

# 2015 A&D Look Back 2016 A&D Outlook

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## Sayer Energy Advisors' Perspective

Presented to the  
***PADA Energy Society***



January 12, 2016

**Alan W. Tambosso, P.Eng. P.Geol.**  
**President**

**Sayer Energy Advisors**

PADA Presentation  
January 12, 2016



# Sayer Energy Advisors

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- 29 year history of oil and natural gas industry M&A services.
- Completely independent of the public markets – we do not get involved in financings.
- Managed by individuals with varied backgrounds, each with significant related experience.


# Sayer Energy Advisors

## Corporate Advisory Services

- Divestitures, Mergers, Acquisitions.
- Valuations and Fairness Opinions.
- Expert Witness Assignments.

## Industry Publications

- Well-known for Canadian M&A market analysis through our quarterly publication.
- Publish complete Canadian oil industry M&A and financing information.
- Complete listing of current Canadian oil & natural gas industry asset and corporate dispositions.



**Property Divestiture**  
15 Properties  
248 boerd (104 bbl/d, 870 Mcf/d)

**RAVENWOOD ENERGY CORP.**  
2012 Disposition Properties

**CANADIAN OIL INDUSTRY  
MERGER AND  
ACQUISITION  
REPORT**

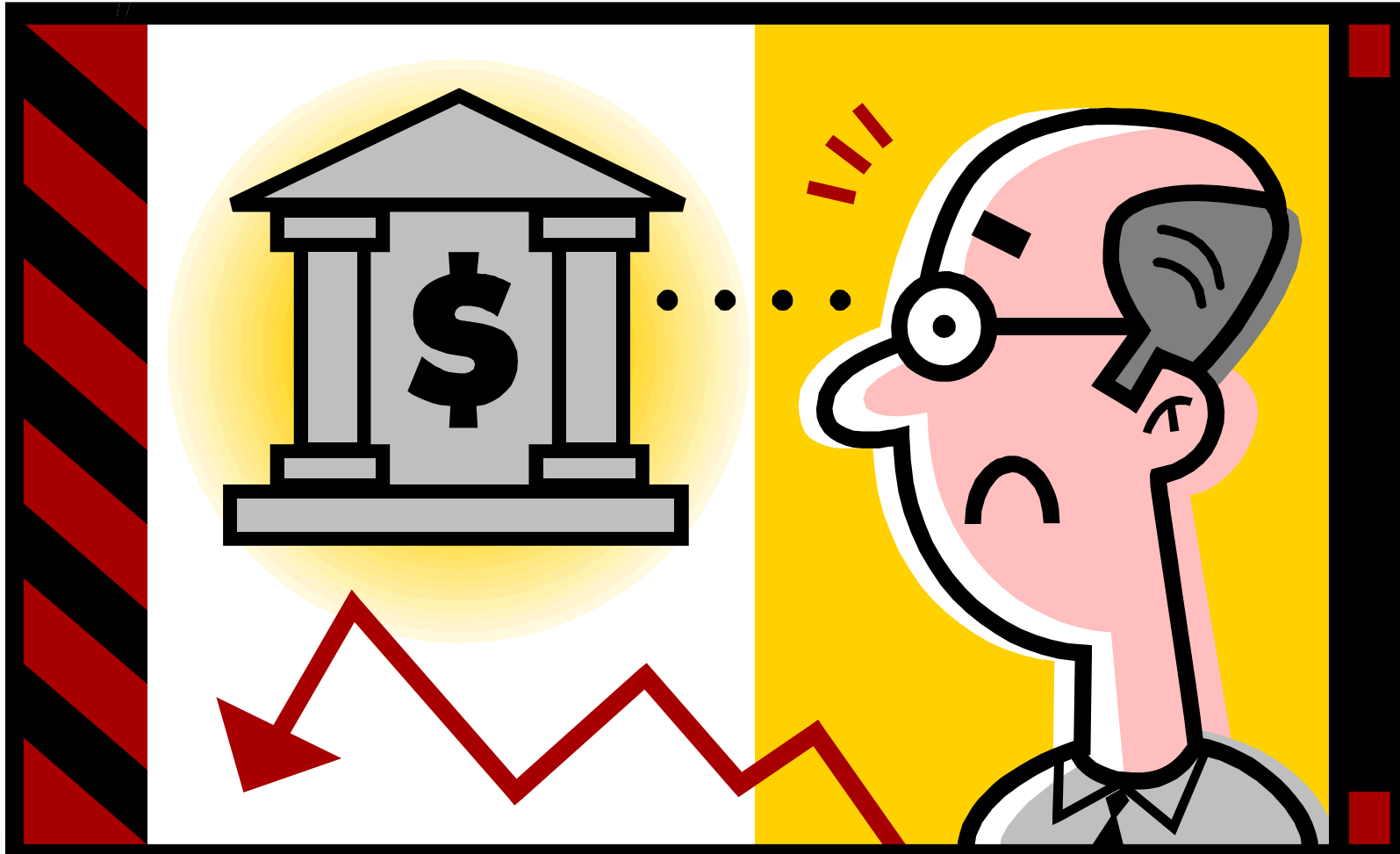
**FOURTH QUARTER 2011**

**HIGHLIGHTS**

Median Reserves Acquisition Price: \$14.20/bbl      Enterprise Value of Transactions: \$5.3 billion  
Median Production Acquisition Price: \$67.38/bbl      Assets and Companies for Sale: \$5.5 billion

Purchaser	Acquisition	Enterprise Value		Acquisition Price
		\$MM	\$/bbl	
Arnsel	Equal assets	40.25	16.10	26.833
Dynex	Equal assets	20.10	15.31	46.524
Caltic	ConocoPhillips assets	50.00	7.62	18.673
Freehold	Bonaville assets	50.20	16.48	68.990
Paral	Equal assets	9.20	11.07	23.714
Servier	Silverback	75.51	12.82	82.034
Seaview	Sirus	16.11	6.70	29.533
Sinclair	Daylight	3,171.75	17.42	80.389
Storm	British Columbia assets	15.80	22.11	106.000
Storm	Storm Gas	66.06	20.24	119.790
Surge	Producers	101.34	21.86	83.213
Ten-Belle	Energy	168.31	11.76	28.810
Undisclosed Buyer	Baytex assets	36.00	21.83	545.667
Undisclosed Buyer	Cobra assets	5.25	110.51	182.461
Undisclosed Buyer	Comstock assets	7.15	6.86	61.263
Westfire	Alberta assets	40.30	22.03	66.100
Whitcap	Compass	100.00	17.19	66.214
Wilmington et al	Westshore & Citicorp assets	19.80	6.16	14.985

