

# State of the 2016 A&D Market

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## Sayer Energy Advisors' Perspective

Presented to the



**Canada's Conference for the Oil and Gas Industry**

November 23, 2016

**Tom Pavic, CFA**

**Vice-President**

**Sayer Energy Advisors**



# Disclaimer

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- **The opinions presented are those of the presenter but please direct critical comments elsewhere. I am sensitive and I am easily offended.**

Sayer Energy Advisors

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A large, stylized letter 'S' in dark blue, which serves as a background for the main logo elements.

**SAYER**

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**ENERGY ADVISORS**



# 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.

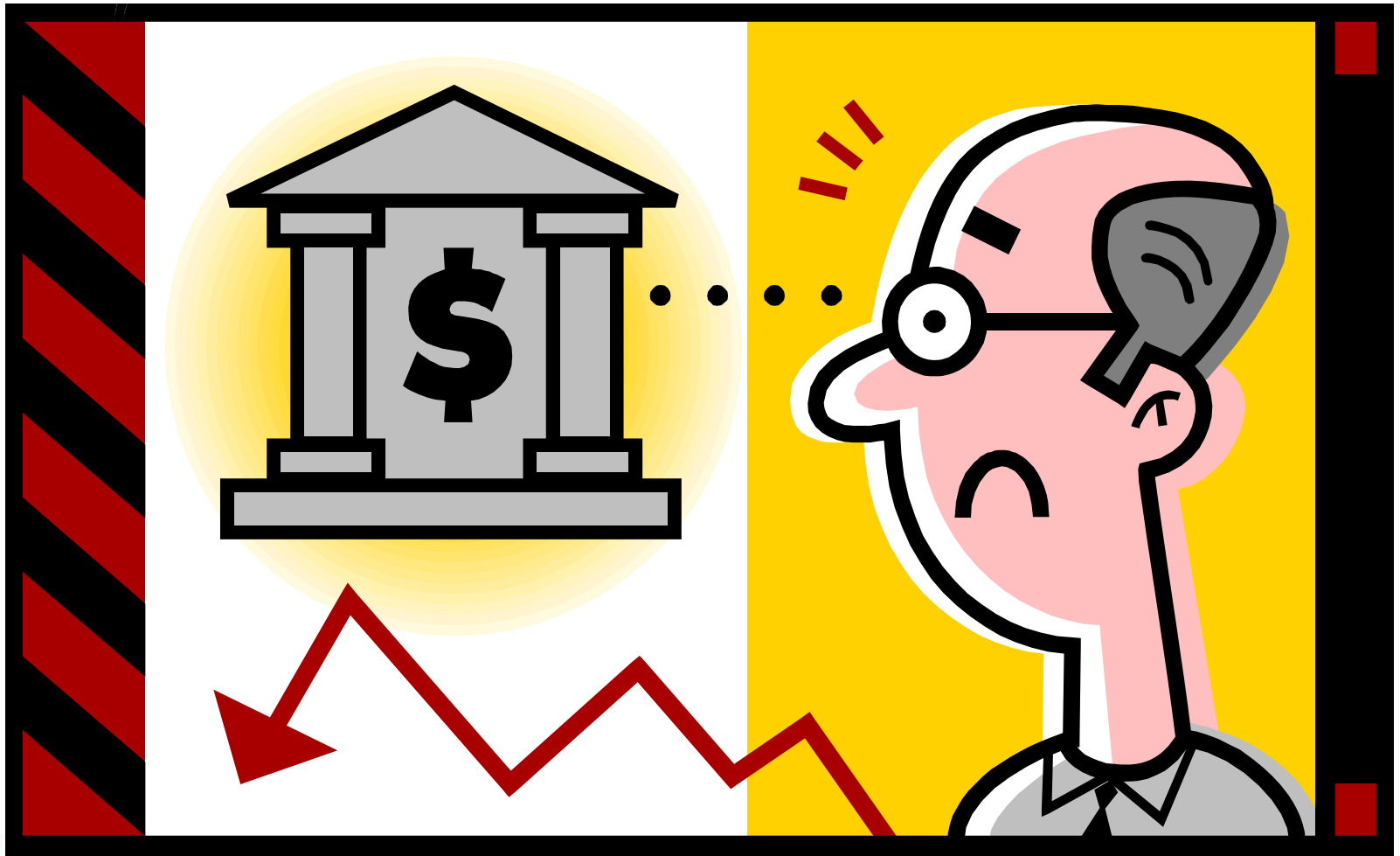
**Property Divestiture**  
15 Properties  
246 boe/d (104 bbl/d, 870 Mcf/d)

**CANADIAN OIL INDUSTRY MERGER AND ACQUISITION REPORT**  
FOURTH QUARTER 2011

**HIGHLIGHTS**  
Median Enterprise Acquisition Price - \$15.28/bbl  
Median Production Acquisition Price - \$67.26/bbl  
Enterprise Value of Transactions - \$5.3 billion  
Assets and Companies for Sale - \$8.9 billion

Purchaser	Acquisition	Enterprise Value (\$MM)	Price (\$/bbl)	Production (\$/bbl)
Amoral	Equal assets	40.25	16.10	29,833
Big Creek	Equal assets	20.10	16.51	66,534
Citic	ConocoPhillips assets	50.00	7.62	18,873
Fraserfield	Bonanza assets	50.20	16.48	88,980
Parul	Equal assets	8.30	11.67	23,714
Sasview	Silverback	75.51	12.82	82,034
Sasview	Silva	18.11	6.70	29,533
Sinclair	Drayton	1,171.70	17.42	80,088
Storm	British Columbia assets	15.90	22.11	106,000
Storm	Storm Gas	56.06	20.24	119,790
Surge	Phadras	101.34	21.85	83,213
Trans-Bulls	Energy	198.31	11.79	28,832
Undisclosed Buyer	Dayles assets	36.00	21.83	545,987
Undisclosed Buyer	Cobra assets	5.25	110.51	182,461
Undisclosed Buyer	Comanche assets	7.16	6.98	61,263
Westfire	Alberta assets	40.30	22.03	66,100
Whitecap	Compass	100.00	17.19	68,214
Winnipeg et al	Investments & Grassy assets	19.80	6.16	14,885

# Recent M&A Activity Metrics



# We Are in a Buyers' Market



"You spelled garbage wrong."

