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Dividend-Paying Companies Becoming Active Sellers

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In 2012 a trend that emerged in the Canadian oil and natural gas industry was the increasing presence of dividend-paying oil and natural gas companies as purchasers of oil and natural gas companies and properties. Along with this trend, a number of companies announced their intention to become dividend paying corporations. In the latter part of 2012 and into 2013, however; some dividend paying corporations turned to selling non-core assets in an effort to high grade their asset base, become more focused or pay down debt.

Following its acquisition of **NAL Resources Ltd.** for $2.0 billion in the first quarter of 2012, **Pengrowth Energy Corporation** sold its 10.01952% working interest in the Weyburn Unit in southeastern Saskatchewan to **OMERS Energy Inc.** and **Ontario Teachers' Pension Plan** for $315 million in the fourthquarter of 2012. In the first quarter of 2013, Pengrowth entered into a process seeking offers for the sale of certain heavy oil assets located in eastern Alberta and western Saskatchewan with production of approximately 2,850 boe/d. Last week, Pengrowth put additional properties up for sale. The assets consist of Pengrowth's assets in southeastern Saskatchewan, with total production of 6,015 boe/d.

Enerplus Corporation began a divestment program in the latter part of 2012, putting a variety of smaller non-core Alberta assets producing a few hundred barrels of oil equivalent per day on the market. This was followed up with the sale of assets in Manitoba for $220 million. Additional assets were put on the market in the second quarter of 2013,

consisting of three asset packages in southwest Saskatchewan, southeast Saskatchewan and in the Wapiti area of Alberta. The total package has production of approximately 1,100 boe/d.

Bonavista Energy Corporation, which bought natural gas-weighted assets from **Fairborne Energy Ltd.** and **Angle Energy Inc.** in the third and fourth quarters of 2012, respectively, initiated a process for the sale of certain assets located in British Columbia, Alberta and western Saskatchewan. The assets were organized into three packages: Doe Boundary, Central Alberta, and Greater Lloydminster heavy oil and natural gas, with total production of 5,518 boe/d.

Twin Butte Energy Ltd. became a dividend-paying corporation upon completion of its merger with **Emerge Oil & Gas Inc.** early in 2012. Subsequent to its merger with Emerge, Twin Butte acquired **Avalon Exploration Ltd.** in the second quarter of 2012 and **Waseca Energy Inc.** in the third quarter of 2012 and put non-core assets on the market in fourth quarter of 2012. While the assets that Twin Butte publicly marketed accounted for less than 2% of its total corporate production it will allow the company to focus better on its core assets.

Penn West Petroleum Inc. was an active seller of assets in 2012, with total net proceeds from dispositions of approximately $1.6 billion. Penn West, in the latter half of 2012, has been focused on decreasing its debt outstanding.

One of the dispositions Penn West completed in 2012 was the sale of its light oil assets in southeastern Saskatchewan to **Renegade Petroleum Ltd.** for $420 million. Concurrent with the transaction, Renegade announced its intention to become a dividend-paying company. Renegade issued its first dividend in January of this year and recently released its year-end financial results which did not meet market expectations. Late last week, Renegade announced it has hired joint advisors to assist the company with a strategic alternatives process.

While some dividend-paying corporations are currently actively disposing of assets, some are trying to retain its producing properties, much like the royalty income trusts had. **Whitecap Resources Inc.** has been an active acquirer over the last couple of years, purchasing companies that were mainly focused in the Pembina area of Alberta and in the

Lucky Hills area of western Saskatchewan, chasing the Cardium and Viking formations, respectively. In the first quarter of 2013, Whitecap announced that it would be acquiring **Invicta Energy Corp.** for approximately $63 million, adding to its position in the Lucky Hills area of west central Alberta.

At much the same time that Renegade announced its intention to become a dividend-paying company, Whitecap determined it had established the right asset base through its past acquisitions and its development program to start paying a dividend. Prior to making the transition to a dividend paying company, Whitecap announced the sale of certain non-core assets, with the proceeds to be used initially to reduce indebtedness outstanding under its credit facilities.

Investors are seeking yield in our current low-interest rate environment. Canadian oil and natural gas producers are trying to gain the attention of investors by offering a yield product. Some dividend paying companies have been successful, while others are experiencing challenging times, begging the question as to whether the dividend paying model is suitable and sustainable for the juniors and intermediates in the capital intensive oil and natural gas sector. Some companies are selling assets to position for the future while others are selling assets because the capital markets have, for the most part, closed the vault except to the select few.

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