# Recent M&A Activity Metrics



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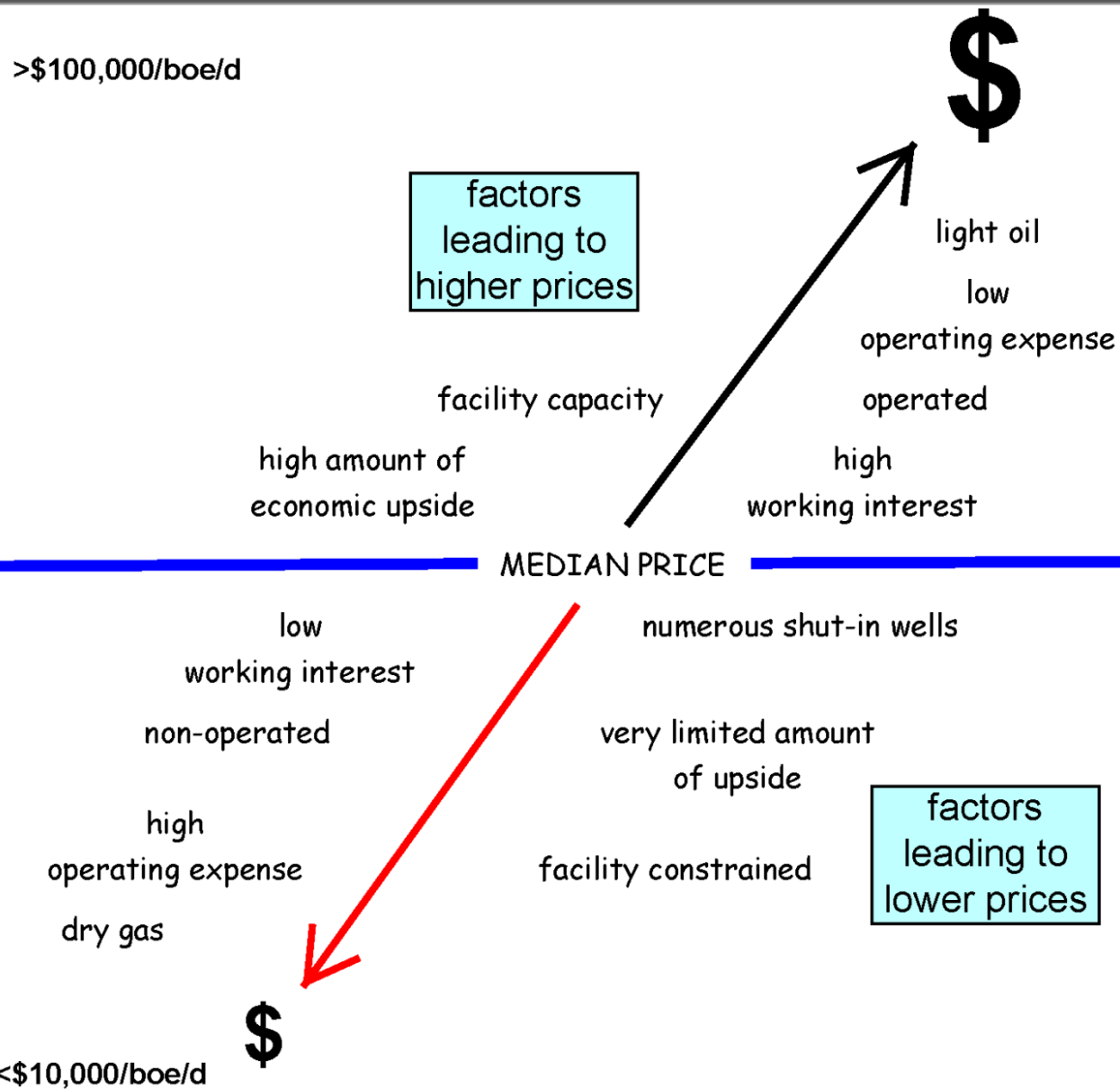
# We Are in a Buyers' Market



We have been in a "*Buyers' Market*" for a number of years.

The "*Buyers' Market*" will continue with continued depressed commodity prices.

