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Public Company Sales Trending Downward

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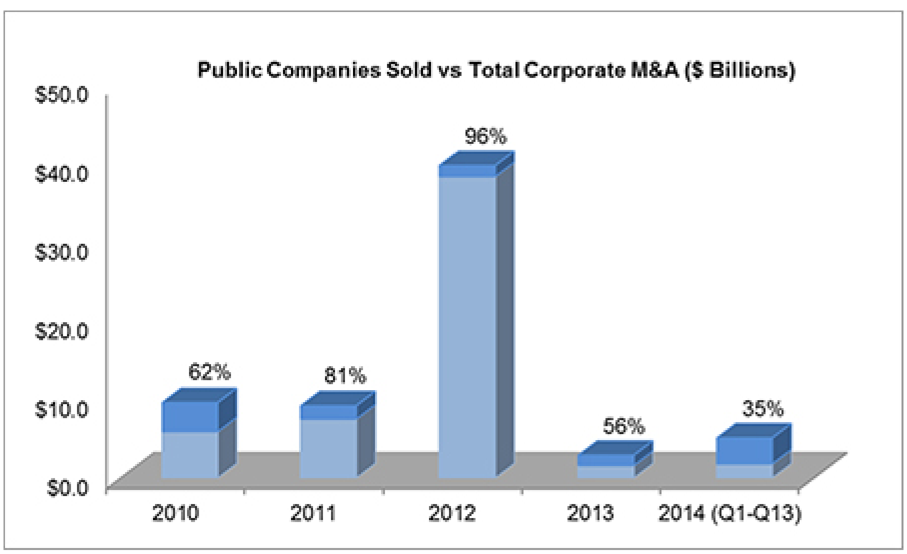
Over the last three years there has been a significant drop in the percentage of Canadian publicly-traded oil and natural gas company sales out of the total corporate merger and acquisition ("M&A") value in the Canadian oil and natural gas industry. The percentage of sales involving public companies has declined from 96 per cent of all corporate activity in 2012 to 35 per cent in the first nine months of 2014, as illustrated in the following graph.



For a larger image click here (http://www.dailyoilbulletin.com/media/img/Large---Publiccos.jpg)!

The percentage of public company sales versus total corporate M&A so far in 2014 is at its lowest level in the last five years. In the first three quarters of 2014, the total value of public company sales was $1.8 billion out of the total $5.1 billion in corporate activity (35 per cent of all corporate activity), compared to $38.3 billion out of $39.7 billion (96 per cent of all corporate activity) in 2012.

The corporate M&A value in 2012 was heavily skewed by the sales of publicly-traded **Celtic Exploration Ltd.**, **Nexen Inc.** and **Progress Energy Resources Corp.**, with a combined enterprise value of approximately $32 billion. If we remove these deals from our analysis, the total value of public company sales of $6.3 billion versus the total corporate M&A value of $7.7 billion (81 per cent of all corporate activity) is still very high in comparison to what we have witnessed so far in 2014.

This trend continues in the fourth quarter of 2014, with only two public company transactions announced so far. The first transaction involves both publicly-held **Contact Exploration Inc.** and **Donnycreek Energy Inc.** merging to form a new amalgamated corporation to be named **Kicking Horse Exploration Inc.** Kicking Horse will have approximately 3,000 boe/d of production in the Kakwa area of Alberta.

In the second transaction, **Hyperion Exploration Corp.** has accepted a cash offer of $0.14 per share from privately-held **Tri-Win International Investment Group Inc.** Hyperion's properties are located in the BuckLake, Garrington, Niton-Mcleod and Pembina areas of Alberta.

One of the factors that have led to this downward trend in 2014 is that a number of publicly-traded companies have been recapitalized with a financing and a new management team to run the go forward entity instead of selling outright. The public companies that went down this path earlier this year were **Blackdog Resources Ltd.**, **Elkwater Resources Ltd.**, **Kallisto Energy Corp.** and **PanTerra Resource Corp**.

One of the main reasons why these publicly-traded oil and natural gas companies took the recapitalization route as opposed to selling outright was due to the premiums that existing shareholders were getting once these transactions were announced. For instance, in the cases of both Elkwater and PanTerra, the stock prices of these companies shot up 300 per cent and 217 per cent respectively the first trading day after the recapitalization transactions were announced. The premiums received in these recapitalization transactions were much higher than the average 21 per cent share price premium which was being paid for public corporate acquisitions in the first three quarters of 2014.

Another factor which has led to the decline of publicly-traded company sales has been the increase in the number of asset packages which have been sold by larger publicly-traded entities such as **Cenovus Energy Inc.**, **Devon Energy Corporation**, **Encana Corporation**, **Exxon Mobil Corporation**, **Lightstream Resources Ltd.**, **Penn West Petroleum Ltd.** and **Suncor Energy Inc.** in 2014. With the exception of the Devon asset sale to **Canadian Natural Resources Limited** the other asset packages were of a concentrated nature (i.e. for the most part in one core area), which is a desirable characteristic for many acquirers.

These concentrated asset packages, coupled with strong equity markets, allowed publicly-traded companies such as **Cardinal Energy Ltd.**, **Crescent Point Energy Corp.**, **Journey Energy Inc.**, **PrairieSky Royalty Ltd.**, **Tamarack Valley Energy Ltd.** and **Whitecap Resources Inc.** to acquire these oil and natural gas properties either through an initial public offering or a concurrent bought deal equity financing to finance a portion or all of the acquisition. With equity readily available at the time it made it very easy for these companies to transact on these asset deals and chase these opportunities rather than pursuing acquisitions of publicly-traded entities.

With the recent decline in the price of oil and investor sentiment much more pessimistic than earlier on this year, publicly-traded entities may be more inclined to use their shares as currency for acquisitions. As a result of the recent fall in their share price and hesitancy to raise equity at a lower stock price, share deals might be more attractive if the paper could be valued at a price closer to its underlying net asset value per share.

Many publicly-held acquirers could look to pursue the purchase of other publicly-traded entities in the near term with paper and possibly kick-start more public company sales similar to the proposed Contact and Donnycreek merger, while privately-held companies such as Tri-Win may look to take advantage of the recent downturn to acquire publicly-traded companies at much lower valuations compared to just a few months ago.

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