SAYER ENERGY ADVISORS

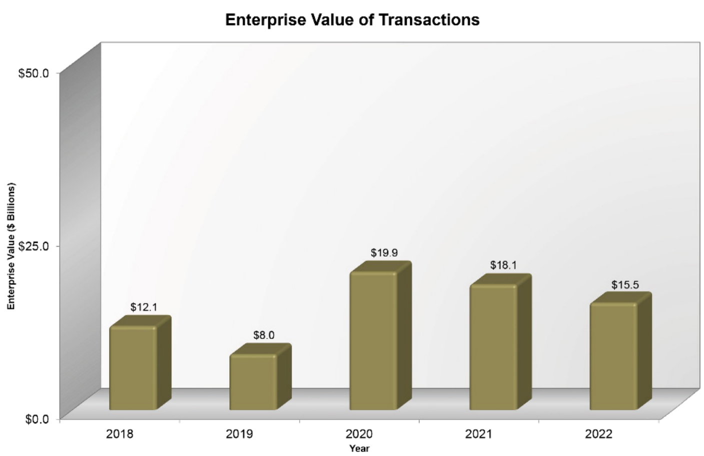
Viewpoint

An Oil and Natural Gas Industry Newsletter

Spring 2023

M&A Value Down 15% Year-Over-Year

The total enterprise value of merger and acquisition ("M&A") transactions in the Canadian oil and natural gas industry dropped 15% in 2022 to $15.5 billion, from $18.1 billion 2021.



There were six deals in 2022 valued at over $1.0 billion which accounted for 62% of the total M&A value. This compares to 2021, when there were three deals valued at over $1.0 billion which accounted for approximately 40% of the total value.

The largest transaction in 2022 was **Strathcona Resources Ltd.**'s acquisition of **Serafina Energy Ltd.** for approximately $2.3 billion in cash. A payment of $1.9 billion was made at closing on August 29, 2022, and deferred payments of $100.0 million were 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 $700.0 million term loan. Serafina produced approximately 40,000 bbl/d of oil primarily through thermal heavy oil assets in Saskatchewan.

The second-largest transaction was **Whitecap Resources Inc.**'s acquisition of **XTO Energy Canada** which was jointly owned by **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 represented Whitecap's entry into the Duvernay play and included a 100% working interest in a shallow cut natural gas processing facility.

The third-largest transaction was **Tamarack Valley Energy Ltd.**'s acquisition of **Deltastream Energy Corporation** for approximately $1.5 billion.

(continued on page 2)

Index

M&A Value Down ...

(continued from page 1)

Deltastream's properties were concentrated in the Blood, Canal, Marten Hills and Nipisi areas of Alberta and added 184 net sections of Clearwater acreage and over 500 drilling locations. This was the third corporate acquisition completed by Tamarack Valley in 2022. In the first quarter, Tamarack Valley acquired **Crestwynd Exploration Ltd.** for approximately $190.0 million and in the second quarter Tamarack Valley acquired **Rolling Hills Energy Ltd.** for $94.1 million.

In recent years corporate transactions have dominated the M&A market and this was no different in 2022. There was approximately $15.2 billion in total enterprise value of large deals (over $5 million in value) in 2022 with corporate transactions accounting for $9.8 billion or 65%. Property deals made up the remaining $5.4 billion in total enterprise value. The split between corporate and property transactions was similar to what occurred in 2021 when corporate transactions made up a majority (67%) of the total M&A value.

The total value of both oil-weighted and natural gas-weighted transactions decreased in 2022 from the previous year. The value of oil-weighted transactions fell to $10.7 billion in 2022 from the $12.2 billion recorded the previous year, a 12% drop. The value of natural gas-weighted transactions dropped 22% to $4.5 billion in 2022 from $5.8 billion in 2021. In 2022, oil-weighted deals accounted for 71% of the total enterprise value of all large deals with natural gas-weighted transactions accounting for the remaining 29%.

Strong commodity prices coupled with a lack of investment capital were the main factors that drove M&A activity in 2022. These factors led to a number of privately-held oil and natural gas companies being sold as illustrated by the aforementioned Strathcona/Serafina and Tamarack Valley/Deltastream transactions.

