

# State of the 2016 A&D Market

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## Sayer Energy Advisors' Perspective

Presented to the  
***Society of Petroleum  
Evaluation Engineers***



November 15, 2016

**Alan W. Tambosso, P.Eng. P.Geol.**  
**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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# SAYER

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## ENERGY ADVISORS

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# Sayer Energy Advisors

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- 29.8 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.

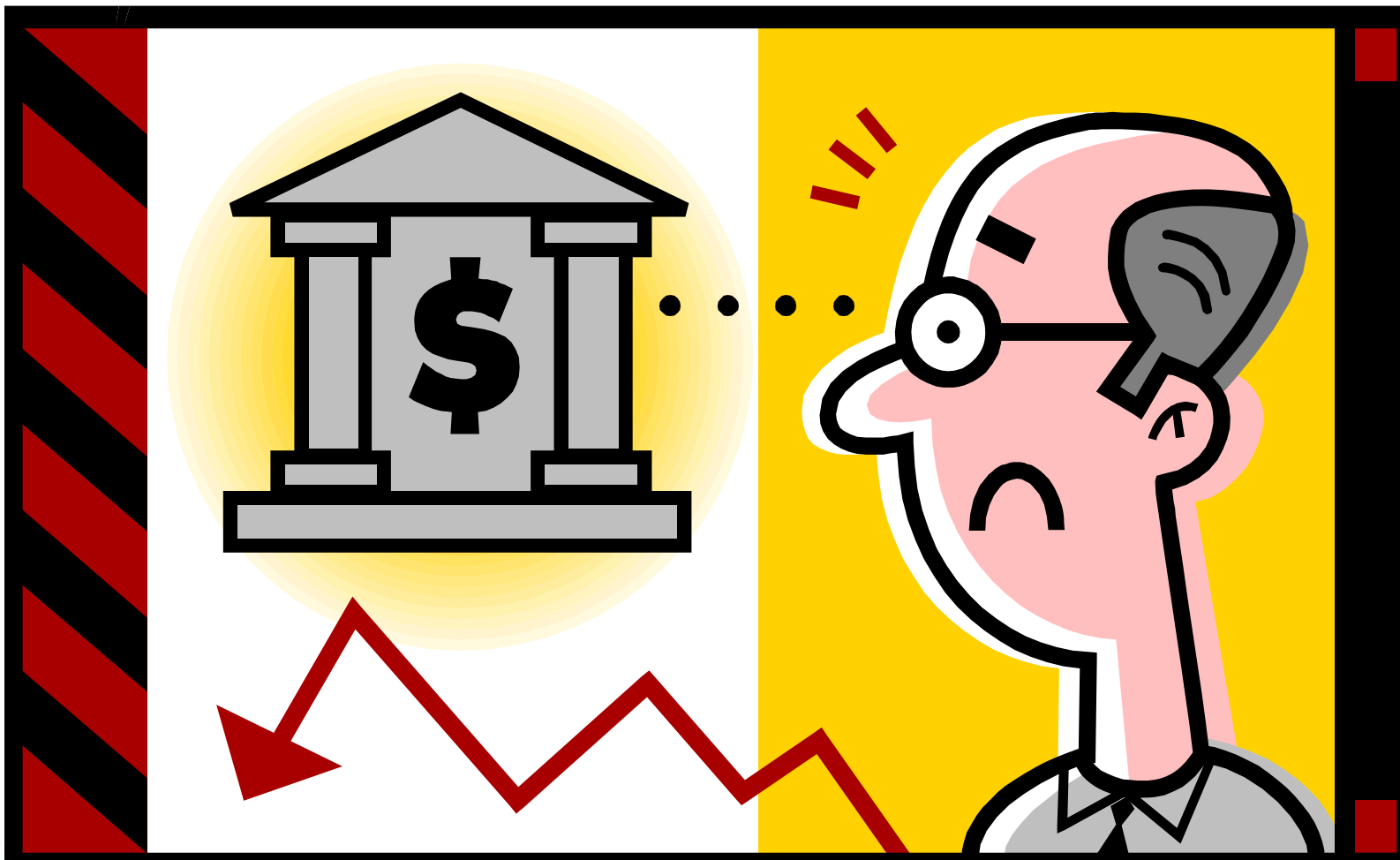
## Corporate Advisory Services

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

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- 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.

# Recent M&A Activity Metrics



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# We Are in a Buyers' Market

