



With lower cash flow causing companies to curtail existing capital programs, who is thinking about acquisitions? There is increased interest from new entrants from Asia and Europe into both the U.S. and Canada, and private equity in a variety of forms is keen to acquire in this lower commodity cycle.

Also not surprisingly, sellers understand that valuations will be lower, and are not as motivated to sell. Exceptions include asset sales with strategic motivation where capital can be more effectively redeployed elsewhere, and naturally, distressed situations where dispositions may become essential. Joint ventures will be more challenging with top operators less likely to bring on partners at lower asset valuations.

We've seen some significant equity issuance recently, including **Noble Energy Inc.**, **Encana Corp.** and **Cenovus Energy Inc.** That indicates that some material producers are willing to support their balance sheets even at lower share prices, and may believe that the commodity cycle will not reverse in the near term.

We expect to see more transactions for shares or cash and shares rather than straight cash. Case in point, on March 18, **Whitecap Resources Inc.** announced the acquisition of

Beaumont Energy Inc. for shares and/or up to around 18 percent cash.

History shows both that transactions do occur in a down market, with share transactions being much more dominant. See graph of U.S. corporate transactions by form of consideration in the context of prevailing commodity price trends.

We haven't seen many transactions this year, so when will this action take place? Many expect there to be additional pain to come later in the year, as lower prices persist, reserves are published and protective commodity hedges come off. We expect increased activity through the rest of 2015.

2015 energy MA&D: Expect some action in North America



— Cheryl Sandercock,
P. Eng., managing director at
Scotia Waterous Inc.

With the recent pull back in commodity prices worldwide, the situation has changed dramatically for many North American energy producers. Now that we are about six months into the oil price adjustment, the sentiment in the U.S. and Canada has moved from more inwardly focused strategies like budget adjustments to broader strategic discussions including mergers, acquisitions and divestitures.

Not surprisingly, many companies would rather acquire than drill in this commodity price environment. North American resource plays are still considered attractive long-term investments, and still garner interest. We see more activity in North America in this environment than in higher risk regions. Transactions for African exploration plays will be more difficult, for example.

Transaction History in Context of Commodity Price



Transaction announcement dates in context of a BOE equivalent price (1/2 WTI / 1/2 HH) as a measure of the commodity price backdrop