

June 2011

**Kinnear Financial Limited - Profile**

**Kinnear Financial Limited** (KFL) is a privately held, Calgary-based merchant bank that initiates, structures and finances innovative financial solutions for the resource sector. As a merchant bank, we commit and invest our own capital alongside our investors in commodity-related investments that provide attractive cash yields with limited downside risk.

KFL has assembled an experienced team of financial and technical professionals that carefully analyze, screen, structure, negotiate and finance various investment opportunities. Market volatility, changing economics in the oil and gas industry in Canada and internationally and KFL's reputation and experience in the energy industry have created an environment of exceptional opportunity for KFL's investment model.

Over more than 30 years, the principals of KFL have been involved in a substantial number of acquisitions of petroleum and natural gas properties and the sourcing of strategic capital to support those acquisitions.

We seek investment opportunities that provide a secure, steady stream of income to our investors.

**A History of Performance**

Under the leadership of James S. Kinnear supported by members of the KFL team, Pengrowth Energy Trust was one of the larger producing property acquirers in the Canadian oil and gas industry for over two decades; initiating, analyzing, negotiating, financing and closing some \$5 billion in producing oil and gas assets through over fifty individual transactions. These acquisitions were financed through the issuance of \$3.5 billion in equity under 20 public offerings together with issuance of \$1 billion in investment grade private placement notes in the United States and the United Kingdom.

Pengrowth paid \$4.2 billion or \$42.34 per trust unit in cash distributions to its unitholders over twenty years to September, 2009. Including reinvestments, these distributions generated an internal compound rate of return in excess of 14% per annum since inception.

In 2009, James S. Kinnear retired as Chair and CEO of Pengrowth Energy Trust, enabling KFL to establish new entities that would be able to pursue yield based investments under highly efficient business and tax structures.

**The Current Royalty Investment Opportunity  
– Why Invest in Resource-based Royalties?**

- Over longer periods of time, oil and natural gas prices will continue to rise due to the higher cost of finding and developing new sources of supply to offset depletion, and to provide energy for economic growth globally;
- We understand the impact of technology and may seek opportunities to participate in areas where resource plays are being pursued and where multi-stage fracturing and other new procedures are increasing efficiencies and lowering costs in the near term;



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- Oil and natural gas producers face continuing declines in their reserves and production due to ongoing depletion, and face the ongoing challenge of reserve replacement, either through capital intensive exploration and development, or through acquisitions;
- The purchase of a royalty cash flow stream (Gross Overriding Royalties – GORR) is a low risk high return method of participating in the potential longer term increases in crude oil and natural gas prices.
- A GORR is based upon gross oil and gas production revenue and as a result is usually calculated prior to deductions of operating costs, capital costs, general and administrative costs and other corporate expenses;
- From a credit point of view, the royalty ranks ahead of the banks, and other creditors. In Canada it is typically secured by a caveat on title to the assets and is an interest in land. Internationally similar security arrangements can be created;
- A royalty provides a regular, steady, relatively stable monthly income stream to investors, with cash-on-cash yields generally at higher levels than those provided by many conventional investments;
- Both Caledonian Royalty Corporation and Caledonian Global Limited have been established structures to provide US investors with favourable tax treatment. Generally speaking, US investors will be treated as partners in both funds and should be able to claim depletion in the US against distributions. A structure has also been put in place to minimize the impact of any withholding tax on payments for Caledonian Royalty Corporation.

## Caledonian Royalty Corporation

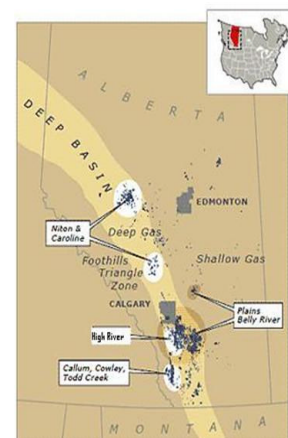
### Caledonian Royalty Corporation Investment Rationale

KFL formed and manages Caledonian Royalty Corporation (CRC), a private company organized to acquire oil and gas royalties and other income generating interests. During 2010, CRC concluded the acquisition of a 5% royalty interest on all the assets including undeveloped land of Compton Petroleum for gross proceeds of \$100 million. The royalty structure employed by CRC is an innovative method of financing oil and gas companies in a capital intensive industry and CRC is presently considering other acquisition opportunities.