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

>\$100,000/boe/d



factors  
leading to  
higher prices

light oil

low

operating expense

operated

facility capacity

high amount of  
economic upside

high  
working interest

MEDIAN PRICE

low  
working interest

non-operated

high  
operating expense

dry gas

numerous shut-in wells

very limited amount  
of upside

facility constrained

factors  
leading to  
lower prices



<\$10,000/boe/d

# Cash Flow is King!

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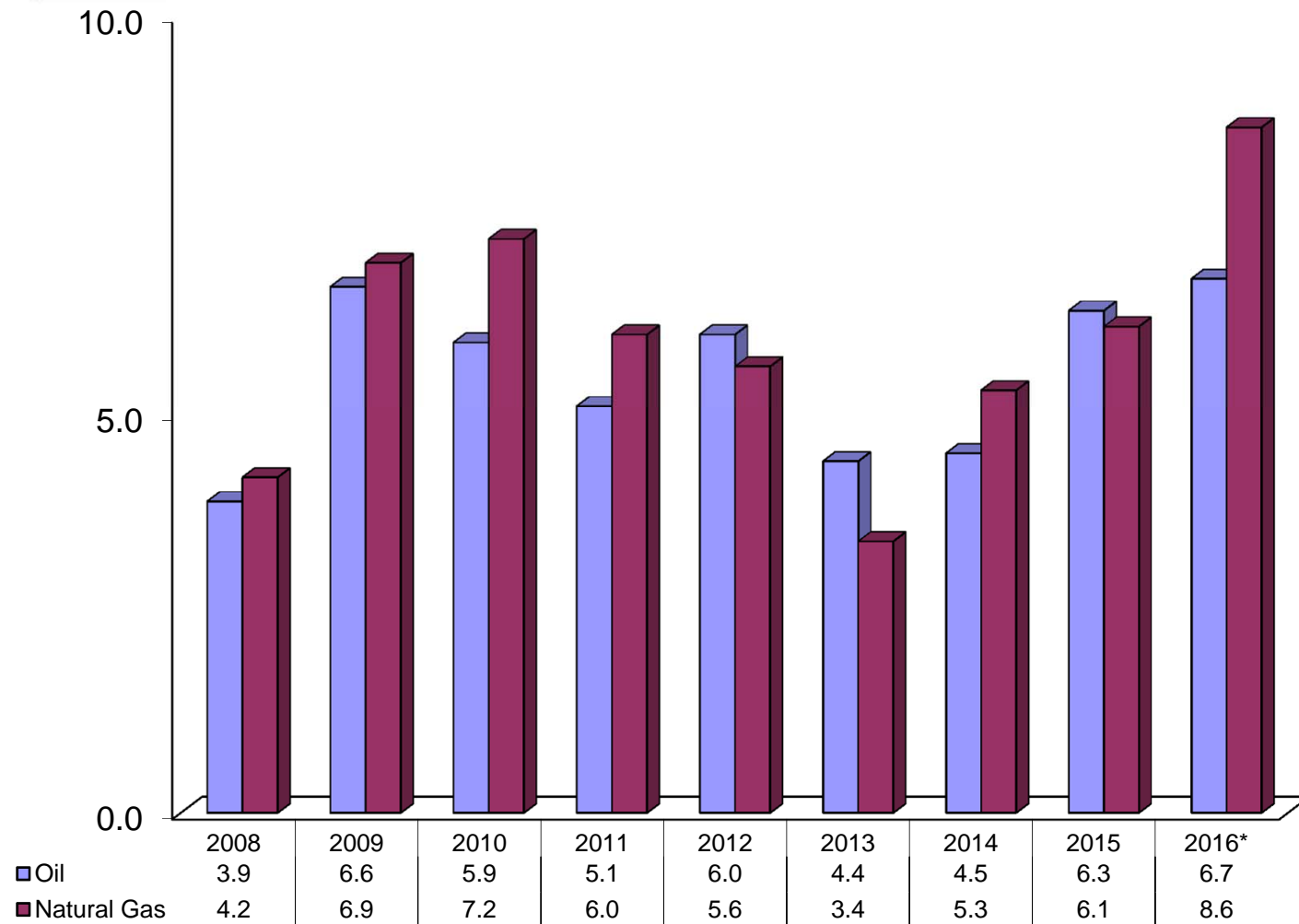
- Deals are being done on a cash flow basis, less consideration for liabilities.