# Factors Affecting Prices of M&A Transactions



# Cash Flow is King!

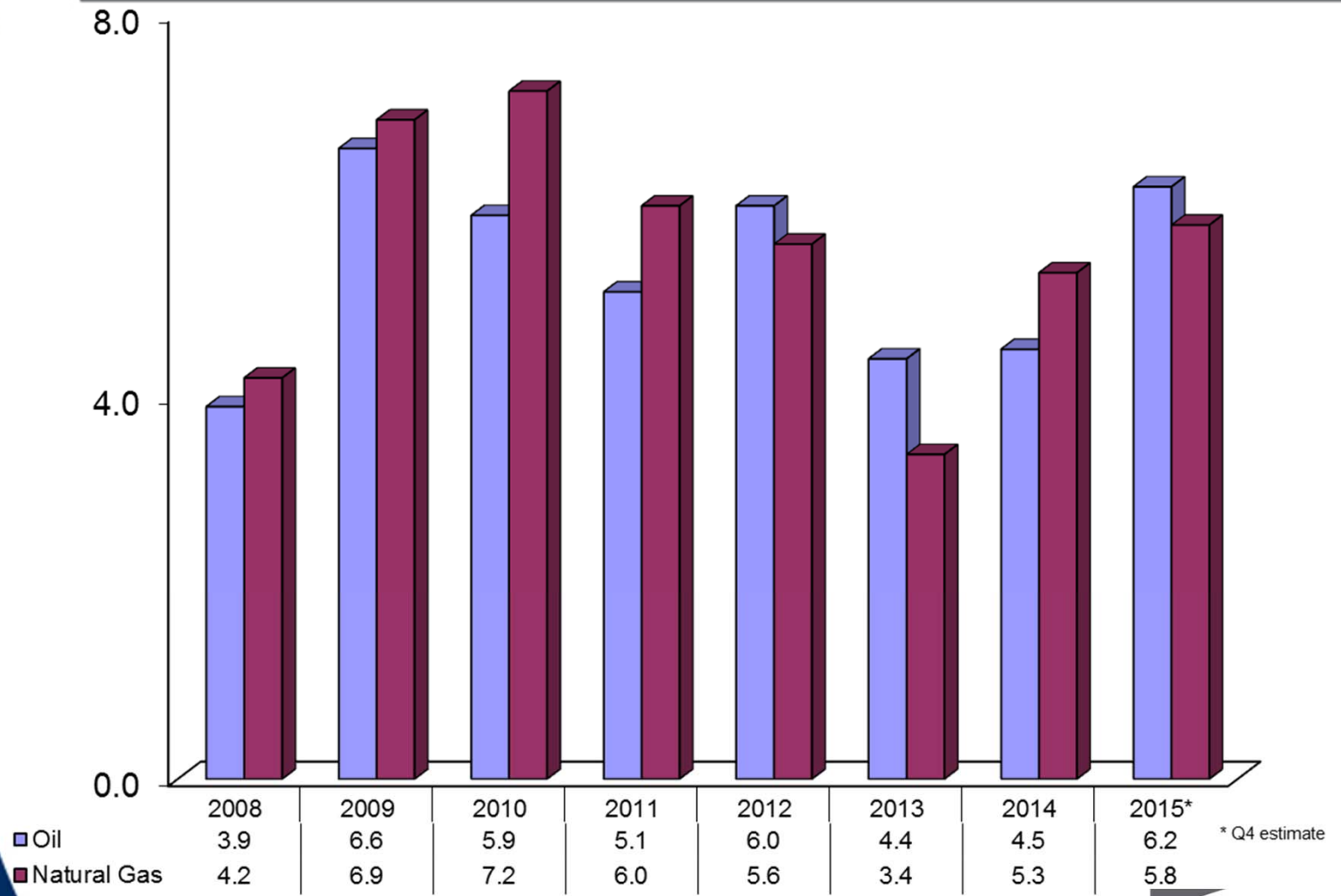
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- Deals are being done on a cash flow basis, less consideration for liabilities.



- **Reserves-based metrics are pretty much off the table right now.**

# Historical Cash Flow Multiples

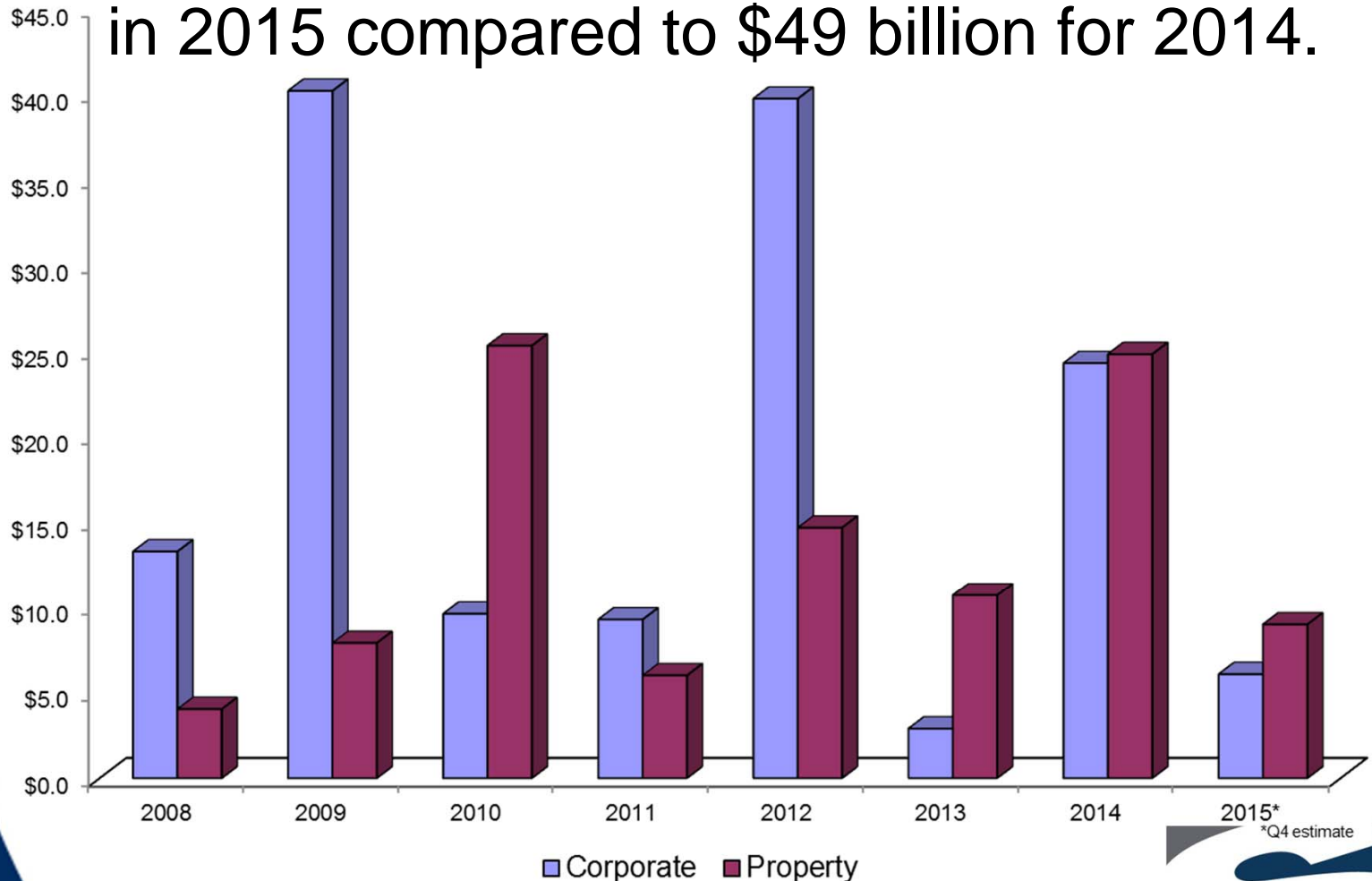


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# Total Value of M&A Activity

- Total M&A value of approximately \$15 billion in 2015 compared to \$49 billion for 2014.



