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Canadian Oil and Natural Gas Industry Shows Life

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The Canadian oil and natural gas industry has had a very strong start in 2014. Both financings and mergers and acquisitions (“M&A”) activity have picked up significantly in comparison to this time in 2013.

The total enterprise value of the transactions in the M&A marketplace in the first quarter of 2014 was approximately \$8.6 billion, up 70 per cent from the \$5.0 billion in the fourth quarter of 2013. So far in the second quarter of 2014 there have been

approximately \$1.8 billion in deals announced. The total enterprise value of deals either announced or completed to date in 2014 is approximately \$10.4 billion or 75 per cent of the \$13.8 billion in total M&A activity during all of 2013.

The total amount of capital raised in the first quarter of 2014 was \$6.0 billion, consisting of \$3.3 billion in equity and \$2.7 billion in debt. In 2013 the total amount of capital raised was \$15.9 billion, with 41 per cent of the capital raised in the fourth quarter. The amount of capital raised in the first nine months of 2013 was \$9.6 billion, consisting of only \$3.4 billion in equity and \$6.1 billion in debt. Annualized, the amount of capital raised in 2014 is on track to reach \$24 billion.

The largest transaction in the first quarter of 2014 was the acquisition of the majority of **Devon Canada Corporation's** conventional assets in Western Canada, excluding Devon's Horn River assets in British Columbia and its heavy oil properties, by **Canadian Natural Resources Limited** for approximately \$3.1 billion. Canadian Natural also purchased assets from **Apache Corp.** in the Wapiti and Noel areas of Alberta and in the Ojay area of British Columbia for approximately \$413 million. In March, Canadian Natural announced that it would issue USD \$1.0 billion in notes, USD \$500 million due in 2016 and USD \$500 million in 2024.

Whitecap Resources Inc. continued to be in acquisition mode in 2014 with its significant acquisition of assets from **Imperial Oil Limited** for a net acquisition cost of \$693 million after accounting for the pending sale of certain Imperial Oil assets to **Keyera Corp.** for \$113 million. The assets acquired by Whitecap are located in the Pembina and Rocky Mountain House (Ferrier) areas of Alberta and in the Boundary Lake area of northeastern British Columbia. Concurrent with the announcement of the transaction, Whitecap announced it would increase its monthly dividend by 10 per cent to \$0.75 per share annualized from \$0.68 per share annualized and would raise \$500 million through a bought deal financing. Whitecap also stated that it signed an agreement to acquire a private company with assets in north central Alberta for \$107 million.

Much like Whitecap, **Surge Energy Inc.** announced a property and corporate acquisition in the first quarter of 2014. Surge announced the purchase of assets from **Renegade Petroleum Ltd.** in southeastern Saskatchewan for \$109 million in January. Concurrent with the Renegade asset purchase, Surge raised approximately \$81 million in gross proceeds through a bought deal financing.

At the end of March, Surge announced the proposed acquisition of **Longview Oil Corp.** for \$483 million. Prior to the announcement of the pending Longview acquisition, Surge acquired 19.8 per cent of the shares of Longview through the secondary offering of Longview shares by **Advantage Oil & Gas Ltd.** in February 2014.

During the first quarter of 2014 Surge also announced that it would increase its annual dividend 11 per cent to \$0.60 per share \$0.54 per share per annum.

Spartan Energy Corp. (formerly **Alexander Energy Ltd.**)

entered onto the scene in a big way this past quarter when it announced the acquisition of Renegade for \$587 million.

Renegade's assets were located in southeast Saskatchewan, in the Dodsland area of west central Saskatchewan, in southwestern Manitoba targeting the Spearfish play and in northern Alberta. Unlike Whitecap and Surge, Alexander announced that upon closing of the arrangement it would cancel the monthly dividend that was being paid by Renegade.

Baytex Energy Corp. closed the largest financing in 2014 thus far, raising nearly \$1.5 billion through a bought deal financing to fund its \$2.6 billion acquisition of U.S.-based **Aurora Oil & Gas Limited**. The acquisition provides Baytex exposure to the Eagle Ford shale play in the United States. Upon the completion of the acquisition of Aurora, Baytex has committed to increase its monthly dividend by 9 per cent to \$0.24 from \$0.22 per share. While the deal is not included in our statistics due to the assets not being in Western Canadian Sedimentary Basin, the size of the transaction is certainly noteworthy.

The largest deal announced so far in the second quarter of 2014 includes **Crescent Point Energy Corp.**'s proposed acquisition of **CanEra Energy Corp.** for total consideration of approximately

\$1.1 billion, consisting of the issuance of approximately 12.9 million Crescent Point shares, \$195 million of cash consideration and the assumption of approximately \$348 million of debt. CanEra is a privately-held oil and natural gas company with production of approximately 10,000 boe/d and a large Torquay land position in southeastern Saskatchewan. The acquisition marks the first significant Canadian deal to be announced by Crescent Point since May 2012 when it acquired **Cutpick Energy Inc.** for \$425 million. Crescent Point acquired U.S.-based **Ute Energy Upstream Holdings LLC** with assets in northeast Utah for \$861 million in November 2012.

It looks like 2014 is gearing up to be an active year in the M&A marketplace, with total transaction value exceeding last year and perhaps 2011 when \$15.6 billion in value was recorded. Investors are starting to show confidence in the sector as witnessed by the \$6.0 billion in capital that was raised in the first quarter of 2014.

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