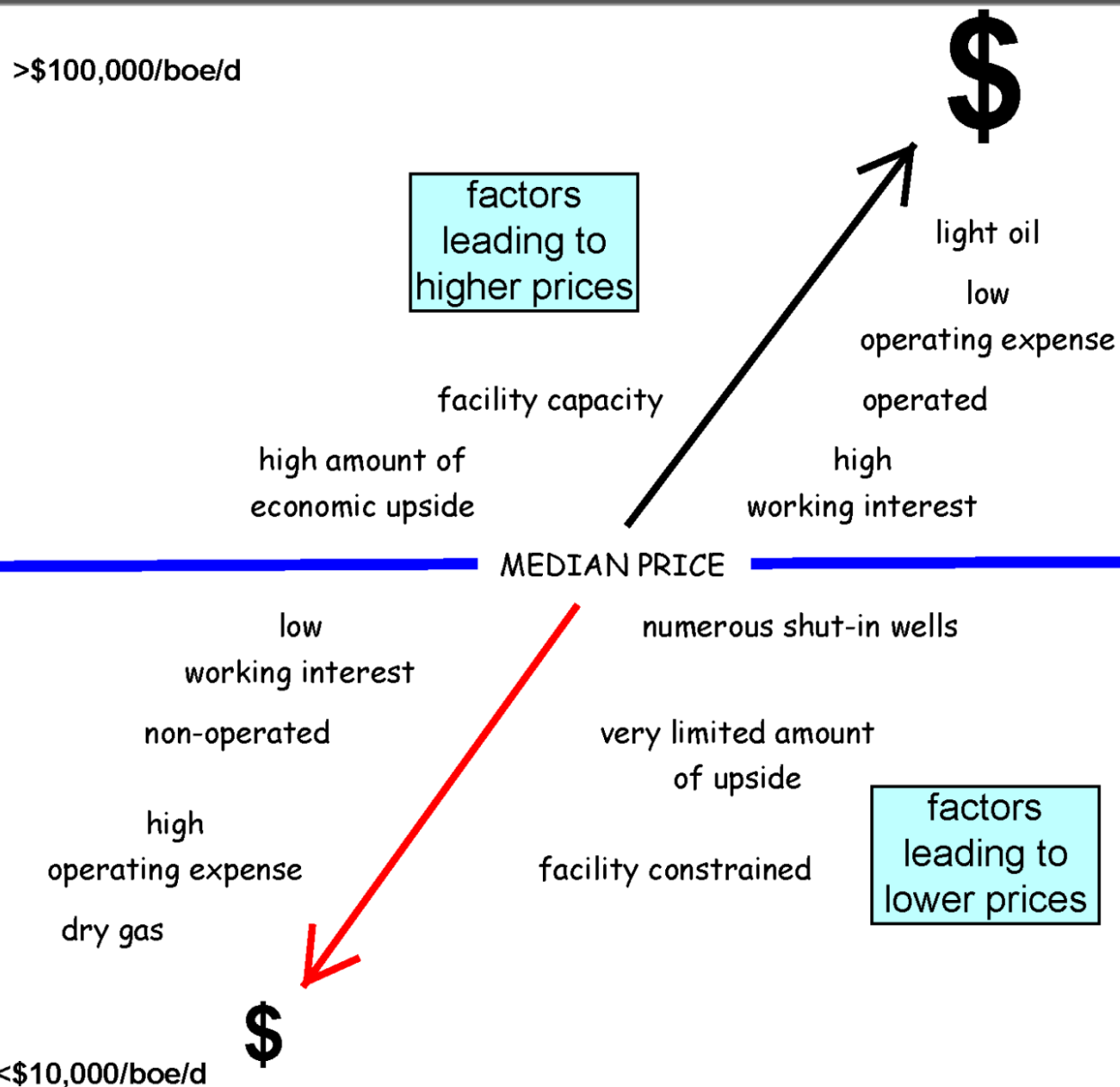


"You spelled garbage wrong."

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





# Cash Flow is King!

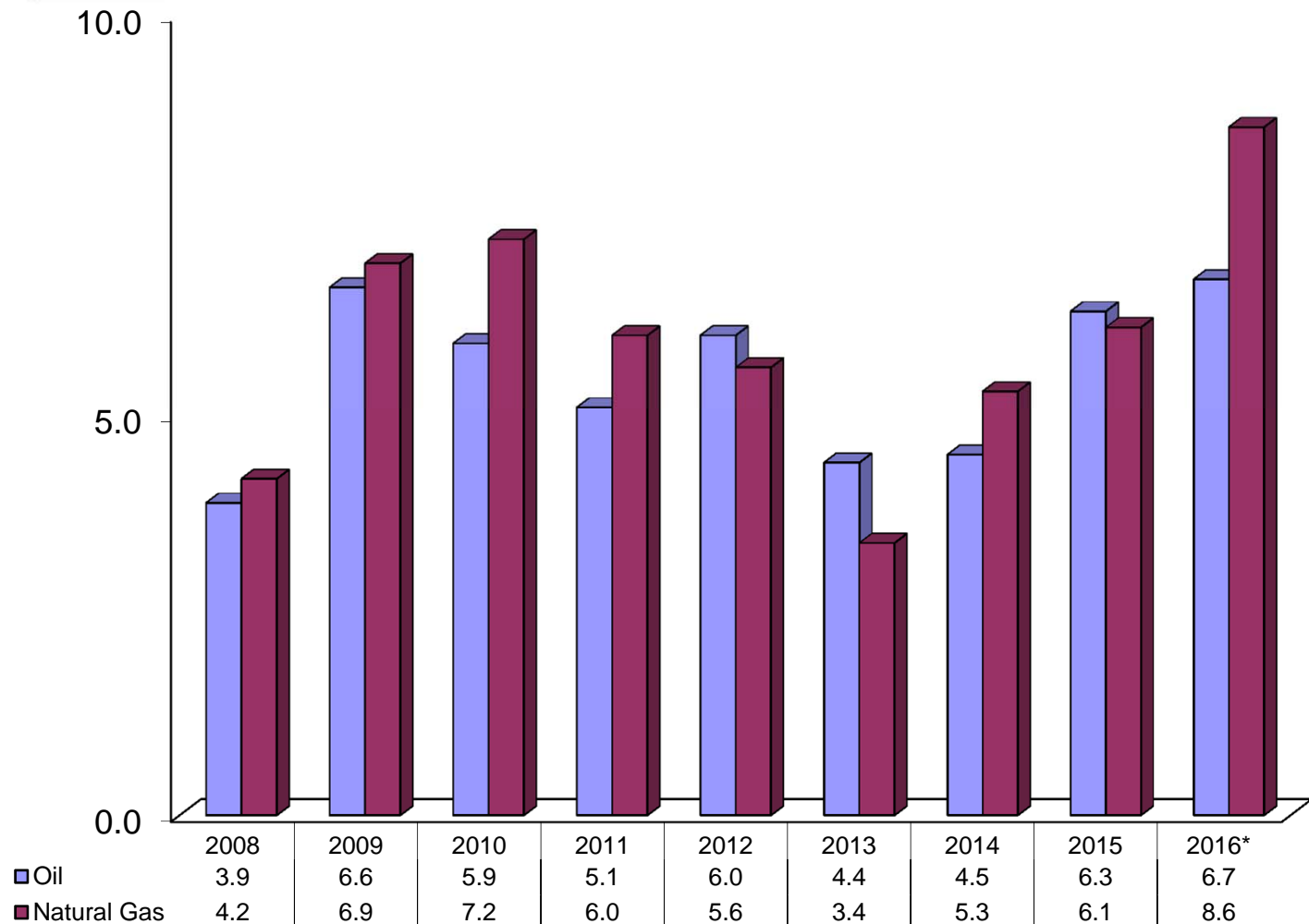
- Deals are being done on a cash flow basis, less consideration for liabilities.



