

Economics of the Oil Sands

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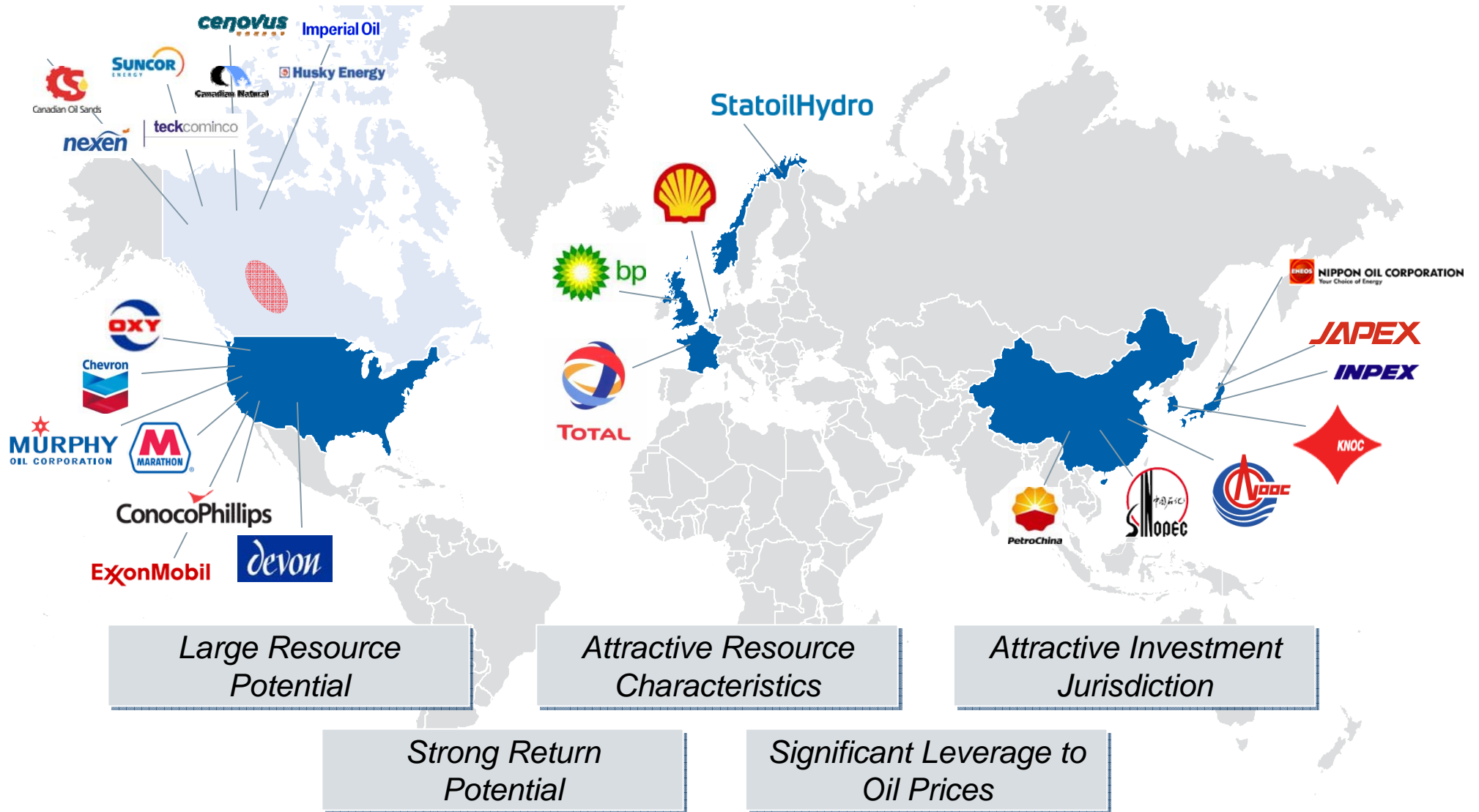
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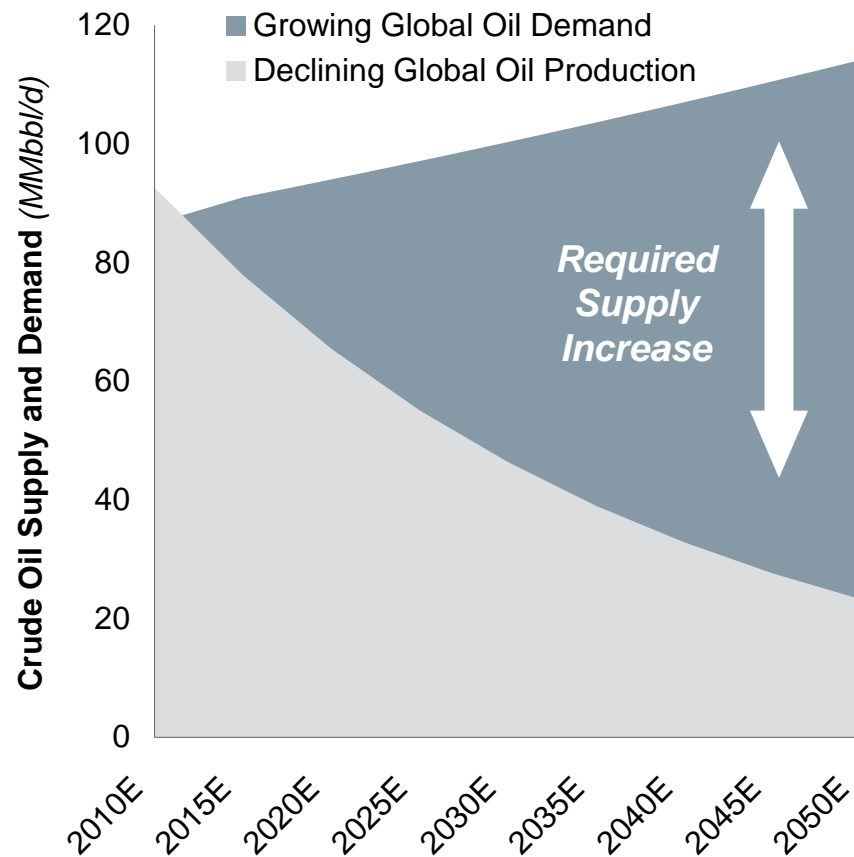