# Why is M&A Value Down?

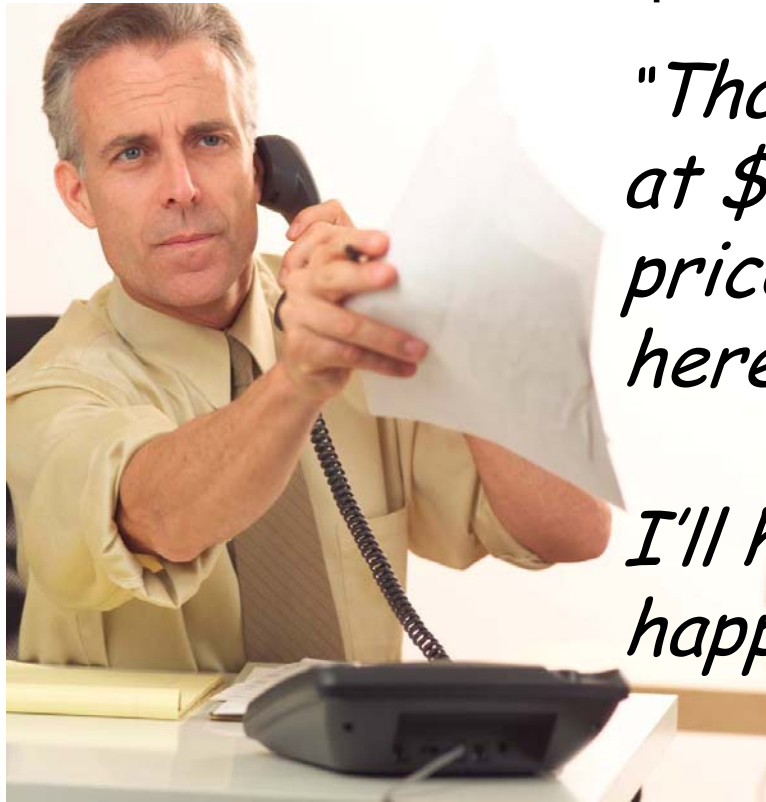
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- Uncertainty relating to pricing.
- Uncertainty relating to government.
- Uncertainty relating to environmental policies.
- A generally bad public feeling about our industry.
- In general it appears that our industry is currently “*toxic*”.

# Why is M&A Value Down?

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- Uncertainty relating to pricing.
  - M&A prices are responsive to commodity price changes.
  - Parties that do not have to sell are not selling in the current low price environment.



*"That's a great offer ...  
at \$35 -\$40 oil, but that  
price is not going to be  
here for long.*