- I know that you don't want to hear this, but ...
- Reserves-based metrics are pretty much off the table right now.

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# Historical Cash Flow Multiples

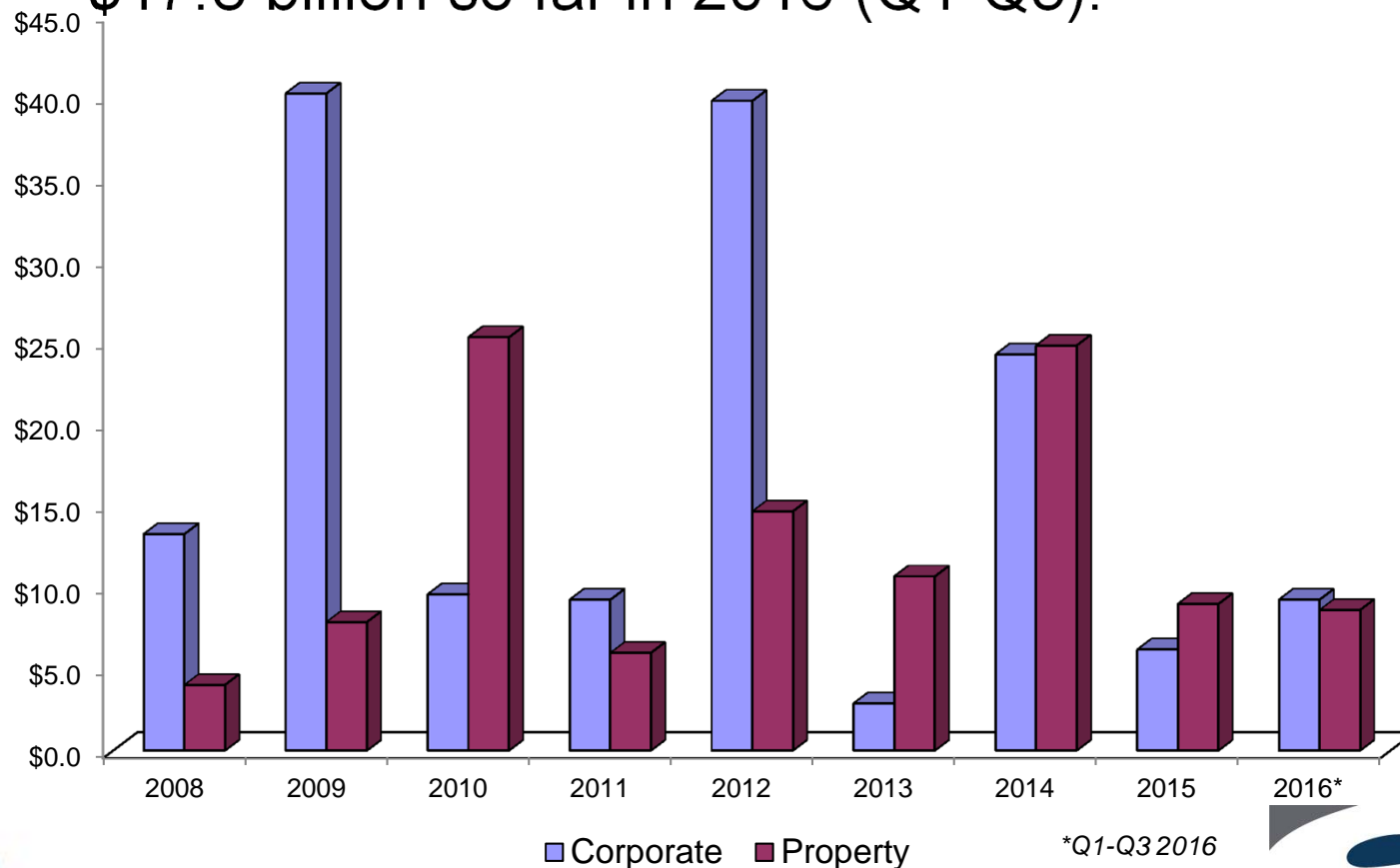


\*Q1-Q3 2016

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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.
- \$17.8 billion so far in 2016 (Q1-Q3).