The M&A market so far in 2023 has seen strong activity with a number of transactions reported. The most significant transaction year to date was **Crescent Point Energy Corp.** announcing its intention to purchase **Spartan Delta Corp.**'s Montney assets in the Gold Creek and Karr areas of Alberta for $1.7 billion. Other notable transactions recorded in the first three months of 2023 were **Saturn Oil & Gas Inc.** acquiring **Ridgeback Resources Inc.** for approximately $525.0 million, **Vermilion Energy Inc.** proceeding with the sale of certain non-core assets in southeastern Saskatchewan for $225.0 million and **International Petroleum Corporation** purchasing all of the issued and outstanding shares of privately-held **Cor4 Oil Corp.** for $84.0 million. With the recent drop in oil prices and the softening of natural gas prices in 2023 it should be interesting to see if the pace of activity so far witnessed in 2023 continues for the remainder of the year.

Written by Tom Pavic
Sayer Energy Advisors
Originally Appeared in the Daily Oil Bulletin on March 29, 2023

Sayer in the News...

Reuters

Crescent Point Energy to Buy Spartan Delta's Montney Assets for $1.2 bln

Rod Nickel and Sourasis Bose
Published March 28, 2023

Canada's Crescent Point Energy Corp (CPG.TO) said on Tuesday it will acquire Spartan Delta Corp's (SDE.TO) oil and gas assets in Alberta's Montney region for C$1.7 billion in cash ($1.24 billion).

Oil prices have been volatile since Russia's invasion of Ukraine more than a year ago, making it difficult for potential buyers and sellers to agree on price. In 2022, Canadian upstream deals amounted to C$15.6 billion ($11.43 billion), down 14% from the previous year, according to Sayer Energy Advisors.

Crescent Point shares edged up 0.1% in Toronto, while Spartan stock gained nearly 6%.

Calgary, Alberta-based Crescent Point said the 600 new Montney locations are adjacent to its Kaybob Duvernay assets which it bought over the past two years, and provide 20 years of drilling inventory. The assets will add production capacity worth 38,000 barrels of oil equivalent per day (boepd).

The Montney is one of Canada's most attractive oil plays due to its strong economics and CEO Craig Bryksa said Crescent Point's new wells would be profitable even if benchmark West Texas Intermediate crude prices fall below $40 per barrel.

They currently trade around $73.

"If you think of the under-investment that has occurred globally within our sector (on production) over the last five to seven years, you can paint yourself a pretty bullish picture on oil," Bryksa told Reuters.

Crescent Point said it is looking to reduce net debt by about C$1 billion over the next 12 months and may sell assets.

Assets in North Dakota's Bakken play may no longer fit the company's portfolio, Bryksa said. Crescent Point also produces oil in Saskatchewan.

Crescent Point has not begun to market specific assets and not set a target for the value of asset sales, Bryksa said.

Crescent Point raised its production outlook to 160,000 to 166,000 boepd from the earlier forecast of 138,000 to 142,000 boepd.

The deal is expected to close during the second quarter.

After the sale, Spartan said it will focus on its remaining assets in Alberta's Deep Basin and spin out some Alberta and British Columbia assets in a new subsidiary, Logan Energy Corp.

($1 = 1.3648 Canadian dollars)

Reporting by Sourasis Bose in Bengaluru and Rod Nickel in Winnipeg; Editing by Marguerita Choy and Ed Osmond

Private Companies Emerging as Active Buyers

Recently, we have seen a number of privately-held oil and natural gas companies emerge as active buyers of oil and natural gas assets. The majority of these transactions involve the acquisition of oil and natural gas production from large, publicly-traded oil and natural gas companies which, for the most part, were deemed to be non-core to their ongoing operations. The proceeds were used by these publicly-traded entities to reduce debt outstanding.

In early February, **Hawthorne Energy, LLC,** through its Canadian subsidiary **HWN Energy Ltd.,** announced the closing of two large complementary asset acquisitions located in central and northern Alberta. The assets were acquired from both **Bonavista Energy Corporation** and **Whitecap Resources Inc.** With these transactions, HWN will have a production base of more than 15,000 boe/d (50% oil/liquids). HWN's land base will also include approximately 667,000 largely held-by-production net acres with an inventory of light oil drilling opportunities in the Dunvegan, Cardium and other Cretaceous zones of interest.

Hawthorne made its initial entry into Canada in July, 2021 through the acquisition of privately-held **Tangle Creek Energy Ltd.** Hawthorne is being funded by **Carnelian Energy Capital Management, L.P.,** an energy investment firm based in Houston, Texas, with approximately US$2.8 billion of cumulative capital commitments.

