DAILY OIL BULLETIN

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M&A Value Drops $20 Billion in 2011

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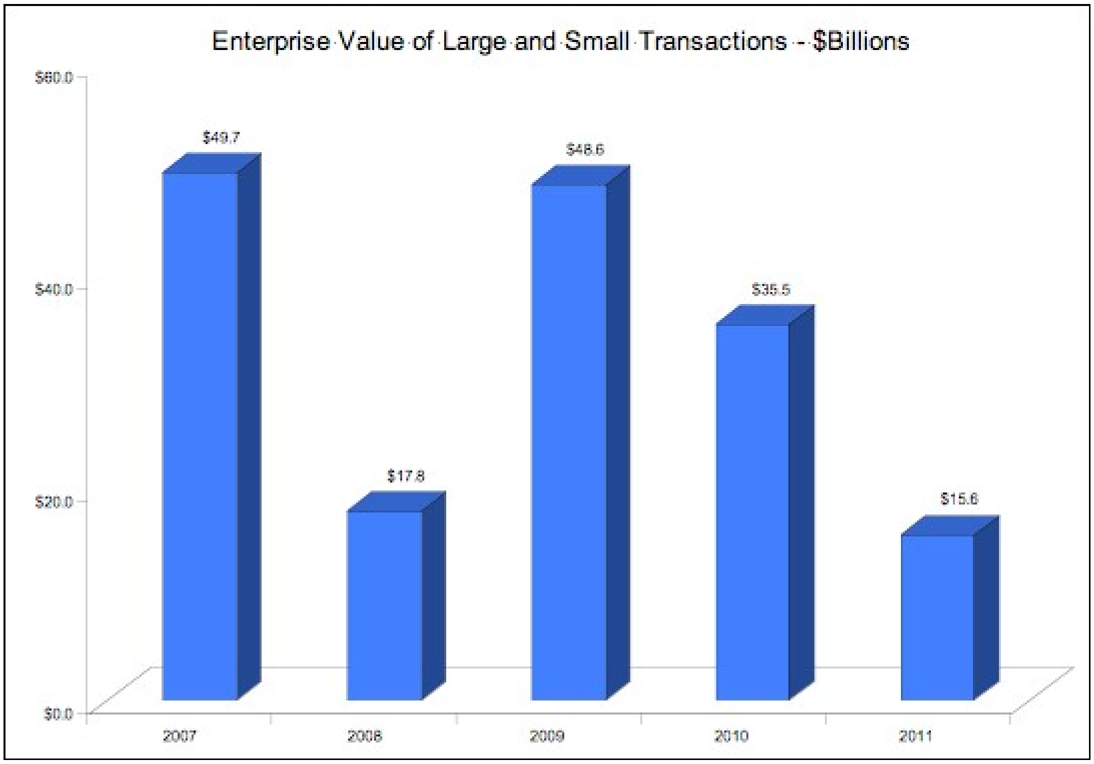
In 2011, merger and acquisition ("M&A") activity level measured by the total enterprise value (equity plus debt and other liabilities) of transactions plummeted 56% to $15.6 billion from the $35.5 billion recorded in 2010. The $15.6 billion of M&A activity recorded in 2011 is the lowest total value since the $9.3 billion tabulated in 2003.

Natural gas-weighted transactions accounted for 61% of the total enterprise value of all large transactions (those valued at over $5 million in size) in 2011. This was the first year since 2008 where the majority of the total transaction value was comprised of natural gas-weighted transactions.

The total enterprise value of large deals in 2011 was split 61% corporate and 39% property. In 2011, the total value of large corporate transactions was $9.2 billion, down from $9.6 billion in 2010. The total value of large property transactions in 2011 was down significantly, falling to $6.0 billion, from the $25.3 billion recorded in 2010, a 76% drop. Corporate transactions typically account for the majority of the total value; however, property deals dominated in 2010 due to the large number of asset packages major producers had for sale. We saw the trend reverting to its typical corporate-dominated value in 2011.