Alberta's oil sands have attracted global interest in the development opportunities

³ Note: Public organizations with market capitalizations greater than \$5 billion listed

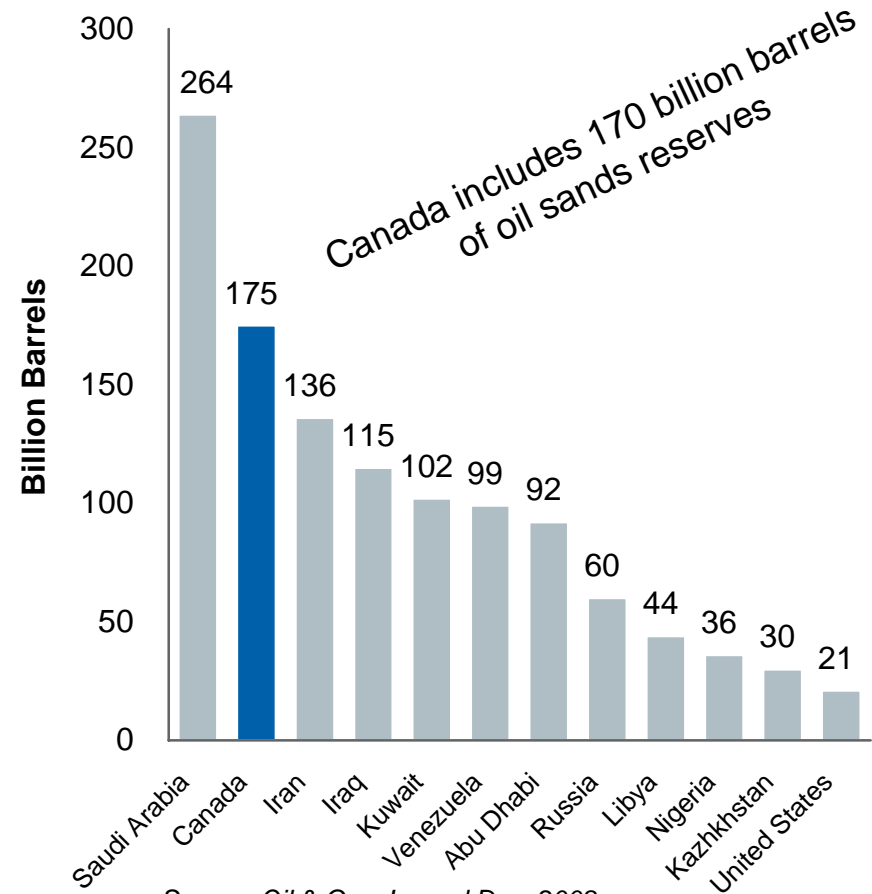
Global Oil Supply and Demand Fundamentals

