

Daily Oil Bulletin

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M&A Activity Exceeds \$8 Billion With Surge-Longview And Apache Deals



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Surge Energy Inc. has agreed to acquire **Longview Oil Corp.** in a \$429 million all-stock deal that would create an intermediate, light-and-medium-oil-focused producer with assets in the Williston Basin and central Alberta.

The deal is the latest in a plethora of large transaction announcements this year.

On Monday, **Apache Corporation** agreed to sell producing oil and gas assets in the Deep Basin area of Alberta and British Columbia to an undisclosed buyer for US\$374 million ([DOB, March 31, 2014](http://www.dailyoilbulletin.com/article/2014/3/31/apache-agrees-unload-producing-assets-bc-and-alber/) (<http://www.dailyoilbulletin.com/article/2014/3/31/apache-agrees-unload-producing-assets-bc-and-alber/>)).

This brings the total merger and acquisition announcements in Western Canada this year to well over \$8 billion, possibly closer to \$9 billion, said **Tom Pavic**, vice-president of **Sayer Energy Advisors**.

This is a sharp reversal of last year's M&A trend that saw only about \$750 million in the first quarter of 2012, according to Sayer.

For all of last year the value of M&A transactions plunged by 75 per cent to \$14 billion from the \$55 billion in 2012. In 2012, M&A activity skyrocketed to \$55 billion -- the highest annual tally on record -- up 246 per cent from the previous year (DOB, March 26, 2014 (<http://www.dailyoilbulletin.com/article/2014/3/26/total-m-value-down-75-2013/>)).

One trend this year is Canadians are doing almost all the buying. A rare exception was last month's announcement that **Indian Oil Corporation Ltd.** agreed to acquire a 10 per cent stake in Malaysian-owned **PETRONAS'** natural gas reserves in northeast British Columbia and in the Malaysian firm's proposed LNG project (DOB, March 7, 2014 (<http://www.dailyoilbulletin.com/article/2014/3/7/indian-oil-acquires-10-cent-stake-progress-gas-res/>)).

Other recent examples:

Earlier last month, **Whitecap Resources Inc.** agreed to pay \$855 million for **Imperial Oil Limited's** interests in Boundary Lake, Cynthia/West Pembina and Rocky Mountain House. Whitecap said the net price would be \$692.7 million after it sold some natural gas production and related facilities in the Pembina area to **Keyera Corp.** and after deducting estimated purchase price adjustments of \$49.4 million at closing. At the same time Whitecap also announced it agreed to acquire an undisclosed private producer with assets in north-central Alberta for \$107 million (DOB, March 17, 2014 (<http://www.dailyoilbulletin.com/article/2014/3/17/whitecap-buying-certain-imperial-assets-private-pr/>)).

Also in March, **Vermilion Energy Inc.** agreed to pay \$400 million for a private southeast Saskatchewan producer, reportedly **Elkhorn Resources Inc.** (DOB, March 19, 2014 (<http://www.dailyoilbulletin.com/article/2014/3/19/oilpatch-deals-continue-vermilion-acquires-private/>)).

And **Tourmaline Oil Corp.** agreed to acquire **Santonia Energy Inc.** (formerly **Fairborne Energy Ltd.**). Tourmaline said the deemed acquisition price is \$189 million, excluding transaction costs of about \$9 million. Santonia said the total value of the deal is \$198 million because it included the \$9 million transaction cost (DOB, March 4, 2014 (<http://www.dailyoilbulletin.com/article/2014/3/4/tourmaline-acquire-deep-basin-player-santonia-ener/>)).

In February, **Canadian Natural Resources Limited** agreed to pay \$3.13 billion for **Devon Energy Corporation** assets producing 86,633 boe a day in Western Canada. Unlike many acquisitions in recent years, the Devon assets are about 70 per cent gas, CNRL said, reflecting a positive outlook for the commodity

in the wake of higher North American prices ([DOB, Feb. 19, 2014](#)

[\(http://www.dailyoilbulletin.com/article/2014/2/19/devon-deal-shows-cnrls-improved-outlook-gas-prices/\)](http://www.dailyoilbulletin.com/article/2014/2/19/devon-deal-shows-cnrls-improved-outlook-gas-prices/)).

