SAYER ENERGY ADVISORS

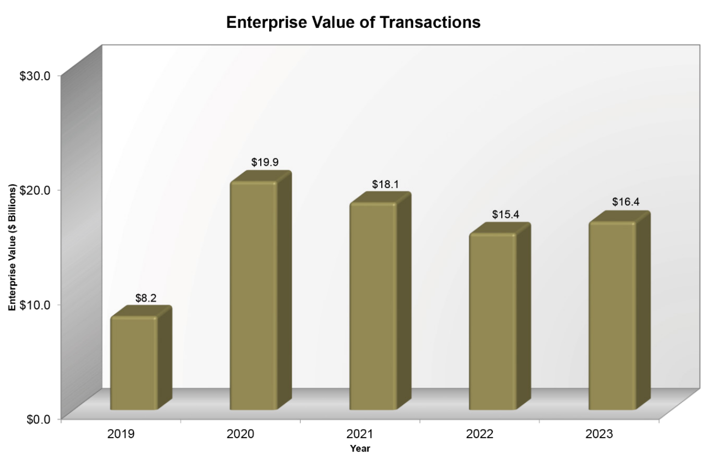
Viewpoint

An Oil and Natural Gas Industry Newsletter

Spring 2024

M&A Value Increases Slightly Year-Over-Year

The total enterprise value of merger and acquisition ("M&A") transactions in the Canadian oil and natural gas industry increased 7% in 2023 to $16.4 billion from the $15.4 billion recorded in 2022.



There were five deals valued at over $1.0 billion in 2023, which accounted for 71% of the year's total M&A value. The largest transaction in 2023 was **ConocoPhillips'** purchase of **TotalEnergies EP Canada Ltd.**'s 50% non-operated working interest in the Surmont Oil Sands Project for $4.4 billion consisting of an upfront cash payment of $4.0 billion and contingent payments of up to $440.0 million. With this acquisition, ConocoPhillips now owns a 100% working interest in the Surmont Oil Sands Project. On April 26, 2023, **Suncor Energy Inc.** initially announced it had entered into an agreement with TotalEnergies for the sale of all of the shares of TotalEnergies EP Canada for $5.5 billion in cash plus a contingent payment of up to $600.0 million. The transaction with Suncor was conditional upon ConocoPhillips waiving its right of first refusal with respect to the Surmont Oil Sands Project. On May 26, 2023, ConocoPhillips exercised its preemption right to acquire the interest from TotalEnergies. On November 20, 2023, Suncor completed the acquisition of TotalEnergies EP Canada for approximately $1.5 billion. TotalEnergies EP Canada's main producing property was its 31.23% working interest in the Fort Hills Oil Sands Project operated by Suncor.

The second largest transaction was **Crescent Point Energy Corp.**'s acquisition of publicly-held **Hammerhead Energy Inc.** for approximately $2.7 billion. Hammerhead's main producing properties were located in the Gold Creek and Karr areas of Alberta. Crescent Point has identified 800 net Montney drilling locations on the Hammerhead lands. With this acquisition, Crescent Point became the seventh largest exploration and production company in Canada with over 200,000 boe/d (65% oil and liquids) of production. The third largest transaction of 2023 also involved Crescent Point with its purchase of assets from **Spartan Delta Corp.** for $1.7 billion. The acquired assets are Montney interests located in the Gold Creek and Karr areas of Alberta. In conjunction with the transaction, Spartan Delta transferred 4,000 boe/d of production in the Pouce Coupe and Simonette areas of Alberta, 500 boe/d of northeastern British Columbia production and 55,769 net undeveloped acres in the Flatrock area of northeastern British Columbia to **Logan Energy Corp.** a newly-formed subsidiary which was spun-out of Spartan Delta, which are being led by certain other members of Spartan Delta's former executive

(continued on page 2)

Index

M&A Value Increases ...

