

# M&A Value Falls Slightly Year-Over-Year

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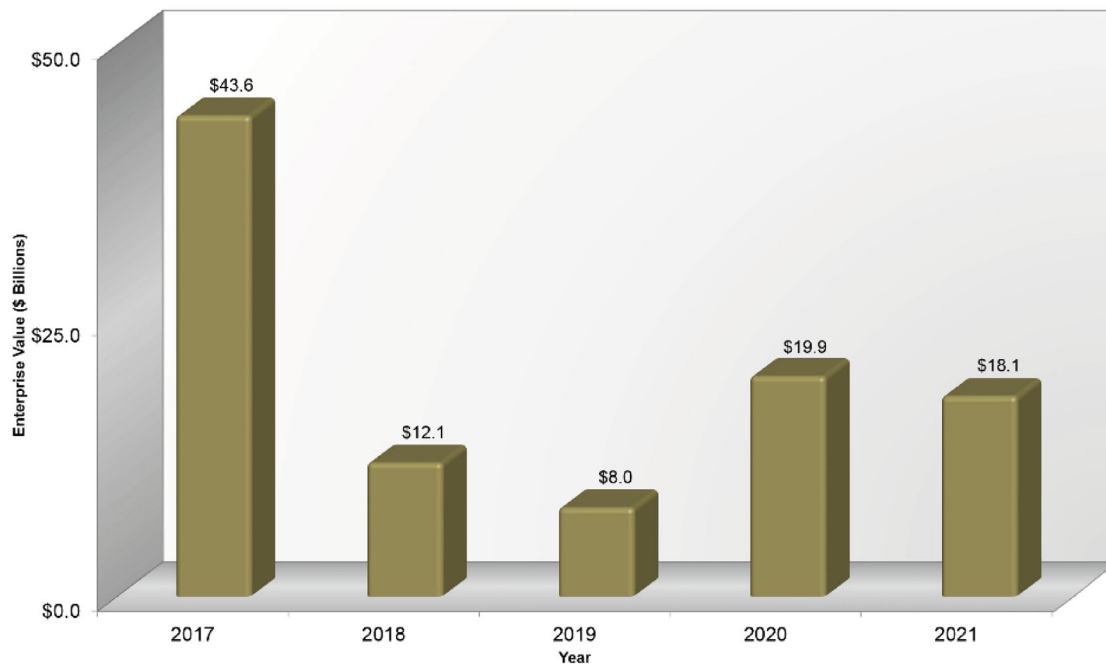
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The total enterprise value of merger and acquisition (“M&A”) transactions in the Canadian oil and natural gas industry, dropped 9 per cent in 2021 to \$18.1 billion from \$19.9 billion 2020.

## Enterprise Value of Transactions



There were three deals in 2021 valued at over a billion dollars which accounted for approximately 40 per cent of the total M&A value. All three of which were corporate transactions. This compares to 2020, when there was only one deal valued at over a billion dollars. **Cenovus Energy Inc.**'s acquisition of **Husky Energy Inc.** in 2020 was valued at \$15.0 billion and made up 75 per cent of the total M&A value for the year.

The largest transaction in 2021 was **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. At the time of the transaction, the combined company became Canada's largest condensate producer, third-largest natural gas producer, and sixth-largest upstream energy company. The combined company continued under the name ARC Resources Ltd. with expected average daily production of over 340,000 boe/d, consisting of approximately 138,000 bbl/d of liquids and approximately 1.2 Bcf/d of natural gas.

The second largest transaction in 2021 was **Tourmaline Oil Corp.**'s acquisition of **Black Swan Energy Ltd.** for \$1.1 billion. Black Swan's main producing properties were located in the Aitken and Nig areas of northeastern British Columbia. Black Swan also held material Montney land positions in the Beg, Jedney, Laprise and the Sojer areas of northeastern British Columbia. With this acquisition, Tourmaline forecasted its production would increase to between 465,000 to 475,000 boe/d (78 per cent natural gas).

The third largest transaction in 2021 was **Canadian Natural Resources Limited's** acquisition of publicly-held **Storm Resources Ltd.** for just over \$1.0 billion. Storm's main producing properties were located in the Fireweed, Nig Creek and Umbach areas of British Columbia. Storm's lands complemented Canadian Natural's interests in northeastern British Columbia and provided Canadian Natural synergies with its operations in the area. This was the second significant corporate acquisition Canadian Natural completed in northeastern British Columbia in the last two years as Canadian Natural also acquired all of the issued and outstanding shares of publicly-held **Painted Pony Petroleum Ltd.** in 2020 for \$638.8 million. Painted Pony's main producing properties were located in the Beg, Blair, Daiber, Gundy, Kobes, Townsend and West Blair areas of British Columbia.

In recent years corporate transactions have dominated the M&A market and this was no different in 2021. There was approximately \$18.0 billion in total enterprise value of large deals (over \$5 million in value) in 2021 with corporate transactions accounting for \$12.0 billion or 67 per cent. Property deals made up the remaining \$6.0 billion in total enterprise value. The split between corporate and property transactions is similar to what occurred in 2020 when corporate transactions made up a majority of the total M&A value.

The increase in commodity prices along with the continued lack of investment capital were the dominating factors that drove the M&A market in 2021. These factors led to a number of privately-held oil and natural gas companies being sold as illustrated by the aforementioned Tourmaline/Black Swan transaction. Other notable private oil and natural gas companies which were sold in 2021 were **Velvet Energy Ltd.** to **Spartan Delta Corp.** for approximately \$754.0 million and **Anegada Energy Corp.** to **Tamarack Valley Energy Ltd.** for approximately \$533.6 million.

There are a number of assets and companies that are currently on the market which may lead to strong M&A activity in 2022. Some notable offerings include **Imperial Oil Limited** and **ExxonMobil Canada**, which publicly announced their intention to pursue the sale of their interests in **XTO Energy Canada**. Imperial and ExxonMobil each own 50 per cent of XTO which has assets located in various areas in central Alberta with production of over 32,000 boe/d (140 MMcf/d of natural gas and 9,000 bbl/d of oil and natural gas liquids). Also of note is **Enerplus Corporation**, which publicly announced its intention to initiate a divestment process for its Canadian assets. Enerplus' Canadian assets produce approximately 9,100 boe/d (84 per cent oil and natural gas liquids).

The M&A market early in 2022 has seen steady activity with a number of large transactions announced to date. The most significant transaction announced so far in the first quarter of 2022 was **Vermilion Energy Inc.** announcing its intention to acquire **Leucrotta Exploration Inc.** for approximately \$477.0 million. The number of companies and assets currently available on the market coupled with appreciating commodity prices could lead to more consolidation and thus increased M&A activity for the remainder of 2022.

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