Daily Oil Bulletin

Total M&A Value Increased 53 Per Cent In 2016

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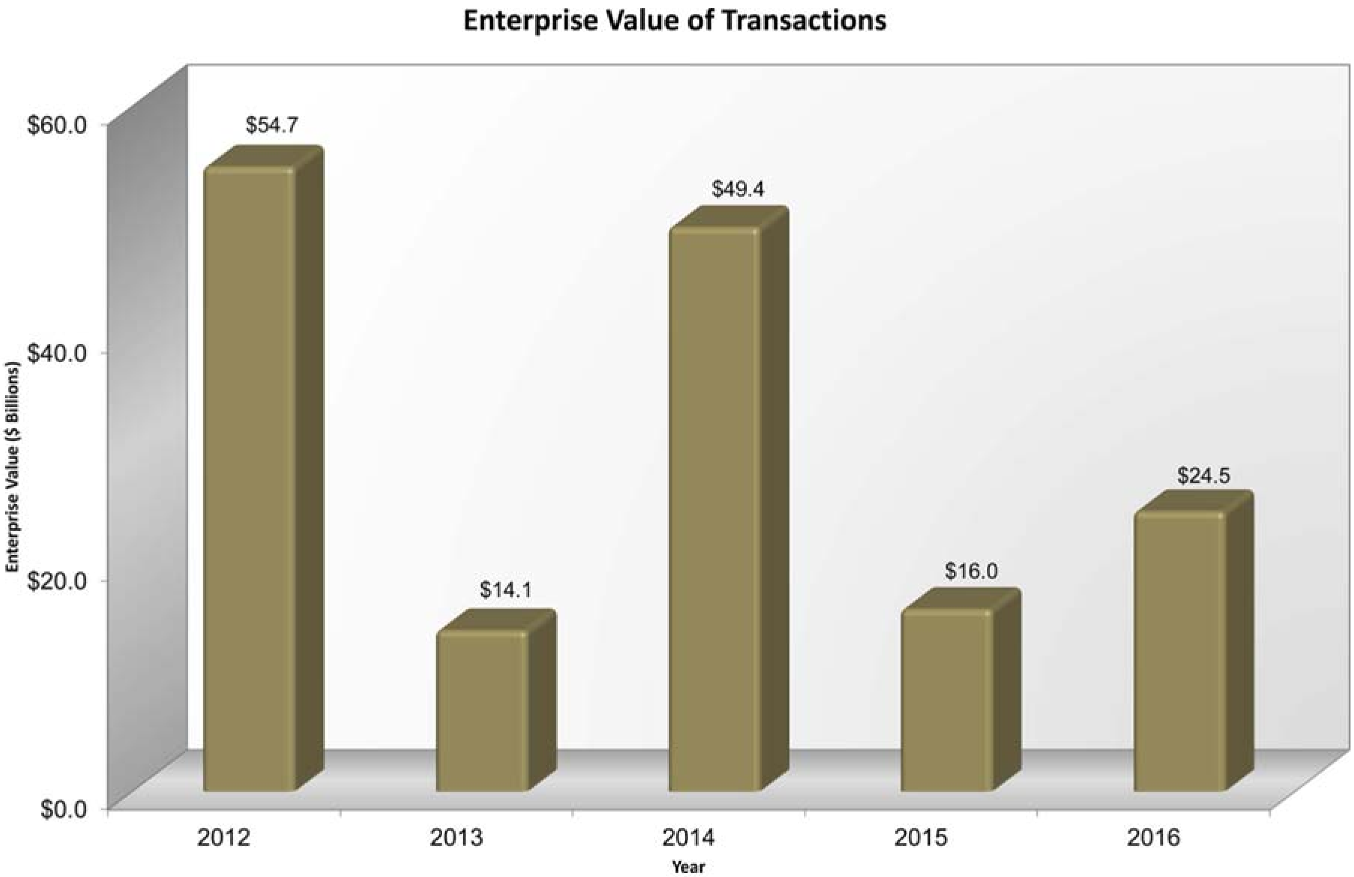
The level of merger and acquisition ("M&A") activity in the Canadian oil industry in 2016, measured by the total enterprise value of transactions (both large and small deals), increased 53% from the $16.0 billion recorded in 2015, rising to $24.5 billion.



There were four deals valued at over $1.0 billion in 2016, which accounted for approximately 54% of the year's total M&A value. In 2015 there were also four deals valued at more than $1.0 billion which accounted for approximately 51% of the total M&A value. The largest transaction in 2016 was **Suncor Energy Inc.**'s acquisition of **Canadian Oil Sands Limited** for $8.3 billion, which accounted for approximately 35% of the year's total M&A value. Canadian Oil Sands held a 36.74% working interest in the Syncrude oil sands mining project located near Fort McMurray, Alberta. In the following quarter, Suncor increased its interest in Syncrude when it purchased an additional 5% working interest from **Murphy Oil Corporation** for $937.0 million. With these acquisitions, Suncor's interest in Syncrude increased to 53.74%.

