

Revisiting The Consolidation Question In 2021

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In an [April 2020 article \(https://www.dailyoilbulletin.com/article/2020/4/29/will-we-see-an-increase-in-consolidation-in-2020/\)](https://www.dailyoilbulletin.com/article/2020/4/29/will-we-see-an-increase-in-consolidation-in-2020/) written by **Sayer Energy Advisors** the question was posed: “Will We See an Increase in Consolidation in 2020?” Although it would have been impossible to know the full implications of the COVID-19 pandemic, our predictions at that time did take into consideration the fact that there would be some consolidation spurred on by the pandemic. Some significant consolidation transactions we have seen since our article in April 2020 include the following:

In June 2020 four companies backed by **ARC Financial Corp.** merged as **Longshore Resources Ltd.** acquired all of the issued and outstanding shares of **Primavera Resources Inc.**, **Rifle Shot Oil Corp.** and **Steelhead Petroleum Ltd.** Subsequent to the completion of these transactions, Longshore’s production increased to over 14,000 boe/d (75% oil). ARC continues to be the majority shareholder in Longshore.

Spartan Delta Corp. (/company/spartan-delta-corp/) was mentioned in the April 2020 article as it acquired the assets of **Bellatrix Exploration Ltd.** for \$108.8 million in the second quarter of 2020. Spartan Delta has continued consolidating through the acquisitions of privately-held **Inception Exploration Ltd.** and assets from both **Cequence Energy Ltd.** and **Enerplus Corporation** for total consideration of approximately \$187.0 million. Inception’s main producing property was located in the Gold Creek area of Alberta. The assets acquired from Cequence and Enerplus are located in the Simonette and Willesden Green areas of Alberta.

Tourmaline Oil Corp. (/company/tourmaline-oil-corp/) also continues to consolidate since its acquisitions of **Chinook Energy Inc.**, and **Polar Star Canadian Oil and Gas Inc.**, which were described in our April 2020 article. In the fourth quarter of 2020 Tourmaline bought **Jupiter Resources Ltd.** for \$615.8 million and **Modern Resources Inc.** for \$143.5 million. Both Jupiter’s and Modern’s main producing properties were located in the Musreau, Resthaven and Kakwa areas of Alberta. Tourmaline also sold a gross overriding royalty (GORR) on both the Modern and Jupiter lands to **Topaz Energy Corp.** for \$130.0 million. With these transactions, Tourmaline has forecasted its average daily production in 2021 to be 400,000 boe/d (78 per cent natural gas) and also increased its quarterly dividend from \$0.12/share to \$0.14/share.

The largest transaction in 2020 was **Cenovus Energy Inc. (/company/cenovus-energy-inc/)**’s acquisition of **Husky Energy Inc.** for \$15.0 billion. This was the largest transaction in the Canadian oil and natural gas industry since Cenovus’s acquisition of assets from **ConocoPhillips Co.** in the first quarter of 2017 for \$17.7 billion. The acquisition of Husky resulted in Cenovus becoming the third largest Canadian oil and natural gas producer with approximately 750,000 boe/d of production. Cenovus became the second largest Canadian-based refiner and upgrader, with total North American upgrading and refining capacity of

approximately 660,000 bbls/d, which includes approximately 350,000 bbls/d of heavy oil conversion capacity. Cenovus will have access to about 265,000 bbls/d of current takeaway capacity out of Alberta on existing major pipelines, as well as about 305,000 bbls/d of committed capacity on planned pipelines. Cenovus is expected to generate an incremental \$1.2 billion of annual free funds flow, comprised of \$600.0 million in annual corporate and operating synergies and \$600.0 million in annual capital allocation synergies, achievable independent of commodity prices.

