Daily Oil Bulletin

M&A Value In First Half Of 2017 Hits Record High

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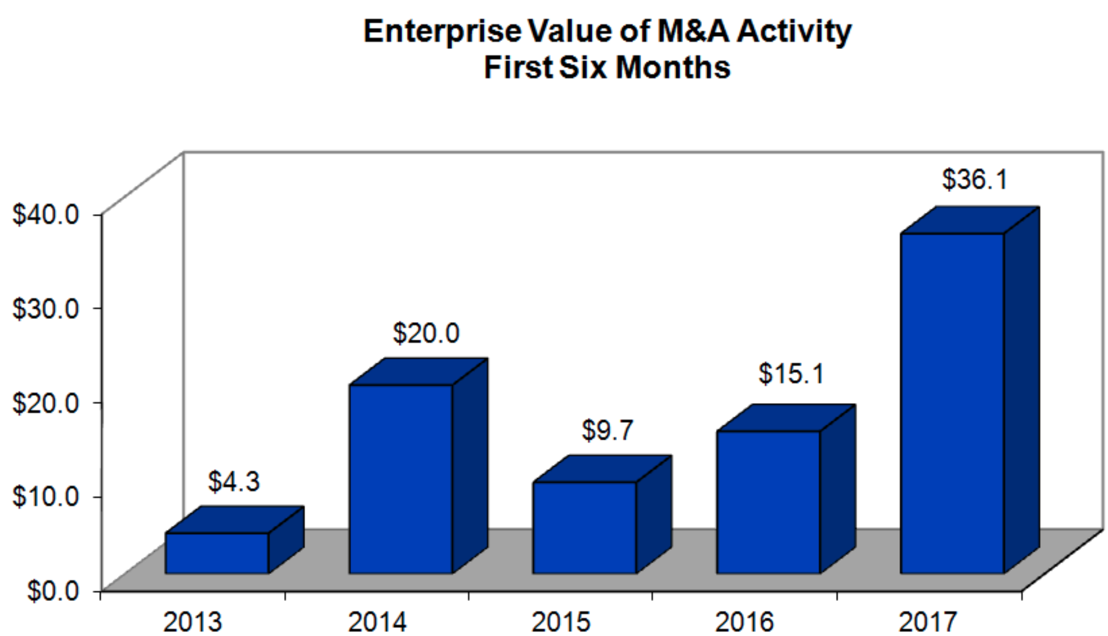
The total enterprise value of merger and acquisition (M&A) activity in the Canadian oil and natural gas industry in the first half of 2017 was approximately $36.1 billion, up 139 per cent from the $15.1 billion recorded in the first six months of 2016. This is the highest first half total of M&A value in the Canadian oil and natural gas sector since **Sayer Energy Advisors** began tracking these statistics in 1993.



The largest transaction in the first half of 2017 was **Cenovus Energy Inc.**'s acquisition of assets from **ConocoPhillips Co.** for approximately $17.7 billion. The transaction included ConocoPhillips's 50 per cent interest in the Foster Creek, Christina Lake and Narrows Lake oilsands assets which are operated by Cenovus. Cenovus also acquired the majority of ConocoPhillips's Deep Basin conventional oil and natural gas assets in Alberta and British Columbia. As part of the transaction, Cenovus and ConocoPhillips entered into a five-year contingent payment agreement relating to ConocoPhillips's portion of the production associated with the Foster Creek, Christina Lake and Narrows Lake oilsands assets that triggers when the price of Western Canadian Select (WCS) oil rises above $52 per bbl. The terms of the contingent payment agreement will allow Cenovus to retain 80 per cent to 85 per cent of WCS prices above $52 per bbl, based on current gross production capacity. As production capacity increases, the percentage of upside available to Cenovus will further increase.

The second-largest deal in the first six months of 2017 was **Canadian Natural Resources Limited**'s acquisition of 70 per cent of the Athabasca Oil Sands Project (AOSP), including 70 per cent of the Scotford upgrader as well additional working interests in other producing and non-producing oilsands leases for $12.6 billion. Canadian Natural acquired **Shell Canada Limited**'s 60 per cent working interest in the AOSP (comprised of the Jackpine Mine and the Muskeg River mine), the Scotford Upgrader and the Quest Carbon Capture and Storage project located north of Edmonton, its 100 per cent working interest in the Peace River/Carmon Creek thermal in situ operations and Shell Canada's 100 per cent interest in the Cliffdale heavy oil field as well as other oilsands leases in the Birchwood, Ells River, Namur, Pierre River and Saleski areas. Canadian Natural and Shell Canada also agreed to jointly acquire **Marathon Oil Corporation**'s 20 per cent share in AOSP and related oil sands investments for approximately $1.7 billion.

Of the $35.9 billion in large transactions (valued at over $5.0 million) in the first six months of 2017, $34.9 billion were property deals while $1.0 billion were corporate transactions. Of the 52 large transactions during the first half of this year, 47 were property deals and the remaining five were corporate. This compares to the first half of 2016, when the split between large corporate and property transactions was eight corporate deals totalling $8.9 billion in enterprise value and 46 property deals with an aggregate value of $5.8 billion.

During the first half of 2017, 32 large oil-weighted transactions accounted for $34.2 billion in aggregate value and 20 large natural gas-weighted transactions made up the remaining $1.7 billion. This compares to 2016, when 34 of the 54 large transactions in the first six months were oil-weighted, with total enterprise value of approximately $12.9 billion and the remaining 20 deals were weighted towards natural gas, with total enterprise value of $1.7 billion.

The first six months of 2017 was dominated by multi-national oil and natural gas producing companies divesting a large part of their Canadian assets. In addition to ConocoPhillips, Marathon and Shell other notable vendors were **Apache Corporation** and **Centrica plc**. The total value of these transactions was over $32.0 billion, a significant increase from the $3.4 billion in similar transactions that were concluded in all of 2016.

Early in the third quarter, Apache announced the sale of its remaining Canadian assets to **Paramount Resources Ltd.** for approximately $460.0 million. Concurrent with the announcement of the Apache acquisition, Paramount also disclosed that it intends to merge with **Trilogy Energy Corp.** Other notable transactions that have been announced this quarter were **Manitok Energy Inc.** announcing its intention to acquire all of the issued and outstanding shares of **Questfire Energy Corp.** and **Pengrowth Energy Corporation** announcing the sale of its interests in the Garrington and Olds areas of Alberta for approximately $300.0 million.

For the remainder of 2017 capital will continue to be scarce for many oil and natural gas companies and because of this they will look to the M&A market for capital either through asset sales or through the outright sale of the shares of the company. Thus, the trend of share-for-share transactions, as well as companies selling their non-core holdings is anticipated to continue for the remainder of the year.

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