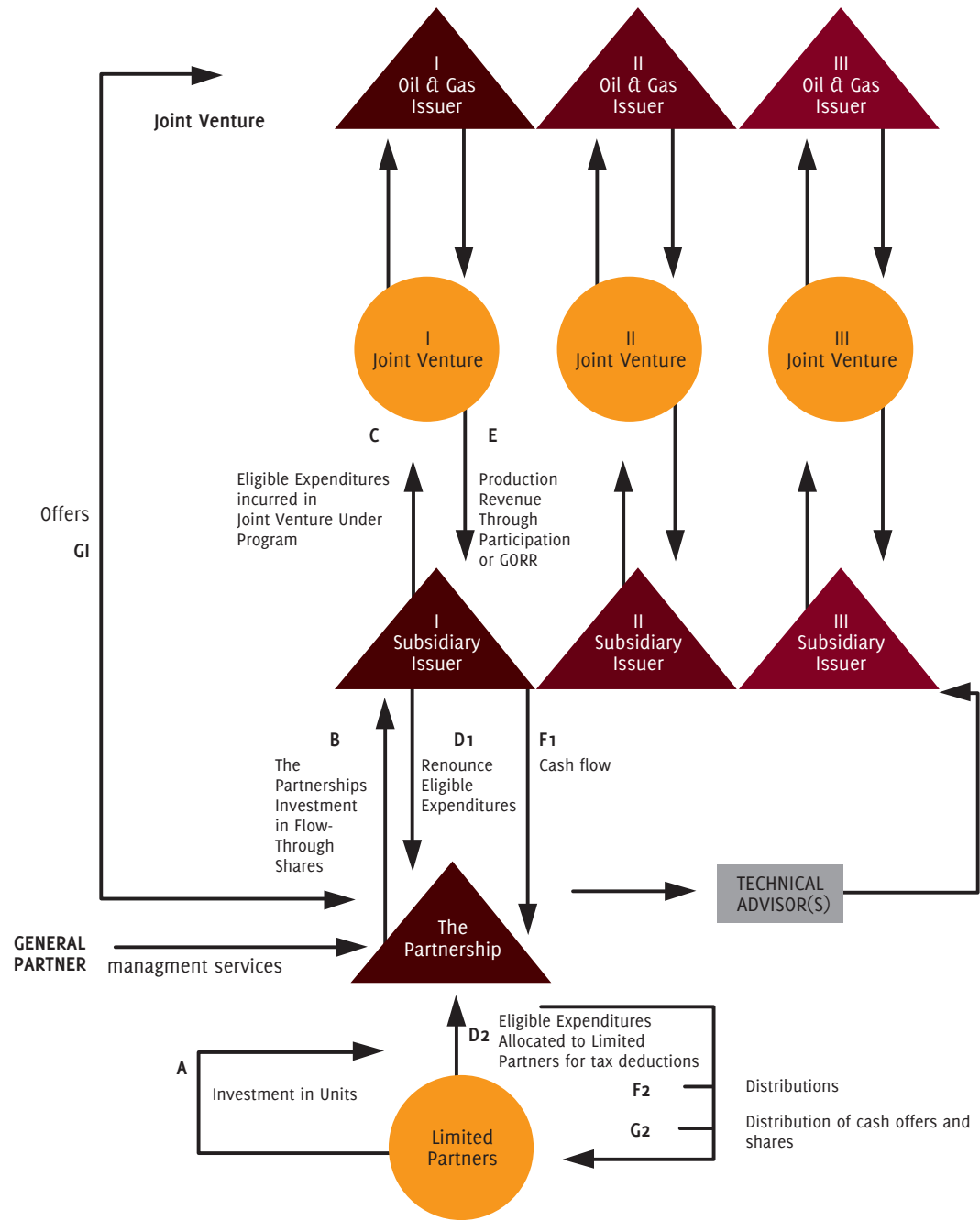


# FNR ENERGY LIMITED PARTNERSHIP STRUCTURE EXAMPLE\*

Oil & Gas Exploration & Production Issuers



\*Example is taken from FNR Energy Limited Partnership

Disclaimer: The content of this document is for information only and does not constitute an offer to sell or an advertisement, solicitation, or recommendation to buy securities of any FNR Energy Limited Partnership. Nothing in this document constitutes investment, legal or tax advice and the information has not been prepared in consideration of the investment objectives, financial situation or particular needs or any specific recipient. There are a number of significant risks associated with an investment in FNR Energy Limited Partnerships. Investors should read the relevant prospectus (if any) carefully and consult with their financial tax and legal advisors before investing.



## Investing in the Canadian Prairies

### ABOUT FNR ASSET MANAGEMENT

FNR Asset Management (FNRM) is a Saskatchewan-based resource development firm offering a ground floor opportunity in Saskatchewan and Western Canada's oil and gas sector. FNRM has been established to provide investors with income, capital appreciation, liquidity, diversified 100% tax effective investment opportunities through asset ownership. FNRM has an ongoing commitment to create and maintain value for investors.

### FNRM'S INVESTOR VALUE

- » Direct Investment in Oil & Gas assets in Saskatchewan and Western Canada
- » Focused on Development drilling (CDE), reducing investor risk, and to a lesser extent, Exploration drilling (CEE)
- » Investing in Working Interest (WI) and Gross Over Ride Royalties (GORR) on production
- » 100% tax deduction
- » Quarterly cash distributions
- » Liquidity anticipated within 36 months of investment

