SAYER ENERGY ADVISORS

Viewpoint

An Oil and Natural Gas Industry Newsletter

Summer 2021

Dealer Count Unchanged Even With Higher Amount of Financings

A total of $10.9 billion in capital was raised by the Canadian oil and natural gas industry in 2020, up 102% from the $5.4 billion raised in 2019. Surprisingly, the significant increase in total financings did not result in a change in the number of dealers servicing the sector. Year-over-year the number of active dealers servicing the Canadian oil and natural gas industry was 33 in both 2019 and 2020.

The total number of active dealers in 2020 (defined as those completing over $5 million in total issues per year) was comprised of 19 foreign-based dealers, seven Canadian bank-owned firms and seven Canadian independent brokerage companies. By comparison, in 2019 the total number of active dealers was comprised of 21 foreign-based dealers, eight Canadian bank-owned firms and four Canadian independent brokerage companies.

In 2020, total debt financings increased significantly to $9.9 billion, up 113% from the $4.7 billion raised in 2019. The top five spots in 2020 consisted of four Canadian bank-owned firms and one foreign-based dealer whereas, in 2019, the top five dealers were all foreign-based. The top five dealers in debt financings in 2020 were **RBC Dominion Securities Inc., CIBC World Markets Inc., TD Securities Inc., Scotia Capital Inc.** and **BofA Securities, Inc.** each with over $600.0 million in financings in the category. The only dealer which remained in the top five year-over-year was BofA Securities.

Suncor Energy Inc. completed three separate debt financings for total proceeds of approximately $2.7 billion in April and May of 2020. RBC was a lead underwriter in all three of the debt financings completed by Suncor. CIBC and TD were joint lead underwriters with RBC in the largest of the three debt financings completed by Suncor for $1.25 billion in April 2020.

There was a total of approximately $1.0 billion in equity raised during 2020, up 30% from the approximately $700.0 million raised in 2019. The top five equity underwriters in 2020 consisted of three Canadian bank-owned firms and two Canadian independent brokerage companies. In 2019, the top five equity underwriters consisted of two foreign-based dealers, two Canadian independent brokerage companies and one Canadian bank-owned firm.

The top five dealers in equity financings in 2020 were: **Peters & Co. Limited**, **National Bank Financial Inc., Canaccord Genuity Corp.,** TD and Scotia. Together these dealers raised just over $200.0 million of equity in 2020. Only one of these top five dealers, Peters, remained in the top five year-over-year.

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Topaz Energy Corp. completed the largest equity financing in 2020 through its initial public offering ("IPO") in October for approximately $218.0 million. Peters and Scotia were both the lead underwrites in Topaz's IPO. The underwriters also exercised on the over-allotment granted to them as part of the IPO in November 2020 for additional gross proceeds to Topaz of approximately $32.6 million. Subsequent to the completion of the IPO, Topaz announced that it had entered into an agreement to acquire a newly created gross overriding royalty interest on over 720,000 gross acres of developed and undeveloped lands held by **Tourmaline Oil Corp.** for $130.0 million.

In terms of the number of equity financings completed, National Bank and Peters were the most active dealers by participating in seven deals of which Peters was the lead in four and National Bank was the lead in three. In third place was TD which participated in six equity financings in 2020 and was the lead underwriter in three of them.

In reviewing the financings completed in the first three months of 2021 and comparing them to the first quarter of 2020, the total amount of capital raised is up 95%, to approximately $4.6 billion from the $2.4 billion raised over the same time period last year. This increase in the amount of capital being raised could possibly lead to an increase in the number of dealers servicing the Canadian oil and natural gas industry in 2021.

Note that the methodology we have used to derive the dollar value for dealer activity was to assign the lead dealer of a financing a value of two and all the other dealers in an underwriting syndicate a value of one. For example, in a $40 million financing with one lead dealer and two other dealers in an underwriting syndicate, the lead dealer would be credited a value of $20 million and the other two dealers would be assigned a value of $10 million each.

Written by Tom Pavic
Sayer Energy Advisors
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Sayer in the News...

Briko Energy Corp. Enters into Arrangement with Journey Energy Inc.

Calgary, Alberta--(Newsfile Corp. - June 24, 2021) - Briko Energy Corp. (“Briko” or the “Corporation”) is pleased to announce that it has entered into an arrangement agreement (the “Arrangement Agreement”) with Journey Energy Inc. (“Journey”), pursuant to which Journey will acquire all the issued and outstanding common shares of Briko by way of Plan of Arrangement under the Business Corporations Act (Alberta) (the “Acquisition”).