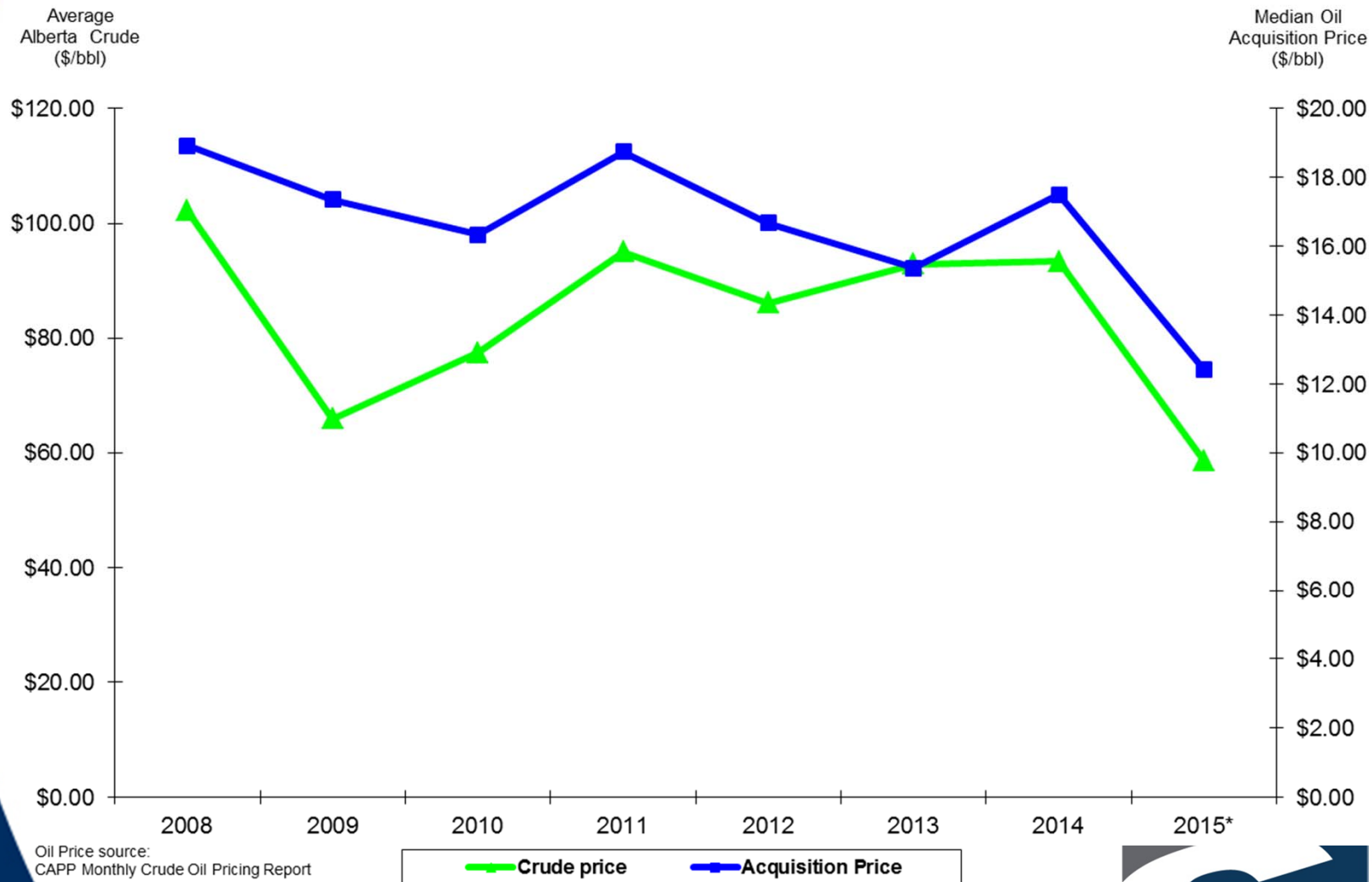
*I'll hold on and see what  
happens."*

# The Question We **HATE** Getting Asked

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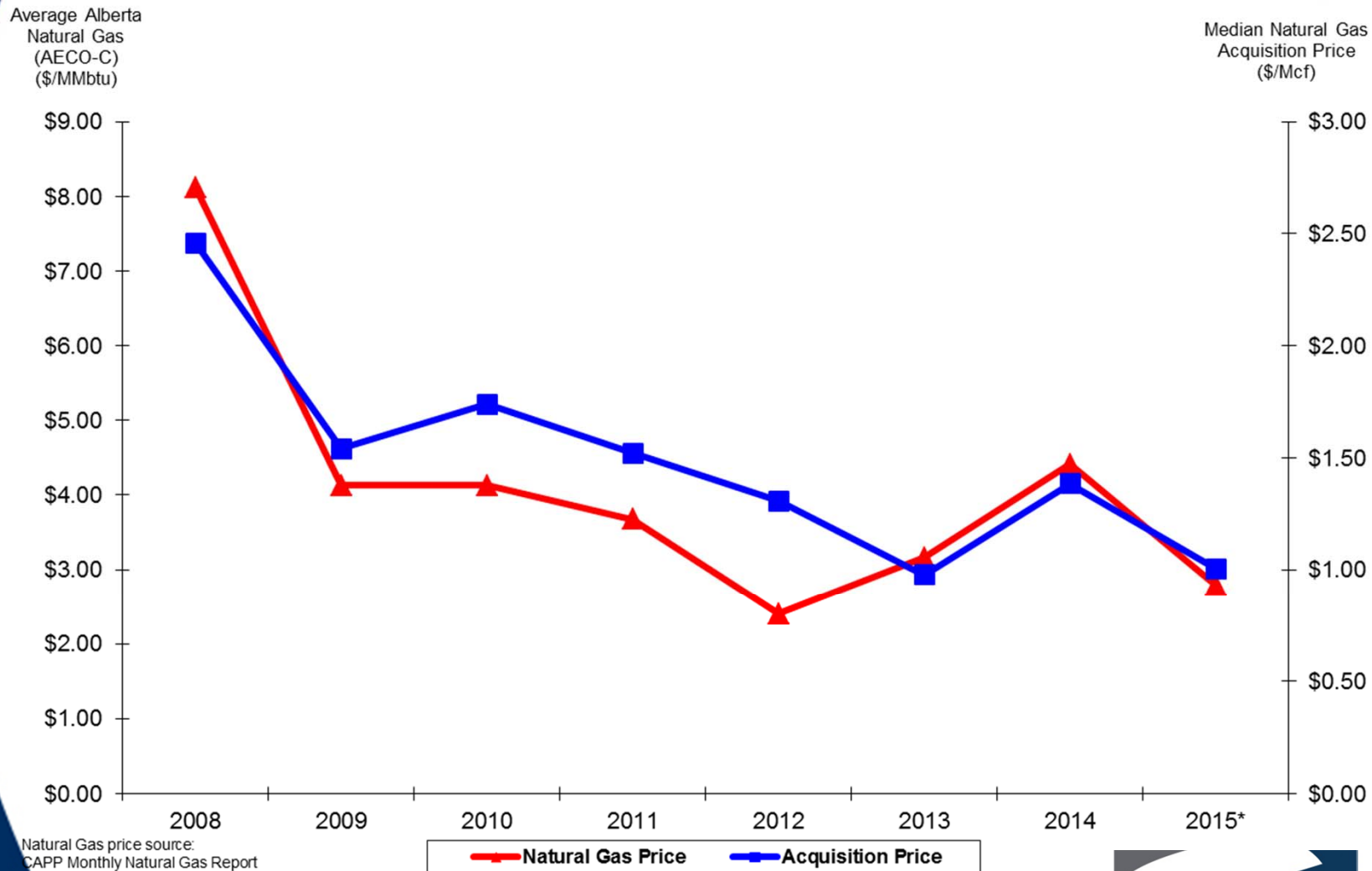
- *“When is the gap between buyers and sellers going to close?”*
  - Buyers want to buy assets because they believe that the price of oil will rise, yet they make offers as if the price is going to stay low.
  - Sellers, unless pressured to sell, will not sell at low prices unless the prospect of higher prices is reflected in the offer price.
  - A buyer which recognizes this can be successful if it offers value over and above that reflected in strip pricing.

# Correlation of Median M&A Price and Commodity Prices: **OIL**



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# Correlation of Median M&A Price and Commodity Prices: **NATURAL GAS**



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# Why is M&A Value Down?

- Uncertainty relating to government.
  - Change in provincial government.
    - Uncertainty relating to possible changes to the royalty system.
    - Uncertainty relating to handling of LLR issues.



- Change in federal government.





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# Current M&A Sticking Points: Alberta Royalty Review

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- Uncertainty regarding the outcome of the royalty review has hindered M&A activity.



- Bad memories of the previous government's 2007 "*Our Fair Share*" program linger.
- **A positive outcome is needed.**

# Does Anyone Love Our Industry?



# 2015 Look Back Forecast for 2016 M&A Activity



*Sunny ways?*



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# Increased Number of Receiverships

- While they aren't in the business of putting their customers out of business, lenders are becoming increasingly impatient with the situation, particularly relating to juniors and LLR.

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Financial Services™*

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BANK  
OF CANADA**

  
**CANADIAN  
WESTERN  
BANK**

- This has led to an increase of work for the receivers.