Global Supply and Demand



Source: U.S. Census Bureau, RBC Capital Markets, IEA

Global Crude Oil Reserves by Country

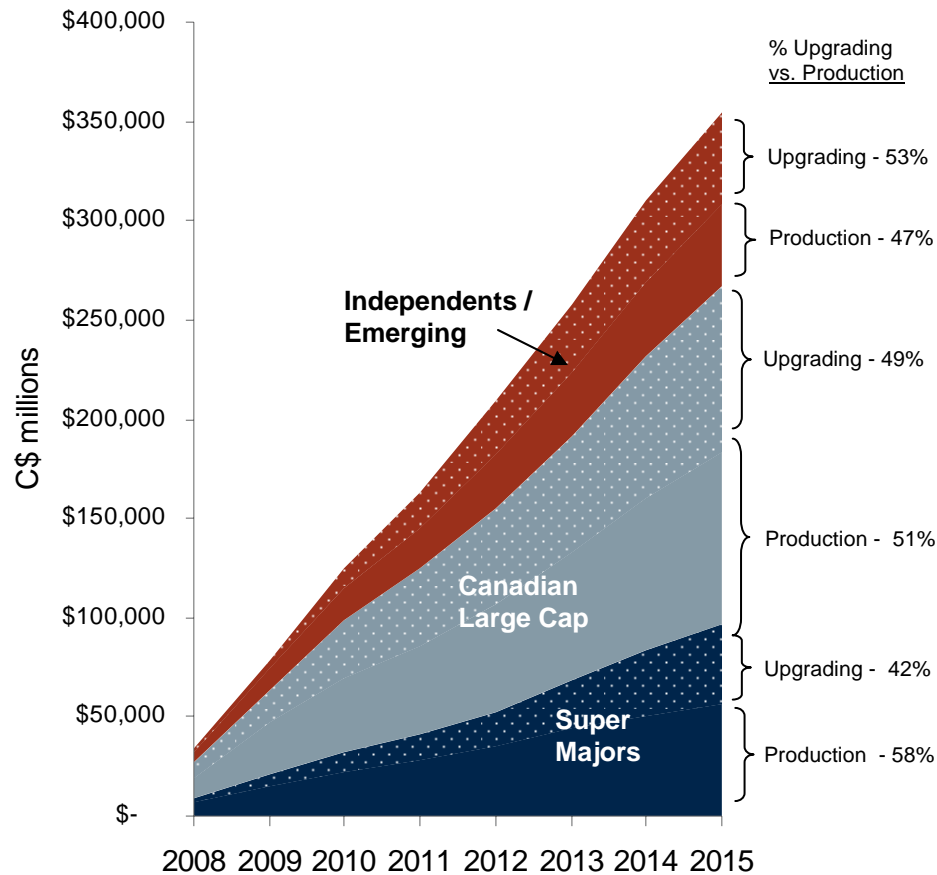


Source: Oil & Gas Journal Dec. 2008

Oil sands will play a key role in addressing the long-term global oil supply / demand imbalance