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



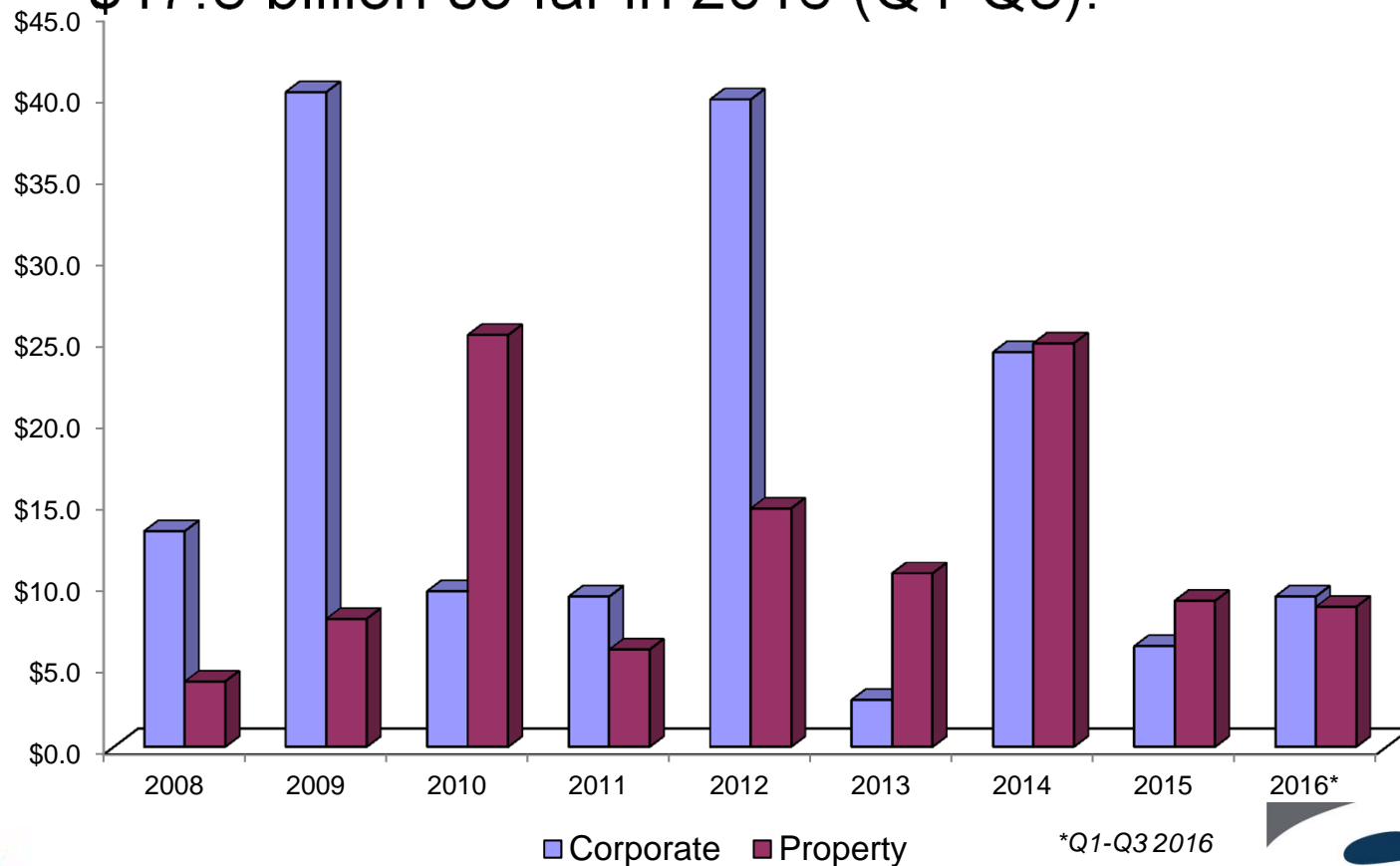
# Historical Cash Flow Multiples



\*Q1-Q3 2016

# Total Value of M&A Activity

- Total M&A value of approximately \$15 billion in 2015 compared to \$49 billion for 2014.
- \$17.8 billion so far in 2016 (Q1-Q3).



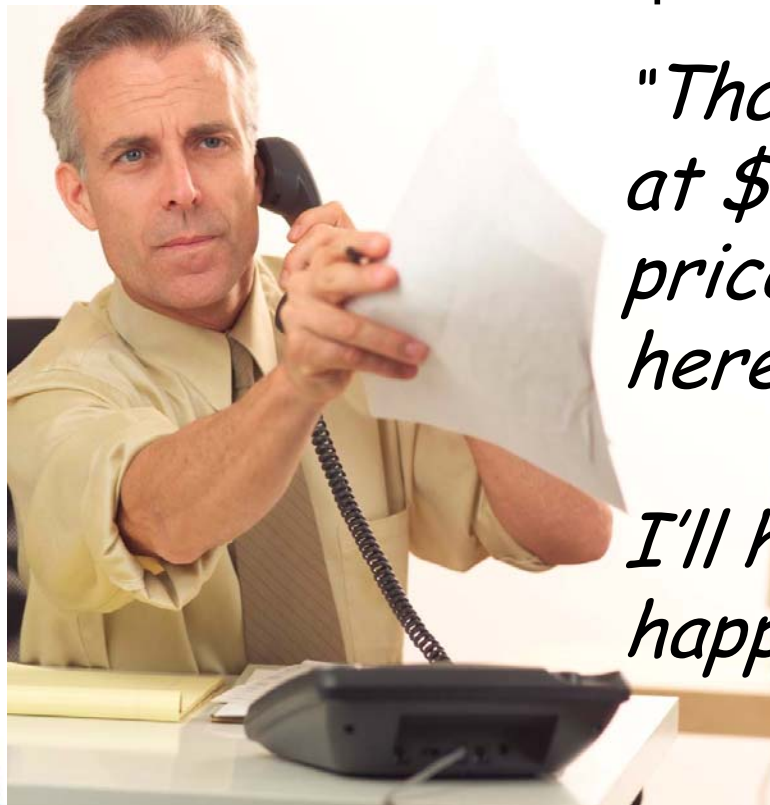
## Why is M&A Value Down?

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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?

