

Energy and Utilities

Energy Survey Quarterly Update **Junior Oil and Gas**



Challenging times for Canadian junior oil and gas companies

Today's challenging credit markets, Alberta's royalty rates, and declining cash flows pose significant challenges for the junior oil and gas sector. But the entrepreneurial drive of the sector continues—just as many junior oil and gas companies contend with the current economic downturn, many are also looking to improve and expand their operations.

Reducing exposure, enhancing risk management

The challenging credit environment and fluctuating market conditions have increased significantly junior oil and gas companies' risk exposure, highlighting the need for disciplined risk management approaches. This need was driven home most recently by the exposure to counterparty risk that many juniors suffered with the creditor protection of certain traders and financial counterparts. Affected companies are reporting projected losses in the millions and the chain reaction set off by the bankruptcy threatens many of them.

To help companies in this area, PricewaterhouseCoopers LLP (PwC) has developed a specialized service called Supplier Risk Management (SRM). The supplier risk management process involves the use of a cost-effective web-based supplier monitoring tool called *Monitor* which analyzes a supplier's financial information to determine the company's relative risk score.

71% of Energy CEOs are concerned about regulatory threats

PwC's Supplier Risk Management team members will work with an organization to identify problem creditors, assess root causes and develop corrective action plans. PwC can also assess existing supplier processes within an organization to develop leading practices and sustained competitive advantage. Proven benefits of supplier risk management include lower direct and indirect costs, higher quality products, increased production uptime, reduced project delays, and improved controls.

International opportunity for growth

Expanding into international energy markets increases the complexity of the accounting, legal and financial landscapes Canadian juniors must navigate. In times of global economic uncertainty, many jurisdictions have introduced ad hoc and fast-paced change particularly in tax regimes. Junior players in the global marketplace face significant risk for compliance and operational feasibility when these changes happen.

PwC's hands-on familiarity with regulatory and reporting environments and experience working with energy companies worldwide is particularly important for companies looking to expand their operations to countries of interest for production and exploration. The streamlined communications across our local, national and global teams means a better ability to assess geopolitical risk, develop strategies to help navigate the pitfalls of changes in statutory reporting requirements, and ensure compliance with host government's contracts and fiscal systems.

IFRS is coming

On January 12, 2009, the CAPP/SEPAC Symposium on International Financial Reporting Standards (IFRS) was held to outline the implications and requirements of IFRS reporting standards that will be effective January 1, 2011. IFRS will add to the complexities of the current regulatory and reporting environments and most oil and gas companies will be expected to abandon or adopt significant changes to their current reporting practices.

IFRS will have a significant impact on the energy industry in areas including:

- Asset retirement obligations;
- Plant, property and equipment;
- Impairment testing;
- Functional currency assessments, transactions and operations;
- Data capture;
- Systems and internal control integration;
- Training at all levels of the organization including field staff, and accounting clerks, management, board of directors and shareholders; and
- Change management relating to process, policy, training and communications.

PwC's comprehensive diagnostic and conversion framework will help junior companies to develop a viable plan to address these impacts and meet looming deadlines. Our IFRS transition methodology helps management fully understand the issues

Canadian companies will move to IFRS just once. Globally, PwC has been there thousands of times.

affecting their company as a result of IFRS requirements. Since conversion to IFRS is a lengthy process, having management on-side is instrumental to securing the needed resources for the development of an efficient and effective project plan that will achieve full IFRS compliance.

How can PwC help?

For more than 100 years, PwC has been providing professional services to private energy companies and today, private companies make up over 65% of PwC clients. That experience translates into a keen understanding of the sector and ensures we have tailored services for those who own or manage a private company.

In today's economy, your choice of business partners can make the difference between sustainable long-term growth and being crippled by shifting markets. Whether you need assistance with planning and organization, acquisitions and mergers, tax minimization, international transactions, stakeholder agreements, going public or recovery strategies, PwC combines expertise in the energy sector with a full service private company division.



For more information please contact:



Scott Althen

A partner with over 14-years of experience, Scott specializes in serving private and public energy companies. Scott served as a CFO of a junior exploration company and has strong exploration and production accounting knowledge. He has substantial transaction experience which includes business combinations and takeovers. Scott has been involved with more than 60 separate public offerings in the last two years and is a past director of the Petroleum Accountants Society of Canada (PASC).

scott.d.althen@ca.pwc.com
403 509 7490



David Giles

David Giles is a senior manager in the Calgary office of PwC. David has over five-years of Canadian corporate tax experience, including tax compliance, consulting, planning and provision experience for various public and private clients mainly in the energy, technology, transportation and manufacturing sectors. David leads the Business Compliance Services group in the Calgary office and his tax compliance experience includes preparing and reviewing Federal and provincial tax returns and tax elections as well as consulting with clients on tax compliance matters.

david.c.giles@ca.pwc.com
403 509 6620



David Whiteley

David is a director in PwC's Advisory practice with his main focus being performance management and improvement in international oil and gas. David has over 15-years experience both in the Advisory practice and the energy industry, and previously was the CFO and corporate secretary of an international oil and gas company. As a CFO, David has had direct experience with many different international fiscal systems and production sharing agreements.

david.c.whiteley@ca.pwc.com
403 509 6653

www.pwc.com/ca/energy