

Mike Doyle is the President of the CAGC - the Canadian Association of Geophysical Contractors - representing the business interests of the seismic industry within Canada. The CAGC website may be found at www.cagc.ca.

The other day another proposed merger in the seismic industry was revealed - Norex Exploration and Conquest Seismic Services. Norex represents a relatively small public entity while Conquest is a private company that has been an up and comer in the seismic industry. As I write this column the deal is not done yet - there still are some conditions that have to be met in the coming months to complete the deal. However it is quite possible that by the time this prints - the transaction will have gone one way or the other.

This happening is a perfect segue into my final column on "the Business of Seismic". It is a great backdrop to talk about the real market in Canada and how supply and demand, as described in my first columns, complexly affects the players. So within the following page, I will discuss the different business models within our market. This is an extremely interesting subject to think about let alone write about - how the real world fits with those Economic classes that you may have missed in University.

The seismic world, in a global sense, consists of extremely large companies and if they are Western-based they are generally public entities. These companies are facing their watershed year. The capital market has not been kind to them since WesternGeco shut down their land acquisition operations in Canada and Continental US in October 2002. They are faced with a dilemma of reshaping their operating world. WesternGeco's response was one possible answer - others include concentration on Spec seismic, consideration of further mergers to make super-conglomerates, and a full review of where they can operate profitably. The IAGC, representing many of the large global players, have spent better than a year at attempting to convince the Oil Industry of their necessary value. Lately the talk has turned inward to attempt to convince their own members that they must take steps to reinforce their own value. This all may be true but the battle only looks to escalate with the strong position the Chinese are inserting themselves in the world market - Website as attached - (<http://www.bgp.com.cn/operation.html>). Unfortunately the cost savings for the clients are too great to pass up. The US marketplace potentially faces it greatest challenge.

There is no doubt that Canada is different. We have complained for years about being over regulated and beat up on with compliance issues. However the truth be known the complexity of working in Canada keeps most of the foreign competitors out. Our market is maturing, the margins remain tight and ultimately it is difficult for a new large player to enter the market and survive. Thus it gives the remaining large Canadian companies the chance to regroup on home soil and return to their business roots.

The next group of companies in the Canadian market consist of the small to medium public entities. These are extremely interesting entities. They represent the entrepreneurial spirit merging with finance. There always has to be a moneymen - someone who believes in the nuts and bolts of the operation often without ever having been involved in it before. This is the business entity that has made similar counterparts in the Oil Industry into wealthy individuals. The upside for Junior Producers lies with the resources in the ground. The seismic upside is more difficult to gauge however it is quite possible that the (spec) data will emerge as our upside. We see the large seismic companies thinking along these lines. It makes sense that smaller ones pursue a similar path with the intention of being bought out by someone bigger - the typical Oil market model. These companies have been looked upon favourably by the capital markets in 2003. All have had some upsurge in stock price in the last couple of months. This is representative of the general upsurge in the Oil Market, the upwards pressure on commodity prices, and the US Investor looking outside their own borders.

The final entity in the Canadian market is the bread and butter players - the private small business entities who make a career out of it. They often find their niche and hum away for a number of years until selling out to the next young entrepreneur. The Canadian system loves these guys. Their business structure has a low aerodynamic shape to it. They have low overhead, nothing too fancy but they get the job done at a good price. They thrive on turnkey work. They can keep competition at bay by taking

the risk on themselves. They make their money here.

With this framework in mind it is relatively easy to watch a company develop. As they increase their size, they become more risk adverse. You can see this in how they talk and how they operate. So returning to the potential merger of Conquest and Norex we see that there is upside for both parties. The market will view the merger favourably. It is a great opportunity for both companies to take a step to the next level. It is the natural cycle.

Demand will be the final judge in our business. Last year we cycled down to almost a standstill during the summer. It is quite possible that we are in a repositioning period whereby removals and mergers will rebalance the market. The market is always healthy when it is balanced. However chaos theory ensures balance is always short-lived.

Thank you to the CSEG for the ongoing synergies. Please feel free to comment on these articles through Letters to the Editor.

From The Thursday Files:

Experience is a hard teacher. First comes the test, then the lesson.

(Anonymous)