Surge-Longview deal

Just over a month ago, **Surge Energy Inc.** acquired 9.3 million Longview common shares, representing 19.8 per cent of the outstanding common shares, for \$4.45 a share ([DOB, Feb. 28, 2014](#) [\(http://www.dailyoilbulletin.com/article/2014/2/28/surge-acquires-198-cent-block-longview-shares/\)](http://www.dailyoilbulletin.com/article/2014/2/28/surge-acquires-198-cent-block-longview-shares/)).

That came on the heels of an earlier announcement by Longview that it had received an unsolicited takeover offer from an unnamed public oil and gas company, but that process stalled ([DOB, Feb. 19, 2014](#) [\(http://www.dailyoilbulletin.com/article/2014/2/19/proposal-takeover-longview-stalls/\)](http://www.dailyoilbulletin.com/article/2014/2/19/proposal-takeover-longview-stalls/)).

On Monday, Surge said it has agreed to acquire all of the Longview common shares at an exchange ratio of 0.975 of a Surge common share for each Longview common share. The exchange ratio implies a value of \$5.99 per Longview share based on the closing price of Surge common shares of \$6.14 on the **Toronto Stock Exchange** on March 31, and a premium of about 35 per cent to the closing price of Longview shares on Feb. 7, the last trading day before Longview announced the receipt of the other proposal.

In addition, Surge will assume \$155 million of Longview net debt (including transaction costs) to be outstanding upon completion of the proposed transaction.

Accordingly, the proposed transaction implies a value of \$429 million for Longview, including Surge's previously announced acquisition of 9.3 million Longview common shares.

The proposed transaction is expected to close in June.

Assuming the successful completion of the proposed transaction, Surge estimates its production would exceed 21,000 boe a day (84 per cent oil) exiting 2014. On completion of the deal, Surge will raise its annual dividend by 11 per cent to 60 cents a share (five cents a share monthly) from 54 cents a share per annum (4.5 cents a share monthly) currently.

Surge estimates Longview's net original oil in place exceeds 375 million bbls. Consequently, post-closing, Surge will have over 1.8 billion bbls of light and medium gravity original oil in place.

The press release announcing the deal said Longview's assets fit seamlessly into Surge's core areas, including the Midale Marly light oil play in southeast Saskatchewan, the Sparky medium gravity oil play trend in central Alberta and in Surge's central Alberta core area.

Completion of the proposed transaction is subject to the approval of at least 66 2/3 per cent of Longview shareholders and approval of the majority of the minority of Longview shareholders after excluding the votes cast in respect of the Longview common shares held by Surge.

A special meeting of Longview shareholders is expected to be held in June. Longview's board of directors has

unanimously approved the proposed transaction.

Longview has agreed not to solicit or initiate any discussions regarding any other acquisition proposals or sale of material assets. Longview has also granted Surge a 72-hour right to match any superior proposal, and has agreed to pay a termination fee of \$7.7 million to Surge in certain circumstances, including if Longview recommends, approves or enters into an agreement with respect to a superior proposal.

Surge plans to continue to pursue its extensive waterflood program and now expects more than 75 per cent of the company's producing assets will be under waterflood. The implementation of these waterflood projects is an integral part of Surge's strategy of increasing oil recovery factors and lowering decline rates.

The company will also pursue continued, year-over-year increases in recovery factors through development activities such as in-fill and step-out development drilling.

Macquarie Capital Markets Canada Ltd. is acting as Surge's financial advisor on the deal and **McCarthy Tétrault LLP** is its legal advisor. **Scotiabank**, **GMP Securities L.P.** and **National Bank Financial** are acting as strategic advisors to Surge with respect to the proposed transaction.

BMO Capital Markets is Longview's financial advisor and **Burnet, Duckworth & Palmer LLP** is its legal advisor.

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