- The sale of royalty interests enables companies to finance at reasonable costs while retaining control and management of the assets;
- Investors in a broadly structured royalty have a low-risk, high-yield participation in cash flow from properties of an Issuer that are not burdened by rising operating and capital costs;
- As a result of the economic downturn and the decline in crude oil and natural gas prices, it has become challenging for smaller and medium-sized oil and gas companies to raise new equity or debt capital, and the cost of capital has generally increased significantly;
- Companies with proven management and solid assets are seeking innovative financing structures for attractive development and exploration projects;
- The banking industry has generally reduced its exposure to the sector as a result of its own internal restraints and the less buoyant industry outlook;
- Caledonian is continuing to introduce the opportunity to accredited equity investors to co-invest and acquire Royalty Units in Caledonian at a price of \$10.00 per unit. The principals and management of Caledonian currently own approximately half of the Royalty Units outstanding.

### Key Attributes of the GORR held by Caledonian Royalty Corporation

- The 5% Gross Overriding Royalty (GORR) applies to substantially all of Compton's extensive asset base including current production of approximately 19,000 BOE/d at the time of acquisition. Properties have subsequently been sold by Compton that remain subject to the GORR as discussed below. The GORR was weighted 85% to natural gas and 15% natural gas liquids. There is significant upside development opportunities on 570,653 net undeveloped acres of land on which Caledonian would receive a 5% GORR;
- As announced on June 7, 2010, Compton sold approximately 3,100 BOE/d of its production located in the Niton and Gilby areas to two Calgary-based oil and gas companies, including Angle Energy. The 5% Royalty continues to apply to these assets and any realized potential development;
- Since October 2009, royalty unitholders have received an annualized cash yield of approximately 9% after all fees and expenses in a low natural gas price environment significant upside exists when natural gas prices improve;



Compton Lands

- There is upside potential with recovery in natural gas prices and development of Compton's extensive land base;
- There are no further capital requirements associated with the Royalty and it is not subject to Compton's operating costs and G&A expenses or other corporate expenses;
- The Royalty is an interest in land and ranks ahead of the banks and all other creditors. In the event of asset sales, the Royalty obligation becomes an obligation of the acquirer;
- The Royalty is not subject to the new federal tax on income trusts – the SIFT tax.

## Caledonian Global Limited

KFL has recognized the potential of acquiring resource based interests internationally where income is derived primarily for oil and natural gas royalties. KFL has established Caledonian Global Limited as a Bermuda-based private company to source and close international investors.

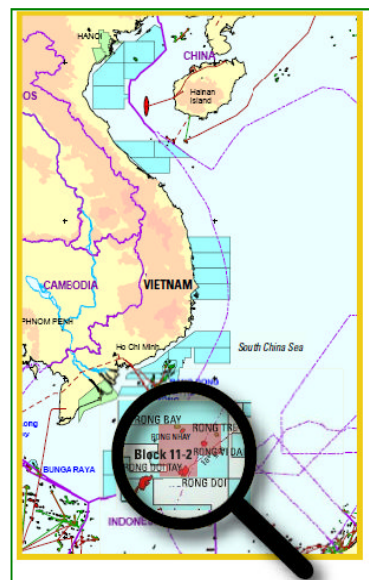
### Caledonian Global Limited Investment Rationale

**Caledonian Global Limited** ("CGL") has acquired an interest in an Overriding Royalty Interest ("ORRI") in all of the 2,744 km<sup>2</sup> Block 11-2 offshore Vietnam by way of a share purchase of an offshore ExxonMobil subsidiary (Bahamas corporation) for a consideration of US \$10 Million as an initial investment.

