
2005 AAPG/CSPG Convention

DPA Forum:

The Independents – Case Histories in Success

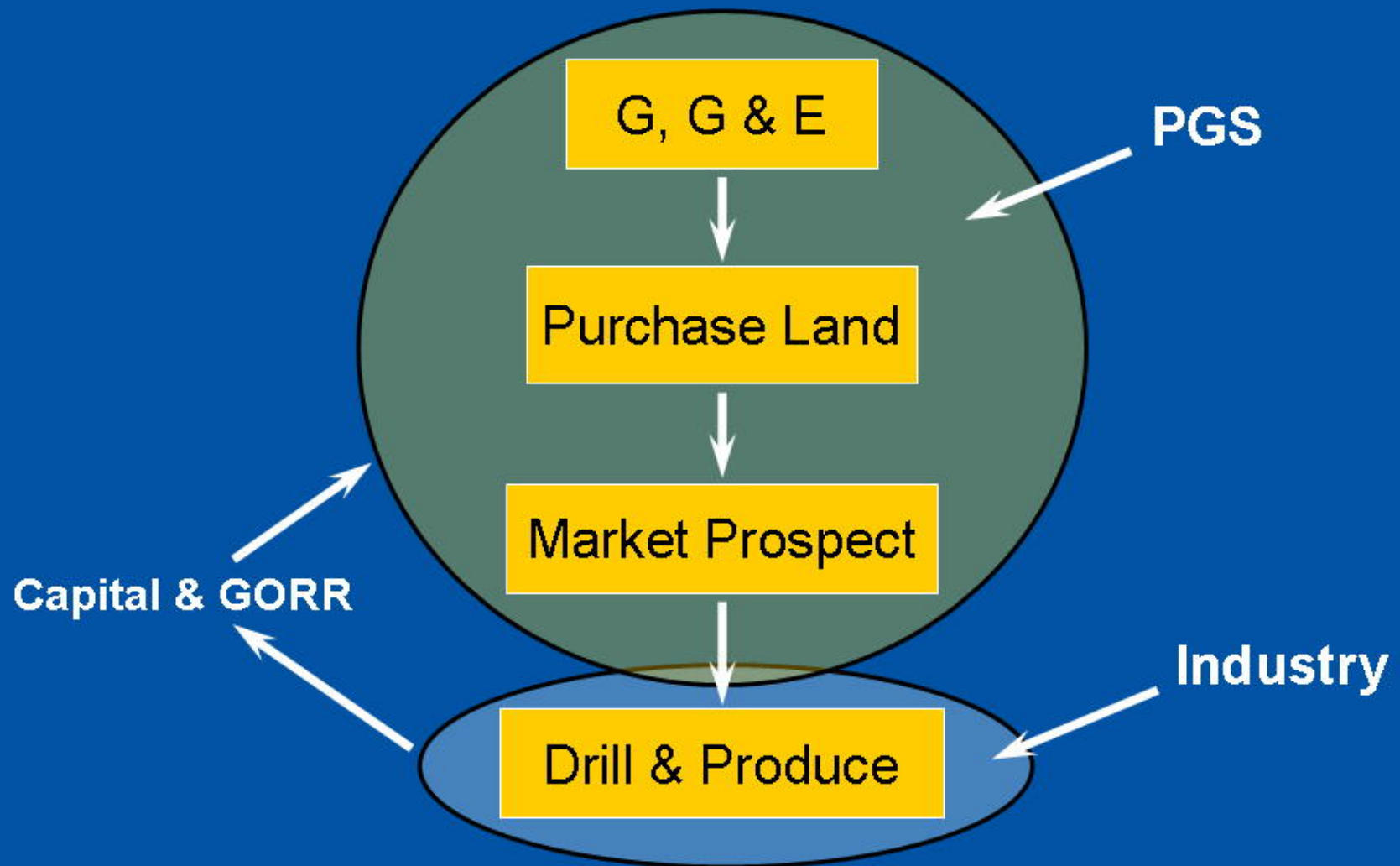
Roger Smith
VP, Prospect Generation Services
Suncor Energy Inc.