 **Grant Thornton**

**MNP**  
LTD

 **F T I**  
CONSULTING

  
**pwc**

  
**A  
&  
M**

  
**KPMG**

**Hardie&Kelly**

**Deloitte.**

  
**EY**

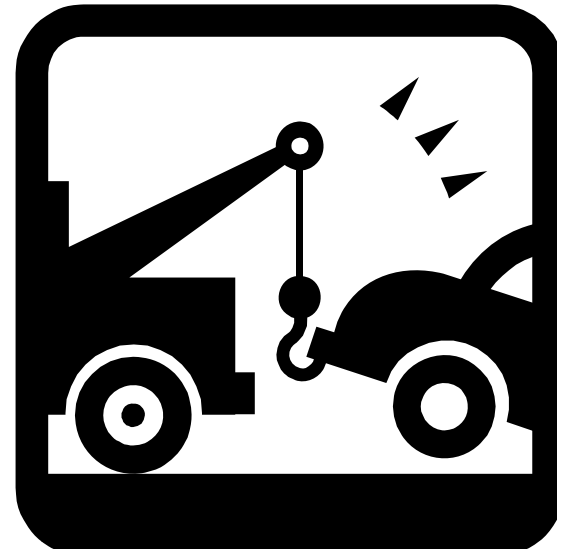
  
**SAYER**  
ENERGY ADVISORS

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# Increased Number of Receiverships

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- The number of receiverships is increasing, especially in the junior sector.
- There are typically around eight oil and natural gas companies that go into receivership each year.
- In 2015, 20\* oil and natural gas companies went into receivership, by far the most since the previous downturn, in 2009, when a total of 20 companies also went under.



- \*includes three related entities (*Conserve Oil Group Inc., COGI Limited Partnership and Canadian Oil & Gas International*)

# 2014-2015 Receiverships



**Sedna Oil & Gas Ltd.**



**BARRIER REEF  
RESOURCES**



**CONSERVE  
OIL GROUP**

**IVANHOE ENERGY INC.**



**Western Plains  
Petroleum Ltd.**



**Premier Petroleum Corp.**

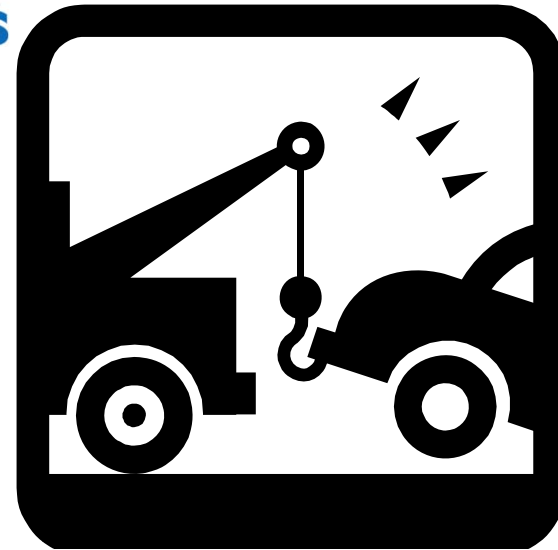
**QWEST DIVERSIFIED  
ENERGY CORPORATION**



**RedWater  
Energy Corporation**



**LEGEND**



# Receiverships & LLR

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- LLR uncertainty
  - The AER's handling of LLR for insolvent companies is disrupting the orderly sale of assets and the distribution of proceeds to creditors.
  - The ATB has formally challenged, in court, the AER's handling of such issues in the case of RedWater Energy Corporation.



- **Until there is resolution in this matter, the M&A market for troubled or insolvent juniors will remain in turmoil.**

# Who's Next?

- The big question on everyone's mind is who will be the next big blow up?



- Spyglass was a big one in terms of net debt, production size and well count but there are fears that even bigger ones are pending.





# Environmental

- Environmental factors are becoming more of a concern/impediment/issue in M&A transactions.
- It is more common than ever for agents to see deals lost following environmental due diligence.



# Shareholder Activism

- Activist shareholders are forcing companies into strategic alternatives processes at an inopportune time.



**LIVERMORE  
PARTNERS**



**?**



**?**

# Shareholder Activism

- There is sure to be more shareholder activism as year-end results are released.



# Hostile Takeovers

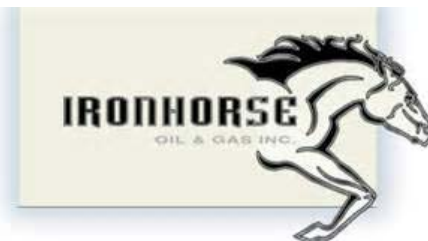
- The Canadian market does not generally see a lot of “*hostile*” activity.
- Two recent hostiles are on the radar.



**1927297**  
**Alberta Ltd.**



Canadian Oil Sands

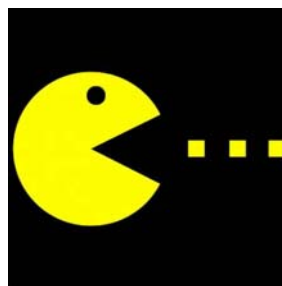


- There may be more hostile takeovers attempted as year-end financial results and updated reserve reports are released.

# 2016: More “*Friendly*” Paper Deals

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- Look for a significant increase in friendly “*paper deals*”.
- Most likely acquirers are companies with “*strong paper*”.



- As with shareholder activism and hostile takeovers, this activity will pick up as year-end financial and operating results are released.

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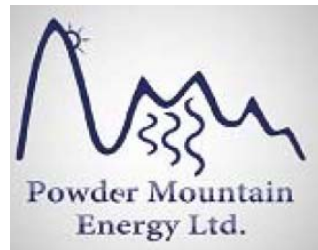
# Companies **SOLD** in 2015



**Carmel Bay  
Exploration Inc.**



**Mapan Energy  
Ltd.**



**Dolomite  
Energy Inc.**



**StonePoint  
Energy Inc.**



**Beaumont  
Energy  
Inc.**



**NEXXCO  
ENERGY LTD.**  
DELIVERING RESULTS



# Currently “On the Block” or “Reviewing Strategic Alternatives”



(transaction pending)



ALBERTA  
**OILSANDS** INC.