(continued from page 1)

team. In addition, Spartan Delta retained and will continue to develop its Deep Basin assets. As part of the transactions, Spartan Delta shareholders received $9.50 in cash for each Spartan Delta share held, one common share of Logan for each Spartan Delta share held as well as one Logan share purchase warrant for each Spartan Delta share held. Each warrant entitled the holder to acquire one Logan share at an exercise price equal to Logan's defined net asset value of $0.35 per Logan share at any time on or before the close of business on July 17, 2023.

The $16.2 billion in total enterprise value of large deals (over $5 million in value) in 2023 consisted of $8.7 billion in property transactions and $7.4 billion of corporate transactions. This year breaks a three-year period where corporate transactions outweighed property deals. There were only 16 corporate transactions in contrast to 41 property deals in 2023.

The value of oil-weighted transactions decreased 7% to $9.8 billion in 2023 compared to $10.5 billion in 2022, while the total value of natural gas-weighted transactions rose 37% in 2023, increasing to $6.4 billion from $4.7 billion in 2022. In 2023, oil-weighted transactions accounted for approximately 60% of the total M&A value and natural gas-weighted transactions accounted for the remaining 40%. The average transaction size for oil-weighted transactions decreased to $257.1 million in 2023 from $309.1 million in 2022, while the average value of natural gas-weighted deals rose to $336.2 million from $245.4 million. The number of oil-weighted transactions increased 12% to 38 deals in 2023 from 34 deals in 2022. There were 19 natural gas transactions in 2023, the same as in the previous year.

Lower commodity prices combined with the continued lack of investment capital were dominating factors which drove the M&A market in 2023. These factors led to slightly higher M&A activity year over year. We continue to have an optimistic view that strong oil prices will bring back the return of investor interest along with some possible equity into the Canadian upstream oil and natural gas industry.

The M&A market thus far in 2024 has been relatively quiet. The most significant transaction announced so far in the first quarter of 2024 was privately-held **Astara Energy Corp** acquiring **Blackspur Oil Corp.** for approximately $75.0 million. If natural gas prices continue to remain soft, this could be a catalyst to more consolidation and increased M&A activity for the remainder of 2024.

Written by Tom Pavic
Sayer Energy Advisors
Originally Appeared in the Daily Oil Bulletin on March 27, 2024

Recent Transactions Completed by Sayer Energy Advisors

This announcement appears as a matter of record only.

All of the issued and outstanding shares of

PRIMROSE DRILLING VENTURES LTD.

have been acquired by

Altima resources ltd

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

January 2024

SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

All of the oil and natural gas interests of

GOLDENKEY

have been sold through its trustee

pwc

to

BROTHERIN Energy Ltd.

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

February 2024

SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

All of the issued and outstanding shares of

ROLLING TRAILS RESOURCES INC.

have been sold

The undersigned acted as financial advisor to Rolling Trails for this transaction.

February 2024

SAYER ENERGY ADVISORS

Sayer in the News...

Western Standard

'Stars Lining Up' for Canadian Oil After Blockbuster Deals in US

Shaun Polczer
Published October 23, 2023

A pair of blockbuster deals in the US bode well for the future of the Canadian energy sector, according to a Calgary-based energy advisory firm.

It comes after San Ramon-based Chevron this weekend announced it is buying fellow oil giant Hess Corp. for USD$53 billion in the second blockbuster deal this month — after Exxon Mobil took out Texas-based Pioneer Natural Resources for $60 billion dollars on October 11.

According to Tom Pavic, president of Sayer Energy Advisors, both deals are a sign of longer-term confidence in the future of fossil fuels, particularly for shale oil. The Hess deal expands Chevron's footprint in the North Dakota Bakken — which spills into southern Saskatchewan — while Exxon consolidates the Texas Permian shale oil play.

Although Canada has seen an uptick in merger and acquisition activity, some observers feel it's only a matter of time before major buyers begin looking north as the Trans Mountain pipeline expansion comes on stream and producers benefit from higher commodity prices.

"We're sort of seeing that here in Canada but not at this scale," he told The Western Standard. "I think it's positive for the Canadian industry over the short to medium term… things are lining up on this side of the border."

Last week, Calgary-based Tourmaline Oil bought Bonavista Energy for CAD$1.45 billion to consolidate its dominant position in the prolific Duvernay shale fairway along the Alberta Foothills.