What is PGS?

- Prospect Generation Services
- Inception January 2001
- Entrepreneurial group within Suncor
- Exclusively generates and markets exploration prospects to industry:
 - *purchase land & seismic*
 - *generate drillable prospects (Bcf to Tcf)*
 - *sell to majors, juniors*
 - *self-funding*
 - *share in upside through GORR*

What Does PGS Do?



How it Began

- Capital constraints within Suncor (1999-2002)
 - *exploration drilling dramatically reduced*
- Potential for significant staff loss and land expiries
- Conceptualized PGS model in this work environment:
 - *address short-term issues & long-term potential*
- Created unique exploration model

Crisis = Opportunity

Structure

- Initially 12 people, now 17
- Multidisciplined Team:
 - *4 geologists, 3 geophysicists, 1 engineer, 2 technologists, 2 landmen, 1 petrophysicist, 1 petrologist, 1 finance, 1 EA, 1 VP*
- Personnel:
 - *Senior, experienced explorationists*
 - *Passion to explore*
 - *Positive, proactive, creative*
- Location:
 - *Separate from Suncor offices*

Finance

- Suncor Initial Investment:
 - *undeveloped lands (scattered, generally short-term lands)*
- Self Funding Model:
 - *PGS funds all expenditures*
 - *Suncor provides what is effectively bridge financing*
- Typical Deal Terms:
 - *recover invested capital, well commitment, GORR*
 - *do not participate in wells*
- Compensation:
 - *modified Suncor compensation (give up to gain approach)*
 - *increased pay for performance*

Suncor Links

- Data:
 - *access to Suncor seismic data*
- Support:
 - *IT, Legal, Land Admin., Finance, Surface Land*
 - *pay lump sum for service*
- PGS-Natural Gas E&P Team Link:
 - *PGS explores areas beyond Natural Gas E&P team boundaries*
- Marketing Prospects:
 - *target companies selectively*
 - *Suncor Natural Gas E&P potential industry partner*

Overcoming Challenges

- Transition from concept to efficient operation:
 - *progressed rapidly in 2001/optimization on-going*
- Near-term profitability:
 - *focus on existing lands & prospects with broad appeal*
- Long-term materiality:
 - *began work on Tcf size plays early in model*
- Overcome misperceptions:
 - *have disproved through performance*
- Establish a brand:
 - *let prospects sell the model*
- Maintain good relationship with Suncor Natural Gas:
 - *continuous process where communication is critical*

Performance

- Sold all prospects generated
- Industry invested over \$180 MM in PGS opportunities
- Purchased 7 ½ townships of crown land
- Current Activity:
 - *10 wells waiting on spud*
 - *13 wells waiting on completion*
 - *11 wells waiting on tie-in*
 - *9 prospects currently marketing*
- Process on-going

Drilling Activity: PGS prospects

- 70 exploratory wells
- 100 total well count



Why Has the Model Worked?

- **Motivated to Improvise:**
 - *unique circumstances within Suncor created need*
- **Commitment of Key Personnel:**
 - *CEO supported creative concept*
 - *EVP Natural Gas championed the model*
 - *VP, E&P key component to success*
- **Outstanding Team:**
 - *commitment, hard work and skill level of team*
- **Creative Work Environment:**
 - *exploration mindset*

Why Has the Model Worked? (continued)

- Demand:
 - *PGS model fills need in the industry*
- Early Success:
 - *captured intrigue and enthusiasm*
- Effective Internal Communications:
 - *dynamic of medium-sized company (Suncor Natural Gas BU)*
- Unique Focus of Parent Company:
 - *PGS provided a capital light opportunity to increase gas supply for oilsands*

All factors essential

Future Direction

- Profitability & Growth:
 - *create sufficient net cash flow to pursue growth opportunities aggressively*
- Materiality:
 - *increase proportion of plays with significant materiality*
- Internal Relationships:
 - *continually work to sustain an effective relationship with Natural Gas E&P teams*