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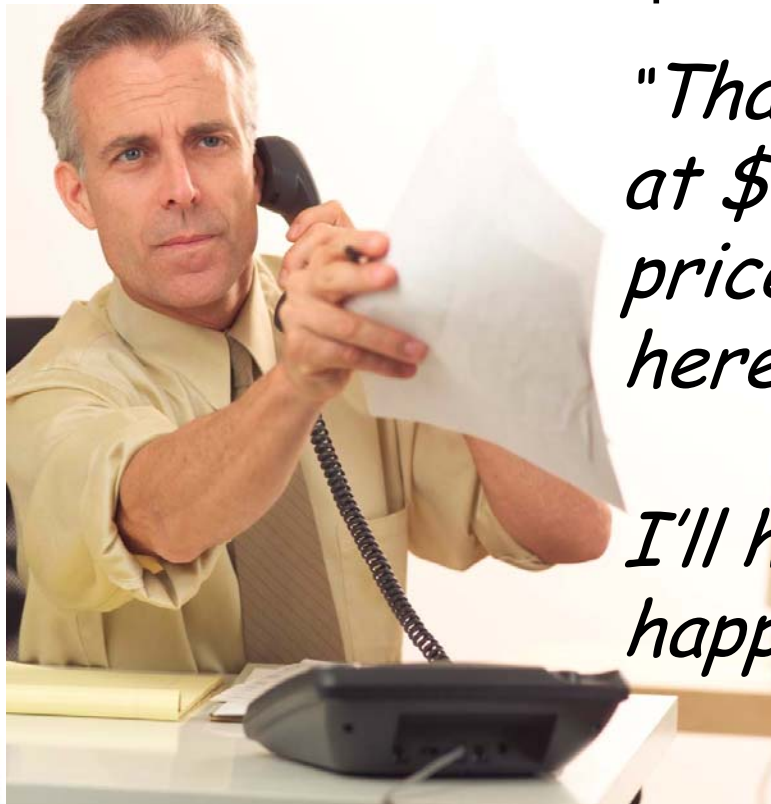
# Why is M&A Value Down?

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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."*

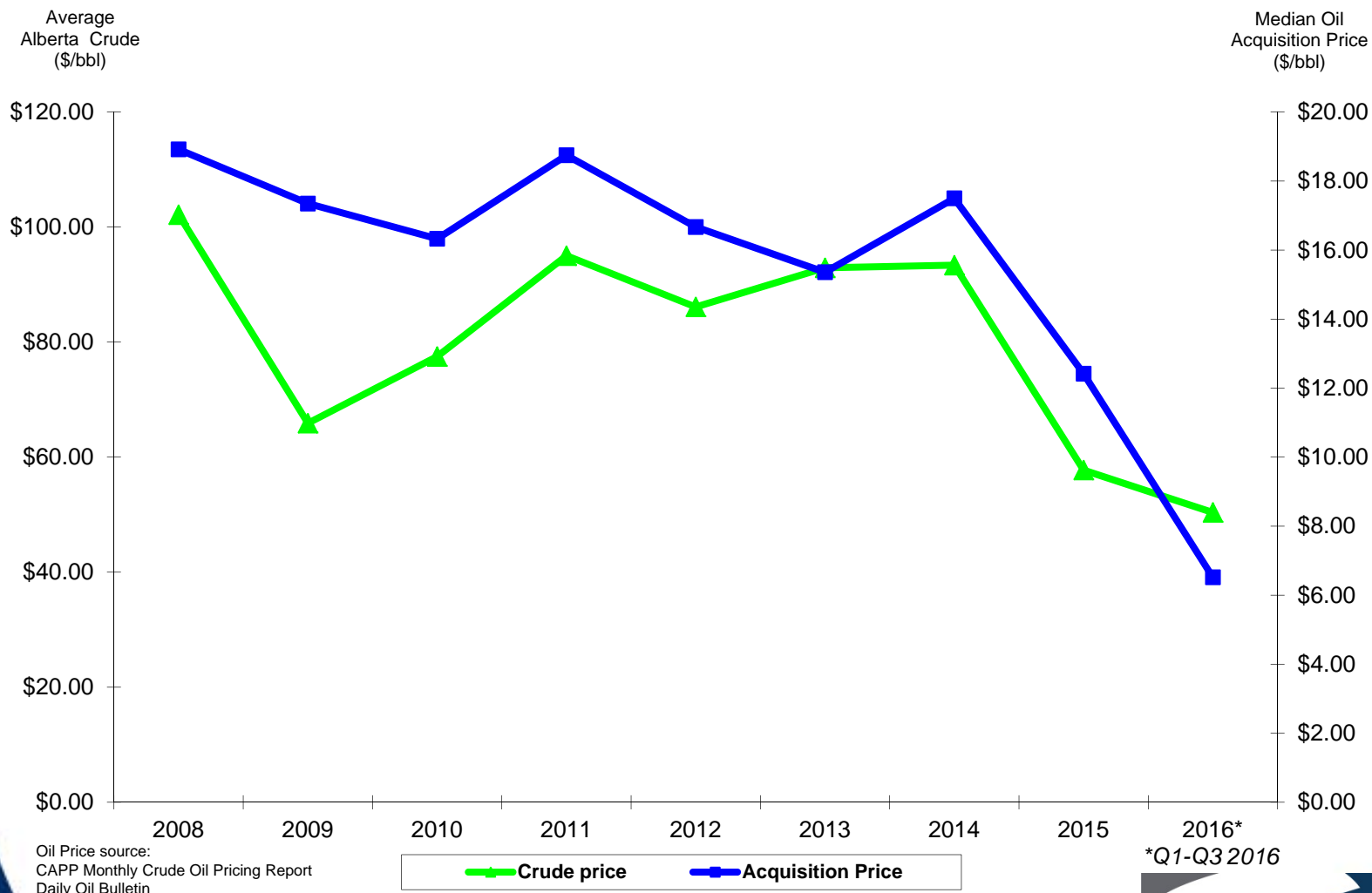
*"I'll hold on and see what  
happens."*