The second-largest transaction in 2016 was **Seven Generations Energy Ltd.**'s acquisition of **Paramount Resources Ltd.** assets for $1.9 billion, which it paid for with $475.0 million in cash, 33.5 million shares of Seven Generations and the assumption of Paramount's USD$450 million 6.875% notes maturing in 2023. The assets acquired by Seven Generations consisted of approximately 30,000 boe/d of liquids-rich natural gas production from the Montney Formation in the Musreau/Kakwa area of Alberta, along with a total of 310 net sections of land, including 155 net sections of land with Montney rights.

The third-largest transaction during the year was **Tourmaline Oil Corp.**'s acquisition of assets in the Alberta Deep Basin and in the British Columbia Montney fairway from **Shell Canada Limited** for approximately $1.4 billion, paid for with $1.0 billion in cash and the remaining amount in shares.

The $24.0 billion in total enterprise value of large deals (over $5 million in value) in 2016 consisted of $14.3 billion in properties changing hands and $9.7 billion weighted toward corporate transactions. This is the fourth consecutive year that property transactions have outweighed corporate deals. In the past, corporate transactions would generally account for the majority of the total transaction value in any given year. There were only 15 corporate transactions compared to 103 property deals in 2016.

The total value of oil-weighted transactions increased year-over-year, while the total value of natural gas-weighted transactions decreased over the same time period. The total value of oil-weighted transactions doubled to $19.8 billion in 2016 from the $9.9 billion in 2015, while natural gas-weighted transactions fell 19%, dropping to $4.2 billion from $5.2 billion.

In 2016, oil-weighted transactions accounted for approximately 83% of the total M&A value, with natural gas-weighted transactions accounting for the remaining 17%. In 2015 the split was approximately 66% towards oil-weighted transactions and 34% toward natural gas. The number of oil-weighted transactions increased 36% from 55 deals in 2015 to 75 deals in 2016. The number of natural gas transactions also increased year-over-year, rising 26% to 43 transactions from 34 in 2015.

On a commodity basis, the prices paid for both oil-weighted and natural gas-weighted deals decreased year-over-year. The prices paid on a reserves and production basis for natural gas-weighted transactions fell to a greater extent than oil-weighted deals.

One of the trends we saw progressing in 2016 was a number of transactions involving royalty interests. **PrairieSky Royalty Ltd.** continued to be an active purchaser of royalties, as it was involved in some acquisitions whereby it manufactured royalties on some thermal/oilsands projects held by both **BlackPearl Resources Inc**. and **Pengrowth Energy Corporation**.

Another trend in 2016 was the number of deals involving shares as consideration. All of the three previously-described deals in 2016 valued at over $1.0 billion involved shares as full or partial consideration. In addition, public companies were extremely active in the M&A marketplace in 2016, being on the buy side for a total of $19.1 billion worth of transactions and on the sell side for an aggregate of approximately $22.3 billion in deals.

There has been steady deal flow in the Canadian oil and natural gas M&A marketplace during the first quarter of 2017. To date there have been 19 large deals (greater than $5 million) announced. The most significant transactions involved **Canadian Natural Resources Limited** when it entered into agreements to acquire 70% of the Athabasca Oil Sands Project, including 70% of the Scotford upgrader as well as other producing and non-producing oilsands leases for a total purchase price of $12.74 billion.

Canadian Natural acquired the aforementioned interests from Shelland certain subsidiaries along with **Marathon Oil Corporation**. The aggregate consideration of approximately $12.74 billion consisted of a combined pre-adjustment cash payment at close of $8.24 billion to Shell and Marathon, 97,560,975 common shares of Canadian Natural with a current value of approximately $4.0 billion issued to Shell, and a deferred payment of USD $375 million due to Marathon in the first quarter of 2018. This single transaction is valued at more than half of the 2016 yearly M&A total.

The second-largest transaction announced in the first three months of 2017 is **Painted Pony Petroleum Ltd**.'s $276.6 million acquisition of **UGR Blair Creek Ltd**., a privately held 100% controlled subsidiary of **Unconventional Resources Canada, LP**. UGR operates high working interest Montney assets in northeastern British Columbia, with approximately 8,500 boe/d of production and 325.1 MMboe of proved plus probable reserves. The transaction increases Painted Pony's Montney acreage in northeastern British Columbia by approximately 52% to 314 net sections. The assets are jointly held with Painted Pony and are adjacent to Painted Pony's current properties in northeastern British Columbia.

Rounding out the top three largest deals announced thus far in 2017 was the sale of a portion of Pengrowth's assets located in the Swan Hills area of Alberta for $180.0 million. Following the announcement of the Swan Hills sale, Pengrowth also disclosed that it reached an agreement to sell its non-producing Montney lands in the Bernadet area of British Columbia for $92 million.

The two largest deals so far in 2017 have involved shares as a form of consideration, a trend that was evident in 2016. We believe this trend will continue as the year progresses, with stronger companies using their paper to acquire attractive assets or companies with complementary asset bases.

According to our statistics, the total enterprise value of all of deals so far in 2017 is nearly $14.0 billion, the strongest start to a year since the $29.5 billion recorded in the first quarter of 2009 and the highest quarterly total since the fourth quarter of 2014 when $23.5 billion in deals were announced.

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