Also last week, Calgary-based Peyto Exploration bought the remaining Canadian assets of Spanish oil major Repsol in a deal worth $636 billion.

In August, Strathcona Resources bought out smaller rival Pipestone Energy for $756.83 million, to create Canada's fifth-largest oil and gas company with a market capitalization of $8.6 billion.

Those are on top of ConocoPhillips' $4 billion purchase of French supermajor TotalEnergies' Surmont thermal oil sands project and Suncor's $1.47 billion acquisition of Total's stake in the Fort Hill oil sands mine.

Two years of relatively strong commodity prices have allowed Canadian companies to pay down debt and build up war chests. With TMX — literally and figuratively — in the pipe, oil producers will have a half a million barrels per day of running room to resume an upward growth path.

According to Sayer, there have been about $12.7 billion of oil patch deals thus far in 2023, which is slightly off the $15.7 billion and $17.9 billion in each of the past two years after activity picked up following the pandemic.

The difference is that for two years relatively strong commodity prices have allowed Canadian companies to pay down debt and build up war chests. With TMX — literally and figuratively — in the pipe, oil producers will have a half a million barrels per day of running room to resume an upward growth path.

According to a report from Morgan Stanley last week, Canadian oil producers are attractive targets because they trade at substantial discounts to their American peers even though they have higher dividend yields and stronger free cash flow to fund acquisitions.

Alternatively, it's not unusual for Canadian companies to use that spare cash to snap up distressed American companies loaded with debt.

"I think there are going to be more transactions, for sure," Pavic said.

After surpassing the USD$90 mark last week, North American oil prices were down sharply in morning trading on Monday. Benchmark West Texas Intermediate was off $2.14 to $85.94 per barrel in New York, while UK Brent was down $1.97 to $90.19.

Recent Uptick in Oil & Natural Gas Insolvency Processes

Since the beginning of 2024, there have been eight oil and natural gas exploration and development companies which have filed a Notice of Intention to Make a Proposal (the "NOI") pursuant to the Bankruptcy and Insolvency Act (the "BIA") or have entered into bankruptcy or receivership processes. The eight announced in 2024 to date is already higher than all of calendar 2023 when five companies entered into insolvency processes, while in 2022 there was only a total of four.

On January 5, 2024, privately-held **Kingsland Oil Corp.** made an assignment into bankruptcy and **BDO Canada Limited** was appointed as the trustee in bankruptcy of the bankrupt estate. Kingsland ceased operations and shut-in its operated production in August 2023. Kingsland's oil and natural gas interests are located in the Delta West and Tompkins areas of southwestern Saskatchewan. Prior to shut-in, average production net to Kingsland for the first half of 2023 averaged approximately 21 boe/d consisting of 19 barrels of oil and 12 Mcf/d of natural gas. BDO has engaged **Sayer Energy Advisors** to assist it with a sale of Kingsland's oil and natural gas properties.

Publicly-traded **Razor Energy Corp.** (together with its wholly-owned subsidiaries, **Blade Energy Services Corp., Razor Royalties Limited Partnership**, and **Razor Holdings GP Corp.**, collectively, "Razor") each filed, on January 31, 2024, a NOI under the provisions of the BIA. Pursuant to the NOI, **FTI Consulting Canada Inc.** was appointed as the proposal trustee in Razor's proposal proceedings and will assist Razor in its restructuring efforts. According to Razor, *"the decision to file the NOI was made by the board in view of the effects of the ongoing dispute with the operator of the Judy Creek Gas Plant and the accompanying significant negative impact on Razor due to Razor having to shut in approximately 1,100 boepd of production, together with other ongoing challenges within its business"*.

Subject to the NOI proceedings, Razor will continue with its efforts to pursue strategic alternatives. Razor is open to evaluating a variety of proposals, including: a corporate sale, a sale of assets and undertaking, a financing or refinancing which may include an accompanying restructuring of Razor's financial and contractual obligations, or a combination of any of the foregoing. Razor's assets are located in southern Alberta and the Kaybob and Swan Hills areas of Alberta. Razor's recent production was 2,580 boe/d.