Consideration for Briko shareholders from the Acquisition includes $2.9 million of cash (the “Cash Maximum”) and the issuance of 3.5 million common shares of Journey (“Journey Shares”), on the basis of $0.26 in cash and 0.31 Journey Shares for each common share of Briko (“Briko Shares”) held. Holders of Briko Shares may also elect to receive their consideration all in cash or in Journey Shares, subject to the Cash Maximum being payable by Journey. Assuming the Cash Maximum, based on the 20 day volume weighted average price per Journey Share preceding June 23, 2021 of $1.06 per share, the total consideration for the Acquisition is approximately $6.6 million (or approximately $0.59 per Briko Share based on 11.2 million Briko Shares outstanding).

The Acquisition is expected to close on or about August 18, 2021. Completion of the Acquisition is subject to the approval of at least 66 2/3 percent of Briko Shareholders voting at an annual and special meeting scheduled to be held on August 12, 2021. Completion of the proposed transaction is also subject to, among other things, the receipt of court approval and other customary closing conditions.

The Board of Directors of Briko has unanimously approved the Acquisition. Based in part on a verbal opinion from Briko’s financial advisor **Sayer Energy Advisors**, the Briko Board of Directors determined that the Acquisition is in the best interests of Briko and is fair from a financial point of view to Briko shareholders. The Briko Board of Directors has resolved to recommend that Briko shareholders vote their common shares in favor of the Acquisition. All the directors and officers of Briko, holding approximately 8.4% of the outstanding common shares of Briko, have entered into support agreements to vote their Briko common shares in favour of the Acquisition.

The Arrangement Agreement provides for non-solicitation covenants on behalf of Briko which are subject to the fiduciary duty obligations of the Board of Directors of Briko and provides Journey with the right to match any superior proposal received by Briko. The Arrangement Agreement also provides for mutual non-completion fees of $375,000 in the event the Transaction is not completed or is terminated by either party in certain circumstances.

About Briko Energy Corp.

Briko Energy Corp. is an Alberta Foothills Cardium focused company with undeveloped land, crude oil and natural gas reserves and a production base with associated infrastructure. Corporate information can be found at: www.brikoenergy.com.

For additional information, please contact:

Briko Energy Corp.
1710 736 6th Ave. SW
Calgary, Alberta T2P 3T7
(587) 392-6317
info@brikoenergy.com
John H. Van de Pol
President & CEO
Kim Benders
Vice President & CFO

Private Entities Monetizing for Public Company Paper

A trend that we have witnessed during the recent wave of consolidation in the Canadian oil and natural gas industry is a significant number of privately-held oil and natural gas companies achieving liquidity by selling to publicly-traded companies for shares.

Late last week, privately-held **Briko Energy Corp.** announced that it had entered into an arrangement agreement with publicly-traded **Journey Energy Inc.** pursuant to which Journey will acquire all the issued and outstanding common shares of Briko for total consideration of approximately $7.1 million, consisting of the issuance of 3.5 million common shares of Journey and $2.9 million in cash. Briko's main producing properties are focused in the Cardium Formation, located in the foothills area of Alberta.

Surge Energy Inc. also announced last week its intention to acquire all of the issued and outstanding common shares of privately-held **Astra Oil Corp.** by way of a statutory arrangement for total consideration of approximately $160.0 million. Surge is funding the transaction by issuing common shares of Surge and assuming approximately $15.0 million of net debt. Astra's main producing properties consist of light oil production focused primarily in southeastern Saskatchewan.

Tourmaline Oil Corp. announced earlier this month its pending acquisition of privately-owned **Black Swan Energy Ltd.** for total consideration of $1.1 billion, consisting of 26.0 million Tourmaline common shares and the assumption of net debt of up to a maximum of $350.0 million. The acquisition of Black Swan follows Tourmaline's recent purchase of 50% of **Saguaro Resources Ltd**.'s assets for cash consideration of $205.0 million along with a joint venture to further develop the Saguaro assets. The acquisition of Black Swan complements Tourmaline's operations in northeastern British Columbia.

In the fourth quarter of 2020 Tourmaline acquired **Jupiter Resources Ltd.** for $615.8 million consisting of approximately 24.2 million shares of Tourmaline and the assumption of approximately $200.0 million of net debt and **Modern Resources Inc.** for $143.5 million consisting of approximately $73.8 million in cash, the issuance of 1.5 million Tourmaline shares and the assumption of approximately $44.0 million of net debt. Both Jupiter and Modern's main producing properties were located in the Musreau, Resthaven and Kakwa areas of Alberta. Tourmaline, as part of these transactions, also sold a gross overriding royalty ("GORR") on both the Modern and Jupiter lands to **Topaz Energy Corp.** for $130.0 million.