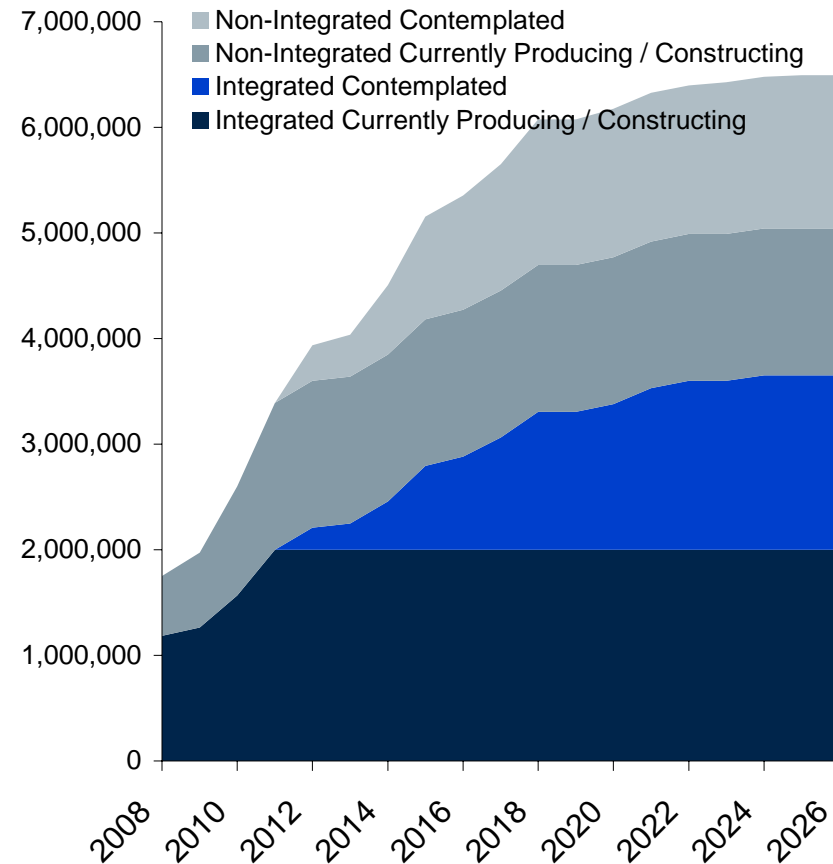
2008 Industry Perspective

Unrisked Cumulative Oil Sands Development CAPEX



Source: RBC Capital Markets proprietary database

Unconstrained Oil Sands Production Forecast

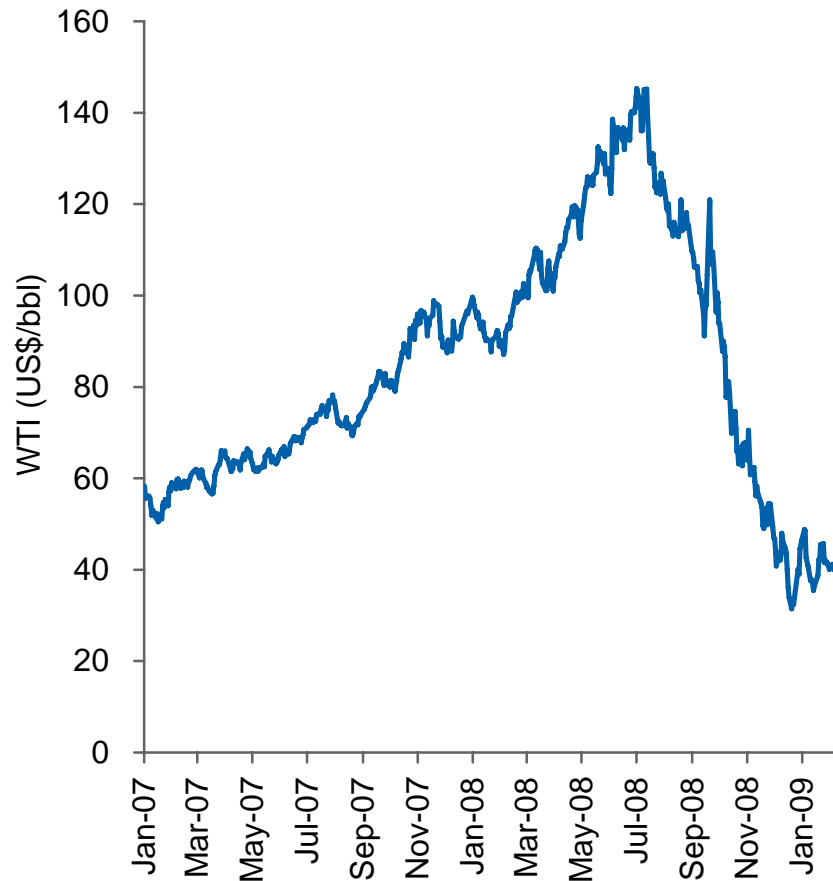


Source: RBC Capital Markets proprietary database

High prices and ample capital ⇒ high returns and ambitious development ⇒ cost pressures and lower returns

Financial Crisis

WTI



Long Term Debt Cost

