of its oil sands lease. This phase of the project will be designed and built to produce an incremental 150 MBbl/d of bitumen, resulting in total production of 210 MBbl/d.
- MEG also has a 100% working interest in 12,160 acres (19 sections) of oil sands leases located in the Surmont area of northern Alberta, roughly

50 km north of its Christina Lake Regional Project. This land is estimated to contain remaining recoverable resource of approximately 554 MMBbls (as at September 30, 2007). The company believes these lands are sufficiently delineated to define a project of 50 MBbl/d, and MEG plans to submit a regulatory application for this project in late 2009.

OSUM Oil Sands Corp.

- OSUM controls 18,560 acres with 29 sections of bitumen leases in the Cold Lake region. According to management, it is the only junior oil sands company with a project in the established Cold Lake thermal trend and OSUM is on the fast-track to commercial production. Therefore, no piloting is required at Cold Lake, saving crucial years at the front end of the development process.
- With an independent assessment of 2.159 billion barrels of contingent recoverable resources, OSUM's assets could support four commercial projects with total production of over 200 MBbls per day.
- As per OSUM's latest corporate presentation dated June 1, 2009, the company plans to submit a commercial application for its 35 MBbl/d Taiga project in Cold Lake. Booking of 2P reserves is anticipated upon filing of the application. Regulatory approval is expected in 2011, with first bitumen production targeted for 2014. The Taiga project is located southeast of Canadian Natural's Primrose East cyclic steam project.
- OSUM is also the third largest resource holder in the bitumen-bearing Saleski Carbonates, after Shell and Husky, with an estimated 9 billion Bbls of oil in place. As per OSUM, "Alberta's emerging giant carbonate play is an immense global resource, potentially second only to Saudi Arabia in size." GLJ estimates that OSUM's lands contain 11 billion Bbls of net bitumen in place, of which 1.7 billion Bbls is considered contingent recoverable.
- According to management, several operators have recently filed pilots exploring various bitumen recovery methods in the carbonates, including: cold solvent, CSS, SAGD, and electrical heating.
- OSUM received ERCB approval in June 2009 for a JV SAGD pilot project (40% w.i.). As per the company, recent activity has been encouraging. Bitumen was mobilized and produced in a Winter 2009 cold solvent field test.
- Osum expects that an application will be filed for large-scale commercial development at one of its Saleski projects shortly after receipt of its first pilot results, which are expected in 2010. Commercial production is anticipated at Cold Lake by 2013 at its Taiga Project.
- At June 1, 2009, OSUM had an estimated $140 million working capital, plus $75 million of callable common share purchase warrants. H2/09 expenditures, as of the company's latest presentation, were estimated at $25 million.
- The company believes it is funded through all key corporate milestones to mid-2011 when including the $75 million of callable common share purchase warrants.

