Sayer’s Outlook For 2023 M&A Activity

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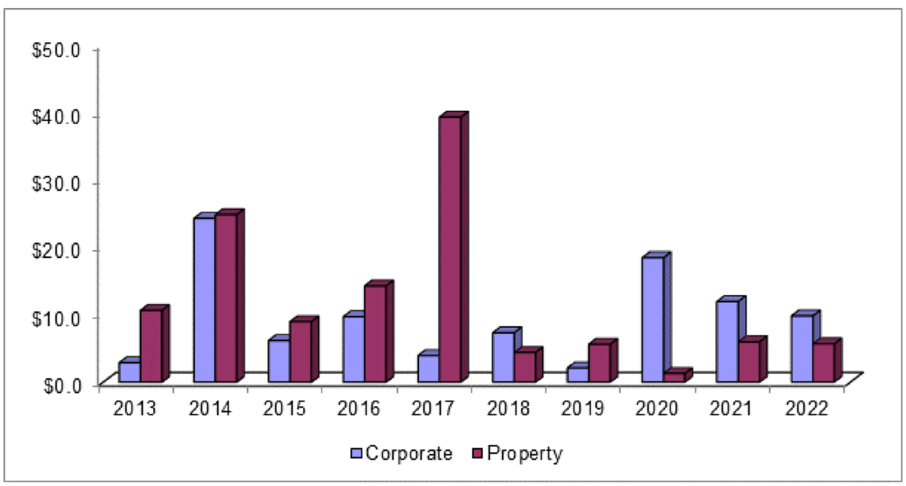
Every January, Sayer Energy Advisors publishes its forecast for mergers and acquisitions (“M&A”) activity in the Canadian upstream oil and natural gas industry for the upcoming year. Our outlook begins with a review of our predictions from January 2022 and points to where we think things will go this year.

In 2021, the total value of M&A activity in the Canadian oil patch was higher than historical standards, totaling approximately $18.1 billion. In January 2022, we predicted that M&A activity in 2022 would be slightly lower than what we saw in 2021 and would be in the +/- $15.0 billion range. We also predicted that corporate deals would account for a high percentage of the total transaction value.

Total M&A value in 2022 came in at approximately $15.6 billion with $9.8 billion of the value from corporate transactions. There were seven deals in 2022 valued at over a billion dollars; with the top three transactions being **Strathcona Resources Ltd.** acquiring **Serafina Energy Ltd.** for $2.3 billion, **Whitecap Resources Inc.** purchasing **XTO Energy Canada** for approximately $1.9 billion and **Tamarack Valley Energy Ltd.** taking over **Deltastream Energy Corporation** for just over $1.5 billion. These three transactions made up 37 per cent of the total M&A value for the year.

Total Yearly Value of M&A Activity (2013-2022)

($billions)



A constant theme in previous forecasts has been uncertainty and frothiness in the Canadian oil and natural gas industry leading to restricted M&A activity, which Sayer still expects to continue throughout 2023. This unease has been caused by a number of factors including; the constant talk of a global recession and the effect it will have on commodity prices, environmental issues and continued political issues both in Canada and internationally.

We predict M&A activity in 2023 to be similar to what we saw in 2022, we are forecasting again in the +/- $15 billion range. We expect to see corporate deals account for a high percentage of the transaction value as it did in 2022.

We were correct in not expecting to see many multi-billion-dollar natural gas transactions taking place in 2022. There were two natural gas deals valued at over a billion dollars with the aforementioned Whitecap/XTO deal as well as the pending acquisition of **Hammerhead Resources Inc.** by

Decarbonization Plus Acquisition Corporation IV for approximately $1.4 billion. *Echoing this prediction, we do not expect to see many multibillion-dollar natural gas transactions occurring in 2023.*

We predicted the number of insolvencies in 2022 to be lower than what we saw in 2021. In 2022, there were four insolvencies, compared to eleven in 2021. This trend began in 2016 when the number of oil and natural gas companies that became insolvent shot from the historical average of approximately eight per year to 28 companies entering into receivership, bankruptcy or formal financial restructuring processes. This trend continued into 2017 with 16 insolvencies recorded, then dropped to six in 2018, increased to 12 in 2019 and then fell to eight in 2020. *We expect to see a low number of insolvencies in 2023, as we did last year, in part due to the strong oil and natural gas commodity prices we continue to see.*

We predicted that there would be very few, if any, hostile takeover attempts in 2022. We were correct, in that there were no hostile takeover attempts in 2022. *We predict the same for hostile takeover attempts in 2023.*

We predicted that 2022 would be a slow year for oil sands transactions. Our prediction was incorrect in that there were three oil sands transactions valued at over $1.0 billion in 2022 with the three deals being the proposed business combination between **M3-Brigade Acquisition III Corp.** and **Greenfire Resources Inc.** for approximately $1.3 billion, **Cenovus Energy Inc.**’s acquisition of **BP plc**’s 50 per cent interest in the Sunrise oil sands project for $1.2 billion and **Suncor Energy Inc.**’s pending purchase of **Teck Resources Limited**’s 21.3 per cent working interest in the Fort Hills oil sands project for $1.0 billion. *We predict that we may see a few multibillion-dollar transactions in this sector in 2023, similar to what we witnessed in 2022.*

Over the last several years there has been an issue with the amount of capital entering into the industry through financings, as well as a lack of investor interest through public markets. We predicted that capital markets would continue to be restrictive and selective and that we would witness more debt financings versus equity financings in 2022.

Capital raised in 2022 including equity and debt issues totaled approximately $2.7 billion. This is down 75 per cent from the $10.8 billion raised in 2021. Of the total $2.7 billion in capital raised in 2022, $1.7 billion consisted of debt financings with the remainder in equity. *Even with interest rates expected to rise we believe we will continue to witness more debt financings versus equity financings occurring in 2023.*

In our forecast last year, we predicted that share buy-backs and increased dividends will be a common occurrence in 2022. This trend was a very common theme in the Canadian oil and natural gas industry in 2022. We believe this trend of share buy-backs as well as increased dividends to shareholders will continue in 2023.

We are hopeful that strong commodity prices will bring back the return of investor interest and possibly some equity into the Canadian upstream oil and natural gas industry. If we do continue to see these strong commodity prices hold in 2023, we believe that this will be the best scenario for a robust M&A market.

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