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M&A Value Reaches New Record In 2012

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The annual activity level for mergers and acquisitions ("M&A") reached a record $54.1 billion in 2012. This new high is an increase of 246% from the $15.6 billion value seen in 2011. The previous record of M&A activity was $49.7 billion, recorded in 2007. The M&A values are measured by the total enterprise value of M&A transactions each year.

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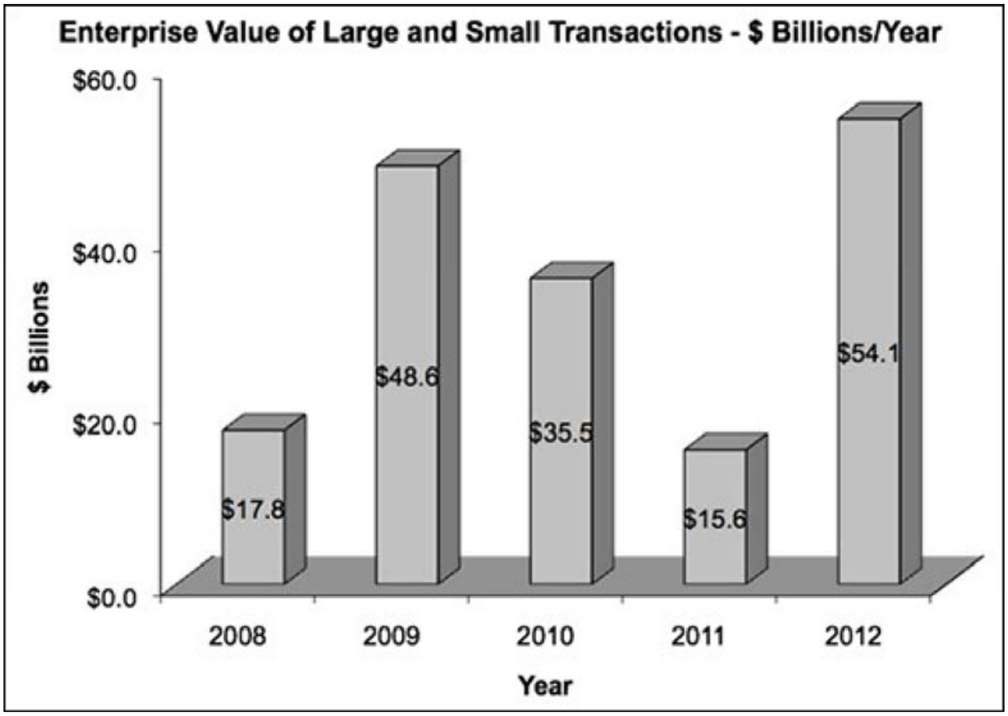
The M&A marketplace during 2012 was highlighted by continued interest from foreign entities. Foreign interest was expressed through the occurrence of some state-owned foreign entities entering into significant corporate transactions, which required the Federal government to approve the transactions through the Canada Investment Act. In addition, interest was expressed from foreign entities through the formation of joint venture partnerships. 2012 also saw many junior oil and natural gas companies transforming into dividend-paying companies by consolidating amongst themselves and entering into significant transactions in an effort to gain critical mass and ultimately more exposure from the investment community.

There were seven deals in 2012 that were valued at over $1 billion. Of those seven transactions, four were corporate deals and three involved joint ventures with foreign based entities. The largest deal in 2012 was China-based **CNOOC Limited**'s acquisition of **Nexen Inc.** for $22.8 billion. The second largest deal in 2012 was Malaysia-based **Petroliam NasionalBerhad**'s ("PETRONAS") acquisition of **Progress Energy Resources Corp.** for $6.1 billion. U.S. based **ExxonMobil Corporation**'s purchase of **Celtic Exploration Ltd.** for $3.2 billion was the third largest transaction of 2012. The fourth-largest transaction, valued at $2.9 billion, was **Mitsubishi Corporation**'s joint venture and purchase of Montney shale assets from **Encana Corporation.** These four deals accounted for nearly 65% of the total M&A transaction value in 2012.

The total value of all large corporate deals (those over $5 million) in 2012 was $39.6 billion, up 330% from $9.2 billion in 2011. Corporate transactions contributed 74% of the total $53.7 billion in large deals last year, compared to the 61% weighting of corporate transactions in 2011. Property deals also increased year-over year, jumping 133% to $14.0 billion from $6.0 billion in 2011.



Oil-weighted transactions accounted for 64% of the total enterprise value of all large deals done in 2012. In 2011, natural gas-weighted transactions made up the majority of the total value of transactions. In addition, the total number of oil-weighted deals done in 2012 was higher than natural gas-weighted deals, accounting for 65% of the total number of transactions in 2012. In 2012, the large deals were predominantly oil-weighted deals, while in 2011 the split was more equal between oil-weighted and gas-weighted transactions.

In 2012 the annual acquisition prices paid for daily production increased to a record high of $62,398/boe/d. This compares to the previous record of $60,418/boe/d,which was set in 2006. The new record shows an increase of 15% from 2011's median price paid per flowing barrel of $54,306/boe/d. The median acquisition price for proved plus probable reserves, on the other hand, decreased in 2012.

While prices for daily production were higher in 2012 compared to 2011, acquisition prices for natural gas reserves and production were lower. This can be attributed to relatively low natural gas prices during 2012.

An important trend seen in the M&A marketplace over 2012 was the consolidation of junior oil and natural gas companies with the intent of transforming the resulting entities into dividend paying corporations. An example of the consolidation trend is the announcement by **Pace Oil & Gas Ltd.** of its intention to merge with two other public companies, **AvenEx Energy Corp.** and **Charger Energy Corp.** to form **Spyglass Resources Corp.**

Pinecrest Energy Inc. attempted a similar endeavor by entering into an agreement with **Spartan Oil Corp.** This transaction did not proceed because **Bonterra Energy Corp.** subsequently submitted a superior offer which was ultimately accepted by Spartan. **Renegade Petroleum Ltd.** joined this trend by purchasing certain southeastern Saskatchewan assets for $420 million and then converting itself into a dividend paying corporation.

Throughout 2012, the M&A marketplace in the Canadian oil and gas industry was highlighted by trends of foreign entities demonstrating investment interest as well as junior oil and natural gas companies consolidating and forming dividend paying corporations. Due in part to these types of engagements, a new record was set for the total enterprise value of transactions.

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