On March 6, 2024 privately-held **Kaden Energy Ltd.** filed a NOI under the provisions of the BIA. Pursuant to the NOI, BDO was appointed as the proposal trustee in Kaden's proposal proceedings and will assist Kaden in its restructuring efforts. Kaden's oil and natural gas properties are located in the Kakwa and Smoky areas of northwestern Alberta.

Ernst & Young Inc., on March 8, 2024, was appointed receiver and manager of **Deep Well Oil & Gas (Alberta) Ltd.** and **Northern Alberta Oil Ltd.** Ernst & Young, as part of the receivership process, is seeking a purchaser for a 25% working interest in two oil sands leases held by Deep Well and Northern Alberta which are located in the Sawn Lake area of Alberta. The oil sands leases are operated by **Andora Energy Corporation** which holds the remaining 75% working interest. Andora has entered into a purchase and sale agreement with Ernst & Young ("Stalking Horse APA") to acquire the 25% interest held by Deep Well and Northern Alberta. The marketing process initiated by Ernst & Young is to determine whether a higher and better offer than the Stalking Horse APA may be obtained.

On March 25, 2024 privately-held **Enerstar Petroleum Corp.** and its working interest partner **Taber Water Disposal Inc.** filed a NOI under the provisions of the BIA. Pursuant to the NOI, **Grant Thornton Limited** was appointed as the proposal trustee in Enerstar and Taber Water's proposal proceedings.

Privately-held **AlphaBow Energy Ltd.** commenced restructuring proceedings on March 28, 2024 by filing a NOI under the provisions of the BIA. Pursuant to the NOI, **KSV Restructuring Inc.** was appointed as the proposal trustee. The purpose of the NOI is to allow for a stay of proceedings to allow AlphaBow to consider various restructuring options. AlphaBow has scheduled a Court application on April 26, 2024 to continue these proceedings under the *Companies' Creditors Arrangement Act*.

The recent uptick in oil and natural gas insolvency processes has been driven by weak natural gas prices, forced production shut-ins and partner and regulatory pressures. If natural gas prices remain depressed, we may see a few more oil and natural gas companies enter into restructuring and insolvency processes throughout the remainder of 2024.

Written by Tom Pavic
Sayer Energy Advisors
Originally Appeared in the Daily Oil Bulletin on April 24, 2024

Sayer in the News...

The Canadian Press

Wave of Billion-Dollar Oilpatch Deals a Sign of Bullish Canadian Energy Sector

Amanda Stephenson
Published October 17, 2023

A wave of high-profile mergers and acquisitions in the Canadian oilpatch is a sign of an industry that is flush with cash and increasingly confident in the short- and medium-term outlook for fossil fuels, experts say.

Since the start of the year, there have been a number of billion-dollar-plus deals struck in the Canadian energy sector, including Crescent Point Energy Corp.'s $1.7-billion purchase of Spartan Delta Corp.'s Montney oilfield assets, ConocoPhillips' approximately $4-billion purchase of TotalEnergies' Surmont oilsands project, and Suncor Energy Inc.'s $1.47-billion acquisition of Total's stake in the Fort Hills oilsands mine.

The latest headline-grabbing deal was announced Monday, when Tourmaline Oil Corp. — Canada's largest natural gas producer — said it would purchase privately held Bonavista Energy Corp. for $1.45 billion.

Strathcona Resources Ltd. also recently merged with Pipestone Energy Corp. in an all-stock deal, with the merged company expected to be the fifth largest oil producer in the country.

According to figures from Calgary-based Sayer Energy Advisors, M&A activity in the Canadian energy sector has totalled $12.7 billion since the start of 2023.While that's less than the $15.2 billion and $17.9 billion the sector saw in 2022 and 2021, respectively, it is occurring at a time when the Canadian oilpatch has now benefited from two years of strong commodity prices. Many companies are flush with cash and have rapidly been paying down debt, giving them a strong enough balance sheet to pursue growth through acquisitions.