### FNR ASSET MANAGEMENT'S INVESTMENT OPPORTUNITIES



FNRM offers investment opportunities through units in FNR Energy Limited Partnerships. FNR Energy Limited Partnership's structure allows Limited Partners to directly participate in oil and gas investments that are typically funded through private equity investments not generally available to individual investors because of high minimum investment thresholds and the requirement for specific geological and engineering expertise to evaluate the opportunities and manage the investments. FNRM allows investors the opportunity to participate in these types of investments.

## TIMELINE OF OIL PRODUCTION AND LIQUIDITY

Quarterly cash distributions will be paid out over the life of the FNR Energy Limited Partnerships.



Investment Phase  
3-6 months



Payback Phase  
12-18 months



Cash-Flow/  
Valuation Phase  
12 months



Capital Gain/Exit Phase

### Contact FNR Asset Management

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Suite 502 – 224 4th Ave S  
Saskatoon SK S7K 5M5  
CANADA

Phone: 306.373.3700  
Fax: 306.373.3716  
Website: www.fnrm.ca  
Email: info@fnrm.ca

## POTENTIAL TAX ADVANTAGE

Investing in a FNR Energy Limited Partnership offers significant tax advantages and a 100% tax deduction.

### Tax Savings Example\*

	Year 1	Year 2	Year 3	and beyond	Total
Initial Investment	\$10,000	\$-	\$-	\$-	\$10,000
Total Tax Deductions	3,920	1,759	1,287	3,034	10,000
Tax Savings	1,764	791	579	1,365	4,500

\*Example is taken from FNR Energy I Limited Partnership. Assumes highest marginal tax rate of 45%. Please see the Prospectus for full information.

# SASKATCHEWAN OIL & GAS OPPORTUNITY

Saskatchewan has a favourable investment climate which includes competitive and stable royalty regimes, incentives for enhanced oil recovery, high caliber easily accessible geoscience information and supportive regulatory agencies.