# 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.

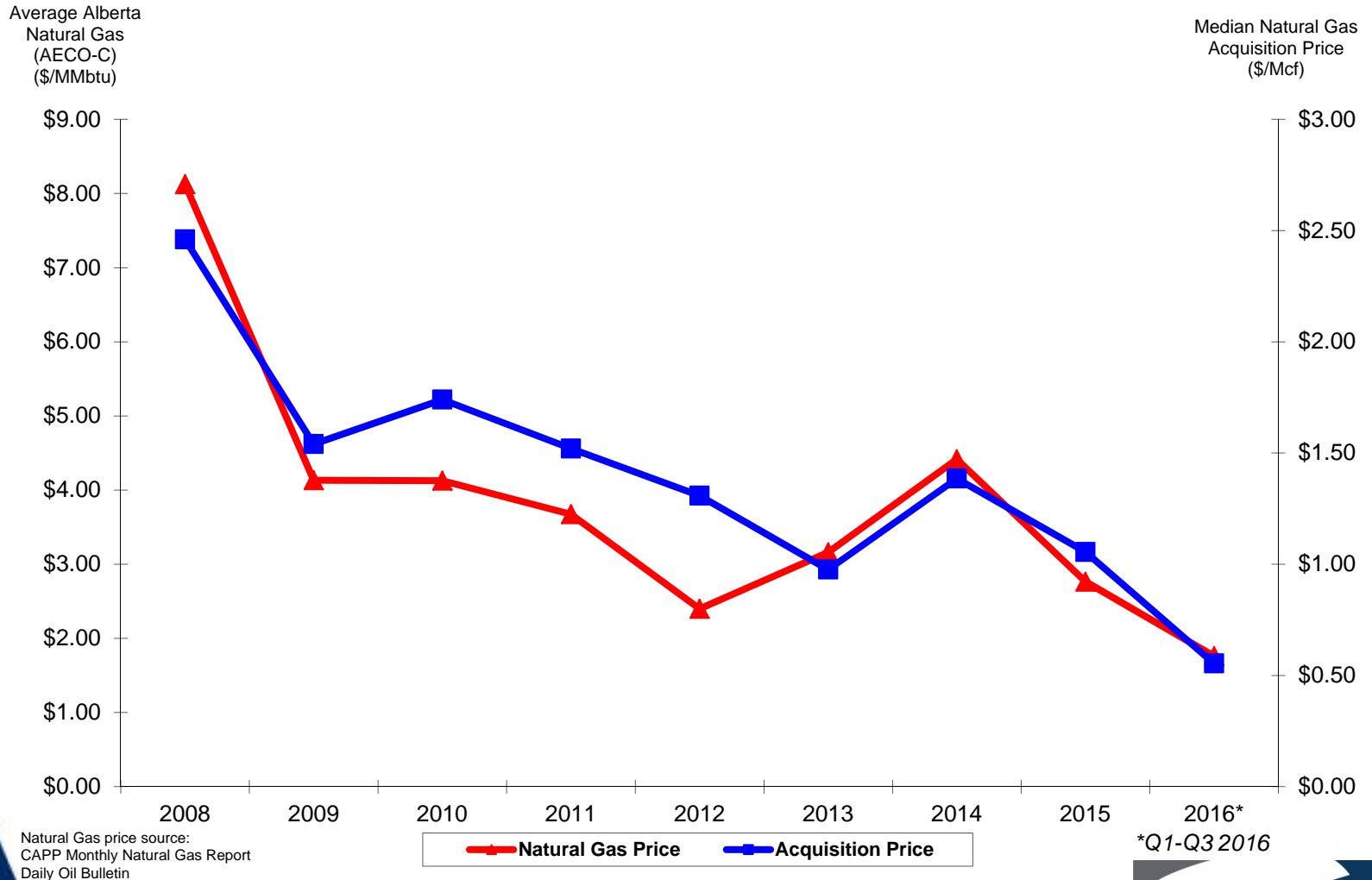
# Correlation of Median M&A Price and Commodity Prices: **OIL**



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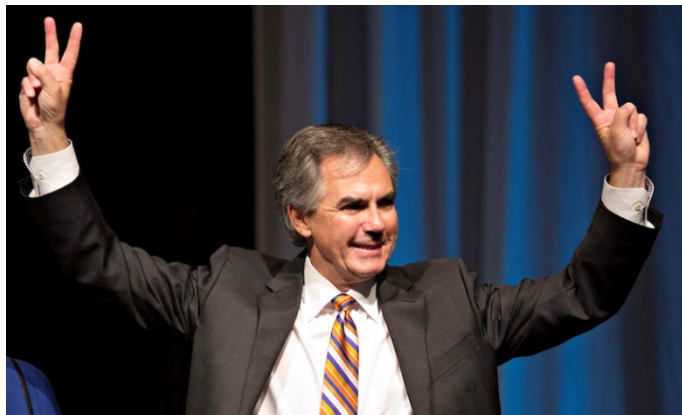
# Correlation of Median M&A Price and Commodity Prices: **NATURAL GAS**



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# Why is M&A Value Down?

