

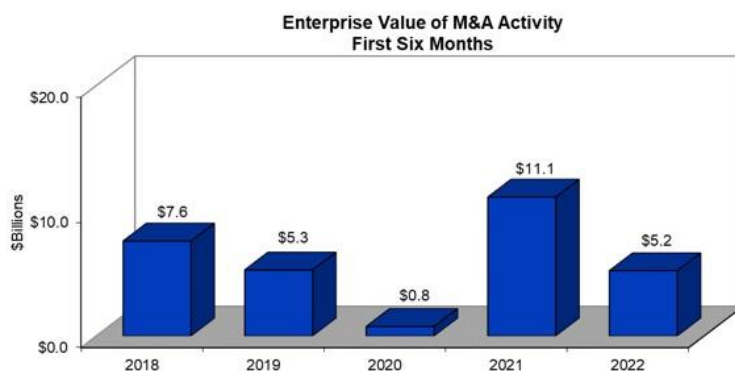
M&A Value In First Half Of 2022 Plummets Year-Over-Year

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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 2022 was \$5.2 billion, down 53 per cent from the \$11.1 billion recorded in the first six months of 2021.



The largest transaction in the first half of 2022 was [Whitecap Resources Inc. \(/company/whitecap-resources-inc/\)](#)'s acquisition of [XTO Energy Canada](#), which was jointly owned by [Imperial Oil Limited \(/company/imperial-oil-limited/\)](#) and [ExxonMobil Canada](#), for approximately \$1.9 billion. XTO's assets consisted of Montney and Duvernay interests. Production associated with the acquisition included approximately 11,000 boe/d from the Montney formation and 21,000 boe/d from the Duvernay formation. The acquisition added 672,000 (639,000 net) acres of Montney and Duvernay lands and included 1,910 net drilling locations consisting of 217 Duvernay locations and 1,693 Montney locations. The Montney assets consolidated Whitecap's working interests at Kakwa and the Duvernay assets represent Whitecap's entry into the Duvernay play and included a 100 per cent working interest in a shallow cut natural gas processing facility. Whitecap funded the acquisition through existing credit facilities and a new committed four-year term loan. Concurrent with the acquisition, Whitecap announced a 22 per cent increase to its monthly dividend to \$0.0367 per share.

The second-largest transaction in the first half of 2022 was [Cenovus Energy Inc. \(/company/cenovus-energy-inc/\)](#)'s acquisition of assets from [BP plc](#) for \$1.2 billion. Cenovus acquired the remaining 50 per cent working interest in the Sunrise oilsands project in northern Alberta. Cenovus currently operates Sunrise and owns 50 per cent of the asset through the Sunrise Oil Sands Partnership, with BP. The purchase price of \$1.2 billion consisted of a cash payment of \$600.0 million, a variable payment of up to \$600.0 million and Cenovus' 35 per cent working interest in the undeveloped Bay du Nord project offshore Newfoundland and Labrador. The variable payment amount is calculated quarterly based on a payment of \$2.8 million for every dollar the WCS benchmark exceeds \$52.00/bbl. This variable payment expires after two years even if the maximum amount of \$600.0 million is not reached.

Another significant transaction in the first six months of 2022 was [Vermilion Energy Inc. \(/company/vermilion-energy-inc/\)](#)'s acquisition of publicly-held [Leucrotta Exploration Inc.](#) for \$528.8 million. Leucrotta's main producing properties were located in the Dawson area of northeastern British Columbia and in the Mica area of Alberta and British Columbia. As part of the transaction, the shareholders of Leucrotta received \$1.73 in cash per Leucrotta share held, plus 1.0 common share of [Coelacanth Energy Inc. \(/company/coelacanth-energy-inc/\)](#) and 0.1917 of one Coelacanth common share purchase warrant. Each Coelacanth warrant will entitle the holder to acquire one Coelacanth share at an exercise price of \$0.27 per share at any time on or before 30 days following the closing of the transaction.

Coelacanth is a new junior energy company led by certain members of Leucrotta's former management team. Coelacanth will be a growth-oriented entity with assets focused in the Montney formation in the Two Rivers area of northeastern British Columbia. At the time of closing, Coelacanth was forecast to have

approximately 400 boe/d of production, over 140 net sections of Montney land and approximately \$80.0 million in cash.

Of the \$5.1 billion in large transactions (valued at over \$5.0 million) in the first six months of 2022, approximately \$3.0 billion were corporate transactions while \$2.1 billion were property deals. Of the 23 large transactions during the first half of this year, 12 were property deals and 11 were corporate deals. This compares to the first half of 2021, when the split between large corporate and property transactions was 16 corporate deals totalling \$8.2 billion in enterprise value and 33 property deals with an aggregate value of \$2.8 billion.

During the first half of 2022, 12 large oil-weighted transactions accounted for \$2.5 billion in aggregate value and 11 large natural gas-weighted transactions made up the remaining \$2.6 billion. This is down significantly from 2021 when 20 of the 49 large transactions in the first six months were oil-weighted, with a total enterprise value of approximately \$7.8 billion and 29 deals were weighted towards natural gas, with a total enterprise value of \$3.1 billion.

M&A activity in the first half of 2022 was hampered in large part by rapidly appreciating commodity prices leading to a disconnect between what buyers were willing to pay and sellers' expectations. With oil prices having stabilized in and around the \$85 WTI range we have seen M&A activity pickup recently, as evidenced by **Strathcona Resources Ltd.** announcing the acquisition of privately-held **Serafina Energy Ltd.** for \$2.3 billion. A payment of \$1.9 billion was made at closing on August 29, 2022, and deferred payments of \$100 million are to be made on each of September 30, 2022, October 31, 2022, November 30, 2022, and December 30, 2022. The acquisition was funded through borrowings on Strathcona's revolving credit facility, with total committed borrowing capacity increased to \$2.0 billion (from \$1.5 billion), and through a \$700 million term loan. Serafina produced approximately 40,000 bbls/d of oil primarily through thermal heavy oil assets in Saskatchewan.

Other significant transactions which have been announced since Labour Day were **Tamarack Valley Energy Ltd.** ([/company/tamarack-valley-energy-ltd/](#))'s acquisition of all of the issued and outstanding shares of **Deltastream Energy Corporation** for approximately \$1.5 billion and **Hammerhead Resources Inc.** announcing its planned transaction with **Decarbonization Plus Acquisition Corporation IV** for approximately \$1.4 billion.

With M&A activity so far in the second half of 2022 surpassing the total for the first six months of 2022 it has led to a respectable year, with total M&A value at approximately \$11.0 billion. With the continued inability for many Canadian oil and natural gas companies to raise capital coupled with increasing interest rates, we most likely will witness more activity on the M&A front prior to the end of 2022.

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