# SASKATCHEWAN OIL & GAS FACTS

- » Canada's second largest oil producer
- » Conventional oil in place is estimated at 45.6 billion barrels
- » Canada's largest conventional oil producer – conventional crude oil production in 2011 averaged 432,000 barrels per day
- » 2011 production was 157.8 million barrels – up 3.5 million from 2010
- » World-class Bakken Formation oil play in southeast and Lower Shaunavon Formation oil play in southwest Saskatchewan
- » Emerging and prospective plays:
  - » Viking and Birdbear Formation oil plays
  - » Torquay Formation (Three Forks/Sanish equivalent in USA)
  - » Shale gas
- » 2nd largest oil-producing province - approx 17% of all Canadian crude oil production
- » Ranked #1 Canadian jurisdiction in Global Petroleum by the Fraser Institute; #11 Globally
- » Lower drilling costs due to shallower drilling depths and well-defined geology

# TECHNOLOGICAL ADVANCES INCREASING OIL PRODUCTION

- » Technological advances allow greater oil production at lower cost
- » With recent improvements to horizontal oil well completion techniques, there is significant potential to improve production



# IMPACT OF TECHNOLOGY

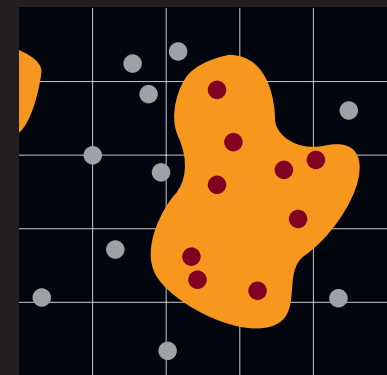
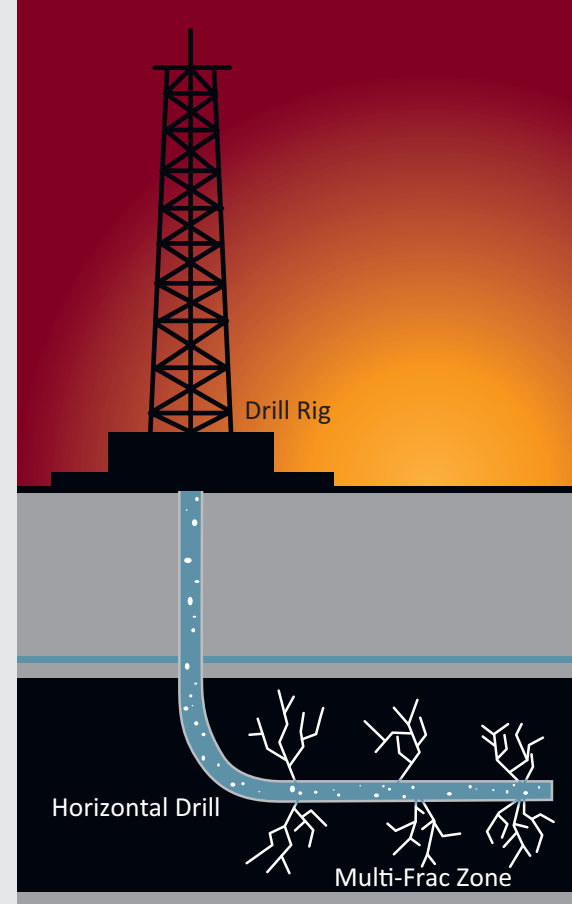
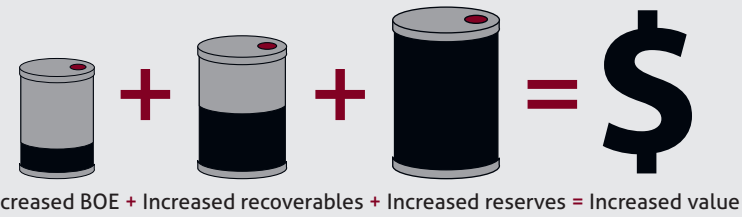
Horizontal drilling with Multi-stage Fracing dramatically increasing conventional oil production and reserves in tight Bakken Shale geological formations

## Horizontal drilling

Drilling of an oil or gas well horizontally as opposed to vertically. Releases more oil and gas held in tight rock formations, which increases the amount of oil recovered