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



- Change in federal government.



# Why is M&A Value Down?

- Uncertainty relating to government.
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- Change in federal government.



# Why is M&A Value Down?

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



Getty

# Why is M&A Value Down?

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





# Does Anyone Love Our Industry?



# 2016 YTD Look Back

## Forecast for Upcoming 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 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.



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# 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

**ALSTON**  
ENERGY INC.

**sond**  
RESOURCES

**COAST**  
**RESOURCES**

 **SPYGLASS**  
RESOURCES CORP.

**Desmarais**  
ENERGY CORPORATION



**tallgrass**  
energy western canadian oil

**Sedna Oil & Gas Ltd.**

**SHORELINE**  
ENERGY

 **HYPERION**  
EXPLORATION CORP.

**Kootenay Energy Inc.**



 **petroglobe**

**BARRIER REEF**  
**RESOURCES**

 **PALLISER**  
Oil & Gas Corporation



**CONSERVE**  
OIL GROUP

**IVANHOE ENERGY INC.**



**Western Plains**  
**Petroleum Ltd.**

**PPC**

Premier Petroleum Corp.

**QWEST DIVERSIFIED**  
**ENERGY CORPORATION**

 **CYGAM**  
ENERGY INC.

**Exall**  
Energy Corporation

 **Navarone**  
Energy Corporation



**RedWater**  
Energy Corporation

**Waldron**  
ENERGY



**LEGEND**



# 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.*

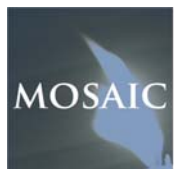
Brevia Energy <sup>☆☆☆</sup> Detector Exploration Ltd.

**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.

ENDURANCE ENERGY

LGX  
OIL + GAS INC.

ARTISAN ENERGY  
CORPORATION

MAGNUM  
ENERGY inc.

LIGHTSTREAM  
RESOURCES



Tuscany  
ENERGY LTD.

GAMET  
gamet resources ltd.



TWIN BUTTE  
ENERGY LTD.



EDGE  
RESOURCES

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.



# 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.**



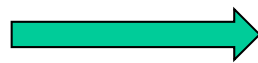
# Environmental

- 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.

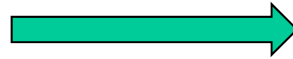


# Stakeholder Activism

- 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.**

**?**



**?**



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# 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.**



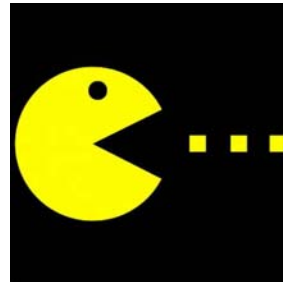
**Canadian Oil Sands**



- 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

- 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.



