THE TALE OF TWO COUNTRIES

Julie Afanasiff
Mark McRae

November 28, 2018
Oil and gas firms sound alarm as capital once destined for Canada flees to more competitive U.S. – The National Post

‘Dying by our own sword’: As U.S. oil spending surges, Canada falls behind – Financial Post

Canada will soon ship a pipeline’s worth of oil by rail or truck – The Globe and Mail

Investment dollars are already flowing out of Canada in ‘real time’ – Financial Post
COMPARING ACTIVITY LEVELS
Comparing Activity Levels

**Wells Drilled**

Number of Wells Drilled in Canada and the United States

<table>
<thead>
<tr>
<th>Year</th>
<th>Canada</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>11,000</td>
<td>45,000</td>
</tr>
<tr>
<td>2012</td>
<td>12,000</td>
<td>46,000</td>
</tr>
<tr>
<td>2013</td>
<td>13,000</td>
<td>47,000</td>
</tr>
<tr>
<td>2014</td>
<td>14,000</td>
<td>48,000</td>
</tr>
<tr>
<td>2015</td>
<td>15,000</td>
<td>49,000</td>
</tr>
<tr>
<td>2016</td>
<td>16,000</td>
<td>50,000</td>
</tr>
<tr>
<td>2017</td>
<td>17,000</td>
<td>51,000</td>
</tr>
<tr>
<td>2018F</td>
<td>18,000</td>
<td>52,000</td>
</tr>
<tr>
<td>2019F</td>
<td>19,000</td>
<td>53,000</td>
</tr>
</tbody>
</table>

Source: PSAC
Comparing Activity Levels

**METERAGE DRILLED**

**Meterage Drilled in Canada and the United States**

- **Thousands of Meterage Drilled**
- **Average Meters Drilled per Well (Thousands)**

Source: PSAC, Spears & Associates
Comparing Activity Levels

**Operating Metrics Decoupling**

### Operating Days per Drill Rig – U.S. vs. Canada

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>+81%</td>
<td>+24%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>+51%</td>
<td>+24%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>2017</td>
<td>2018</td>
</tr>
<tr>
<td>+47%</td>
<td>+15%</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Company reports
Comparing Activity Levels

**CRUDE PRICING**

Historical Crude Pricing

Source: S&P, Analyst Reports
Comparing Activity Levels

**CRUDE PRICING**

**Historical Crude Pricing**

$ per Barrel

Source: S&P, Analyst Reports
Comparing Activity Levels

**Natural Gas Pricing**

**Historical Natural Gas Pricing**

- Henry Hub ($CAD/mcf)
- AECO ($CAD/mcf)

Consensus Analyst Forecast:
- $2.71
- $3.85

Source: FirstEnergy, Analyst Reports
Leveling the Playing Field

**CANADIAN TAKEAWAY CAPACITY — PIPELINES AND REFINERIES**

Source: CAPP
Leveling the Playing Field

CRUDE BY RAIL

An Imperfect Solution

Thousands of Barrels / Day

Base Case CBR Loadings Required To Clear WCSB
Actual CBR Loadings
Pre-2018 Peak CBR Exports
Expected Export Capacity - YE 2018

Crude shipped by rail nets an average of $10/bbl less than crude shipped by pipeline

Source: CAPP, CIBC World Markets
# Leveling the Playing Field

**APPENDIX HIGHLY UNCERTAIN**

## Planned Pipeline Projects

<table>
<thead>
<tr>
<th>Pipeline</th>
<th>Distance (km)</th>
<th>Capacity (thousand b/d)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enbridge Line 3 Replacement</td>
<td>1,659</td>
<td>+370</td>
<td></td>
</tr>
<tr>
<td>CDIC Trans Mountain Expansion</td>
<td>1,184</td>
<td>+590</td>
<td></td>
</tr>
<tr>
<td>TransCanada Keystone XL</td>
<td>1,897</td>
<td>+830</td>
<td></td>
</tr>
</tbody>
</table>