The ORRI was acquired from Exxon Mobil in a transaction organized and originally financed by KFL based upon a long-standing business relationship with Exxon Mobil. The acquisition of the Vietnam ORRI represents the initial step in the building of Caledonian Global Limited, which will identify and pursue yield generating assets internationally with a primary focus upon oil and gas royalty interests. Caledonian Global Limited will also pay monthly distributions in the same manner as Caledonian Royalty Corporation. In addition to offering superior yield there are attractive tax attributes to US based investors. Caledonian Global Limited will elect to be taxed as a partnership in the US and there is no withholding tax associated with payments from the Bermuda-based corporation. Investors can participate by share purchase in the new corporation. The Vietnam Royalty ORRI will provide high yield with low risk in respect of properties operated by an internationally recognized operator. The 2.25% ORRI applies to a 45% Participating Interest owned by the Korean National Oil Company ("KNOC"), operator of Block 11-2. Block 11-2 produces approximately 160 MMcf per day plus 4,800 Barrels per day of gas liquids from 6 gas wells, including 2 horizontal wells in the Rong Doi and Rong Doi Tay natural gas and gas liquids fields.

- Offshore Vietnam Block 11-2 is located in the Nam Con Son Basin in the South China Sea.
- Initial field development completed in 2003, production and cash flow to the ORRI commenced in December 2006.
- Capital expenditures to date total approximately US \$504 million.
- Field Infrastructure includes six producing gas wells, wellhead and central processing platforms, Floating Storage and Offloading Unit ("FSO") with capacity of 330,000 barrels and 60 km pipeline to the Nam Con Son trunk line operated by PetroVietnam.
- Natural gas is transported through the 330km Nam Con Son pipeline to onshore processing facilities for use in power and fertilizer plants.

Vietnam has a stable fiscal regime with government encouraging investment in petroleum exploration and development. Vietnam has robust energy demand, due to industrial expansion, anticipated to double from the 283 Bcf per year, 775 MMcf per day of natural gas in 2009 over the next few years. Offshore Block 11-2 from which the ORRI emanates delivers 22% of Vietnam's natural gas supply and it is important for Vietnam to encourage further development and exploration. Business is conducted through a Production Sharing Agreement and it's Cost Recovery and Profit Sharing terms with NOC PetroVietnam who also is a 25% participant in Block 11-2.



### Description of the Overriding Royalty Interest (ORRI)

1. The ORRI cash flow draws from a top line revenue stream subject only to a natural gas transportation tariff and liquids handling fees.
2. ORRI revenue is derived 58% from natural gas sales, 42% from liquids after determination of Cost Recovery and Profit Share and after Government take under the terms of a Production Sharing Agreement.
3. The Production Sharing Agreement and a Gas Purchase Agreement, both with PetroVietnam, are in place out to 2030.
4. Natural gas pricing is set by contract with PetroVietnam at US \$3.40 per Mcf for 2010 with a 2% accelerator per annum. Block 11-2 liquids pricing approximates Brent crude oil.
5. Current production from Block 11-2 attributable to this royalty equates to 318 Barrels of oil equivalent per day, with remaining Proved plus Probable ("2P") reserves (Sproule Associates) of 1.34 MMBoe. A long life 2P RLI of 12 years is indicated.

### ORRI Cash Flow and Return Potential

The ORRI offers attractive cash-on-cash returns on investment from 14% to 19% (case dependent) over the next five years. A full cycle IRR of about 14.2% is indicated from the Kinnear Financial evaluation based on Sproule Associates engineering and economic reports. ORRI annual Cash Flow for 2008 and 2009 was US \$1.35 Million and was US \$1.65 Million for 2010. Expected future Cash Flows range between \$1.7 Million to \$2.8 million per year.

### Upside Potential

The royalty on Block 11-2 provides upside opportunities which have been partially reflected in the upside case:

- Potential for future increases in production and higher cost recovery revenue with discovery development
- Pricing upside above current contracted levels.
- Future development of one of three gas discoveries will add gas and liquids production in 2016.
- Three additional infill wells at Rong Doi and Rong Doi Tay in 2010 – 2011.
- Additional exploration in the relatively under-explored 2,744 km<sup>2</sup> Block 11-2.

### The Kinnear Financial Commitment

Our team is staffed with motivated, incentivized professionals who hold themselves to industry's highest standards. Team members participate in Royalty Corporations formed. Kinnear Financial recognizes emerging business, technical, commercial and environmental trends and is committed to identifying and pursuing new opportunities as they develop.