

## Race for energy assets heats up

As oil prices strengthen, companies on an expansion bent are targeting oil patch players with solid holdings of crude

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The race is on to build the next generation of dominant mid-sized Canadian energy companies, as a buying spree spreads through the country's oil patch.

Two Calgary companies ramped up their efforts to build new empires yesterday by snapping up rivals with valuable oil assets.

**Daylight Resources Trust** bought Calgary-based **Highpine Oil & Gas Ltd.** in a cash-and-stock deal worth about \$530-million. **Crescent Point Energy Corp.** picked up private **Wave Energy Ltd.**, also of Calgary, for about \$665-million.

Natural gas prices may be moribund, but oil prices are firming up, so companies with strong oil assets are becoming appetizing targets for those with the desire to grow and the resources to swallow their rivals.

"You are seeing companies with any oil weighting being very, very attractive targets to prospective purchasers," said Alan Tambosso, president of Sayer Energy Advisors in Calgary. "Companies that want to grow typically want to focus on oil right now so they can make money," he said. "Any oil targets out there ... are going to command a pretty good price."

For Crescent Point, the Wave Energy purchase brings with it a stake in southwestern Saskatchewan's Lower Shaunavon oil play, a complement to its holdings in the Bakken region in southeastern Saskatchewan. Both are rich deposits that will make use of unconventional horizontal drilling to tap potentially huge resources.

Crescent Point also picked up other Saskatchewan assets yesterday, some of them from **Provident Energy Trust**.

Crescent Point is also raising as much as \$230-million by selling 6.7 million shares in a bought-deal financing.

Daylight's purchase of Highpine, meanwhile, brings its oil and gas resources in Alberta. Highpine's oil production will help boost Daylight's proportion of oil production to 42 per cent from 28 per cent, decreasing its weighting in low-priced gas.

Yesterday's two deals follow on the early August takeover of TriStar Oil & Gas by Petrobank Energy and Resources Ltd. That merger created PetroBakken Energy Ltd., which will be the chief rival with Crescent Point in the Bakken oil play.

These deals mark the formation of strong, mid-sized companies that will be key players in the oil patch going forward, said Michael Tims, chairman of brokerage firm Peters & Co. "We're changing the lineup of players," he said.

The spate of mergers will continue as long as capital markets remain weak, said Kim Page, an analyst at Wellington West Capital Markets in Toronto. The healthiest, most well-funded companies - those with higher valuations that allow them to use their stock as a strong currency - will continue to buy weaker ones that are not as well financed, he said.

"The whole series of transactions up until now has been focused on buying good-quality assets," he said. "If you do have capital, you can grow your company."

While the action will be mainly among those active in the oil sector, Mr. Page also thinks there will be some "opportunistic" transactions involving gas companies, especially among buyers with a long-term view who are convinced that prices will recover eventually.

Mr. Tambosso, by contrast, is cautious about predicting takeover action in the gas sector, because most gas plays are losing money at current prices and are not very attractive targets. He thinks some gas companies may just collapse, especially those with hedges that run out later this year.

When the hedges come off, "those companies are fully exposed to the current spot price of natural gas, which is extremely low," he said. "It's not going to be pretty."

If, however, gas prices begin to recover, there could be even more mergers in the energy sector, said analyst Robert Fitzmartyn of FirstEnergy Capital. Currently, some companies that have both oil and gas assets are pricing themselves higher than many buyers are willing to pay. If gas rises, potential buyers may be more willing to match those elevated price tags, he said.