## Current Proposed Additional Capacity

<table>
<thead>
<tr>
<th>Pipeline</th>
<th>Capacity (thousand b/d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TransCanada Energy East</td>
<td>+1,100</td>
</tr>
<tr>
<td>Enbridge Northern Gateway</td>
<td>+525</td>
</tr>
</tbody>
</table>

## Cancelled Project Capacity

<table>
<thead>
<tr>
<th>Pipeline</th>
<th>Capacity (thousand b/d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enbridge Mainline Expansion?</td>
<td></td>
</tr>
<tr>
<td>Eagle Spirit?</td>
<td></td>
</tr>
</tbody>
</table>

Source: CAPP
Leveling the Playing Field

CANADIAN TAKEAWAY CAPACITY – PIPELINES AND REFINERIES

Proposed Project Outlook

Source: CAPP

- Local Refineries
- Existing Pipeline Capacity
- Line 3
- Keystone XL
- Trans Mountain Exp
- Western Canadian Supply

Source: CAPP
Leveling the Playing Field

REGULATORY REGIME

Challenges
- Carbon Taxes
- Income Tax Spread
- Bill C-69

Opportunities
- Crude by Rail Subsidies
- Pipeline Approval
- Value Added Processing
THE GOOD NEWS
The Good News

Growing Annual Global Demand

Annual Global Demand Growth from 2013 – 2019E

Source: EIA
The Good News

GLOBAL DEMAND AND SUPPLY

Global Production

Global Demand

Balancing Expected at the End of 2019

Source: EIA
The Good News

**OPEC Spare Capacity**

Markets Well Supplied Throughout 2019, but With Limited Spare Capacity...

- **Source:** EIA

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**OPEC Surplus Crude Oil Production Capacity**

Average Spare Capacity from 2008 to 2018

- **Source:** EIA
The Good News

**COMPLETION INTENSITY**

Completion Activity is Intensifying and Catching-up to the United States

- **U.S. Completions**
- **Canadian Completions**

Five Year CAGR:
- U.S. Completions: **21%**
- Canadian Completions: **37%**

Source: Investor Presentations; Analyst Reports
The Good News

**FINALLY! A POSITIVE FINAL INVESTMENT DECISION FOR LNG**

**Project Highlights**

- October 2, 2018 – Positive FID announced
- Represents a positive sign for the “investability” in the Canadian energy sector
  - Estimated $1.50 USD/mmbtu cost advantage versus US Gulf of Mexico LNG
- First export expected before middle of next decade
- Estimated cost of plant at ~$14 billion USD and ~$6.2 CAD billion for the Coastal GasLink Pipeline
  - First phase to consist of two trains, equating to 14 MTPA (~1.85 bcf/day) of export
  - Second phase to double export capacity (+ ~1.85 bcf/day)

Legend

- LNG Canada Facility
- Montney Formation
- Coastal GasLink Pipeline

Source: Shell Canada, Analyst Reports
The Good News

GREENFIELD CAPITAL INVESTMENT IN THE OIL SANDS

Advanced In-Situ Recovery Technology – Imperial’s Aspen Project

Project Highlights

• November 6, 2018 – Positive FID announced
• Represents the first major commercial development of next generation oil sands technology
  • Phase 1 estimated cost of $2.6 billion – 75,000 bbls/d
• Construction already underway; First production expected in 2022
• New solvent-assisted SAGD technology benefits:
  • 25% more capital efficient
  • 25% fewer greenhouse gas emissions
• Counter-cyclical investment approach
  • More labour available and higher quality work

Source: Imperial Oil, Analyst Reports
Transactions in Today’s Environment

**WHO ARE THE BUYERS**

**Buyer Location**
- Western Canada: 68%
- USA: 21%
- Eastern Canada: 5%
- Undisclosed: 4%
- International: 2%

**Buyer Type**
- Financial Backed Strategic: 23%
- Strategic: 11%
- Financial: 2%
- Undisclosed: 2%
- International: 11%

*Source: S&P Capital IQ, Company Releases*
Transactions in Today’s Environment

**Trend One**

*Trend One: Bifurcation Between U.S. & Canadian Oilfield Activity*
Transactions in Today’s Environment

