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Contents | Previous Article | Next Article

Canadian M&A Activity By Foreign Entities To Date In 2013

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Foreign-based companies have been increasingly more active in the Canadian oil and natural gas mergers and acquisition (M&A) marketplace recently. While Asia-based entities have captured most of the headlines over the last few years, additional countries have entered the foray as buyers, while some foreign companies are beginning to sell certain assets.

While this year has not been as busy for international companies acquiring Canadian oil and natural gas assets or companies, or entering into joint ventures, compared to recent years, foreign entities continue to be very active. Thus far in 2013, international-based companies have been involved in transactions valued at a total of approximately $6.4 billion, of which approximately $6.0 billion, or 80 per cent, has been on the buy side. This represents approximately 47 per cent of the total M&A value of the year to date. In comparison, during 2012 foreign-based entities were involved in approximately $40.8 billion or 75 per cent of the total M&A transaction value.

The first quarter of 2013 was a quiet quarter all around, with only $752 million in total transaction value during the quarter. There were no transactions involving foreign-based purchasers; however, one foreign-based company did close some asset sales. **Harvest Operations Corp.**, owned by **Korea National Oil Corp.**, sold two oil and natural gas assets for total proceeds of approximately $25 million.

The activity in the M&A marketplace picked up in the second quarter of 2013 when approximately $3.5 billion in total M&A transaction value occurred. Of that amount, nearly half involved international based entities. **Japan Petroleum Exploration Co.**, **Ltd.** agreed to buy a 10 per cent stake in a liquefied natural gas project planned in British Columbia. Japex also acquired a 10 per cent interest in the North Montney natural gas play in northeastern British Columbia from **PETRONAS Carigail Canada Ltd.** (**Progress Energy Canada Ltd.**).

Suncor Energy Inc. sold its conventional natural gas properties located in multiple regions in Alberta, northeast British Columbia and southern Saskatchewan for $1.0 billion to the newly established partnership between **Centrica plc** and **Qatar Petroleum International**. Centrica will operate the assets and hold a 60 per cent working interest, with Qatar Petroleum owning the remaining 40 per cent.

Devon Energy Corporation has announced its intention to follow the same path as Suncor and sell its entire Canadian conventional business after its $6 billion acquisition from **GeoSouthern Energy** of Eagleford assets located in the DeWitt and Lavaca counties of Texas.

The third quarter of 2013 has definitely been the busiest quarter of the year for M&A activity. International entities were involved in approximately $3 billion or approximately 62 per cent of the total M&A transaction value. Foreign entities continued to acquire publicly-traded junior oil and natural gas companies, as evidenced by the pending purchase of **Novus Energy Inc.** by **Yanchang Petroleum International Ltd.** and the purchase of **TriOil Resources Ltd.** by **ORLEN Upstream s.p. z.o.o.** for $347 million and $263 million, respectively. Yanchang is a Hong Kong-listed public company and is principally engaged in the exploration, exploitation and operation of oil and gas fields and refined oil wholesale and retail businesses. ORLEN is a 100 per cent subsidiary of PKN ORLEN S.A., one of the largest petroleum and petrochemical corporations in Central and Eastern Europe. These are the first transactions in Canada for each of these companies.

In August, California-based **Chevron Corp.** acquired from **Alta Energy Luxembourg S.a.r.l.** and affiliates, all of its interests in the Duvernay formation in west-central Alberta. The interests acquired totaled 67,900 net acres.

On the sell side in the third quarter, U.S.-based **Apache Corp.** announced the sale of various assets in three transactions. Apache announced the sale of shallow natural gas assets in the Nevis, North Grant Lands and South Grant Lands areas of Alberta to **Ember Resources Inc**. for $220 million. In addition, Apache announced the sale of an additional $117 million in assets in two separate transactions. The assets included approximately 4,000 operated and 1,300 non-operated wells with approximately 38 MMcf/d of natural gas and 750 bbl/d of oil and NGLs located in the Hatton, St. Lina, Marten Hills, Snipe Lake, Valhalla and Hawkeye areas of Alberta and Saskatchewan.

Another company based south of the border sold some Canadian assets, as **ConocoPhillips** sold its interests in the Clyden oilsands lease to both **Imperial Oil** and **Exxon Mobil Canada** for $751 million. The Clyden lease is near Imperial's Corner lease holdings and contains 226,000 gross acres amenable to SAGD development.

In another transaction involving oilsands leases, **Sunshine Oilsands Ltd.** entered into an agreement with an international third party committing $250 million to a joint venture involving its Muskwa and Godin area oilsands leases.

Bellatrix Exploration Ltd. entered into an agreement to sell its working interest share of its producing assets, infrastructure and related land acreage in the Baptiste area of west-central Alberta to **Daewoo International Corporation** and **Devonian Natural Resources Private Equity Fund** for $53 million. The assets were producing 268 boe/d (67 per cent natural gas). This asset sale also included 3,858 net acres of Cardium rights and 1,119 net acres of Mannville rights.

Concurrent with the announcement of the asset sale to Daewoo and Devonian, Bellatrix entered into the first international joint venture agreement of the year. The deal involved a $200 million joint venture agreement for a multi-year commitment from Daewoo and Devonian to jointly develop acreage in the Ferrier and Willesden Green areas of west-central Alberta. This deal was announced following Bellatrix's first joint venture agreement to close in the year, which was entered into with Calgary-based **Grafton Energy Co. I Ltd.**

In the fourth quarter of 2013 Bellatrix has continued to deal with international entities, entering into its third strategic joint venture this year when **TCA Energy Ltd**., a Canadian incorporated special purpose vehicle for **Troika Resources Private Equity Fund**, which is based in Seoul, Korea, and managed by **KDB Bank**, **SK Energy** and **Samchully AMC**, agreed to contribute $120 million towards a joint venture with Bellatrix. As part of this agreement, TCA agreed to participate in 14 gross wells (as included in the total expected 63 gross well program) that have been drilled since Jan. 1, 2013, resulting in estimated net proceeds of $16.7 million to Bellatrix.

Also in the fourth quarter of this year, PETRONAS, through Progress, announced its intention to purchase a part of **Talisman Energy Inc.**'s Montney acreage in northeast British Columbia for $1.5 billion. The transaction represents the purchase of approximately 75 per cent or 127,000 net acres of Talisman's Montney position in the Farrell Creek and Cypress areas of British Columbia, 65 MMcfe/d of Farrell Creek production, with $800 million of remaining third party capital carry estimated at 2013 year end.

While the Canadian M&A marketplace has been dominated by the headlines of foreign-based entities entering into Canada over the last few years, it will be interesting to see how these companies continue to position themselves in the Canadian oil and natural gas sector going forward. There may be some that are still waiting on the sidelines for the right opportunity, while others might determine a different direction is better suited for its businesses.

Contents | Previous Article | Next Article