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Energy M&As are beginning to heat up

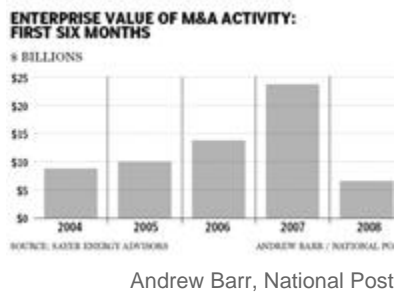
Slow Start In '08

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Oil industry mergers in the first half of this year were down significantly -- to \$6.6-billion from \$23.8-billion in the first half of 2007 -- according to a survey by Sayer Energy Advisors. That's a 72% drop, ending a succession of rising numbers over the last five years.

Sayer's Crystal Holdershaw said in a note to clients that the number of large transactions (over \$5-million) fell to 70 from 110, and there were no deals at all topping \$1-billion, compared with four deals worth \$15.9-billion in the same

period of last year.

The largest deal in the first half of 2008 was Iteration Energy Ltd.'s (ITX/TSX) acquisition of Cyries Energy Inc. for \$655-million. The second-largest deal was NuVista Energy Ltd.'s (NVA/TSX) purchase of Rider Resources Ltd. for \$589-million, while the third-largest deal was the acquisition of Enerplus Resources Fund's (ERFun/TSX) 15% working interest in the Joslyn oil-sands project by U. S.-based Occidental Petroleum Corp. (OXY/NYSE) for \$500-million.

Among the reasons for the downturn, according to Ms. Holdershaw, is "there was not a lot of product publicly known to be in the market during the first quarter of 2008. What was available mainly involved smaller packages and a few larger heavy oil offerings." As well, many of the deals that took place were corporate transactions done on a quiet basis without a public marketing process."

One trend that emerged in the first six months of this year, she said, was the public bidding wars for oil and natural gas companies. A prime example was Cordero Energy Inc. (COR/TSX), which was the target of a bidding war between Enmax Corp. and Ember Resources Inc. (EBR/TSX). Cordero initially agreed in February to an offer from Enmax to be acquired for \$4.35 cash per Cordero common share. Enmax plan was to use Cordero assets to secure supply for a plant that generates power to Calgary.

On May 16, Enmax increased its offer to \$4.75. However, in July, Cordero and Ember jointly announced an agreement that would see Cordero purchased for \$5.50 per share.

Another public bidding war was between Daylight Energy Trust (DAYun/TSX) and Barrick Gold Corp. (ABX/TSX) over Cadence Energy Inc. (CDS/TSX). Daylight said in May it had a transaction agreement, but on July 14, Barrick

came in with a \$6 offer, eventually increased to \$6.75.

Barrick said it wanted to enter the oil industry to offset cost pressures on its gold mining operations from rising oil and gas prices. In an interesting twist, Barrick later announced it has an agreement to purchase Daylight's Sturgeon Lake South Leduc pool for \$87.5-million cash.

Ms. Holdershaw added that while 2008 might have got off to a slow start, merger activity should pick up in the second half. "It is coming around, with the value recorded in the first couple of months of the third quarter surpassing the total for the first half of 2008," she said. To date, total M&A activity has reached \$6.7-billion, highlighted by Royal Dutch Shell PLC's (RDSA/NYSE) announcement to buy Duvernay Oil Corp. for \$5.9-billion.

Ms. Holdershaw concludes: "With a lot of time left before the year end, it is possible that in spite of the slow start, 2008 could prove to be another active year on the M&A front."

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