**Trend One: Bifurcation Between U.S. & Canadian Oilfield Activity**

<table>
<thead>
<tr>
<th>Acquired</th>
<th>Acquired</th>
<th>Merged with</th>
<th>Announced a Strategic Combination with</th>
<th>Acquired</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STEP Energy Services</strong></td>
<td><strong>High Arctic Energy Services</strong></td>
<td><strong>AKITA Drilling Ltd.</strong></td>
<td><strong>Encana</strong></td>
<td><strong>Ensign</strong></td>
</tr>
<tr>
<td>April 2018</td>
<td>August 2018</td>
<td>September 2018</td>
<td>November 2018</td>
<td>November 2018</td>
</tr>
<tr>
<td>Cash and Stock</td>
<td>All Cash</td>
<td>Cash and Stock</td>
<td>All Stock</td>
<td>All Cash</td>
</tr>
</tbody>
</table>
Transactions in Today’s Environment

**Trend One: Bifurcation Between U.S. & Canadian Oilfield Activity**

<table>
<thead>
<tr>
<th>Factors Contributing to the Trend</th>
<th>Will it Persist?</th>
</tr>
</thead>
<tbody>
<tr>
<td>WCS and WTI Price Differentials</td>
<td>✓</td>
</tr>
<tr>
<td>Regulatory Environment</td>
<td>✓</td>
</tr>
<tr>
<td>Takeaway Capacity Constraints</td>
<td>✓ / ✗</td>
</tr>
</tbody>
</table>

**U.S. Focused M&A to Outpace Canadian**

**Source:** Analyst Reports
Transactions in Today’s Environment

Trend Two

Trend Two: Consolidation in Oil Sands Mining
## Trend Two: Consolidation in Oil Sands Mining

<table>
<thead>
<tr>
<th>Acquired</th>
<th>Acquired Industrial Services Division of</th>
<th>Acquired Assets of</th>
<th>Acquired</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>civeo</td>
<td>Mullen Group</td>
<td>NORTH AMERICAN CONSTRUCTION GROUP</td>
<td>stuartolson</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquired</td>
<td>Acquired Industrial Services</td>
<td>Acquired Assets of</td>
<td>Acquired</td>
</tr>
<tr>
<td></td>
<td>Division of</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>noralta LODGE</td>
<td>AECOM</td>
<td>AECON</td>
<td>TARTAN</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>April 2018</td>
<td>June 2018</td>
<td>October 2018</td>
<td>November 2018</td>
</tr>
<tr>
<td>Cash and Stock</td>
<td>All Cash</td>
<td>All Cash</td>
<td>All Cash</td>
</tr>
</tbody>
</table>

*Source: S&P Capital IQ, Company Press Releases, Company Filings*
Transactions in Today’s Environment

**TREND TWO: CONSOLIDATION IN OIL SANDS MINING**

<table>
<thead>
<tr>
<th>Factors Contributing to the Trend</th>
<th>Will it Persist?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing Production</td>
<td>?</td>
</tr>
<tr>
<td>Limited New Entrants</td>
<td>✓</td>
</tr>
<tr>
<td>Focus on Cost Containment</td>
<td>✓</td>
</tr>
<tr>
<td>Growing Strength of First Nations</td>
<td>✓</td>
</tr>
</tbody>
</table>

Further Consolidation ✓
Transactions in Today’s Environment

**Trend Three**

*Trend Three: Increasing Completions Activity*
Transactions in Today’s Environment

**TREND THREE: INCREASING COMPLETIONS ACTIVITY**

- **OIL STATES INTERNATIONAL, INC.** Acquired
- **TETRA GLOBAL PRIVATE EQUITY** Acquired
- **Morgan Stanley** Acquired
- **HI-CRUSH** Acquired
- **Nine Energy Services** Acquired
- **KLX Energy Services** Acquired

- **GEO Dynamics**
- **SwiftWater**
- **SPECIALIZED DESANDERS INC.**
- **FB INDUSTRIES**
- **MAGNUM OIL TOOLS INTERNATIONAL**
- **MOTLEY SERVICES**