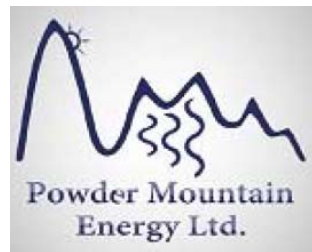
# Companies **SOLD** in 2015



**Carmel Bay  
Exploration Inc.**



**Mapan Energy  
Ltd.**



**Dolomite  
Energy Inc.**



**StonePoint  
Energy Inc.**



**Beaumont  
Energy  
Inc.**



# Companies **SOLD** to date in 2016



**Bergen Resources Inc.**



**ANDERSON**  
ENERGY INC.



**rockenergy**



**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”

**ZARGON**  
OIL & GAS LTD.

**TRIAXON**  
OIL OPERATIONS LTD.

**ALBERTA  
OILSANDS INC.**

**Oil Reserve**  
Inc

**VIRGINIA  
HILLS OIL CORP.**

**RMP**  
ENERGY INC

**cequence**  
energy ltd

**Regent  
Resources  
Ltd.**

**CHINOOK**  
energy inc

**CSRI**

## *Companies currently in a CCAA process:*

**QUATTRO**  
EXPLORATION AND PRODUCTION LTD.

**LIGHTSTREAM**  
RESOURCES

**Connacher**  
OIL AND GAS LIMITED

**Anterra**  
Energy Inc.

# Foreign Interest in Canadian Oil and Natural Gas Will Continue



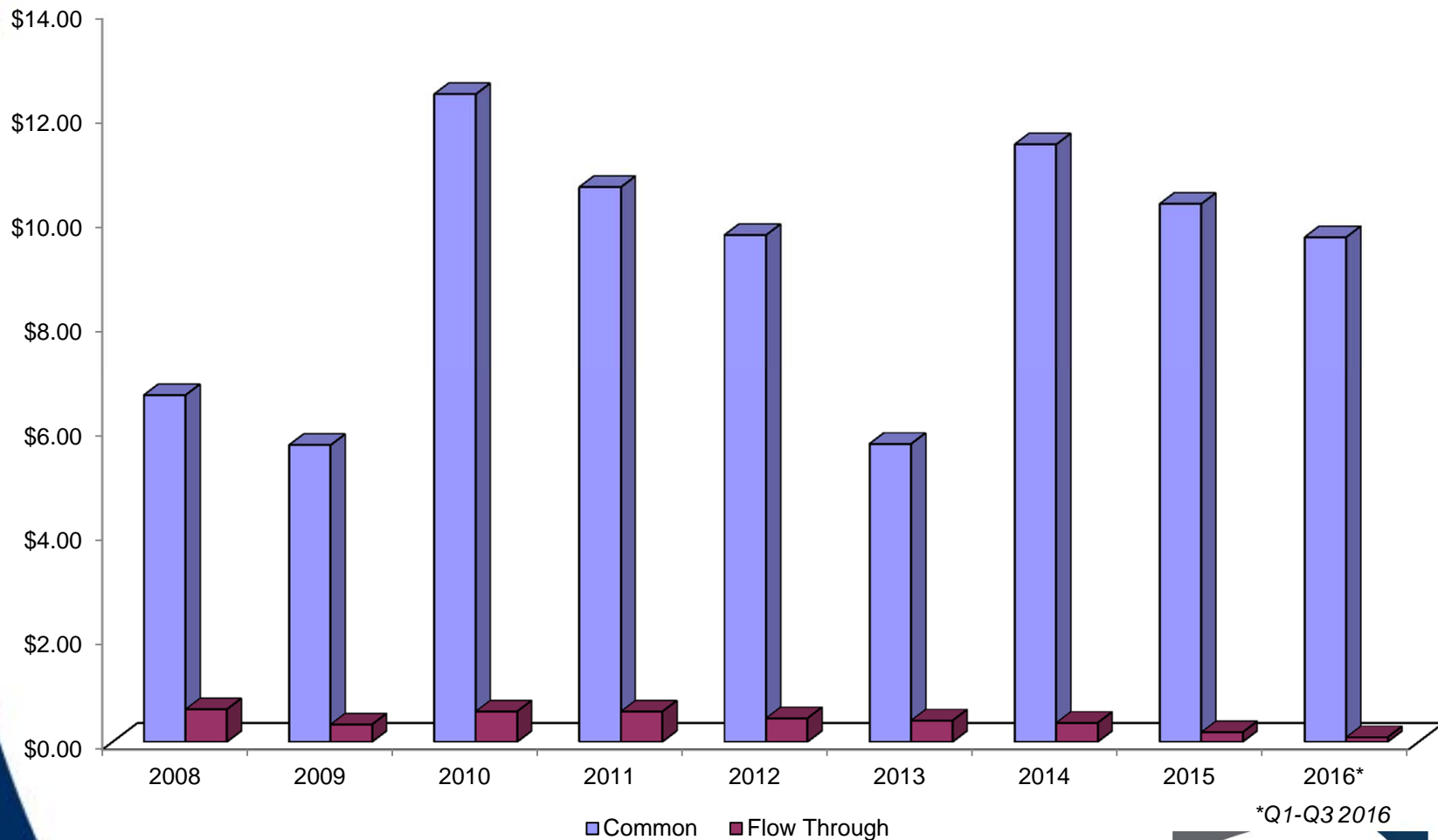
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# Total Canadian Oil & Natural Gas Financings (\$ Billions)

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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)



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# 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