- 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 \$45-\$50 oil, but that  
price is not going to be  
here for long.*

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

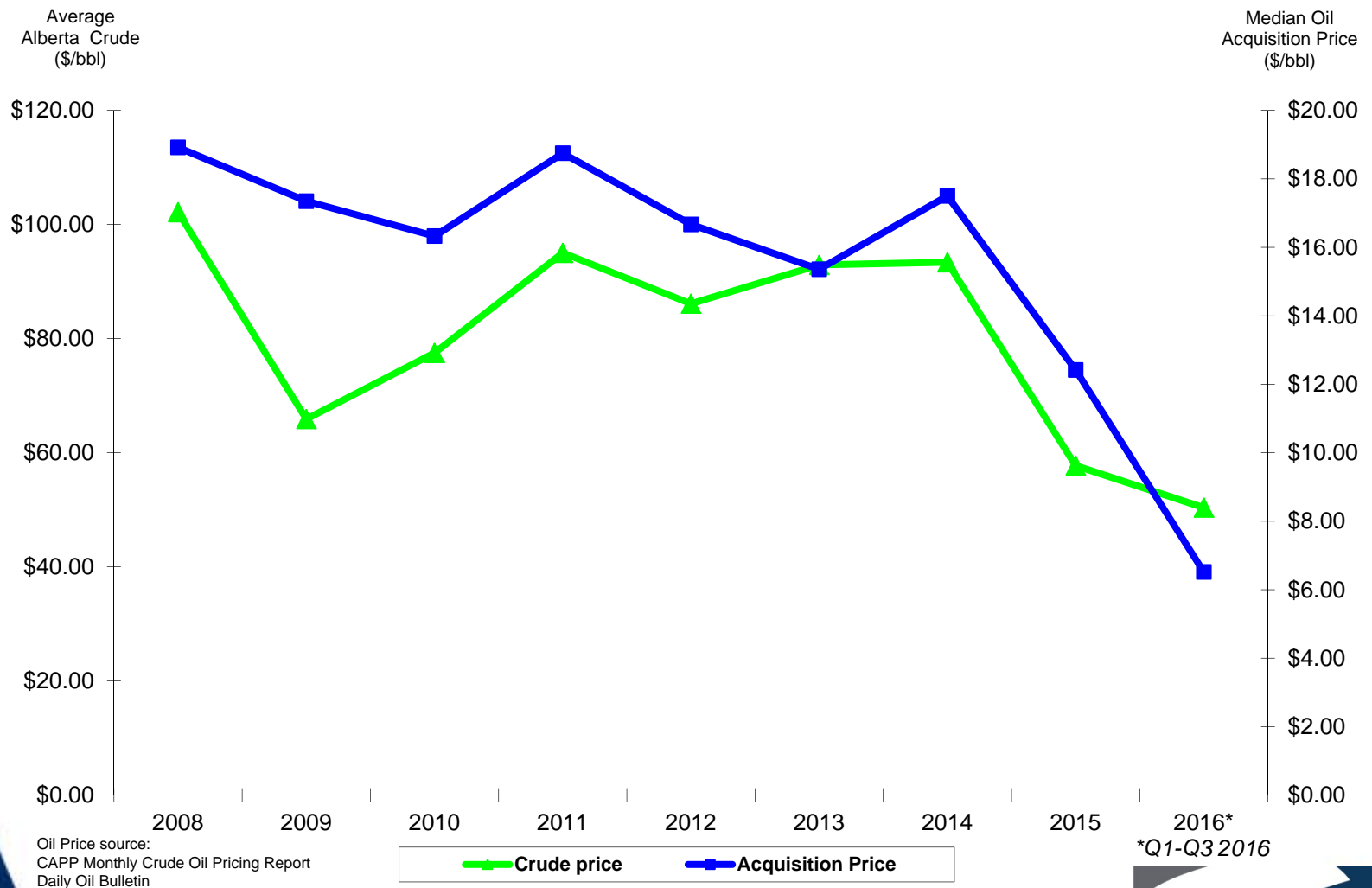


# The Question We **HATE** Getting Asked

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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.

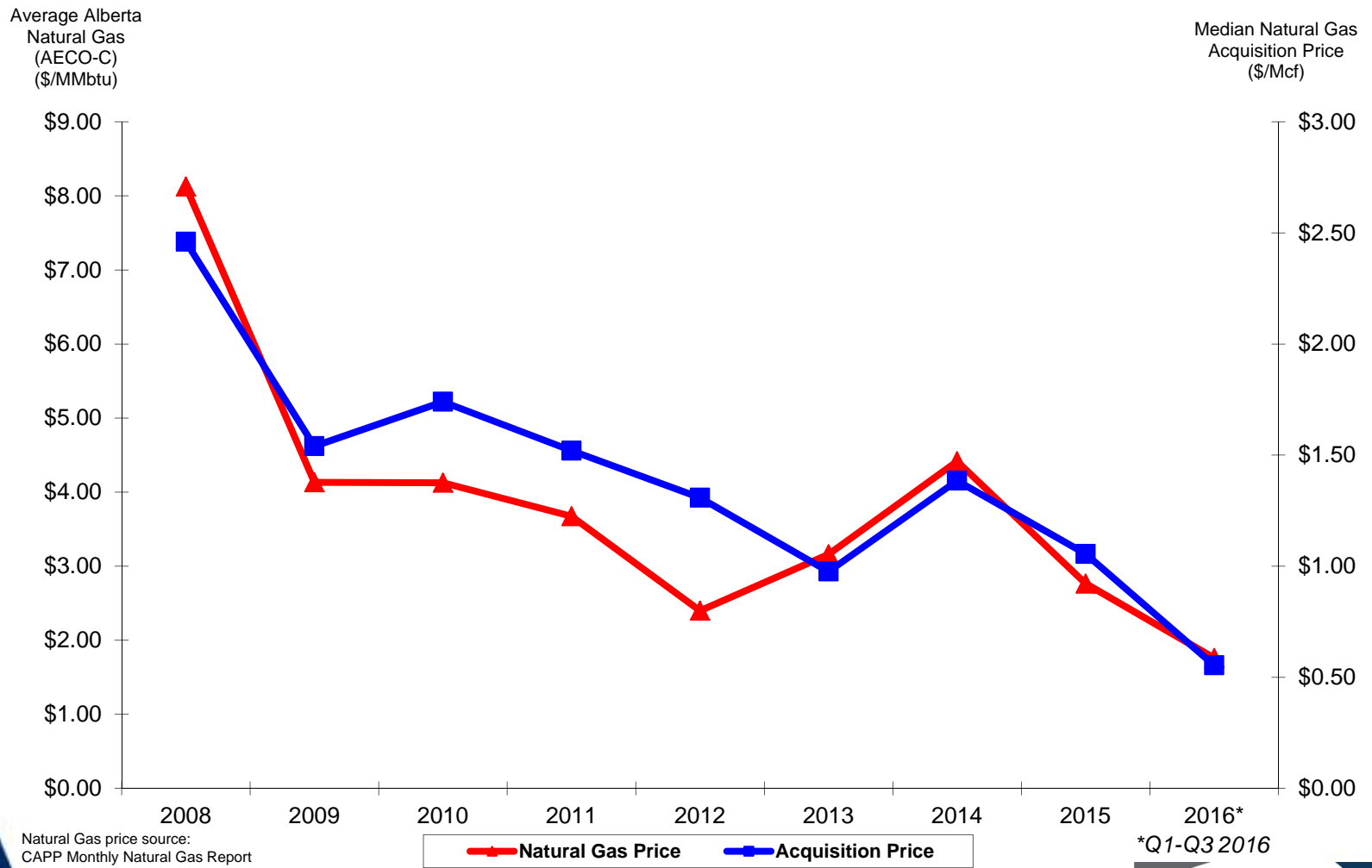
# Correlation of Median M&A Price and Commodity Prices: **OIL**



