



## Merger, acquisition party poised to ring in new year

### Low gas prices expected to fuel consolidation

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Mergers and acquisitions are set to reach new highs this year amid a takeover frenzy in Canada's oilpatch that is expected to continue well into 2008.

Lower natural gas prices and royalty trust consolidation have spurred more merger and acquisition activity within the entire oil and gas sector, while continued foreign interest in Alberta's oilsands and a hot oil play in Saskatchewan have also contributed to the buying spree, analysts say.

"It looks like we're in the busiest year since 2001 as far as total value of M&A activity," said Alan Tambosso, president of acquisition firm Sayer Energy Advisors in Calgary.

With the total values still being tallied, the pace is not expected to slow much in the new year as the outlook for natural gas prices remains weak, adding more strain to already stretched balance sheets.

"You're going to see continued consolidation of the junior sector as people realize that smaller is not better when you are public right now -- in this environment you need to be a little bit bigger," said Tambosso.

"You saw a lot of corporate deals versus asset deals and that's certainly going to continue because there's a lot of juniors that aren't getting the recognition in the marketplace that they think they deserve."

Alberta's oilpatch was host to a number of major deals in 2007 that saw more international companies seeking to secure a stake in the oilsands business.

Western Oil Sands Inc., a partner in the Athabasca Oil Sands Project, was bought this summer by U.S.-based Marathon Oil for \$6.6 billion. In April, Norway's Statoil paid \$2.2 billion in cash to buy out North American Oil Sands Corp., following Royal Dutch Shell's \$7.7-billion buyout of its Canadian subsidiary early in the year.

Many of the deals were in the royalty trust sector where pending tax changes are prompting firms to bulk up and diversify to help maintain payout levels past 2011 when their favourable tax status ends.

After a number of smaller deals earlier in the year, the sector erupted in a series of massive deals this fall, starting with Abu Dhabi National Energy Co. -- better known as TAQA and led by CEO Peter Barker-Homek -- and its announcement in September that it would buy PrimeWest Energy Trust for \$5 billion in cash.

In November, Penn West Energy Trust, the country's largest conventional oil and gas trust, bought Canetic Resources Trust for \$3.6 billion and earlier this month Enerplus Resources Fund boosted its natural gas portfolio with the \$1.7-billion purchase of

Focus Energy Trust.

There has also been a flurry of activity among the smaller oil and gas companies, dependent on raising money but currently struggling to get any attention in equity markets. That's driven consolidation and acquisitions in the sector as firms look to get larger.

"Some analysts are suggesting that 10,000 barrels of oil equivalent a day or higher is the floor to get on the radar screen," said Tom Caldwell, managing director of Rundle Energy Partners Ltd., a Calgary-based divestment adviser.

Companies with stronger balance sheets and access to capital are snapping up assets, often at a discount in the case of natural gas, he said.

"There is a lot of ambition to do deals at the moment because many companies see the window of opportunity, but the barrier for many is lack of capital. Well-financed firms are in a race to get bigger while the opportunity

level is high," said Caldwell.

Much of the junior sector has been quietly "soft shopping" themselves in the hopes of a sale or merger, a trend that will take a more formal structure in the new year, he said.

Once year-end financial results start to be released, companies with reserve writedowns, high debt or marginal reinvestment opportunities will become more transparent in the marketplace, spurring a round of distressed mergers, reorganizations and liquidations.

Some of the acquisition activity this year has been driven by companies trying to lock up emerging plays, particularly in southeast Saskatchewan where there's been a lot of excitement over the Bakken light oil play.

Crescent Point Energy Trust launched a \$400-million takeover bid of Calgary-based junior Innova Exploration Ltd. this fall, while Tristar Oil and Gas Ltd. has spent more than half a billion in the past two months acquiring three companies with assets in southeastern Saskatchewan.

But similar shopping sprees will likely be limited, said Sayer's Tambosso.

"It's a nice exciting play and there's lots of money being thrown at it, but it's a really small area with a limited number of prospects," he said.

"It would be like somebody trying to become an oilsands player right now -- it's a limited area play."

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