In early June, **Cardinal Energy Ltd.** announced it had entered into an arrangement agreement to acquire privately-held **Venturion Oil Limited** for approximately $47.5 million. The consideration to be paid by Cardinal consists of approximately 6.3 million shares of Cardinal and $27.9 million in cash. The acquisition includes the assumption of $10.9 million in outstanding debt which will be repaid using the cash component of the purchase price. In conjunction with the transaction, Cardinal intends to issue up to $12.5 million of subordinated second lien secured notes. The remainder of the cash consideration will be financed from Cardinal's existing bank facility. Venturion's assets consist of approximately 2,400 boe/d of production (~83% oil) focused in central Alberta and other minor properties. The majority of Venturion's assets fall into Cardinal's Wainwright operating area.

Tamarack Valley Energy Ltd. recently acquired privately-held **Anegada Oil Corp.** for net consideration of $494.0 million after deducting the proceeds from the sale of a 2.0% newly created GORR on the acquired assets to Topaz for $32.0 million.The consideration consists of $247.5 million cash and assumed debt and approximately 105.3 million shares of Tamarack Valley. Anegada's main producing properties were focused in the Charlie Lake Formation in the Valhalla area of Alberta.

Earlier this year, Tamarack Valley announced two acquisitions concurrently for approximately $150.0 million in cash and shares of Tamarack Valley. The acquisitions comprised of privately-held **Woodcote Petroleum Inc.** and assets from publicly-traded Surge for approximately $138.0 million in cash and 4.9 million shares of Tamarack Valley. The assets acquired from Surge were located in the Nipisi and Provost areas of Alberta. Woodcote's main producing property was located in the Greater Nipisi area of Alberta targeting the Clearwater Formation. Tamarack Valley also sold a 4.0% GORR to Topaz on a portion of the acquired assets for $13.7 million.

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Private Entities Monetizing...

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Earlier this quarter, **Whitecap Resources Inc.** acquired privately-held **Kicking Horse Oil & Gas Ltd.** for total consideration of $300.0 million. The consideration paid consisted of the issuance of 34.5 million Whitecap common shares, $56.0 million in cash and assumption of net debt of $54.0 million. Kicking Horse's assets were located in the Kakwa area of Alberta, primarily focusing on the Montney Formation.

Other private companies which have also recently monetized include **Logic Energy Ltd.**, **Rake Resources Ltd.** and **Turm Oil & Gas Ltd.** Logic's main producing properties were located in the Halkirk and Hussar areas of Alberta. Turm's operations were located in the Lloydminster area of Saskatchewan, while Rake's assets were located in the Burrows and Welwyn areas of southeastern Saskatchewan.

We expect this trend in publicly-traded companies using shares as currency in acquisitions of private companies to continue. Transactions of this nature offer an attractive way for private companies to obtain liquidity while preserving a stake in the upside of the go-forward entity, ultimately enabling more deals to occur.

Written by Ben Rye
Sayer Energy Advisors
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Sayer in the News...

Calgary Herald

Varcoe: Energy Consolidation Escalates as Rising Oil Price Eases Urgency

Chris Varcoe
Published March 11, 2021

Two different takeover deals are providing insight into how companies — and investors — see M&A activity playing out this year

The seismic collapse of oil prices that began one year ago left weakened Canadian energy companies vulnerable to the pressures of consolidation.

Will a sharp recovery in prices change that dynamic in 2021?

Two different takeover deals are providing insight into how companies — and investors — see M&A activity playing out this year.

Inter Pipeline Ltd. is trying to fend off a hostile bid from Brookfield Infrastructure Partners LP and is now looking for a better offer.

On Tuesday, the board of the Calgary-based midstream company rejected the unsolicited bid from Brookfield, dismissing the proposal as being opportunistic.

Inter Pipeline CEO Chris Bayle said it doesn't reflect the underlying value of the company and the benefit of its Heartland Petrochemical Complex now being built in Strathcona County in Alberta.

And he also believes it doesn't reflect the recent rally in energy markets.

"We don't think that offer factors in at all the considerable strengthening in energy prices and petrochemical prices that have happened from late last year to today," Bayle said in an interview Tuesday.

Brookfield's bid for Inter Pipeline was launched last month and offers $16.50 a share for the target company. (Inter Pipeline closed Wednesday at $18.18 on the Toronto Stock Exchange.)

Since an initial Brookfield approach to the company in November, the price of benchmark West Texas Intermediate crude (WTI) oil has improved dramatically, climbing from around US$40 a barrel to over $60, notes the Inter Pipeline directors' circular.