In addition to the HWN transaction, Whitecap also closed two additional dispositions in the first quarter of 2023 to an undisclosed company and to publicly-held **ROK Resources Inc**. According to Whitecap, *"we have successfully monetized these non-strategic assets at strong disposition metrics and look forward to demonstrating strong operational performance on our core assets in 2023".* Whitecap used the cash proceeds of approximately $400.0 million from the dispositions to reduce its debt outstanding.

Subsequent to completing the purchase of certain of Whitecap's oil and natural gas interests, ROK announced it has entered into three separate asset purchase and sale agreements to divest of certain non-core assets in Saskatchewan for total combined proceeds of approximately $47.3 million. One of the transactions included the sale of ROK's non-operated 2.11685% interest in the Weyburn Unit to privately-held **Rife Resources Ltd.** for total proceeds of approximately $44.5 million. Rife is a private exploration and production company, wholly-owned by the **CN Pension Trust Funds**, the pension fund for employees of the **Canadian National Railway Company**. According to ROK, "*the transaction divests significant non-core, non-operated assets, and will allow the Company to focus on its core properties, which provide significant growth potential via 172 undrilled locations. The $44.5 million in cash proceeds from the Weyburn Unit, before normal closing adjustments, will be accretive to existing shareholders of the Company by immediately eliminating 90% of ROK's outstanding senior term debt which will result in interest savings of ~$5.8 million. By June 2023, the Company's senior term debt is expected to be paid off entirely, providing the Company with incremental cashflow of ~$2.5 million per month, that can be deployed into organic drilling in its core Southeast Saskatchewan and Kaybob assets".*

Publicly-traded **Vermilion Energy Inc.** completed the sale of certain non-core interests in southeastern Saskatchewan in the first quarter of 2023 to privately-held **Woodland Development Corp.** for $225.0 million. The assets consisted of approximately 5,500 boe/d of non-core light oil production spread across the greater Arcola and Queensdale areas of southeastern Saskatchewan. According to Vermilion, *"the divestment was part of our strategy to re-position Vermilion for long term success by high-grading our North American inventory, reducing unit cost and accelerating the timeline of achieving our debt reduction targets"*. The transaction had an effective date of September 1, 2022.

During the first quarter, it was disclosed that privately-held **Storm Development Corp.** was acquiring certain Montney interests in the Pouce Coupe area of Alberta from publicly-held **ARC Resources Ltd.** The management team of Storm Development previously ran **Storm Resources Ltd.** which was sold to **Canadian Natural Resources Limited** in late 2021 for approximately $1.0 billion. Storm Development recently raised approximately $162.0 million in equity through both a brokered and non-brokered private placement financing.

(continued on page 5)

Private Companies Emerging...

(continued from page 4)

There were also a few private oil and natural gas companies which were sold recently with privately-held **Ridgeback Resources Inc.** being acquired by **Saturn Oil & Gas Inc.** for $524.7 million, **International Petroleum Corporation** purchasing all of the issued and outstanding shares of privately-held **Cor4 Oil Corp.** for $84.0 million as well as the sale of all of the issued and outstanding shares of privately-held **Road 53 Resources Inc.** to an undisclosed buyer. With the recent volatility in oil prices and the softening of natural gas prices so far in 2023 it should be interesting to see if private oil and natural companies continue to be active buyers for the remainder of the year.

Written by Tom Pavic
Sayer Energy Advisors
Originally Appeared in the Daily Oil Bulletin on April 26, 2023

Sayer in the News...

Calgary Herald

Varcoe: List of Billion-Dollar Oilpatch 'Survivors' Grows as Outlook Stays Strong

Chris Varcoe
Published January 20, 2023

Call it Canada's billion-dollar energy club.

And in the words of industry analyst Jeremy McCrea of Raymond James: "Membership has its privileges."

After a tumultuous three-year ride for oil and natural gas prices, publicly traded Canadian petroleum producers have been on an upswing over the past 12 months. The S&P/TSX Capped Energy Index is up 35 per cent during the past year, including 2.5 per cent since the end of December.

A report by McCrea this week noted 30 oil and gas companies on the Toronto Stock Exchange ended December with a market capitalization topping $1 billion, the first time that's happened in six years.

And the total number of listed oil and gas companies has fallen 55 per cent since 2015, following a crash in oil prices.

"The number of names is down quite a bit, but the relevancy of the top billion-dollar club has actually grown here over the last couple of years," McCrea said Friday.

"They're survivors. And now, when you look at the commodity prices where they are, relative to where the average was over the last seven years, these companies are really flourishing now."