Exhibit 72: Osum's oil sands and carbonate acreage position



Source: Company reports, Divestco

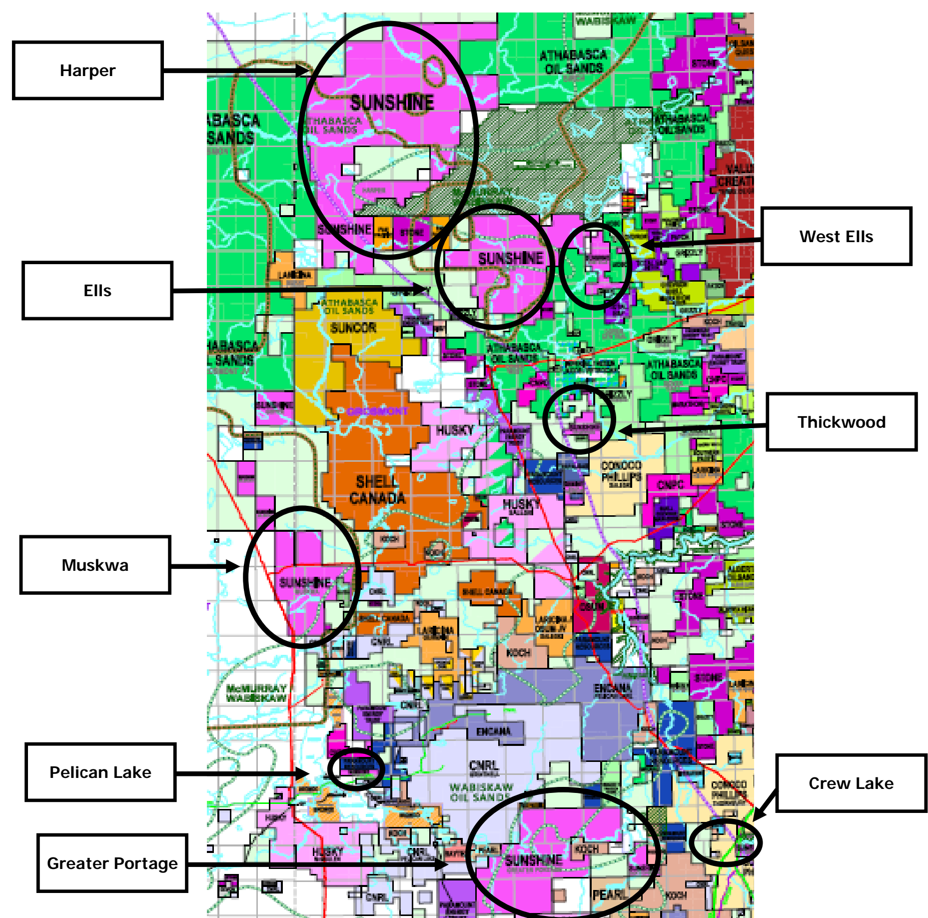
Sunshine Oil Sands

- Sunshine's management team consists of 22 individuals with experience in executing oil sands projects at companies such as Rally Energy, Deer Creek Energy, Connacher Oil & Gas, and Flint Energy Services Ltd. The company is also supported by 14 consultants.
- Sunshine controls, with a 100% w.i., 1,000,640 acres, or 1,563.5 sections.
- A portion of the company's land holdings were evaluated in 2008 by GLJ, resulting in a resource estimate of 9.1 billion Bbls of original bitumen in place and 1.3 billion Bbls of estimate gross recoverable resources (Best Estimate), based on 396 sections and 58 core holes.
- Sunshine is developing seven primary areas in a diverse project portfolio consisting of prospective conventional heavy oil properties, SAGD cretaceous sandstones, and carbonate bitumen resources.
- The company has identified three specific SAGD projects for commercial development based on GLJ's contingent resource estimate of 1.3 billion Bbls, to yield a combined 180 MBbl/d.
  - Legend Lake – 50 MBbl/d
  - West Ells – 80 MBbl/d
  - Thickwood – 50 MBbl/d
- This development forecast is within only 68 sections, or about 4% of Sunshine's total acreage position. Therefore, the company appears to have significant opportunity scale. Additionally, unlike many other SAGD

projects, Sunshine's are Deltaic sands, as opposed to Channel sands, which lends to a greater aerial extent and reduced development risk.

- Management also believes that the company has exposure to a large underlying resource in the Carbonates that could potentially sustain a production level of 400 MBbl/d for over 25 years. To that end it has identified five potential commercial projects:
  - Harper - 270 MBbl/d
  - Portage – 65 MBbl/d
  - Muskwa – 35 MBbl/d
  - Goffer – 20 MBbl/d
  - Ells – 20 MBbl/d
- The company estimates that it will be in a positive working capital position by the end of November.

