

Daily Oil Bulletin

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M&A Value In First Half Of 2016 Up 60%, Year-Over-Year

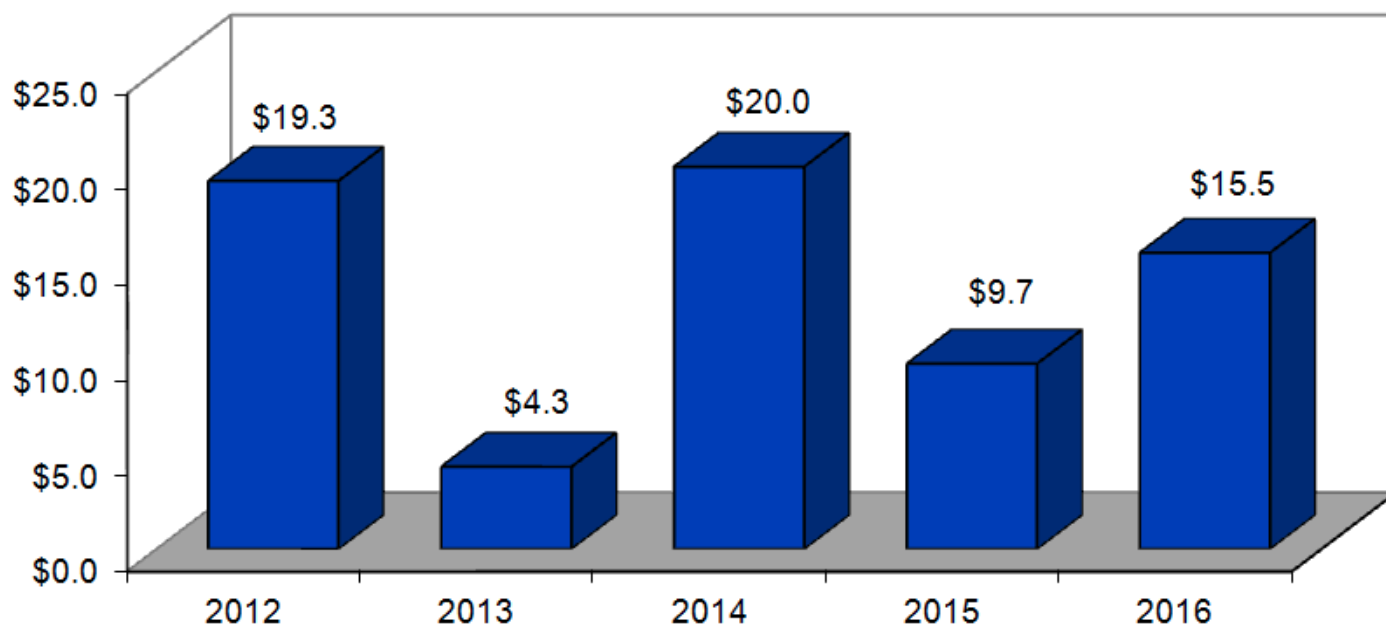
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The total enterprise value of merger and acquisition (“M&A”) activity in the Canadian oil and natural gas industry for the first half of 2016 was approximately \$15.5 billion, up 60% from the \$9.7 billion recorded in the first six months of 2015.

Enterprise Value of M&A Activity First Six Months



The largest transaction in the first half of 2016, which accounted for approximately 53% of the total M&A transaction value in the first six months of 2016 was the first quarter acquisition of **Canadian Oil Sands Limited** by **Suncor Energy Inc.** for \$8.3 billion. Canadian Oil Sands held a 36.74% working interest in the Syncrude oilsands mining project located near Fort McMurray, Alberta. Suncor had a 12% working interest in the Syncrude project prior to the acquisition of Canadian Oil Sands.

Suncor had originally entered into a hostile take-over to acquire Canadian Oil Sands in October 2015, offering 0.25 of a Suncor share for each Canadian Oil Sands share. Canadian Oil Sands rejected the offer and recommended its shareholders not to accept Suncor's offer. In January 2016, Suncor increased its offer to 0.28 of a Suncor share, which the board of directors of Canadian Oil Sands accepted and recommended to its shareholders.

The second largest transaction in the first half of 2016 was **Teine Energy Ltd.**'s \$975.0 million acquisition of **Penn West Petroleum Ltd.**'s assets located in southwestern Saskatchewan. The assets encompass both Viking light oil and conventional Bakken heavy oil properties.

The third largest transaction again involved Suncor and an interest in the Syncrude oilsands mining project wherein Suncor acquired an additional 5% working interest from **Murphy Oil Corporation** for \$937.0 million in the second quarter. The acquisition resulted in Suncor obtaining a majority interest of 53.74% in the Syncrude project.

Of the \$15.2 billion in large transactions (valued at over \$5.0 million) in the first six months of 2016, \$5.8 billion were property deals while \$9.4 billion were corporate transactions. Of the 56 large transactions during the first half of this year, 46 were property deals and the remaining 10 were corporate. This compares to the first half of 2015, when the split between large corporate and property transactions was 12 corporate deals totalling \$3.8 billion in enterprise value and 36 property deals with an aggregate value of \$5.4 billion.

During the first half of 2016, 36 large oil-weighted transactions accounted for \$13.4 billion in aggregate value and 20 large natural gas-weighted transactions made up the remaining \$1.7 billion. This compares to 2015, when 28 of the 48 large transactions in the first six months were oil-weighted, with total enterprise value of approximately \$7.7 billion and the remaining 20 deals were weighted towards natural gas, with total enterprise value of \$1.5 billion.

During the first half of 2016 publicly traded oil and natural gas companies were notably active in the M&A marketplace. In the first quarter of 2016, public companies were involved in substantially all of the sales transactions. In the second quarter, public companies continued to be active on the sell side but also were a driving force on the acquisitions front. Penn West sold more than \$1.3 billion in properties in multiple transactions, highlighted by the previously mentioned sale to Teine.

Spartan Energy Corp. was active in the second quarter, closing two property acquisitions and one corporate deal to add to its portfolio in southeastern Saskatchewan. The three deals totalled nearly \$150.0 million. **Birchcliff Energy Ltd.** entered into a substantial transaction when it acquired assets in the Gordondale area of Alberta from **Encana Corporation** for \$625.0 million. As usual, **Whitecap Resources Inc.** was an active acquirer in the first half of 2016 with multiple transactions with an aggregate value of approximately \$706.0 million, including its \$595.0 million deal for certain assets of **Husky Energy Inc.** in the Swift Current area of southwestern Saskatchewan.

M&A activity has been relatively strong in the third quarter to date. It started with a bang when **Seven Generations Energy Ltd.** announced a deal to acquire Montney assets in the Kakwa area of Alberta from **Paramount Resources Ltd.** for total consideration of approximately \$1.9 billion consisting of cash, Seven Generation shares and the assumption of a portion of Paramount's debt. There have been two corporate transactions announced so far in the quarter, with **Yoho Resources Inc.** being taken private by **One Stone Acquisition Co.** while **Marquee Energy Ltd** and **Alberta Oilsands Inc.** announced a strategic business combination of the two companies. In addition, public companies, **ARC Resources Ltd.** and **TORC Oil & Gas Ltd.** have entered into asset purchases while **Painted Pony Petroleum Ltd.** entered into a swap transaction.

Companies that are highly leveraged may need to continue to utilize the M&A marketplace to sell assets to gain a stronger footing with lenders, while companies with strong balance sheets and attractive assets will continue to acquire assets with the support of investors. If the commodity prices rise, investor confidence should continue to increase, which will translate in more M&A activity.

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