The benchmark U.S. oil price rose more than $1 a barrel on Friday to close at US$81.64, while U.S. natural gas prices dipped 10 cents to US$3.16 per million British thermal units, reaching its lowest point in more than 18 months.

In Canada, the billion-dollar market cap group ranges from well-known heavyweights such as Canadian Natural Resources at more than $89 billion and Suncor Energy at $60 billion, down to smaller energy firms such as junior producer Headwater Exploration at $1.5 billion and Pason Systems at $1.3 billion.

"Why does this matter? With fewer but stronger companies in the sector, the level of interest in 2022 has picked up meaningfully with investors," the Raymond James note states.

"There may be fewer companies today, but the companies (and sector as a whole) are showing much more relevance with investors. This likely continues for 2023."

In 2013, as the oilsands boom was still going and oil prices hovered around US$95 a barrel, there were 369 listed Canadian oil and gas companies, with 39 having a market capitalization above $1 billion.

After oil prices crashed in 2014-15, the industry entered a painful period of retrenchment and consolidation, with more M&A activity taking place after the pandemic began.

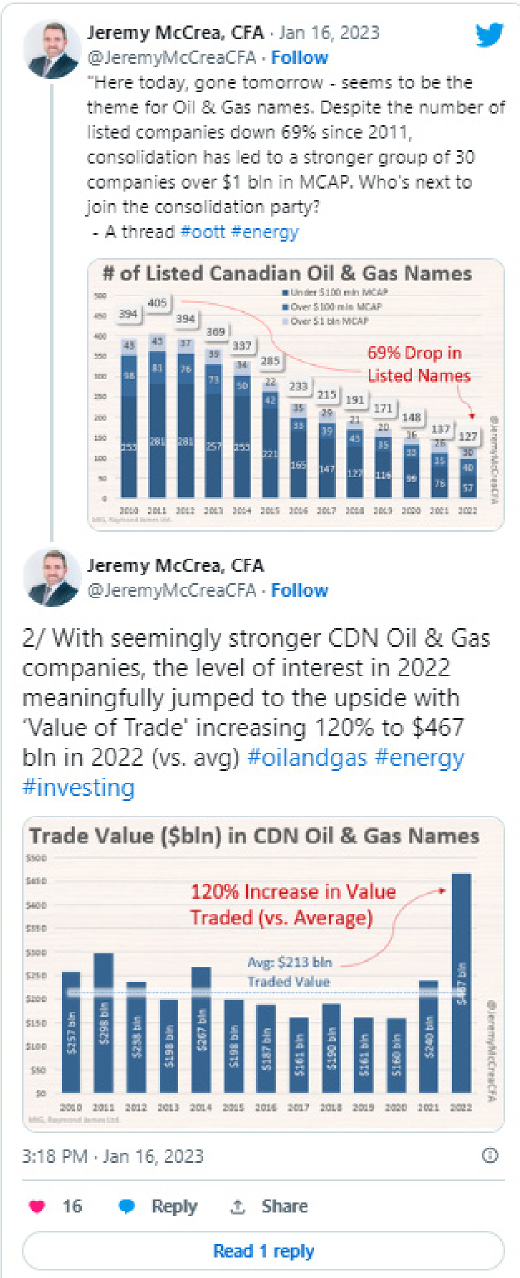
In 2020, only 16 oil and gas companies had a market cap over $1 billion.

Over the past 12 months, the war in Ukraine and rising global oil demand have sent commodity prices higher, and stock prices in the sector have risen.

McCrea also noted the value of trades in Canadian oil and gas stocks jumped 120 per cent to $467 billion last year, compared to a 12-year average of $213 billion.

(continued on page 7)

Sayer in the...
(continued from page 6)



According to the TMX Group, the energy sector now makes up about 18 per cent of the broader S&P/TSX Composite Index — trailing only financials — and up from 14.6 per cent a year ago.

A research note Friday from ATB Capital Markets highlighted the evolving nature of the Canadian energy capital structure. Of the 29 firms listed in the S&P/TSX Capped Energy Index, the 10 largest make up about 85 per cent of the aggregate market capitalization.

Oilpatch executives say size increasingly matters by lowering their cost of capital, making it easier to attract larger institutional investors and bolstering their ability to secure necessary services through larger capital programs.

"In order to be successfully public, you need some magnitude of size. So $100 million of market cap probably isn't going to cut it, you're not going to get any attention," said Headwater president Jason Jaskela, stressing companies also need to differentiate themselves from their peers.

