

Canadian E&P Companies Active On The M&A Front In The U.S.

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The highest value transaction to date, and making up the bulk of the total transaction value in the second quarter of 2023, is **ConocoPhillips'** pending acquisition of the remaining 50 per cent interest in the Surrmont oilsands project held by **TotalEnergies EP Canada Ltd.** for a cash payment of approximately \$4.0 billion on closing and additional contingent payments of up to \$440.0 million.

ConocoPhillips exercised its pre-emptive right to acquire the interest after TotalEnergies announced a contemplated sale to **Suncor Energy Inc.** in April 2023. The aforementioned ConocoPhillips-TotalEnergies transaction is the only one of any significance in the Canadian space so far in the second quarter of 2023, whereas there have been a number of exploration and production companies based in Canada which have been active on the M&A front in the United States.

Baytex Energy Ltd. is a publicly-traded oil and natural gas company based in Calgary, Alberta, with offices in Houston, Texas. Baytex's operations are focused in the Western Canadian Sedimentary Basin as well as in the Eagle Ford Basin in the United States. In a press release dated June 20, 2023, Baytex announced the closing of its merger with **Ranger Oil Corporation** for total consideration of \$2.9 billion (US\$2.2 billion). Ranger shareholders received 7.49 Baytex shares plus \$17.55 (US\$13.31) cash for each share of Ranger.

Ranger had operations in the Eagle Ford Basin in the U.S. According to Baytex, the acquisition materially increases the scale of the company's Eagle Ford operations by adding 162,000 net acres in the crude oil window of the Eagle Ford, on-trend with its non-operated position in the Karnes Trough, and 741 net undrilled locations, representing an inventory life of 12 to 15 years.

Baytex is targeting average production of 153,000 to 157,000 boe/d (84% oil and natural gas liquids) for the second half of 2023. The company stated that the transaction increases its exposure to premium U.S. Gulf Coast pricing and includes substantial infrastructure in place with low operating and transportation costs.

Baytex also plans to introduce a quarterly dividend of \$0.0225 per share (\$0.09 per share annualized) and recently announced the renewal of its share buyback program.

Lucero Energy Corp. is a publicly-traded oil and natural gas company headquartered in Calgary with operations in the Bakken/Three Forks play in North Dakota. On June 15, 2023, Lucero announced the divestiture of certain non-operated assets within the North Dakota Bakken/Three Forks play to an undisclosed party for cash consideration of \$140.2 million (US\$104.3 million). The disposition consisted of average production of 2,300 boe/d (80 per cent oil and natural gas liquids).

Lucero expects to have no debt and more than \$40.0 million of working capital after closing the transaction. The company stated this transaction would afford it *“greater financial flexibility to pursue initiatives aimed at further enhancing shareholder value, including potential accretive acquisitions, organic growth and/or share buybacks”*.

In early 2022 Lucero was formed through the reorganization of **PetroShale Inc.** wherein a new management team was announced and a \$54.5 million equity financing was completed.

Although no longer headquartered in Canada, **Ovintiv Inc.** continues to have a significant presence in Canada, specifically with its Montney holdings in Alberta and British Columbia. Ovintiv announced that it closed the acquisition of Midland Basin assets in the U.S., adding approximately 1,050 net 10,000-foot well locations and approximately 65,000 net acres of largely undeveloped land adjacent to its existing Permian operations.

Ovintiv acquired substantially all the leasehold interest and related assets of **Black Swan Oil & Gas**, **PetroLegacy Energy** and **Piedra Resources**, which are portfolio companies of funds managed by **EnCap Investments L.P.**, in a cash and stock transaction valued at approximately \$5.8 billion (US\$4.3 billion).

Concurrent with the announcement of the Midland Basin acquisition, Ovintiv also disclosed the sale of its Bakken assets located in the Williston Basin of North Dakota to **Grayson Mill Bakken, LLC**, a portfolio company of funds managed by EnCap, for total cash proceeds of approximately \$1.1 billion (US\$825.0 million). Ovintiv’s landholdings in the play totalled 46,000 net acres as of Dec. 31, 2022, with estimated first quarter Bakken production of 37,000 boe/d (60 per cent oil and condensate).

We expect a more robust Canadian M&A market for the remainder of the year driven by softening commodity prices along with the recent increase in asset and corporate opportunities which are currently up for sale. We also expect to see the trend of more oil and natural gas companies based in Canada continuing to transact in the U.S.

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