Exhibit 73: Sunshine Oilsands Ltd. acreage



Source: Company reports, Divestco

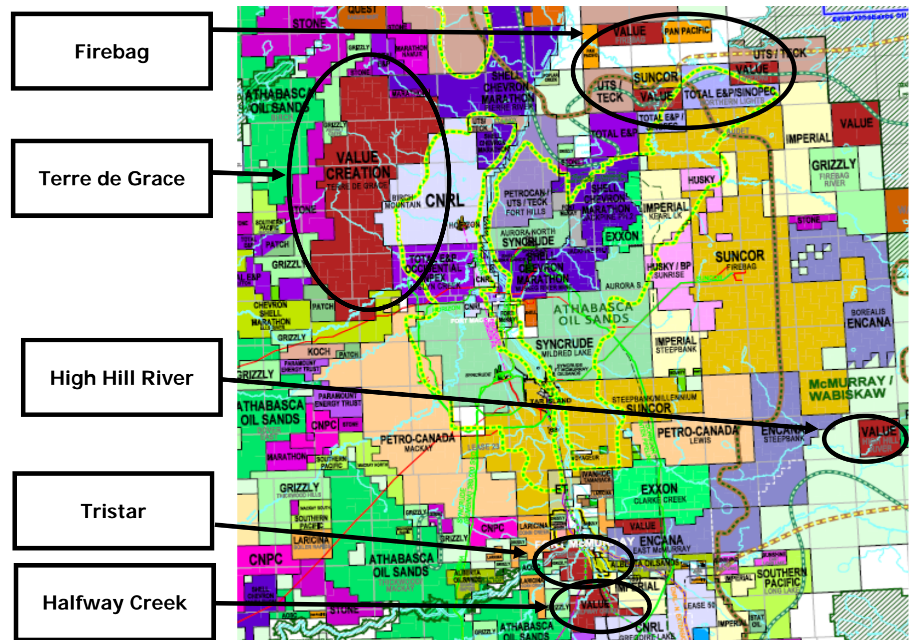
- The conventional SAGD thermal development plan, which focuses on the GLJ evaluated contingent resources in West Ells, Thickwood, and Legend Lake, is estimated at 180 MBbl/day. This development forecast is within only 68 sections, or about 4% of Sunshine's total acreage position. Therefore, the company appears to have significant opportunity scale.

- **Note: the publishing analyst is a shareholder of Sunshine Oil Sands.**

Value Creation Inc.

- Value Creation Inc. controls over 275,000 "in-situable" acres with 100% w.i. that lie adjacent to the western borders of Canadian Natural Resources' Birch Mountain and Total/Occidental Petroleum's Joslyn Creek assets.
- The company's main asset, Terre de Grace, is expected to be developed in phases of approximately 40-80 MBbl/d, which can be operated either sequentially or in parallel with significant growth potential of over 300 MBbl/d over the entire block. Therefore, this provides significant scale that could attract an acquirer, in our view. Applying a simple 30-year reserve life to the 300 MBbl/d peak production potential implies there is roughly 3.3 billion Bbls of estimated recoverable bitumen on this asset.

Exhibit 74: Value Creation's oil sands acreage position



Source: Company reports, Divestco

Exhibit 75: Comps

Genuity

Oil & Gas Comparatives
Valuation Metrics
November 17, 2009

Crude Oil	Current	Natural Gas	Current	Genuity Price Deck	2009E	2010E	Long Term
WTI Spot-Cushing (US$/Bbl)	$76.35	NYMEX Near mo. (US$/MMBtu)	$4.41	WTI Crude (US$/Bbl)	$62.50	$78.00	$80.00
NYMEX Crude 12 mo. Strip	$79.58	NYMEX Gas 12 mo. Strip	$5.09	Brent Crude (US$/Bbl)	$62.50	$78.00	$80.00
Brent Crude Near mo. (US$/Bbl)	$75.30	AECO Spot ($/GJ)	$2.29	NYMEX (US$/MMBtu)	$4.16	$5.75	$6.25
Lloyd/WTI differential (US$/BBl)	-$9.78	FX (US$/C$)	$1.05	AECO ($/Mcf)	$4.00	$5.75	$6.25
Lloyd Blend as % of WTI	87%			FX (US$/C$)	$0.87	$0.91	$0.91

