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M&A Value In First Half Of 2014 Rises 370%, Year-Over-Year

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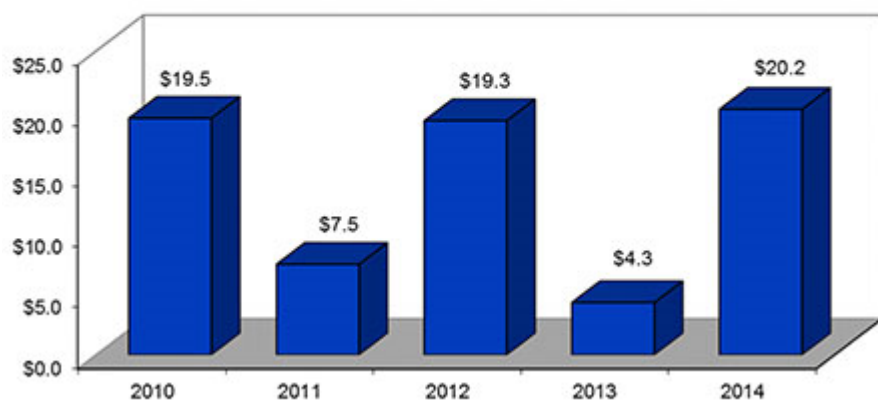
The total enterprise value of Canadian oil and natural gas industry merger and acquisition (“M&A”) activity in the first six months of 2014 was approximately \$20.2 billion, up 370% from the \$4.3 billion recorded in the first half of 2013.

The higher M&A value in the first half of 2014 can be attributed to an increase in the number of large transactions (valued at over \$5 million). The number of large deals rose to 78 from 48 during the same time period a year ago, a 63 per cent increase. In addition, seven of the 78 large deals in the first half of this year were valued at over \$1 billion, compared to only one in the first half of 2013. These seven deals accounted for approximately 50 per cent of the total M&A value in the first half of this year.

The largest transaction in the first half of 2014 was the purchase of the majority of **Devon Canada Corporation’s** conventional Canadian assets by **Canadian Natural Resources Limited** for approximately \$3.1 billion. The acquisition excluded Devon’s HornRiver, B.C. and heavy oil properties. Canadian Natural also purchased assets from **Apache Corporation** in the Wapiti and Noel areas of Alberta and in the Ojay area of British Columbia for approximately \$413 million.

Two other significant transactions in the first half of 2014 involved the sale of assets by **Encana Corporation**. The larger of the two was the agreement entered into with **Jupiter Resources Inc.** to purchase Encana’s Bighorn assets for approximately \$2 billion. Jupiter Resources is a private energy firm based in Alberta, founded by **Apollo Global Management LLC**. Encana sold the Bighorn assets in order to focus capital on developing its core growth plays.

Enterprise Value of M&A Activity First Six Months



The other significant transaction involving Encana in the first half of 2014 was the purchase of Encana's assets for \$1.7 billion by **PrairieSky Royalty Ltd.** PrairieSky was formed specifically to acquire the royalty business from Encana. As part of the formation of the company, Encana sold 59,800,000 common shares of PrairieSky at a price of \$28.00 per share for gross proceeds of approximately \$1.7 billion by way of an initial public offering.

Similar to the first half of 2013, property transactions dominated the first half of 2014 in both number and total value. Of the 78 large deals, 63 were property deals and 15 were corporate transactions. The aggregate value of the five large corporate transactions in the first half of this year was \$4.3 billion while the total value of the large property transactions was \$15.6 billion. This compares to five corporate deals totaling \$500 million in aggregate value and 43 property transactions totaling \$3.6 billion in aggregate value in the first six months of 2013.

Of the 78 large transactions in the first six months of 2014, 42 of the deals were oil-weighted, with total enterprise value of approximately \$7.6 billion. The remaining 36 deals were weighted towards natural gas, with total enterprise values of \$12.3 billion.

A number of dividend-paying companies were very active on the acquisition front in the first half of 2014 as evidenced by the number of deals done by **Crescent Point Energy Corp.** and **Whitecap Resources Inc.**

Crescent Point purchased **CanEra Energy Corp.** for approximately \$1.1 billion, and purchased assets in Dodsland, Saskatchewan from **Polar Star Canadian Oil and Gas, Inc.** for approximately \$348 million. In the third quarter of 2014, Crescent Point has announced the acquisition of **T. Bird Oil Ltd.** for approximately \$88 million, and the acquisition of assets in southeast Saskatchewan for approximately \$99 million.

Whitecap has continued to be an active buyer, completing two large transactions in the first half of 2014; one property deal and one corporate transaction. Whitecap purchased assets from **Imperial Oil Limited** located in the Pembina and Rocky Mountain House (Ferrier) areas of Alberta and in the Boundary Lake area of British Columbia for approximately \$693 million. The corporate transaction involved the purchase of an undisclosed private oil and natural gas company with assets located in north central Alberta for \$107 million. Both acquisitions took place in the first quarter of this year. During the first six months of 2013 Whitecap completed one corporate acquisition and two property deals. In the third quarter of 2014 Whitecap has announced the acquisition of a controlling interest in a premier conventional Nisku oil pool at Elnora, Alberta for approximately \$267 million. Whitecap has also announced the disposition of non-core production for approximately \$57 million.

Other transactions by publicly-traded, dividend-paying companies in the first half of 2014 include **Freehold Royalties Ltd.** buying assets from **Perpetual Energy Inc.** for \$120 million and **Lightstream Resources** for \$111 million, as well as **Long Run Exploration Ltd.**'s acquisition of **Crocotta Energy Inc.** for \$393 million and its acquisition of assets from **Crew Energy Inc.** for \$234 million.

The third quarter of 2014 is proving to be active thus far as confirmed by the previously announced acquisitions by Crescent Point and Whitecap. The largest deal announced to date in the third quarter is Whitecap's previously mentioned acquisition of assets for \$267 million.

The second largest deal in the third quarter so far is the purchase of assets by **Cardinal Energy Ltd.** for \$165 million. Cardinal was also involved in the purchase of Alberta assets in the first half of 2014 for approximately \$27 million.

The total value of M&A activity in the first six months is already reaching the highest levels so far this decade, driven by higher commodity prices (mainly for natural gas) and positive investor sentiment, especially from the capital markets. If these factors continue it appears that the M&A marketplace will continue to be robust through to the end of 2014.

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