\*Q1-Q3 2016



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



# Why is M&A Value Down?

- Uncertainty relating to government.
  - Change in provincial government.
    - Uncertainty relating to carbon taxes, emissions caps, etc.
    - Uncertainty relating to handling of LLR issues.

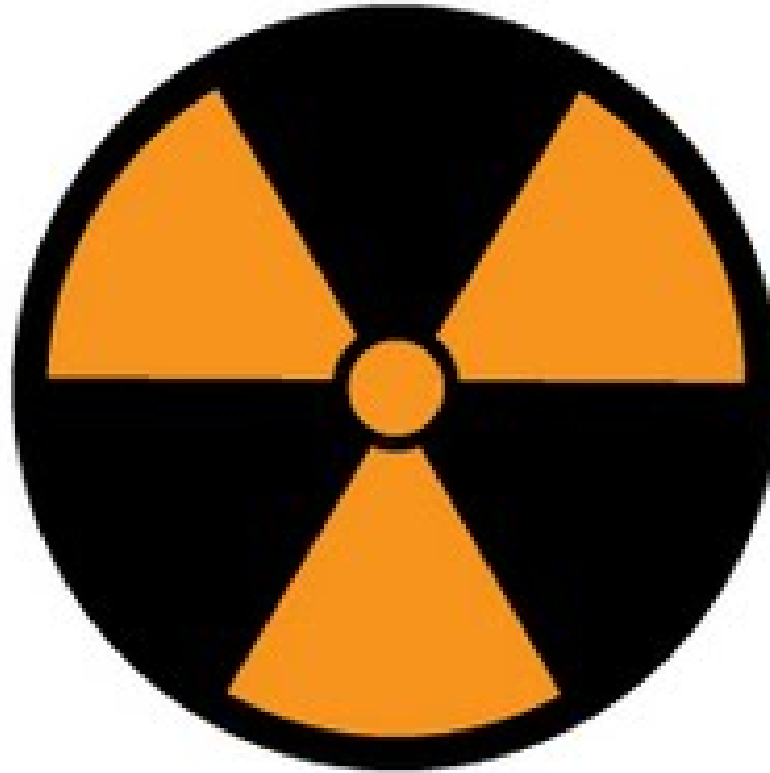


- Change in federal government.



# Does Anyone Love Our Industry?

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# TOXIC

# Does Anyone Love Our Industry?

- Uncertainty relating to government.
  - Change in US federal government.
    - Uncertainty relating to carbon taxes, emissions caps, etc.
    - Uncertainty relating to handling of pipeline issues.



# 2016 YTD Look Back

## Forecast for Upcoming M&A Activity



*Sunny ways?*



# Increased Number of Receiverships

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



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





# Increased Number of Receiverships

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- 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 or CCAA, by far the most since the downturn, in 2009, when a total of 20 companies also went under.
- The number of receiverships increased in 2016, especially in the junior sector. So far in 2016 there have been 26 companies entering into receivership or CCAA.
- \*includes three related entities (*Conserve Oil Group Inc.*, *COGI Limited Partnership* and *Canadian Oil & Gas International*)



# 2014-2015 Receiverships & CCAA



**Sedna Oil & Gas Ltd.**



**BARRIER REEF  
RESOURCES**



**IVANHOE ENERGY INC.**



**QWEST DIVERSIFIED  
ENERGY CORPORATION**



# Increased Number of Receiverships

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- So far in 2016 there have been 26 companies entering into receivership or CCAA.
- It appears that the worst is over, as most of the distressed companies have been dealt with, one way or another.



# 2016 Receiverships & CCAA

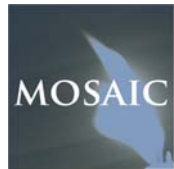
HIGH NORTH RESOURCES LTD.  **Bumper Development Corporation Ltd.**

Brevia Energy  **Detector Exploration Ltd.**

**Quicksilver Resources  
Canada Inc.**

 **TERRAENERGY  
CORP**

 **SUMMERFIELD  
ENERGY INC.**

 **MOSAIC | ENERGY**

 **Connacher**  
OIL AND GAS LIMITED

 **Nordegg**  
Resources Inc.

**Kinwest 2008  
Energy Inc.**

 **Anterra**  
Energy Inc.



 **QUATTRO**  
EXPLORATION AND PRODUCTION LTD.

**Tudor Corporation Ltd.**

 **Northpoint Resources Ltd.**  
 **LIGHTSTREAM**  
RESOURCES

 **ENDURANCE ENERGY**

 **LGX**  
OIL + GAS INC.

 **ARTISAN ENERGY**  
CORPORATION

 **MAGNUM**  
ENERGY inc.

 **EDGE**  
RESOURCES

 **Tuscany**  
ENERGY LTD.

 **GAMET**  
gamet resources ltd.

 **TWIN BUTTE**  
ENERGY LTD.

 **Northpine**  
Energy Ltd.

# Who's Next?

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



- Spyglass & Twin Butte are the biggest companies to go down in receivership. Lightstream is in a CCAA process, hoping to avoid the same fate.
- The worst is behind us.



