M&A Value In First Half Of 2018 Down 79%

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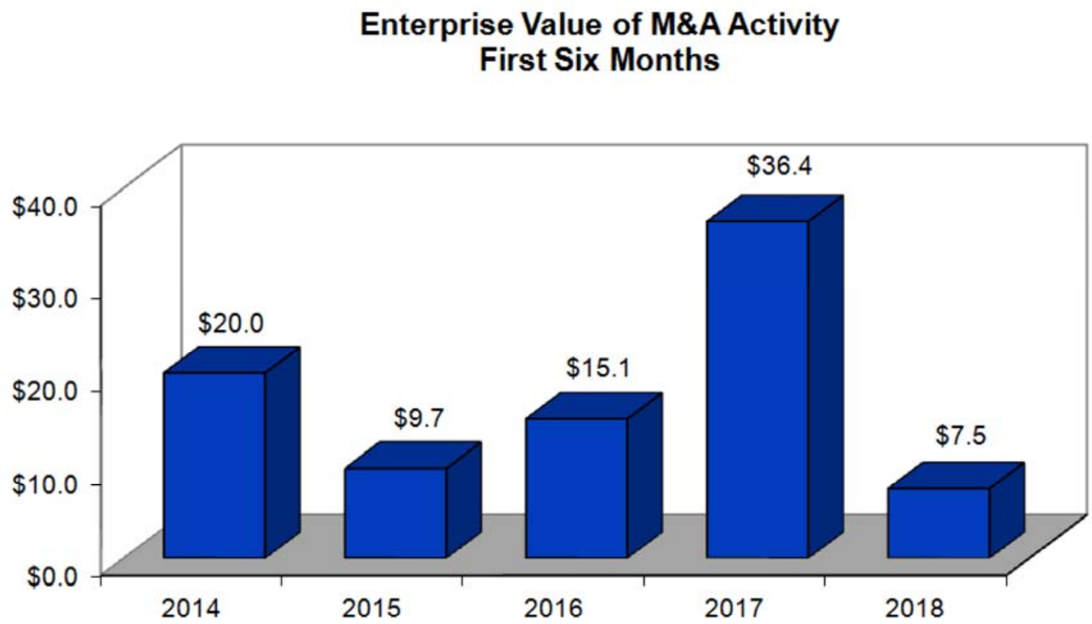
The total enterprise value of merger and acquisition ("M&A") activity in the Canadian oil and natural gas industry in the first half of 2018 was approximately $7.5 billion, down 79 per cent from the record high of $36.4 billion recorded in the first six months of 2017. This is the lowest first half total M&A value in the Canadian oil and natural gas sector since 2013 when only $4.3 billion in total M&A value was recorded.



There were only two deals over $1.0 billion in the first six months of 2018. The largest transaction in the first half of 2018 is **Baytex Energy Corp.**'s acquisition of **Raging River Exploration Inc.** for approximately $2.0 billion. Raging River's main producing properties were located in the Dodsland, Mantario and Onward areas of Saskatchewan and in the Esther area of Alberta. In addition, Raging River was active in the East Duvernay play located in central Alberta. Following the transaction, Baytex's production is forecasted to be approximately 94,000 boe/d (83 per cent liquids).

The second-largest transaction was **Vermilion Energy Inc.**'s acquisition of **Spartan Energy Corp.** for approximately $1.7 billion. Spartan's main assets were oil-focused properties located in southeastern Saskatchewan and in the Waskada and Birdtail areas of Manitoba, Viking focused assets in southwestern Saskatchewan and a natural gas property located in the Alexander area of Alberta. Vermilion anticipates its 2018 production to average between 86,000 - 90,000 boe/d following the transaction.

Of the $7.3 billion in large transactions (valued at over $5.0 million) in the first six months of 2018, approximately $4.3 billion consisted of corporate transactions while nearly $3.1 billion were property deals. The Baytex/Raging River and Vermilion/Spartan corporate deals accounted for 88 per cent of the total corporate M&A total. Of the 43 large transactions concluded during the first half of this year, 33 were property deals and the remaining 10 were corporate. This compares to the first half of 2017, when the split between large corporate and property transactions was six corporate deals totaling $1.7 billion in enterprise value and 47 property deals with an aggregate value of $34.2 billion.

During the first half of 2018, 29 large oil-weighted transactions accounted for $6.3 billion in aggregate value and 14 large natural gas-weighted transactions made up the remaining $1.0 billion. This compares to 2017, when 32 of the 53 large transactions in the first six months were oil-weighted, with total enterprise value of approximately $34.2 billion and the remaining 21 deals were weighted towards natural gas, with total enterprise value of $1.7 billion.

In the first quarter of 2018, approximately $1.9 billion of the $2.7 billion in total transaction value involved either conventional heavy oil or oil sands properties, with **Suncor Energy Inc.** involved in the bulk of those transactions as it gained additional interests in the Syncrude and Fort Hills oil sands mining projects. In the second quarter, aside from the two large corporate transactions already mentioned, there were a number of deals focusing on the Montney formation. The largest Montney deal involved **Paramount Resources Ltd.** selling assets located in the Resthaven/Jayar area in the Kakwa region of Alberta to **Strath Resources Ltd.** for total consideration of $340.0 million of cash and equity in Strath. Other Montney deals included **Calima Energy Limited**'s planned purchase of **TSV Montney Limited** and **TMK Montney Limited** for total consideration of $23.0 million and **ConocoPhillips Co.** acquiring approximately 35,000 net acres in the Montney play for approximately $120.0 million. One other potential Montney deal worth noting which is not included in our first half of 2018 statistics is **Velvet Energy Ltd.**'s hostile take-over attempt of **Iron Bridge Resources Ltd.** for $0.75 per share, valuing the bid at approximately $130.5 million.

Early in the third quarter, corporate transactions took the stage as a large majority of deals involved acquisitions of private oil and natural gas companies. **Toscana Energy Income Corporation** announced its intention to purchase privately-held **Cortona Energy Ltd**., which has a joint interest with Toscana in the Carmangay area of Alberta, and **Gear Energy Ltd.** announced the acquisition of the privately-held, **Steppe Resources Inc.**, which has assets focused in the Tableland area of southeastern Saskatchewan. **Canadian Natural Resources Limited** and **Laricina Energy Ltd.** entered into a pre-acquisition agreement whereby Canadian Natural will purchase all of the issued and outstanding shares of Laricina. Finally,

Aspenleaf Energy Limited announced the acquisition of privately-held **NEP Canada ULC**. There were also three property deals announced which include **NuVista Energy Ltd.** purchasing Montney assets in the Pipestone area of Alberta from **Cenovus Energy Inc.** through the purchase of **Cenovus Pipestone Partnership**, **Barnwell Industries, Inc.** purchasing **Eagle Energy Inc.**'s assets in the Twining area of Alberta and **Canbriam Energy Inc.** selling certain non-core Montney lands in northeastern British Columbia to an undisclosed party.

For the remainder of 2018, capital will continue to be scarce for many oil and natural gas companies. As a result, companies will look to the M&A market for capital either through asset sales or through the outright sale of the shares of the company. The trend of share-for-share transactions, as witnessed by the Baytex/Raging River and Vermilion/Spartan transactions, is anticipated to continue for the remainder of the year. For those companies that want to continue expanding their plays, the sale of non-core properties might be the most viable option in the current environment.

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