Daily Oil Bulletin

Recent Equity Financings Tied To M&A

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Since the beginning of April of this year roughly $1.6 billion in equity has been raised concurrent with merger and acquisition ("M&A") transactions in the Canadian oil and natural gas industry. This is considerably higher than the $110 million of equity which was raised as part of M&A transactions in the first three months of 2015.

The largest equity financing done so far in the second quarter of 2015 saw **Crescent Point Energy Corp**. complete a $660 million bought deal equity financing which was concurrently announced with its planned acquisition of **Legacy Oil + Gas Inc.** According to Crescent Point, the acquisition of Legacy will add approximately 20,000 boe/d of production predominantly in southeastern Saskatchewan. Legacy shareholders are scheduled to vote on the proposed transaction at the end of June. Crescent Point stated that if the Legacy acquisition is not completed the net proceeds of the financing will be used to reduce Crescent Point's indebtedness.

Another active buyer in southeastern Saskatchewan is **TORC Oil & Gas Ltd.**, which raised a total of $438 million in two separate equity financings as part of its purchase of assets from **Surge Energy Inc.** for $430 million. The assets acquired from Surge are located in southeastern Saskatchewan and southwestern Manitoba and produce approximately 4,750 boe/d. TORC completed a bought deal equity financing for gross proceeds of approximately $288 million along with a non-brokered private placement financing of $150 million with the **Canada Pension Plan Investment Board** ("CPPIB").

Similar to TORC, **Freehold Royalties Ltd.** also completed two separate financings and raised a total of $406 million in equity at the beginning of May as part of its $321 million acquisition of royalty interests from **Penn West Petroleum Ltd.** The assets acquired by Freehold are expected to produce approximately 1,400 boe/d and generate $29 million in annualized operating income in 2015. Freehold completed a bought deal equity financing for gross proceeds of approximately $373 million and then completed a non-brokered private placement financing of $33 million with the pension trust funds for employees of **Canadian National Railway Company** ("CNRC"). It is interesting to note that both the CPPIB and CNRC even prior to these private placement financings were existing shareholders of TORC and Freehold, respectively.

In early June, **Tamarack Valley Energy Ltd.** completed the purchase of oil and natural gas interests in the Wilson Creek area of Alberta in three separate transactions for total cash consideration of approximately $54 million. The assets acquired produce approximately 1,450 boe/d. As part of the transactions, TamarackValley also completed a bought deal equity financing for approximately $75 million and a concurrent flow-through equity financing for approximately $9 million.

Also in early June, **Canamax Energy Ltd.** first announced its planned acquisition of assets from **Storm Resources Ltd.** for $24 million. The assets to be acquired by Canamax are located in the Grande Prairie and Grimshaw areas of Alberta and produce approximately 750 boe/d. Canamax intends to finance part of the acquisition through a best efforts private placement equity financing of a minimum of $15 million to a maximum of $17.5 million in proceeds.

Subsequent to the announcement of the planned acquisition of assets from Storm, Canamax announced its intention to acquire all the issued and outstanding shares of **Powder Mountain Energy Ltd.** for total consideration of approximately $27 million through the issuance of Canamax shares. Powder Mountain's main producing property is located in the Hardy area of southeastern Saskatchewan, where it is producing approximately 100 bbl/d of Bakken oil. In addition, PowderMountain is estimated to have approximately $22 million of positive working capital (substantially all cash) at the time of closing with Canamax. One of the conditions to the closing of the proposed business combination between Canamax and Powder Mountain is that Canamax raise a minimum of $15 million of equity through the best efforts private placement mentioned above.

One factor that has led to the increase in equity financings tied to M&A transactions in the second quarter of 2015 has been the stability of the price of oil over the last couple of months, with the price hovering in and around US$60 per barrel. With this stability, buyers, sellers and capital providers are able to come to terms on values for both oil and natural gas assets as well as publicly traded shares.

Another factor that has helped is that the $US/$CDN exchange rate is approximately US$0.80, which leads to a higher realized oil price for Canadian oil producers. If this stability in the price of oil and the current exchange rate continues throughout the summer and into the fall, we will most likely see more M&A transactions with concurrent equity financings carry on through to the end of the year.

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