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2018</td>
<td>Cash and Stock</td>
</tr>
<tr>
<td>February 2018</td>
<td>Cash and Stock</td>
</tr>
<tr>
<td>March 2018</td>
<td>Cash</td>
</tr>
<tr>
<td>August 2018</td>
<td>Cash and Stock</td>
</tr>
<tr>
<td>October 2018</td>
<td>Cash and Stock</td>
</tr>
<tr>
<td>November 2018</td>
<td>Cash and Stock</td>
</tr>
</tbody>
</table>
Transactions in Today’s Environment

**TREND THREE: INCREASING COMPLETIONS ACTIVITY**

<table>
<thead>
<tr>
<th>Factors Contributing to the Trend</th>
<th>Will it Persist?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Completions Intensity Rising</td>
<td>✔</td>
</tr>
<tr>
<td>• Increasing Capital Spending</td>
<td>?</td>
</tr>
<tr>
<td>• DUCs Rising</td>
<td>✔</td>
</tr>
</tbody>
</table>

**Strong Completions M&A Activity**
Trend Four: Companies Focusing on Core Operations
Transactions in Today’s Environment

**Trend Four: Companies Focusing on Core Operations**

- **Weatherford**
  - Divested its U.S. Pressure Pumping Assets to
  - April 2018
  - Cash and Stock

- **Cervus Equipment**
  - Sold its Construction Equipment Division to
  - March 2018
  - All Cash

- **Dover**
  - Spun off
  - May 2018

- **Pioneer Natural Resources**
  - Announced the Sale of its Pressure Pumping Business to
  - November 2018
  - Cash and Stock
Transactions in Today’s Environment

**Trend Four: Companies Focusing on Core Operations**

<table>
<thead>
<tr>
<th>Factors Contributing to the Trend</th>
<th>Will it Persist?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Focus on Right Sizing Balance Sheets</td>
<td>✔️</td>
</tr>
<tr>
<td>• Commodity Price Volatility</td>
<td>?</td>
</tr>
<tr>
<td>• Negative Market Perception for Energy</td>
<td>✔️</td>
</tr>
</tbody>
</table>

**Corporate Carve-Outs & Spinoffs**

✔️
Transactions in Today’s Environment

TREND FIVE

Trend Five: A Rising Tide
(Offshore)
## Transactions in Today’s Environment

**Trend Five: A Rising Tide**

<table>
<thead>
<tr>
<th>Company</th>
<th>Event</th>
<th>Date</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seadrill</td>
<td>Merged with</td>
<td>July 2018</td>
<td>Cash and Stock</td>
</tr>
<tr>
<td>Transocean</td>
<td>Announced a Strategic Combination with</td>
<td>September 2018</td>
<td>All Stock</td>
</tr>
<tr>
<td>magseis</td>
<td>Announced its Merger with</td>
<td>October 2018</td>
<td>Cash and Stock</td>
</tr>
<tr>
<td>ENSCO</td>
<td>Merged with</td>
<td>October 2018</td>
<td>Cash and Stock</td>
</tr>
<tr>
<td>TIDEWATER</td>
<td></td>
<td>November 2018</td>
<td>Cash and Stock</td>
</tr>
</tbody>
</table>

Emerged from Bankruptcy:
- OCEAN RIG
- WGP
- GulfMark
Transactions in Today’s Environment

**TREND FIVE: A RISING TIDE**

<table>
<thead>
<tr>
<th>Factors Contributing to the Trend</th>
<th>Will it Persist?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Decline in Offshore Production</td>
<td>?</td>
</tr>
<tr>
<td>• Increasing Backlog of Maintenance Activity</td>
<td>✔️</td>
</tr>
<tr>
<td>• Record Canadian Offshore Land Sales</td>
<td>✔️</td>
</tr>
</tbody>
</table>

**Growth in Offshore M&A** ✔️
Concluding Thoughts

- 2018 Marked by the Tale of Two Countries
- Takeaway Constraints Impeding Growth
- News on the Horizon
- Subsector and Situation Specific Transaction Environment
- M&A will Help Redefine the Landscape in 2019
Western Canada’s Transaction Advisors

www.sequeirapartners.com

Calgary

Edmonton

Vancouver