The largest transaction so far in 2021 was **ARC Resources Ltd. (/company/arc-resources-ltd/)**'s acquisition of **Seven Generations Energy Ltd.** for \$5.1 billion. Seven Generations' main producing property was located in the Kakwa area of Alberta. The transaction was a share exchange which resulted in the combined company continuing under the name ARC Resources Ltd., with expected average daily production of over 340,000 boe/d, consisting of approximately 138,000 bbls/d of liquids and approximately 1.2 bcf/d of natural gas (approximately 60 per cent in Alberta, 40 per cent in British Columbia). The combined company has become Canada's largest condensate producer, third-largest natural gas producer, and sixth-largest upstream energy company.

Whitecap Resources Inc. (/company/whitecap-resources-inc/) recently announced the \$300.0 million planned acquisition of privately-held **Kicking Horse Oil & Gas Ltd.** The consideration to be paid by Whitecap consists of the issuance of 34.5 million Whitecap common shares and \$56.0 million in cash and assumption of net debt estimated at \$54.0 million. Kicking Horse's assets are located in the Kakwa area of Alberta, primarily focusing on the condensate-rich play in the Montney formation. Kicking Horse's production is approximately 8,000 boe/d (32 per cent liquids, 90 per cent of which is condensate) and includes 92 (60 net) sections of Montney rights that are 99 per cent operated, with an average working interest of 65 per cent.

Whitecap also bought **NAL Resources Limited** for \$213.9 million in the third quarter of 2020 and **TORC Oil & Gas Ltd.** in the fourth quarter of 2020 for \$848.9 million. There was significant overlap in Whitecap's and TORC's asset bases providing for operational synergies and inventory optimization opportunities. NAL was a privately-held wholly owned subsidiary of **Manulife Financial Corporation**, which had oil and natural gas operations in Alberta and Saskatchewan.

In the fourth quarter of 2020 **Tamarack Valley Energy Ltd. (/company/tamarack-valley-energy-ltd/)** bought **Woodcote Oil Corp.** and assets from **Highwood Oil Company Ltd.** for approximately \$90.0 million. Woodcote's main producing property was located in the Nipisi area of Alberta targeting the Clearwater formation. Highwood was Woodcote's working interest partner in the Clearwater interests. Tamarack Valley, concurrent with the announcement of the transactions, completed a non-brokered private placement equity financing of \$47.0 million and entered into an agreement with Topaz to sell a 2.0 per cent GORR on a certain portion of the assets held by Highwood and Woodcote for \$16.0 million.

Tamarack Valley in the first quarter of 2021 acquired **Woodcote Petroleum Inc.** and assets from **Surge Energy Inc.** for approximately \$150.0 million. The assets acquired from Surge are located in the Nipisi and Provost areas of Alberta. Woodcote's main producing property was located in the Greater Nipisi area of Alberta targeting the Clearwater formation. Concurrent with the announcement of these transactions,

Tamarack Valley announced and subsequently completed a bought-deal equity financing for gross proceeds of approximately \$68.0 million. Tamarack Valley also entered into an agreement with Topaz to sell a 4.0 per cent GORR on a certain portion of the assets held by Surge and Woodcote for \$13.7 million.

Tamarack Valley recently announced that it had entered into a definitive agreement to acquire privately-held **Anegada Oil Corp.**, a Charlie Lake light oil producer, for total net consideration of \$494.0 million after deducting the proceeds from the sale of a 2.0 per cent newly created GORR on the acquired assets to Topaz for \$32.0 million. The total net consideration to be paid by Tamarack Valley consists of \$247.5 million in cash and debt (net of GORR), and the issuance of approximately 105.3 million common shares of Tamarack Valley. Anegada's production is approximately 11,800 boe/d, comprised of 6,500 bbls/d of light and medium oil, 1,900 bbls/d of natural gas liquids and 20.4 mmcf/d of natural gas.

As we have seen recently, combinations that lead to operational efficiencies and synergies seem to be rewarded by the capital markets as evidenced by both Spartan Delta and Tamarack Valley completing significant equity financings concurrent with their respective acquisitions. The transactions detailed above suggest that we are in the midst of a consolidation cycle that was kickstarted in the second half of 2020 and we expect to continue for the remainder of 2021.

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