## Fracing (and Multi-Stage Fracing)

Process of initiating and propagating a fracture in a rock layer with pressurized fluid, to release oil and gas. Energy from injection of highly pressurized fluid creates new channels in the rock. Increases extraction rates and recovery of fossil fuels



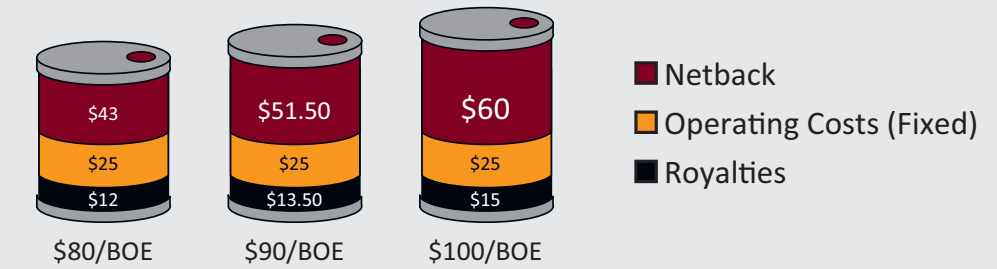
- Exploration outside proven area
- Hydrocarbon reservoir discovered by previous drilling
- CDE - Development drilling targets, lower risk
- CEE - Exploration drilling targets, higher risk

# OIL & GAS NETBACK

**Netback** = Revenue from sale of all products generated from one unit of oil (BOE) – costs associated with bringing oil to market (Royalty costs + operating costs: transportation, production, refining costs etc.).

$$\text{Netback} = \text{Revenue (from one BOE)} - \text{Operating Costs} - \text{Royalties (Crown \& Freehold)}$$

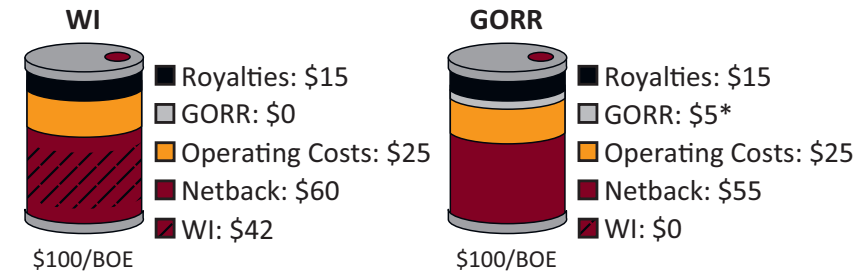
Netback increases with the price of Oil



# WORKING INTEREST (WI) AND/OR GROSS OVER-RIDING ROYALTY (GORR)

In the view of FNR Energy Limited Partnerships, a greater number of companies are willing to enter into working interest arrangements. On average, there is a higher projected internal rate of return available on working interests. For these reasons, and others, the Partnerships will focus on acquiring working interests with Joint Venture Partners.

WI	GORR
Participate directly in the profits of successful wells + higher projected internal rate of return + direct participation + easier to sell	Interest in revenue from sale of the earned production of a drill program + off the top reduced operator risk
- expnese, liabilities & responsibilities	- lower potential for profits
	- operator gives up potential
	- difficult to sell



# DEVELOPMENT WELLS VS. EXPLORATION WELLS

FNR Energy Limited Partnership's preferred areas of investment include "drill ready development prospects" and suspected overlooked hydrocarbons situated in active production areas with existing infrastructure.

- » Focused on Development drilling (CDE), and to a lesser extent, Exploration drilling (CEE)

## Development Well (CDE)

Drilled to exploit or develop a hydrocarbon reservoir discovered by previous drilling or a well drilled for long extension of a partially developed pool.

## "Exploration Well"(CEE)

Drilled to discover or extend a hydrocarbon reservoir, where, before the time of the discovery, no person or partnership had discovered either petroleum or natural gas.

- » CDE have a significantly higher success rate than CEE
- » CEE wells have higher return but with significantly more risk
- » CDE in fill wells allow for quicker production enabling income to flow back to the LP holders