**TWIN BUTTE**  
ENERGY LTD.



# 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 formally challenged, in court, the AER's handling of such issues in the case of RedWater Energy Corporation. The decision is under appeal.



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





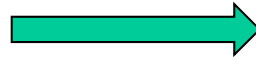
# Environmental

- 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.



# Stakeholder Activism

- Activist stakeholders are forcing companies into strategic alternatives processes at an inopportune time or disrupting the processes.



**LIVERMORE  
PARTNERS**



**DEBENTURE  
HOLDERS**



**REIGNWOOD RESOURCES  
HOLDINGS PTE. LTD.**

**?**



**?**



# 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 hostiles were on the radar this year.



**1927297  
Alberta Ltd.**



**Canadian Oil Sands**

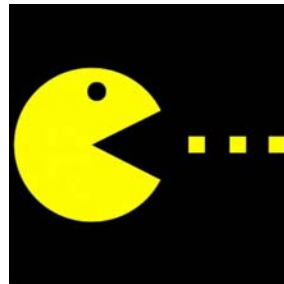


- There could be more hostile takeovers attempted as year-end financial results and updated reserve reports are released, but this is a rare occurrence.

## 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, this activity could pick up as year-end financial and operating results are released.



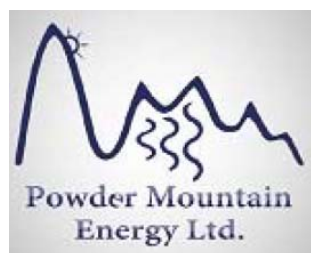
# Companies **SOLD** in 2015



**Carmel Bay  
Exploration Inc.**



**Mapan Energy  
Ltd.**



**Dolomite  
Energy Inc.**



**StonePoint  
Energy Inc.**



**Beaumont  
Energy  
Inc.**



**NEXXCO  
ENERGY LTD.**  
DELIVERING RESULTS





# Companies **SOLD** to date in 2016



**Bergen Resources Inc.**



**ANDERSON**  
ENERGY INC.



**rockenergy**



WYATT OIL + GAS INC.

**RAIMOUNT ENERGY INC.**

(transaction pending)

*Companies' entire asset base sold out of a receivership or CCAA process:*



**Kinwest 2008  
Energy Inc.**



**Detector Exploration Ltd.**



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

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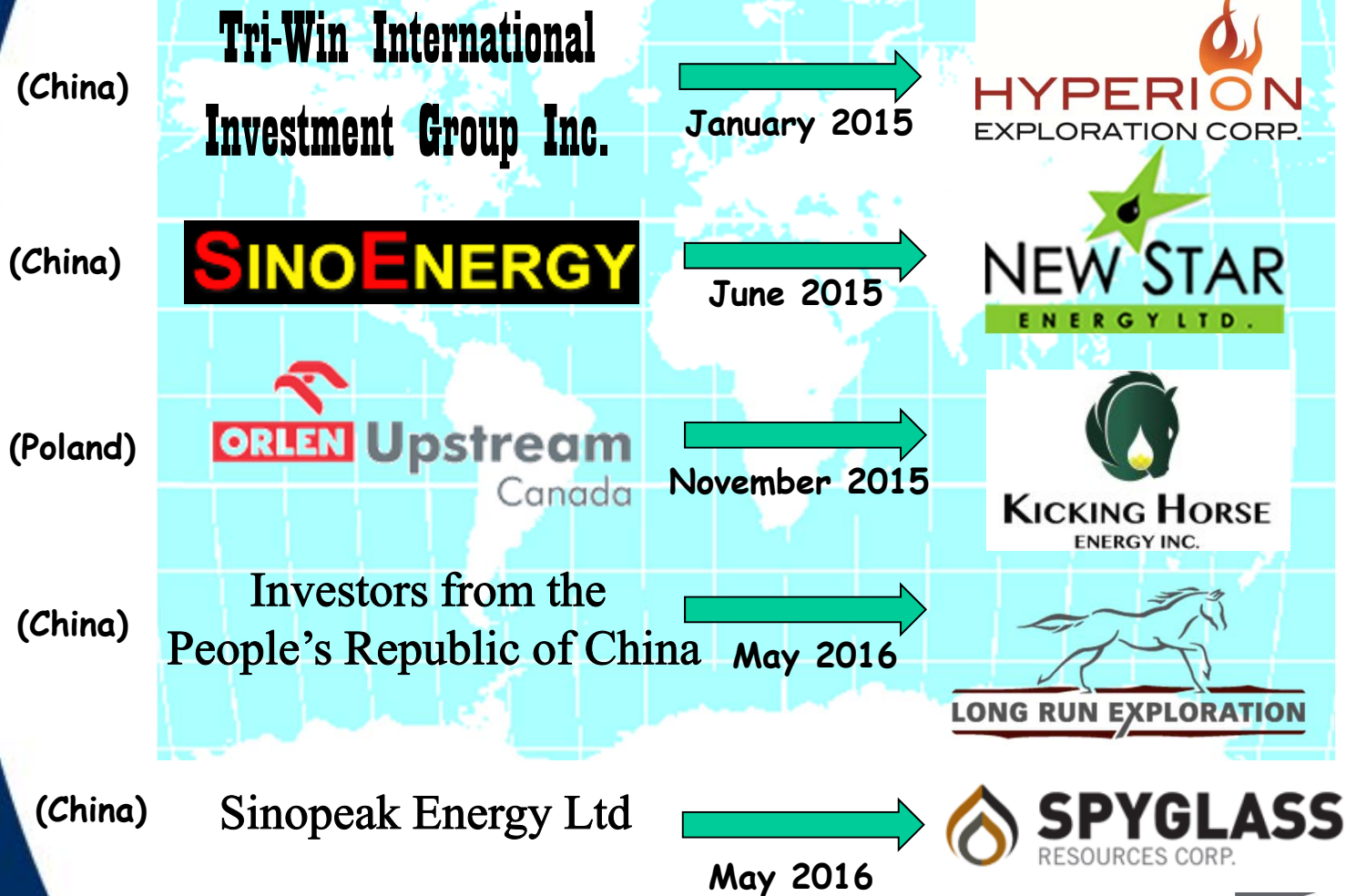


