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Sayer's Outlook For 2012 M&A Activity

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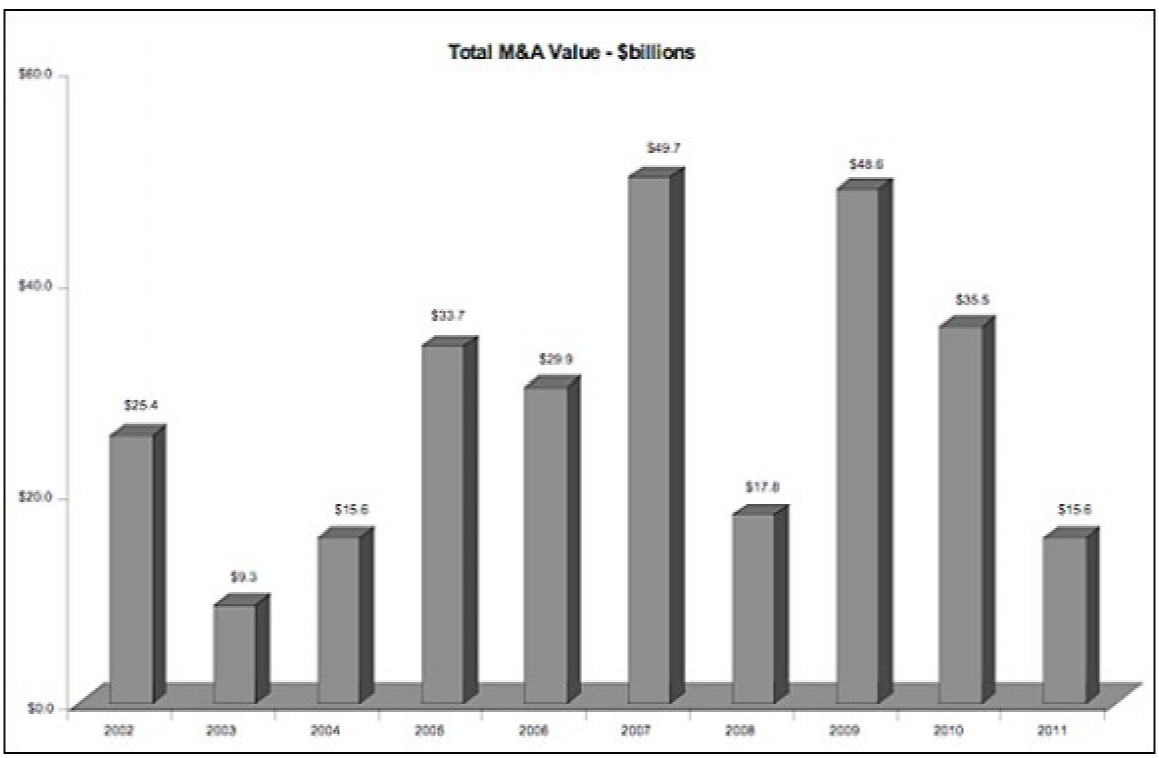
After a $20 billion drop in mergers and acquisition ("M&A") activity in the Canadian oil and natural gas industry in 2011 from 2010, the questions at the beginning of 2012 are: *"What will we see happen on the M&A front this year? Will it be the same as last year? Will it return to the levels we saw in 2007 and 2009?"* As we look to answer these questions we will first touch on the year that was in 2011.

In 2011, the total M&A value was $15.6 billion, down 56 per cent from the $35.5 billion recorded in 2010. Last year approximately 59 per cent of the total M&A value was in corporate transactions, which was in stark contrast to 2010 when 71 per cent of the total M&A value came from property transactions. The $15.6 billion of M&A activity recorded in 2011 is the lowest since the $9.3 billion tabulated in 2003 and the same value as in 2004.

The two largest corporate transactions which were announced in 2011 were **Sinopec International Petroleum Exploration and Production Corporation**'s acquisition of **Daylight Energy Ltd.** for $3.2 billion and **CNOOC Limited**'s purchase of **OPTI Canada Inc.** for $2.1 billion. These two transactions alone accounted for 57 per cent of the total $9.2 billion of corporate M&A value in 2011. It is interesting to note that the buyers in both of these transactions were companies based in China.



The largest deal announced so far in 2012 involves another Chinese company. **PetroChina International Investment Company Limited**, through its wholly-owned subsidiary **Cretaceous Oilsands Holdings Limited**, will be acquiring **Athabasca Oil Sands Corp.**'s 40 per cent in the MacKay River oilsands project for approximately $680 million. PetroChina acquired an initial 60 per cent interest in the project from Athabasca in the fall of 2009. As evidenced by the PetroChina/Athabasca transaction, we see the trend of foreign-based buying, specifically from Asian-based entities continuing throughout 2012.

Another trend we see occurring in 2012 is regarding natural gas. More to the point the disconnect we have seen in the past between buyers and sellers regarding the valuations on natural gas-weighted assets and companies is apparently easing. With natural gas prices continuing to remain low, the previous disconnect on valuations between buyers and sellers seems to be disappearing as evidenced by **Guide Exploration Ltd.** announcing earlier this month its intent to purchase natural gas-weighted assets in northwestern Alberta for $62 million. **Vero Energy Inc.** also announced a natural gas deal this month, releasing news that it has agreed to sell all of its natural gas production to a private oil and natural gas company for $209 million.

One of the trends we saw in the M&A marketplace late in 2011 was the consolidation of junior oil and natural gas companies in an effort to get bigger and possibly gain more exposure from the investment community. **Seaview Energy Inc.** announced its intention to merge with three privately held companies, **Charger Energy Corp., Silverback Energy Ltd.** and **Sirius Energy Inc.** Other examples in late 2011 were **Twin Butte Energy Ltd.**'s purchase of **Emerge Oil & Gas Inc.** for approximately $198 million and **Whitecap Resources Inc.**'s pending purchase of **Compass Petroleum Ltd.** for approximately $109 million.

Late last week, **Storm Resources Ltd.** announced its intention to acquire publicly held **Bellamont Exploration Ltd.** for approximately $123 million. The combined entity will have 3,300 boe/d of production and approximately 11.5 MMboe of proved plus probable reserves. This is the second corporate transaction announced by Storm in the last two months. Earlier this month it closed the acquisition of privately-held **Storm Gas Resource Corp.**, a deal which was made public in late November 2011.

All of the aforementioned factors should combine to provide a robust M&A marketplace in 2012. Foreign interest in Canadian oil and natural gas will continue, especially from Asian-based entities. With the current sentiment in the industry being that low natural gas prices are here to stay for a while, there should be more natural gas-weighted transactions occurring as the disconnect between buyer and seller expectations narrows.

Prices for oil-weighted assets and companies will remain strong throughout the year because of the price of the commodity, as the demand for oil in the M&A market will continue to outweigh the supply. In addition, consolidation amongst both private and public junior oil and natural gas companies will also be a continuing theme throughout 2012.

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