Global Oil Demand Forecast

Worldwide Consumption

- Worldwide Oil consumption is predicted to reach 120 MM Barrels per day by 2025

Source: EIA
Underpinned To A Large Degree By China

- China is responsible for 33% of worldwide oil demand growth over the past 3 years

Source: EIA
Rising Commodity Prices Enhance Accretion of Recent Deals

Pricing Trends – Crude Oil

2 Year Oil Strip

2 Year Gas Strip
However We All Recognize That Commodity Prices Can Be Very Volatile

- Former Saudi Oil Minister Sheik Yamadi believes that continued high oil prices will curb demand and bring down prices over the next 2 years similar to what occurred in the late 70s and 1980s
Lack of domestic production growth has spurred a competitive acquisition market.

Canadian Natural Resources includes Canada.
The Dollar Volume Of Asset Transactions Has Increased At A Much Greater Rate Over The Past Four Years Than The Reserve Volume Of Asset Transactions.

Data per John S. Herolds and Randall & Dewey
Historical Asset Transactions

Reserve Values Of Asset Deals Have Followed The Forward Curve
Aggressive Buyers Have Been Rewarded In The Market For Making Acquisitions

3 Year Performance
Acquirers vs. Other Large Caps

Acquirers (CHK, APA, XTO, NFX) vs. Large Caps (APC, BR, DVN, EOG, KMG, UCL)
Elements of a Winning Bid

Premium buyers favored
- Buyers paying full value for PDPs, PDNPs, PUDs using forward curve pricing
- Assign some value to probables and possibles

Ability to close in rapid order without complication
- Pre-arranged financing
- Experienced due diligence team
- Top bidder occasionally loses out to quick, clean closer

Reputation in marketplace as honest broker

Ability to offer creative deal structures
- Cash / asset swap combinations
- Additional payments if PUDs perform
- Concerns of sellers' management

Valuing PDPs on par with financial buyers:
- VPPs, Royalty Trusts, Long-Term Hedgers (10 Years)
## Financing Sources Overview

### Variety Of Capital Sources To Meet Operator's Objectives

<table>
<thead>
<tr>
<th></th>
<th>Public Equity/PIPES</th>
<th>Private Equity</th>
<th>Mezz.</th>
<th>Canadian Royalty Trusts</th>
<th>VPPs</th>
<th>&quot;Premium&quot; Public Buyers</th>
<th>High Yield</th>
<th>Bank Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expected Returns</strong></td>
<td>8% - 12% (∗)</td>
<td>20% - 30%</td>
<td>12% - 18%</td>
<td>4% - 8%</td>
<td>5% - 11%</td>
<td>10% - 15%+ (Unleveraged)</td>
<td>6% - 10%</td>
<td>2% - 6%</td>
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<tr>
<td><strong>Security</strong></td>
<td>None</td>
<td>Preferred</td>
<td>1st/2nd Lien</td>
<td>NA</td>
<td>1st Lien</td>
<td>NA</td>
<td>Secured/ Sr. Uns./Sub.</td>
<td>1st Lien</td>
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<tr>
<td><strong>Use Forward Commodity Curve</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td><strong>Typical Size ($MM)</strong></td>
<td>NA</td>
<td>$10 - $100+</td>
<td>$10 - $50+</td>
<td>$100 - $300</td>
<td>$50 - $1,000</td>
<td>Up to $1,500</td>
<td>$100 - $1,000</td>
<td>NA</td>
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<tr>
<td><strong>Reserve Classes</strong></td>
<td>Proved+</td>
<td>All</td>
<td>Proved</td>
<td>PDP/PDNP</td>
<td>Proved Developed</td>
<td>Proved + Probable</td>
<td>Proved</td>
<td>PDP + % PUDs</td>
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<tr>
<td><strong>Take Development Risk</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Some</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td><strong>Take Exploration Risk</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Little</td>
<td>No</td>
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<tr>
<td><strong>Take Price Risk</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td><strong>Market Depth</strong></td>
<td>Large</td>
<td>Growing</td>
<td>Limited</td>
<td>Growing</td>
<td>Large</td>
<td>Selective</td>
<td>Large</td>
<td>Large</td>
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</table>
In Spite of Rising Commodity Prices, First Call, Industry Lenders, and The Equity Markets Value Companies At A Significant Discount To The Strip.
A significant opportunity exists to arbitrage the forward curve versus the stock market’s expectation.

At current prices, the difference between 1 Bbl / year for ten years at the two different price curves is illustrated as follows:

- NPV at 7% at strip = $317
- NPV at 7% at stock market price = $247
- Strip NPV is 28% above First Call
## INDICATIVE RESERVE BIDDING METRICS

<table>
<thead>
<tr>
<th>Reserve Class</th>
<th>Low End</th>
<th></th>
<th></th>
<th>High End</th>
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<tr>
<td></td>
<td>Risk Factor</td>
<td>Discount Rate</td>
<td>Risk Factor</td>
<td>Discount Rate</td>
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<tr>
<td>PDP</td>
<td>95%</td>
<td>10%</td>
<td>100%</td>
<td>8%</td>
<td></td>
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<tr>
<td>PDNP</td>
<td>66%</td>
<td>15%</td>
<td>75%</td>
<td>10%</td>
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<tr>
<td>PUD</td>
<td>50%</td>
<td>20%</td>
<td>75%</td>
<td>15%</td>
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<tr>
<td>Probable</td>
<td>25%</td>
<td>30%</td>
<td>50%</td>
<td>20%</td>
<td></td>
<td></td>
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<tr>
<td>Possible</td>
<td>10%</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
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</table>
Diverse Use of VPPs

Illustrative VPP Transactions

- In the last 18 months, there have been a number of transactions which have demonstrated the flexibility and value available from creative use of VPPs

- **Long-Term VPP:** Acquisition of San Juan Basin assets (+/- $100 MM)
  - Fully-financed the acquisition price and future capital
  - Locked-in favorable long-term gas prices with no margin requirement

- **Leverage Recapitalization / Future VPP:** Recap for Acquisition and Equity Purchase + Future VPP Recap (+/- $200 MM)
  - Bank debt and high yield used to finance acquisition and partial equity buyout
  - Subsequent VPP provided no margin hedge and met fall-away covenant test

- **Public Stock Buyback + VPP:** Pioneer Natural Resources (+/- $593 MM)
  - Sold two production payments at high $/BOE value
  - Sold 2% of reserves to buyback 8% of enterprise value