- Pre-crisis
 - Investment grade: ~5%
 - Non-investment grade: ~8%
- During crisis
 - Investment grade: ~10%
 - Non-investment grade: ~20%

By RBC's calculations ~45% of new build 2015 production was officially deferred or delayed

Oil Sands Economics

- Cost of capital is in the 8% to 10% range for oil sands

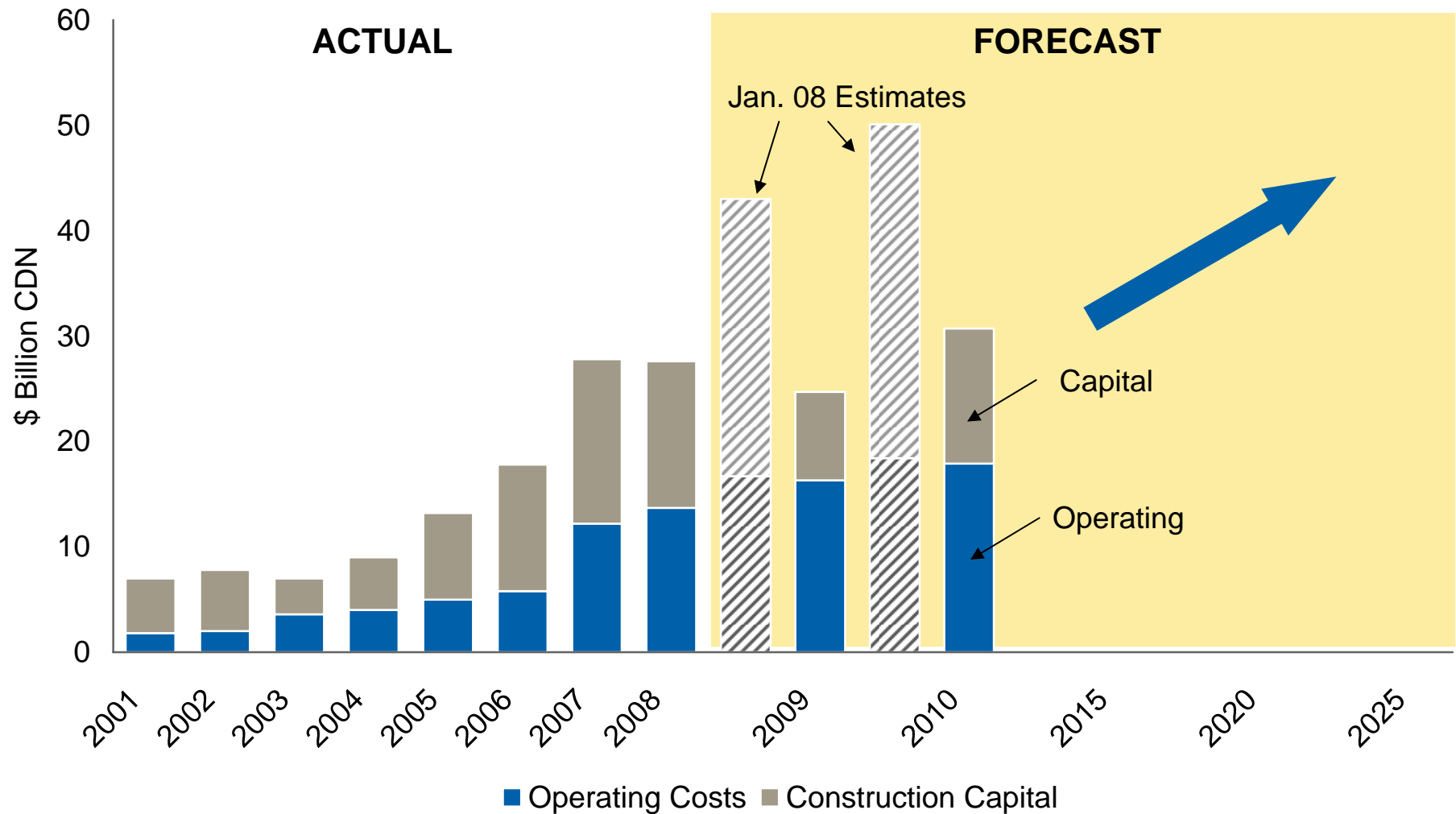
Key drivers
<ul style="list-style-type: none"> ▪ WTI ▪ Capital intensity ▪ Differentials ▪ Operating costs