"I think you'll still see some more consolidation, for sure. I think there's still going to be some more transactions," said Tom Pavic, president of Sayer Energy Advisors.

"A number of companies have the capital to pursue these transactions — they've been generating quite a bit of cash flow."

Heather Exner-Pirot, director of energy, natural resources and environment for the Macdonald-Laurier Institute, said the Canadian oilpatch saw a significant amount of consolidation in 2021 as the country began to emerge from the COVID-19 pandemic. But she said the deals that are happening now are very different.

"Immediately post-COVID it was a sign of weakness. There were some companies that just weren't going to make it and were vulnerable, and were ripe for the picking by those that were still strong enough to do it," she said.

"Now what I think we're seeing are signs of strength. These companies have excellent balance sheets and the capacity to go and acquire and strengthen their empires."

South of the border, U.S. multinational oil giant Exxon Mobil Corp. announced last week it will acquire Pioneer Natural Resources in a US$59.5 billion mega-deal.

That merger has been interpreted by many industry watchers as Exxon demonstrating its confidence in fossil fuels, even as the world continues to seek to transition to lower-carbon energy sources in order to slow the pace of climate change.

Exner-Pirot said she agrees with that assessment, and added that the global energy crisis sparked by Russia's invasion of Ukraine has brought investors flooding back to the industry on the assumption that fossil fuels will still be in high demand in at least the short and medium term.

"(Oil and gas) is the best-performing sector, and I think investors are looking for ways to get back into energy," she said.

"Definitely, people are feeling bullish."

Still, Exner-Pirot pointed out that Canada's energy sector has far fewer players now than it did prior to the oil price crash of 2015, an industry-shaking event that drove another major wave of consolidation. She said the fact that so much consolidation has already occurred naturally limits the amount of deal-making that can take place now.

"Where Exxon and Pioneer made sense is that so much of their land overlapped. So you really could get efficiencies by combining them — you really could produce a cheaper barrel," she said.

"And I think the extent to which that's possible in the Canadian oilpatch is starting to diminish, only because there have been so many acquisitions. I don't think we're going to see a whole tsunami of new deals."

Sayer in the News...

Calgary Herald

Varcoe: After $16B in Oilpatch Deals in 2023, Industry is now in ‘a Sweet Spot’ for More M&A

Chris Varcoe
Published January 10, 2024

‘We are in a period of energy profitability that we haven’t seen in over 50 years,’ said David Szybunka, senior portfolio manager with Canoe Financial

After a parade of deals in the Canadian oilpatch in 2023, experts expect a steady pace of mergers and acquisitions to continue this year, with mounting interest in the prolific Montney formation.

Data from Sayer Energy Advisors tracked $16.2 billion of M&A activity among upstream oil and gas companies last year through 58 separate deals, topping the $15.4 billion recorded in 2022.

The biggest deal last year saw ConocoPhillips buy half of the Surmont oilsands project from France’s TotalEnergies for $4.4 billion. Calgary-based Crescent Point Energy purchased assets in the Montney from Spartan Delta Corp. for $1.7 billion last March, and announced the $2.6-billion acquisition of Hammerhead Energy in November.

Other major transactions included Suncor Energy paying $1.5 billion for TotalEnergies’ stake in the Fort Hills oilsands project, and Tourmaline Oil acquiring Bonavista Energy for $1.45 billion.

More stability in oil prices last year compared with 2022, and ongoing industry consolidation helped drive activity higher last year, Sayer president Tom Pavic said Wednesday.

He also expects a busy year in 2024.

“You will still definitely see deals being done,” Pavic said. “It will probably be a little lower . . . There is less product currently available for sale right now.”

Oil and gas sector deals in Canada have jumped sharply since 2019, with commodity prices crashing at the start of the pandemic followed by a sharp recovery that created motivated sellers.

Benchmark U.S. oil prices soared above US$100 a barrel following Russia’s invasion of Ukraine in 2022, but have stabilized in the $70-range mark in recent months — West Texas Intermediate crude closed at $71.37 on Wednesday — a profitable level for the sector.