"It's not easy to raise money right now, even with the winds in our sails. There are less people investing in energy all the time … having some size and some differentiation and having a good cost of capital are all really important."

The industry also continues to consolidate.

Sayer Energy Advisors says the value of all M&A deal-making last year in the upstream Canadian oil and gas sector hit an estimated $16 billion, led by privately held Strathcona Resources acquiring Serafina Energy for $2.3 billion.

Eric Nuttall, a senior portfolio manager with Ninepoint Partners, said the business model has changed for the oilpatch in recent years, making it harder for smaller petroleum producers to thrive.

"Liquidity matters for institutions where you want to be able to buy a relevant position size without being stuck in a name when you want to exit," he added.

"That's especially important now because there are vastly fewer players in this space than there were 10 years ago … a larger market cap affords more institutions to take an interest."
As for 2023, the outlook will depend, in part, on where commodity prices are headed and how demand shapes up with a global slowdown looming.

However, chronic underinvestment globally, the easing of COVID-19 restrictions in China and less oil being released from the U.S. Strategic Petroleum Reserve should help support prices.

The International Energy Agency said earlier this week that global demand for oil is expected to reach an all-time high, increasing by 1.9 million barrels per day.

"Outside a recession, I think the fundamentals for oil and gas still look pretty good, particularly on the oil side," said Michael Clare, a senior portfolio manager with Brompton Group.

"Of course, the key risk being whether we enter a recession — and what that does to potential demand."

Recent Transactions Completed by Sayer Energy Advisors

This announcement appears as a matter of record only.

ANGEL WING METALS INC

has sold all of the issued and outstanding shares of its subsidiary

HUNTINGTON CAPITAL INC.

The undersigned acted as financial advisor to Angel Wing for this transaction.

January 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

INSIGNIA

has sold its interests in the Beaverhill Lake area of Alberta

The undersigned acted as financial advisor to Insignia for this transaction.

January 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

ALDON OILS LTD.

has sold its interests in the Bemersyde area of Saskatchewan

The undersigned acted as financial advisor to Aldon for this transaction.

February 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

Burgess Creek Exploration INC

has sold its interests in the Elcott area of Saskatchewan

The undersigned acted as financial advisor to Burgess for this transaction.

February 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

INSIGNIA

has sold its interests in the Honeysuckle area of Alberta

The undersigned acted as financial advisor to Insignia for this transaction.

February 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

All of the oil and natural gas interests in the Joarcam area of Alberta held by

ROBUS RESOURCES INC.

have been sold through its receiver

A&M

The undersigned acted as financial advisor to Alvarez for this transaction.

February 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

BROADVIEW ENERGY

has sold its interests in the Marwayne area of Alberta

The undersigned acted as financial advisor to Broadview for this transaction.

March 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

CLEARVIEW RESOURCES LTD

has sold its interests in the Bantry area of Alberta

The undersigned acted as financial advisor to Clearview for this transaction.

March 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

All of the outstanding shares of

DRAKKAR ENERGY LTD.

have been acquired by

Blacksteel Energy

for approximately

$1.5 million

The undersigned acted as financial advisor to Drakkar for this transaction.

March 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

EDGE LRM Operations Ltd.

has sold in multiple transactions certain non-core interests in Alberta

The undersigned acted as financial advisor to Edge for these transactions.

March 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

All the issued and outstanding shares of

ROAD 53 Resources Inc.

have been sold

The undersigned acted as financial advisor to Road 53 for this transaction.

March 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

Certain oil and natural gas interests in Alberta held by

SanLing ENERGY LTD.

have been sold through its receiver

pwc

The undersigned acted as financial advisor to PwC for this transaction.

March 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

SURGE ENERGY INC

has sold its interests in the Edmonton area of Alberta

The undersigned acted as financial advisor to Surge for this transaction.

March 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

WestLake ENERGY

has sold its interests in the Celtic, Mervin, Pikes Peak and Silverdale areas of Saskatchewan

The undersigned acted as financial advisor to West Lake for this transaction.

March 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

All the issued and outstanding shares of

EDGE CAPITAL

have been sold

The undersigned acted as financial advisor to Edge for this transaction.

April 2023 SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

tamarack valley ENERGY

has sold certain of its non-core interests in southern Alberta

The undersigned acted as financial advisor to Tamarack Valley for this transaction.

April 2023 SAYER ENERGY ADVISORS