Projects proceed when
<ul style="list-style-type: none"> ▪ Hurdle rates are met ▪ Capital is available ▪ Confidence in project execution is high

Generic Oil Sands Returns

	\$60 WTI	\$80 WTI	\$100 WTI
SAGD (Standalone)	~10.5%	~13.5%	~18.0%
Integrated Mining	~8.0%	~11.0%	~13.0%

Oil Sands Expenditures: Historical and Estimated⁽¹⁾




All factors point towards acceleration of activity in oil sands


8 Source: The Oil Sands Developers Group (Construction Capital: CAPP and Nichols Applied Management, Operating Expenditure – Nichols Study)
 (1) Construction capital expenditure estimate for all Alberta oil sands projects, including related pipeline, upgrader and co-generation projects – original Estimates (January, 2008) and adjusted (January 26, 2009) per public announcements



Global Outlook for 2010

 **Global economic growth has broadened and accelerated**

 **Economic recovery is underway in Canada**

 **Equity market strength to continue, but at a more moderated pace**

 **Capital available is expected to stay strong**

Global economic recovery is underway and capital markets have re-opened

What Commodity Prices are Implied in Equities?

Implied WTIE Prices (Average of CDN Seniors) ⁽¹⁾



(1) WTI Equivalent price represents an economic barrel of 70% oil and 30% gas

Comments

- Canadian large cap independent and integrated
 - Currently discounting a long-term escalated WTI equivalent (WTIE) price of US\$61/boe
 - Prior 2009-2010 YTD peak and trough levels of US\$68/boe and US\$51/boe respectively
- Long term strip (2012-2014) WTIE prices of US\$72/boe
 - Spread to long-term WTIE equivalent has narrowed to ~US\$11/boe

Large cap equities are discounting commodity prices well below long-term strip pricing

Oil Sands Conclusions

 Confidence in oil prices and capital budgets returning

 Capital available for large and small players

 Project activity increasing

 Recent M&A and joint venture activity