

2018 Showing An Increase In Corporate Transactions

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There has recently been an increase in the number of large corporate transactions (valued at greater than \$5.0 million) in the Canadian oil and natural gas industry. In 2017 there was a total of only 10 large corporate transactions, with a total enterprise value of approximately \$3.9 billion. So far in 2018 there have been 18 large corporate deals announced with an estimated value totalling over \$5.5 billion.

The upsurge in corporate acquisitions began early in the year, spurred by **Vermilion Energy Inc.**'s \$90.8 million acquisition of **Red River Oil Inc.** in the first quarter, which was followed by Vermilion's acquisition of **Spartan Energy Corp.** for \$1.7 billion in the second quarter. Other notable corporate transactions in the first half of the year include **Baytex Energy Corp.**'s \$2.0 billion acquisition of **Raging River Exploration Inc.** and **Waterous Energy Fund**'s acquisition of 33 per cent of **Cona Resources Ltd.** for \$281.7 million. Waterous owned 67 per cent of the outstanding shares of Cona prior to this transaction. The acquisitions of Spartan and Raging River were structured as all-stock deals while Red River and Cona were purchased with cash.

Corporate deal activity has persisted into the third quarter. One of the nine corporate deals announced in the third quarter of 2018 involved the creation of an exploration spin-off company. **Pieridae Energy Limited** and **Ikkuma Resources Corp.** entered into a definitive agreement whereby Pieridae would acquire all the issued and outstanding shares of Ikkuma for \$0.86 per share of Ikkuma, or approximately \$94.0 million. As part of the agreement, Ikkuma's Cardium light oil assets in the Alberta foothills will be transferred to a newly formed private corporation. This is the first deal we have seen involving a SpinCo in some time.

Pieridae's acquisition of Ikkuma is intended to advance its strategic position in North America as a fully integrated LNG company. As part of the acquisition, Pieridae will retain Ikkuma's management team to lead the development of its natural gas properties in Canada.

Another corporate deal announced in the third quarter is **Canadian Natural Resources Limited**'s agreement to purchase the shares of **Laricina Energy Ltd.** for approximately \$46.4 million, along with up to \$48.0 million to satisfy all obligations and indebtedness under Laricina's issued and outstanding 12.5 per cent senior secured notes. Laricina's operations are focused in the Athabasca oil sands region.

Velvet Energy Ltd.'s initial hostile take-over bid to acquire the shares of **Iron Bridge Resources Inc.** for \$0.75 per share was announced in the second quarter. The all-cash offer was subsequently amended with a 13 per cent increase in consideration to \$0.845 per share. With the increased consideration, Iron Bridge's directors, officers and certain shareholders, who together own approximately 36 per cent of the outstanding common shares, entered into a support agreement with Velvet for the amended offer and will be tendering their common shares. Iron Bridge's assets are located in the Gold Creek area of Alberta, focusing on Montney production proximal to Velvet's operations in the area.

Another significant corporate deal involving stock is **Surge Energy Inc.**'s pending acquisition of **Mount Bastion Oil and Gas Corp.** In the third quarter, Surge announced its planned acquisition of Mount Bastion for \$320.0 million. Mount Bastion shareholders have been given the option of cash, Surge shares, or a combination of both, with up to \$145.0 million in cash and approximately 75.4 million shares of Surge. The assets of Mount Bastion include roughly 5,500 bbl of oil equivalent per day of operated, light oil production. The deal is expected to close in October, subject to approval of at least two-thirds of Mount Bastion's shareholders and a simple majority of Surge's shareholders.

In the third quarter of 2018, **Prairie Provident Resources Inc.** announced its intention to acquire all of the issued and outstanding shares of **Marquee Energy Ltd.** for total consideration of \$55.0 million, including the assumption of Marquee's net debt of \$39.0 million. The consideration consists of Prairie Provident shares at a ratio of 0.0886 of a Prairie Provident share for each Marquee share, or \$0.037 per Marquee common share. Marquee's core assets are located in the Michichi area and can provide

operating synergies to Prairie Provident. Concurrent with the acquisition, Prairie Provident has entered into a \$3.5 million bought-deal equity financing. The acquisition is expected to close in the fourth quarter of 2018.

Toscana Energy Income Corporation purchased the shares of **Cortona Energy Ltd.** for \$12.0 million in cash in the third quarter of 2018. The assets of Cortona are located in the Carmangay area of southern Alberta. The acquisition of Cortona consolidated Toscana's interest in the Barons oil pool, increasing its working interest in the pool to greater than 90 per cent . The transaction also increased Toscana's oil production weighting to 42 per cent from 36 per cent .

Earlier in the year we noted that there had been an increase in "*strategic alternatives process*" announcements. We predicted that this would lead to consolidation and there would be a resulting increase in corporate transactions. We noted that Laricina, Marquee, Raging River, Red River and Toscana all publicly announced strategic alternatives processes. Each of these companies have since been involved in a corporate transaction, either on the buy or sell side.

We also expected to see companies using paper as the form of currency in public market transactions, which has been the case in the majority of the transactions. We believe that the trends of using shares "as currency" and consolidation will continue in the Canadian oil and natural gas M&A marketplace for the foreseeable future.

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