At the same time, the price gap between feedstock propane and polypropylene — a plastic that will be produced at the Heartland facility — has risen by about 90 per cent, it states. The company's $4-billion complex is slated to start operating next year.

The company has been seeking a partner to acquire a stake in the big-ticket project and Bayle said the timeline of finding one in the first half of this year remains intact.

The pandemic affected the company's push to find a partner, but "a lot of the dynamic has changed now," he said.

"There has been a significant improvement, I'd call it, in market tone with the strengthening of oil and petrochemical prices," Bayle said.

"And I think a lot of companies we've been talking to are now considering how best to move forward with the growth mindset — and we think that helps with our discussions."

Officials with Brookfield declined to comment on Wednesday.

Inter Pipeline began a strategic review process last month and Bayle said he's "quite confident there will be other parties that have serious interest in Inter Pipeline."

Meanwhile, Secure Energy Services Inc. announced Tuesday a friendly $478-million takeover of Tervita Corp., a move that will create a larger midstream infrastructure and waste management services provider.

The all-stock transaction for Tervita also includes the assumption of $866 million in net debt, noted a report by ATB Capital Markets.

The merger is expected to lead to cost savings of $75 million annually within 18 months of the deal closing. Tervita has about 1,200 employees, while Secure has about 950 people.

Secure CEO Rene Amirault said preliminary discussions with Tervita began in the middle of last year and both sides "could see the industrial logic of putting the two together."

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Sayer in the News...

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Industry dynamics have changed in the past year with higher oil prices and an upswing in business, although Amirault doesn't see the consolidation trend slowing down.

"We look to our customers," he said Wednesday.

"You will see more customers on the producers' side consolidating. They are far from done. A lot of the things they want, we want. They want more market relevance, a lower cost of capital. We all have to get more efficient here."

While higher oil and gas prices may reduce the immediate need for some companies to merge, he noted the sector has to consider what will happen over the next five years and beyond.

"I don't think anyone wants to be short-sighted and say that oil is going to stay at $60 forever," Amirault added.

After the sudden collapse of oil prices a year ago, the Canadian industry witnessed a series of mergers and acquisitions as distressed companies looked to find a partner.

The value of deal-making climbed to $20 billion last year from $8 billion in 2019, according to Sayer Energy Advisors.

So far this year, the upstream Canadian oil and gas sector has seen $6.9 billion of M&A activity compared with $250 million in the first quarter last year, said Sayer Energy president Tom Pavic.

The industry has seen conditions improve rapidly this year. Oil prices have jumped 35 per cent since the start of January, with benchmark U.S. prices closing Wednesday at $64.44 a barrel.

Although companies are growing stronger, investors expect the takeover trend will continue.

Michael Tims, vice-chair of Matco Investments, said there appears to be growing consensus on where commodity prices are headed and transactions are easier to finance in a higher oil-price market.

"Overall, I am still expecting we will see more M&A activity," Tims said. "It's just way smoother to do deals when you have a more positive environment."

Eric Nuttall, a senior portfolio manager with Ninepoint Partners, believes the drive for petroleum producers to join forces will continue as companies seek efficiencies and strive to get on the radar screens of more investors.

However, the motivation behind some deals in the past year — intense financial pressure squeezing highly leveraged companies — is changing.

"We are well beyond the valley of death now," Nuttall said.

"With a $60-plus crude environment plus tight differentials, I have no companies I'm worried about at all. Now, consolidation is from a position of strength."

Recent Transactions Completed by Sayer Energy Advisors

This announcement appears as a matter of record only.

Certain oil and natural gas interests in Alberta held by

BOW RIVER ENERGY

have been sold through its receiver

BDO CANADA

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

May 2021

SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

Certain oil and natural gas interests in Alberta held by

Direct Oil & Gas Inc.

have been sold through its trustee

MNP LTD

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

May 2021

SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

Certain oil and natural gas interests in Alberta held by

POINT LOMA RESOURCES LTD.

have been sold through its receiver

BDO CANADA

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

May 2021

SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

All of the issued and outstanding shares of

RAKE RESOURCES LTD.

have been sold

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

May 2021

SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

mapleleaf ENERGY INCOME

has sold its royalty interests in Alberta

The undersigned acted as agent to Maple Leaf for these transactions.

June 2021

SAYER ENERGY ADVISORS

This announcement appears as a matter of record only.

All of the issued and outstanding shares of

TURM OIL & GAS

have been sold

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

June 2021

SAYER ENERGY ADVISORS