Company	Analyst	Ticker	Rating	Last Price 11/13/09	Target Price	Total Return to Target	Yield	Market Cap (MM)	2009E Prod. (BOE/d)	2010E Prod. (BOE/d)	Gas %	EV/BOEPD 2009E	EV/BOEPD 2010E	EV/DACF 2009E	EV/DACF 2010E	P/CF 2009E	P/CF 2010E	EV/BOE Proven	EV/BOE P+P
SENIOR E&P/INTEGRATEDS																			
Canadian Natural Resources Ltd.	PS	CNQ	BUY	$70.18	$84.00	20%	0.6%	$38,054	575,790	614,333	38%	$85,113	$79,773	7.9x	7.8x	6.5x	6.2x	$11.88	$7.85
EnCana Corp.	PS	ECA	BUY	US$55.56	US$67.00	23%	2.9%	$43,892	743,559	771,633	81%	$66,769	$64,340	7.2x	7.4x	6.1x	6.3x	$13.37	n.a.
Nexen Inc.	PS	NXY	HOLD	$25.93	$28.00	9%	0.8%	$13,531	251,683	273,617	15%	$72,989	$67,138	7.0x	5.7x	5.6x	4.3x	$18.59	$9.02
Suncor Energy Inc.	PS	SU	BUY	$36.89	$44.00	20%	1.1%	$57,508	463,475	690,204	16%	$129,985	$87,286	23.0x	9.1x	13.7x	7.7x	$15.73	$8.09
Talisman Energy Inc.	PS	TLM	BUY	$18.27	$23.00	27%	1.2%	$18,544	423,817	433,223	50%	$50,489	$49,393	4.9x	4.7x	4.4x	4.2x	$13.54	$8.63
AVERAGE/ SUM						20%	1.3%	$171,530			40%	$81,069	$69,586	10.0x	7.0x	7.3x	5.8x	$14.62	$8.40
INTERMEDIATE E&P																			
ARC Energy Trust	BK	AET.un	BUY	$21.01	$23.25	16%	5.7%	$5,018	64,025	70,315	51%	$89,569	$83,758	10.6x	7.9x	9.7x	7.1x	$23.57	$17.82
Birchcliff Energy Ltd.	BK	BIR	HOLD	$7.58	$8.25	9%	NA	$934	11,225	12,500	72%	$100,106	$93,446	15.0x	10.6x	14.1x	9.7x	$20.91	$11.82
Celtic Exploration Ltd.	BK	CLT	BUY	$18.89	$24.25	28%	NA	$840	14,025	18,530	74%	$70,354	$53,607	8.0x	5.3x	6.9x	4.7x	$34.79	$18.94
Crescent Point Energy Corp.	BK	CPG	BUY	$38.91	$43.50	19%	7.1%	$8,085	44,560	54,800	12%	$192,613	$159,849	12.1x	9.6x	9.2x	9.2x	$50.58	$33.39
Crew Energy Inc.	BK	CR	BUY	$11.77	$14.50	23%	NA	$919	14,000	15,525	65%	$75,927	$68,824	11.9x	7.0x	10.6x	6.4x	$30.68	$18.63
Fairborne Energy Ltd.	BK	FEL	BUY	$4.72	$7.00	48%	NA	$484	14,439	14,666	72%	$43,437	$46,420	3.9x	4.2x	2.9x	3.2x	$17.00	$10.61
Iteration Energy Ltd.	BK	ITX	HOLD	$1.12	$1.35	21%	NA	$236	15,925	14,500	71%	$26,305	$29,674	7.2x	3.8x	4.6x	2.3x	$11.09	$7.60
NuVista Energy Ltd.	BK	NVA	BUY	$11.66	$14.00	20%	NA	$1,030	27,060	30,250	73%	$49,384	$44,428	6.4x	4.4x	5.0x	3.5x	$24.94	$16.99
PetroBakken Energy Ltd.	BK	PBN	BUY	$30.70	$44.00	46%	3.1%	$5,276	44,500	39,650	16%	$130,535	$146,342	30.1x	7.9x	27.9x	7.3x	$53.44	$34.82
Petrobank Energy and Resources Ltd.	PS	PBG	BUY	$49.75	$67.00	35%	NA	$4,626	47,755	65,097	8%	$165,965	$121,752	10.8x	6.9x	6.9x	4.4x	$120.75	$47.93
Progress Energy Resources Corp.	BK	PRQ	BUY	$14.05	$15.15	11%	2.8%	$2,320	32,432	36,350	87%	$87,356	$80,745	14.9x	10.1x	13.7x	8.8x	$27.89	$19.21
AVERAGE/ SUM						25%	4%	$29,768			55%	$93,777	$84,440	11.9x	7.0x	10.1x	6.1x	$37.79	$21.61