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## Companies currently in a CCAA process:



# Foreign Interest in Canadian Oil and Natural Gas Will Continue

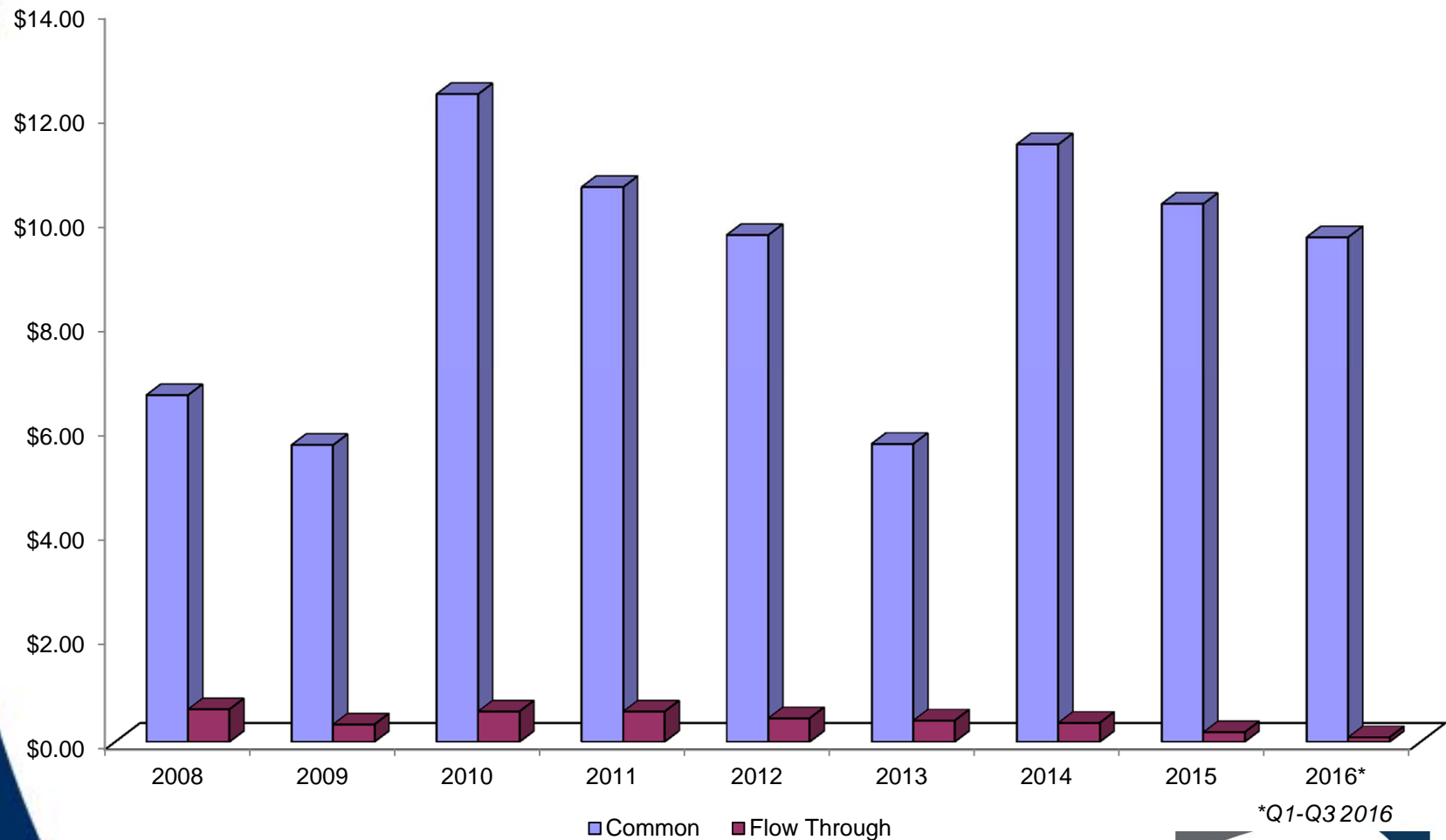


# Total Canadian Oil & Natural Gas Financings (\$ Billions)

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- New equity is key to funding M&A activity.
- Financing activity was significantly down in 2015 but there has been a rebound in interest in equity financings and a decrease in debt issues in 2016.
  - Including equity and debt issues, a total of \$17.2 billion in capital was raised in 2015.
  - \$24.6 billion was raised in 2014.
  - \$11.3 billion has been raised in the first three quarters of 2016, \$9.8 billion in equity and \$1.5 billion in debt.
- 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.**
- It is likely that much of the equity raised in 2016 will be used to fund growth.