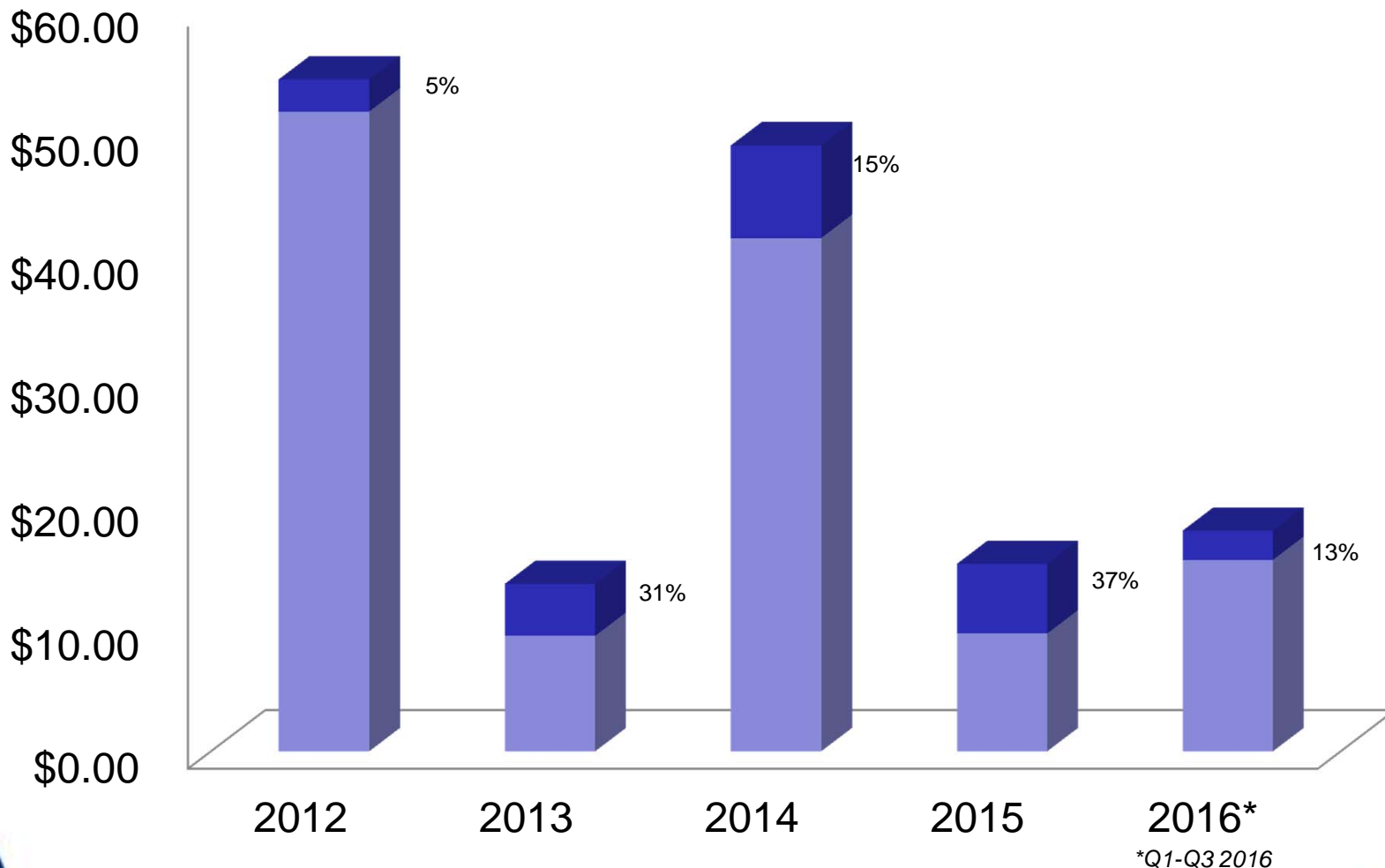
## Top 10 Publicly Disclosed PE Deals in the First Half of 2016

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)



\*Q1-Q3 2016

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# M&A Transactions Concluded by Sayer in 2016 YTD

<p>This announcement appears in a public document only.</p> <p><b>CONNAUGHT</b> OF CANADA LTD.</p> <p>Has sold its interests in the Connaught and/or Borden areas of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>March 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>New North Resources Ltd.</b></p> <p>Has sold its interests in the Connaught, Borden and Borden areas of Alberta.</p> <p><b>LTA Long-Term Asset Management Inc.</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>March 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>SHAPCO Resources Ltd.</b></p> <p>Has sold its interests in the Borden and Borden areas of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>March 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>Enbridge</b></p> <p>Has sold its interests in the Borden and Borden areas of Alberta.</p> <p><b>MNP</b></p> <p><b>in</b></p> <p><b>ENEID</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>March 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>MOOSE ENERGY</b></p> <p>Has sold its interests in the Borden and Borden areas of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>March 2016</p> 
<p>This announcement appears in a public document only.</p> <p><b>ONTARIO EARTH</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>Prosper Petroleum Ltd.</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>March 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>GAMET</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>April 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>LYNDON</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>EY</b></p> <p><b>in</b></p> <p><b>GROUP ENERGY INC.</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>April 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>Pavilion Energy Corp.</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>RHODES PETROLEUM CORP.</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>April 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>LGX</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>for approximately \$1.2 million</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>May 2016</p> 
<p>This announcement appears in a public document only.</p> <p><b>RockEast Energy</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>May 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>SOJERN ENERGY INC.</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>May 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>Emerald Lake Energy LP</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>May 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>LRR</b></p> <p><b>LITTLE ROCK RESOURCES LTD.</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>May 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>NUVISTA</b></p> <p><b>ENERGY LTD.</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>May 2016</p> 
<p>This announcement appears in a public document only.</p> <p><b>SPHERE ENERGY</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>Grant Thornton</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>August 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>Sphere Energy Corp.</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>August 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>WeldOn Energy</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>FTI</b></p> <p><b>in</b></p> <p><b>BOVISTA</b></p> <p><b>for approximately \$2.4 million</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>August 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>EDL</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>Centimetric</b></p> <p><b>in</b></p> <p><b>New North Resources Ltd.</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>August 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>NUVISTA OIL &amp; GAS COMPANY - CANADA ULC</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>September 2016</p> 
<p>This announcement appears in a public document only.</p> <p><b>Sprott Toscana</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>for \$12.8 million</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>October 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>GAMET</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>Deloitte</b></p> <p><b>for approximately \$2.7 million</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>October 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>EY</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>for approximately \$2.5 million</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>October 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>TOPO</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>for approximately \$2.7 million</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>October 2016</p> 	<p>This announcement appears in a public document only.</p> <p><b>NUVISTA</b></p> <p>Has sold its interests in the Connaught area of Alberta.</p> <p><b>for approximately \$2.7 million</b></p> <p>The undersigned advises Sayer Energy for the transaction.</p> <p>November 2016</p> 

# 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)



# State of the 2016 A&D Market

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## Sayer Energy Advisors' Perspective

Presented to the  
***Society of Petroleum  
Evaluation Engineers***



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