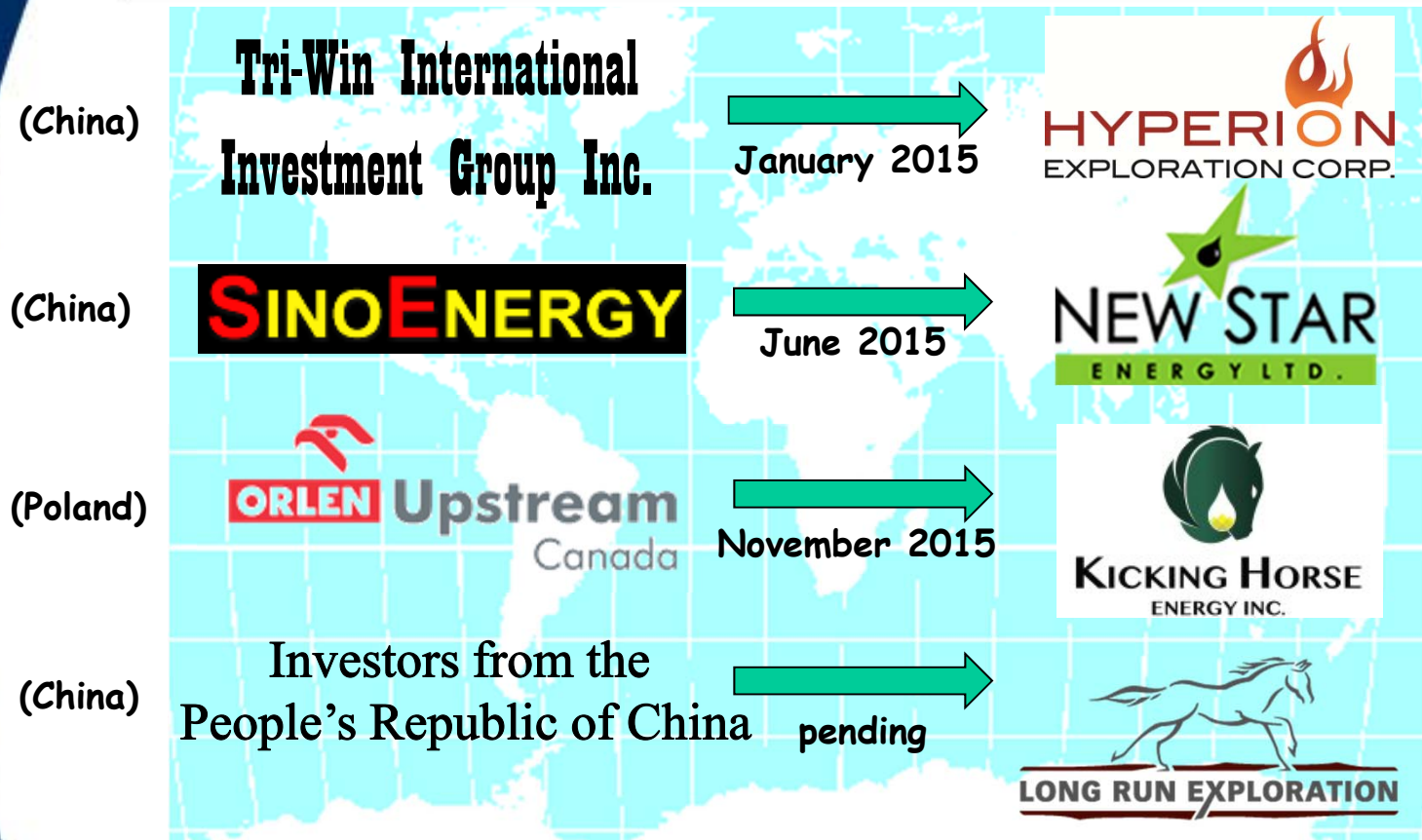
(transaction pending)



**Tuscany**  
ENERGY LTD.



# 2016: Foreign Interest in Canadian Oil and Natural Gas Will Continue



- Key to further deals is resolution of issues of government intervention.