With cash flow levels surging, most companies have paid down debt and are in a fortified financial position.

“We are in a period of energy profitability that we haven’t seen in over 50 years,” said David Szybunka, senior portfolio manager with Canoe Financial.

He expects a robust period of mergers and acquisitions in the next 12 months, as valuations in the sector become more differentiated by investors.

“It’s driven by balance sheets that haven’t been this clean ever, and (trading) multiples are diverging,” Szybunka added.

The pace of acquisitions south of the border was torrid last year, led by ExxonMobil purchasing Pioneer Natural Resources for US$59.5 billion and Chevron buying Hess for US$53 billion.

In a report issued Wednesday, energy consultancy Wood Mackenzie forecast that “another banner year for M&A will focus on scale, performance improvement and diversification.”

As the industry matures, size will matter, it noted.

In Canada, a strong year is anticipated, particularly as producers look to consolidate their holdings in the Montney formation, which spans the Alberta-B.C. border.

Wood Mackenzie research analyst Tyson Gervais noted 10 small and medium-sized publicly traded producers are active in the Montney and potentially any one of them could be active securing deals this year, either as a buyer or seller.

“I would say the Montney will definitely drive 2024. It is a fragmented basin and there are still a lot of parcels to pick up,” he said.

“Canada is due for a major deal . . . We haven’t seen a real blockbuster deal in Canada for a couple of years.”

There are active private buyers and sellers on the scene as well.

On Wednesday, newly formed Parallax Energy — an exploration and production firm led by former leaders of Pipestone Energy — announced it closed an equity commitment from Houston-based Carnelian Energy Capital.

CEO Dustin Hoffman and chief financial officer Dan van Kessel said Parallax will have a broad acquisition strategy in Western Canada, looking for properties where they can use new drilling and well-completion technologies to optimize the assets.

(continued on page 7)

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

"We have got a lot of support to look at acquisitions, anywhere from C$25 million up to, I'd say, about a half-a-billion dollar range," van Kessel said.

Across the Canadian sector, he expects some larger producers that recently completed transactions backed by debt will be looking to divest non-core assets, while smaller public companies could be open for business, along with older privately held firms that are now looking to sell.

"This is going to be a very active year for M&A. From a commodity price standpoint, which is driving a lot of activity, we're in a bit of a sweet spot right now," he added. "It feels like there's a lot of space for folks to make deals happen."

Analyst Phil Skolnick at Eight Capital expects the pending startup of the mammoth LNG Canada project in 2025 could also spur natural gas producers to hunt for inventory.

Another trend analysts say could emerge this year is the presence of U.S. buyers at the table in Canada, reversing a shift that saw many foreign producers leave the country following a deep industry downturn last decade.

Canada will be an active M&A market, particularly focused on the Montney, given its long-life resources and the growth of infrastructure in the region, said Andrew Dittmar, a senior vice-president at energy analytics firm Enverus.

"U.S. companies are going to start taking a hard look at Canadian assets — which would be the Montney — as the U.S. resource plays mature," Dittmar said from Austin.

"We are getting more questions about Canada and the Montney from U.S. companies. We think there's real interest in going north of the border and finding the opportunities to get into a play that is still, more or less, in its early stages."

Current Disposition Packages Available through Sayer Energy Advisors

- Bankruptcy Sale
- Delta West & Tompkins, Saskatchewan
- Productive Capability: 21 boe/d (12 Mcf/d, 19 bbl/d)
- Bid Deadline: May 2, 2024

- Property Divestiture
- Various areas of Northwestern Alberta & British Columbia
- 3,562 boe/d (21.2 MMcf/d, 33 bbl/d)
- Bid Deadline: May 16, 2024

- Corporate Divestiture
- Red Earth, Alberta
- Oil Sands Interests
- Bid Deadline: May 23, 2024

- Corporate Divestiture
- Fee Title, GORR and Non-Operated Unit Interests in Alberta
- 233 boe/d (178 bbl/d, 330 Mcf/d)
- Bid Deadline: May 30, 2024

Visit our website at www.sayeradvisors.com for more information