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





# 2016: Private Equity Has Increased 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**





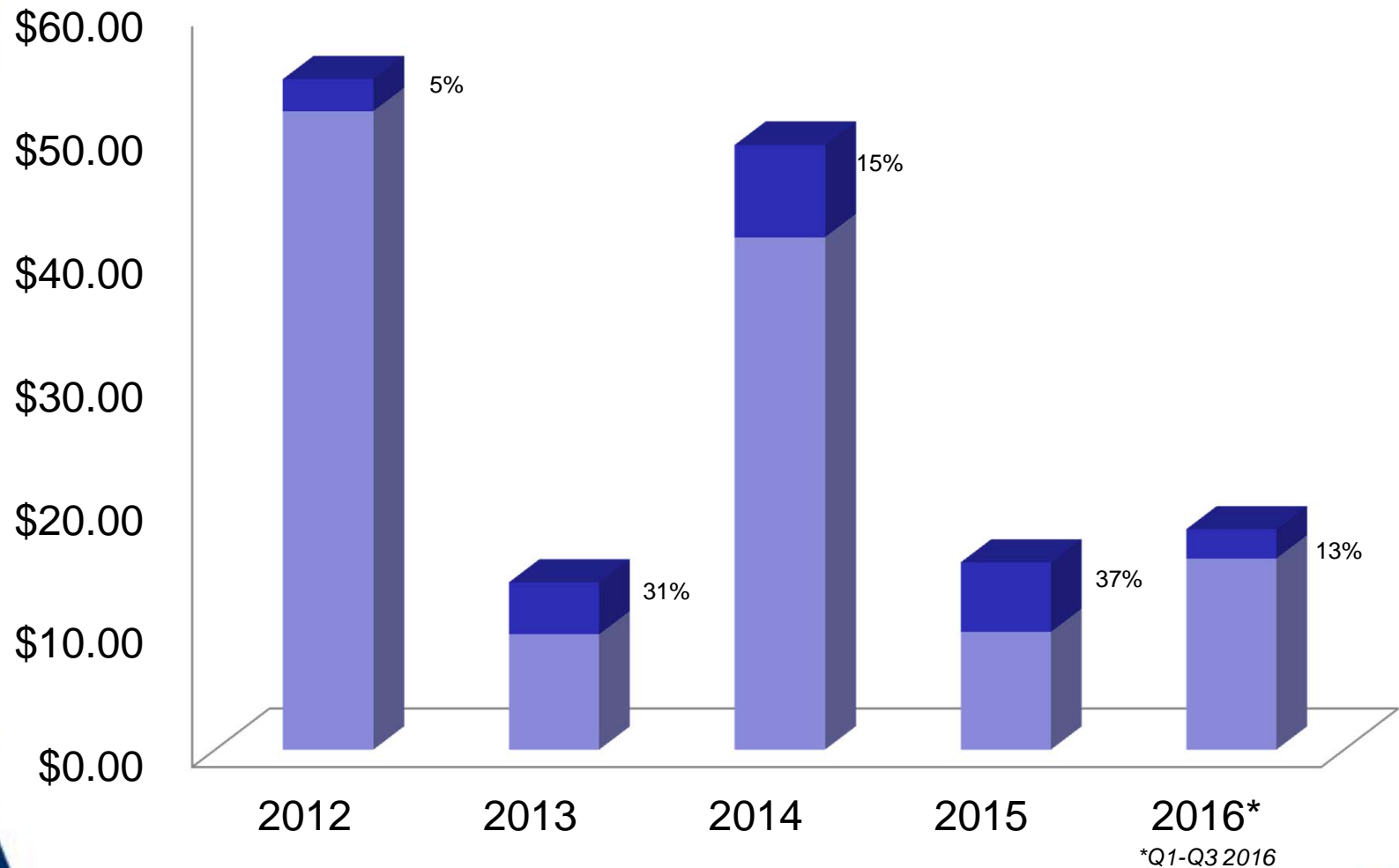
# 2016: Private Equity Has Increased Its Presence

## Top 10 Publicly Disclosed PE Deals in the First Half of 2016

RANK	COMPANY	PROVINCE	PE FIRM(S)	SECTOR	\$ MIL.
1	SASKATCHEWAN ASSETS OF PENN WEST PETROLEUM	SASKATCHEWAN	CANADA PENSION PLAN INVESTMENT BOARD (CPPIB), PENN WEST PETROLEUM LTD, TEINE ENERGY LTD.	OIL & GAS, POWER	\$975
2	SERVICES MATREC INC.	QUEBEC	HIGHBRIDGE PRINCIPAL STRATEGIES, MACQUARIE INFRASTRUCTURE AND REAL ASSETS (MIRA), HAWTHORN EQUITY PARTNERS	CLEANTECH	\$800
3	RIMROCK OIL & GAS	ALBERTA	WARBURG PINCUS	OIL & GAS, POWER	\$690
4	PACIFIC EXPLORATION & PRODUCTION CORP	ONTARIO	CATALYST CAPITAL GROUP INC.	OIL & GAS, POWER	\$641
5	CAPSTONE INFRASTRUCTURE CORPORATION	ONTARIO	ICON INFRASTRUCTURE	CLEANTECH	\$480
6	LIFEMARK HEALTH AND VIEWPOINT MEDICAL ASSESSMENTS	ONTARIO	AUDAX MANAGEMENT COMPANY, LLC, CENTRIC HEALTH CORPORATION	LIFE SCIENCES	\$245
7	ARALEZ PHARMACEUTICALS INC.	ONTARIO	BROADFIN CAPITAL, LLC, DEERFIELD MANAGEMENT COMPANY, L.P., JW ASSET MANAGEMENT, LLC, QLT INC.	LIFE SCIENCES	\$206
8	TRANSALTA RENEWABLES INC	ALBERTA	ALBERTA INVESTMENT MANAGEMENT CORPORATION (AIMCO), TRANSALTA CORPORATION	CLEANTECH	\$200
9	BANRO CORPORATION	ONTARIO	RESOURCE FINANCEWORKS LIMITED	MINING & RESOURCES	\$137
10	FISSION URANIUM CORP.	BC	CGN MINING COMPANY LIMITED	MINING & RESOURCES	\$82

SOURCE: CVCA Venture Capital & Private Equity Canadian Market Overview; First Half 2016, as published in Nickle's Daily Oil Bulletin on October 31, 2016

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



[illegible]

# Summary

- The M&A market needs cooperation from all levels of government.
  - Royalty framework, LLR, environmental, pipelines, ...
- There have been more insolvent junior companies in 2016.
- LLR and environmental issues will continue to factor into M&A transactions.
- Many companies will “roll over” to sustained 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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