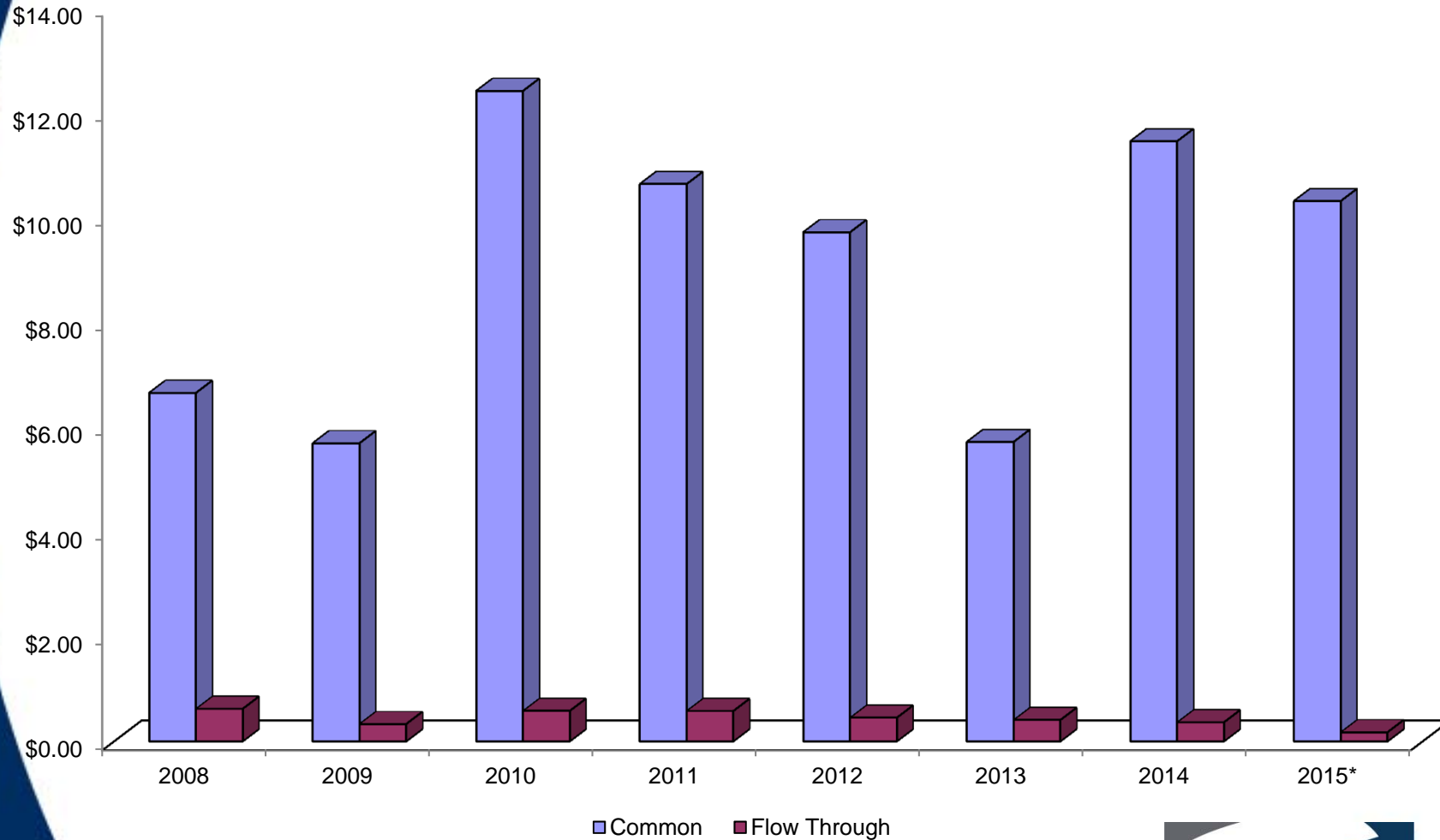


# Total Canadian Oil & Natural Gas Financings (\$ Billions)

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- New equity is key to funding M&A activity.
- Financing activity was significantly down in 2015.
  - Including equity and debt issues, a total of \$16.7 billion in capital was raised in 2015.
  - \$24.6 billion was raised in 2014
- Equity raised was down slightly in 2015, with \$10.5 billion raised vs. \$11.8 billion raised in 2014; however, **roughly 34% of the equity raised was used to pay down debt or to redeem commercial paper, not to increase capital spending.**
- There was also a big drop in debt issues, with only \$6.2 billion raised in 2015 compared to \$12.8 billion in 2014.

# Total Canadian Oil & Natural Gas Equity Financings (\$ Billions)



# 2016: Private Equity Will Increase Its Presence

- With lethargic public capital markets, private equity has recently stepped up its presence. The majority of recent private equity funds have come from Canada.



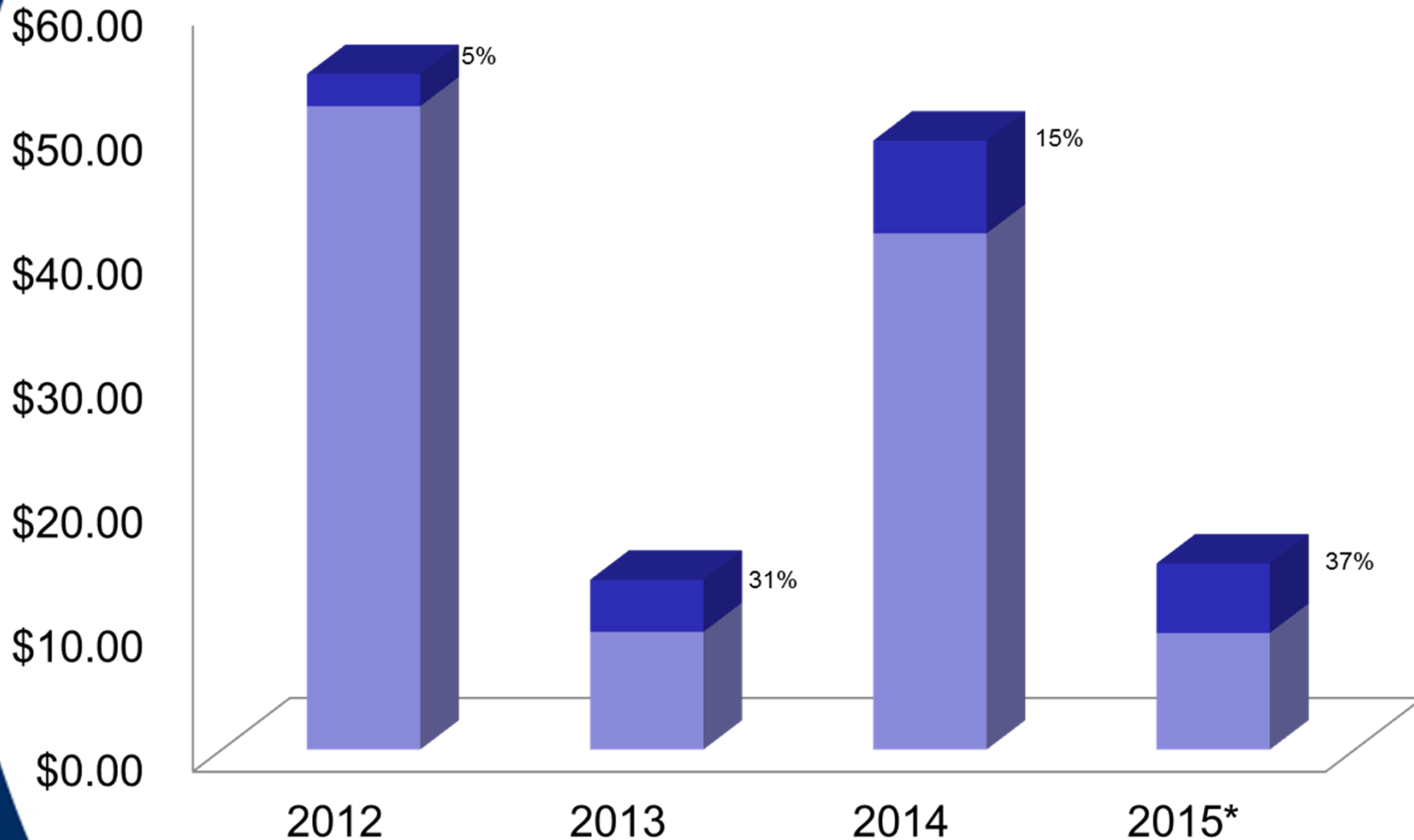
**Brookfield**

- US hedge funds are starting to step up and place funds in Canada.

**RIVER  
STONE**



# Total M&A Value vs. Total M&A Value Done By Private Entities (\$ Billions)



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# Summary

- The M&A market needs cooperation from all levels of government.
  - Royalty framework, LLR, environmental, pipelines, ...
- There will be more insolvent junior companies in 2016.
- LLR and environmental issues will continue to factor into M&A transactions.
- Many companies will “*roll over*” to low prices and willingly enter the M&A market.
- Many companies will enter the M&A market unwillingly.
  - Pressure from shareholders; hostile takeover attempts; pressure from bankers.
- More share-for-share transactions will be concluded.
- Private equity will continue to step up.
- The industry will survive.

“Never let  
defeat  
have the **last**  
**word.**”

Tibetan Proverb



*“The future ain't what it used to be.”*  
Yogi Berra (1925-2015)



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