Enterprise Value of Large and Small Transactions - $Billions



The year 2011 was highlighted by interest from foreign entities, the formation of significant joint venture partnerships, and the consolidation of junior oil and natural gas companies.

There were only four transactions in 2011 that were valued over $1.0 billion in size, all of which involved foreign-based entities as purchasers. The largest deal involved China-based **Sinopec International Petroleum Exploration and Production Corporation's** purchase of **Daylight Energy Ltd.** for approximately $3.2 billion. Daylight's main assets were located in the Pembina, Sylvan Lake, Elmworth, Cecil, Wapiti, Pine Creek, Obed and Kaybob areas of Alberta. Daylight had production of approximately 35,468 boe/d, comprised of 13,202 bbl/d of oil and ngls and 134 MMcf/d of natural gas. Through the acquisition, the resulting company was renamed **Sinopec Daylight Energy Ltd.**

China-based **CNOOC Limited's** acquisition of **OPTI Canada Inc.** for $2.1 billion was the second-largest transaction in 2011. OPTI's main asset was a 35% working interest in the Long Lake SAGD project. OPTI also had additional leases in the Kinosis, Leismer and Cottonwood areas of the Athabasca oilsands region.

The third largest transaction in 2011 was Malaysia-based **Petroliam Nasional Berhad's ("PETRONAS")** purchase of a 50% working interest in **Progress Energy Resources Corp.'s** Montney shale assets located in the Altares, Lily and Kahta areas of British Columbia for $1.1 billion.

Fourth in line was **Sasol Limited's** joint venture and purchase of Montney shale assets from **Talisman Energy Inc.** for $1.1 billion. With the transaction Talisman deepened its strategic relationship with Sasol in the Montney shale play, to include the sale of a 50% net working interest in its Cypress A assets. Sasol paid 25% of the consideration (approximately $260 million) in cash and also provided an additional $790 million to fund 75% of Talisman's future capital commitments in the integrated joint-venture development area. In December 2010, Sasol and Talisman announced a similar transaction for the acquisition of a 50% net interest in Talisman's Farrell Creek properties in the Montney shale play, with Sasol acquiring an estimated 4.8 Tcfe of net contingent resources.

Consolidation of junior oil and natural-gas companies in an effort to get bigger and possibly gain more exposure from the investment community was a trend seen in 2011. **Seaview Energy Inc.** merged with three privately held companies, **Charger Energy Corp., Silverback Energy Ltd. and Sirius Energy Inc.** The resulting entity is being run by the Charger management team. Other examples late in 2011 were **Twin Butte Energy Ltd.'s** purchase of **Emerge Oil & Gas Inc.** for approximately $198 million and **Whitecap Resources Inc.'s** purchase of **Compass Petroleum Ltd.** for approximately $109 million.

We see a number of trends that were prevalent in 2011 continuing in 2012. Foreign interest in Canadian oil and natural gas will carry on, especially from Asian-based entities. This is evidenced by the recent transaction between **Mitsubishi Corporation** and **Encana Corporation**. Mitsubishi purchased a 40% working interest in Encana's Montney assets in the Cutbank Ridge area of British Columbia for $2.9 billion.

Consolidation among junior oil and natural gas companies will also be a common theme this year as shown by the number of companies which have publicly announced their intention to enter into a strategic alternatives process since the beginning of 2012. Some of the companies which have started down this path are the following: **Anderson Energy Ltd., Anglo Canadian Oil Corp., Bowood Energy Inc., Connacher Oil and Gas Limited, Cutpick Energy Inc., Fairborne Energy Ltd., Second Wave Petroleum Inc.** and **Western Plains Petroleum Ltd.**

There have also been a number of corporate transactions announced in the first quarter of 2012 with **Marquee Energy Ltd.** acquiring an unnamed private company, **Pengrowth Energy Corporation's** planned arrangement with **NAL Energy Corporation** and **Whitecap Resources Inc.** announcing its intention to acquire **Midway Energy Ltd**. These continuing trends coupled with the high price of oil should lead to an active M&A marketplace in 2012.

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