Company	Analyst	Ticker	Rating	Last Price 11/13/09	Target Price	Total Return to Target	Yield	Market Cap (MM)	EV/ Est. Recov. Bbl	EV/ Potential Peak Prod.	EV/ Current Prod. Capacity	Adj. EV/ Est. Recov. Bbl	Adj. EV/ Potential Peak Prod.	EV/DACF 2009E	EV/DACF 2010E	Production Status
OIL SANDS																
Canadian Oil Sands Trust	PS	COS.un	BUY	$30.49	$37.00	26%	4.6%	$14,757	$2.91	$31,879	$103,851	$13.04	$142,764	16.1x	9.9x	Producing
OPTI Canada Inc.	PS	OPC	HOLD	$2.04	$2.15	5%	NA	$575	$1.19	$13,034	$102,123	$11.55	$126,442	-67.7x	18.6x	Producing
Oilsands Quest Inc.	PS	BQI	BUY	US$1.21	US$3.00	148%	NA	$385	$0.17	$1,898	n.a.	$3.83	$41,898	n.a.	n.a.	First Test 2009
Suncor Energy Inc.	PS	SU	BUY	$36.89	$44.00	20%	1.1%	$57,508	$2.30	$25,239	$117,275	$11.92	$130,515	23.0x	9.1x	Producing
UTS Energy Corp.	PS	UTS	HOLD	$2.13	$2.45	15%	NA	$1,016	($0.08)	($907)	n.a.	$14.20	$155,479	n.a.	n.a.	First Production Mid 2015
AVERAGE/ SUM						43%	1.1%	$74,240	$1.30	$14,229	$107,750	$10.91	$119,420	-9.5x	12.6x	

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All figures in C$ unless otherwise stated

Source: Bloomberg, Company reports, Genuity Capital Markets Research

Genuity Capital Markets has acted as an underwriter in a distribution for Celtic Exploration Ltd. in the last 12 months.

Genuity Capital Markets has acted as an underwriter in a distribution for NuVista Energy Ltd. in the last 12 months.

Genuity Capital Markets has acted as an underwriter in a distribution for Oilsands Quest Inc. in the last 12 months.

Genuity Capital Markets acted as a strategic advisor to TriStar Oil & Gas, which combined with Petrobank Energy and Resources Ltd.'s Canadian Business Unit to form PetroBakken.

Genuity Capital Markets has acted as a financial advisor to Petrobank Energy and Resources Ltd. during the last 12 months.

Genuity Capital Markets has acted as an underwriter in a distribution for Sunshine Oilsands Ltd. in the last 12 months.

Phil Skolnick is a shareholder of Sunshine Oilsands Ltd.

Genuity Capital Markets has acted as an advisor to Value Creation Inc. in the last 12 months.

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HOLD – Stocks returns expected to be in-line with the sector average over 12 months or do not offer a compelling risk/reward profile.
SELL – Stocks returns expected to be significantly below the sector average over 12 months, or with unacceptable risk relative to the potential reward.

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ABOVE AVERAGE RISK – Stocks with more volatility than the market. Financial leverage is considerable but not threatening, earnings are more erratic, or other quality concerns regarding accounting, management track record, and similar issues.
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