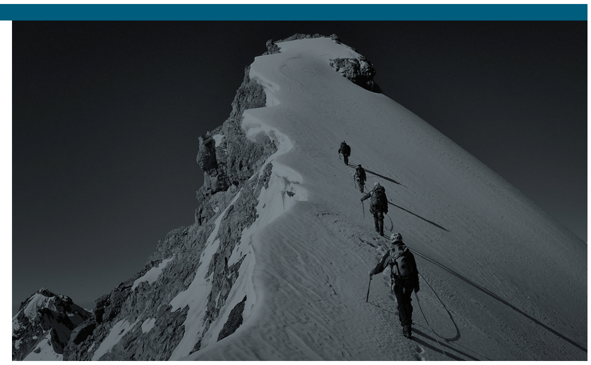
Q3 2019

DEALS WEST

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY



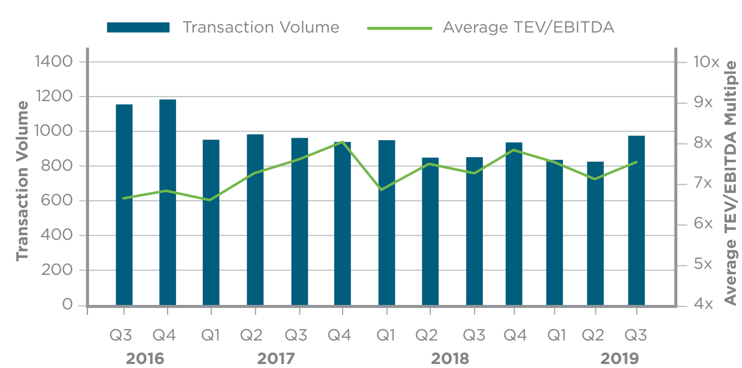
IN THIS ISSUE

Q3 2019 Mid-Market M&A Review

OVERVIEW OF MID-MARKET M&A TRANSACTIONS IN NORTH AMERICA ($10 – 250 MILLION)

- Average EV/EBITDA multiple increased from 7.0x in Q2 2019 to 7.6x in Q3 2019
- Transaction volume increased 16% over Q2 2019, with approximately 970 deals completed in Q3 2019
- Valuations for mid-market businesses continue to be strong and above historical averages

TRANSACTION VOLUME & AVERAGE EBITDA MULTIPLE
($10 - $250 million)

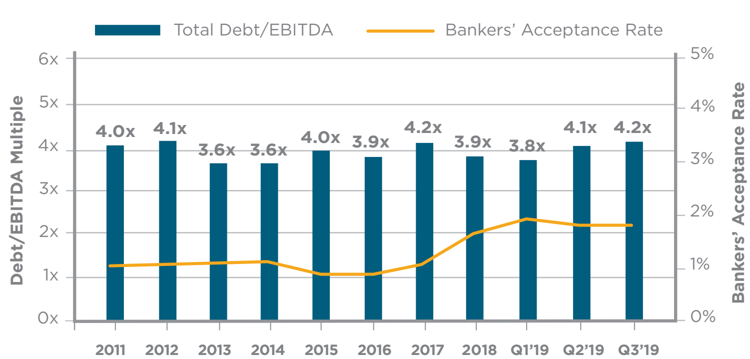


Sources: Capital IQ and GF Data

AVERAGE DEBT/EBITDA MULTIPLES AND BANKERS' ACCEPTANCE RATES IN CANADA ($10 – 250 MILLION)

- Total leverage increased to 4.2x in Q3 2019 from 4.1x in Q2 2019, reaching the highest level since 2017
- The Bank of Canada held the key overnight interest rate at 1.75% for the eighth straight quarter, meanwhile the U.S. Federal reserve has reduced interest rates by 0.75% this year to a target range of 1.50 - 1.75%
- M&A activity continues to be robust supported by the low cost of borrowing

LEVERAGE MULTIPLES & BANKERS' ACCEPTANCE RATES
($10 - $250 million)



Sources: Bank of Canada, GF Data, Capital IQ

CapitalWest
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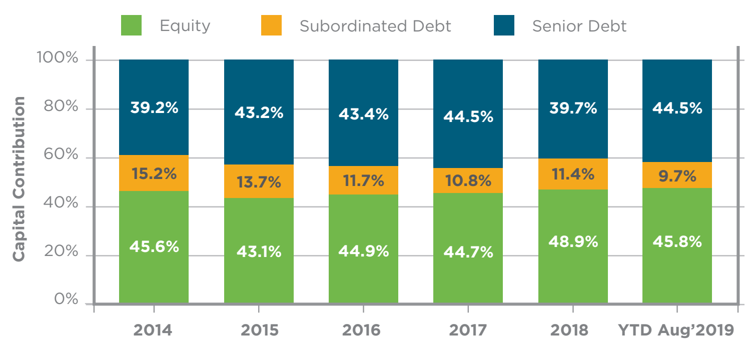
Mergers & Acquisitions Review (continued)

EQUITY AND DEBT CONTRIBUTION IN NORTH AMERICA ($10-250 MILLION)

- Buyers have financed 2019 acquisitions with an average of 54% debt, up from 51% in 2018
- Although the year to date total debt is in line with the previous five year average, the percentage of senior debt has increased versus the five year average

EQUITY & DEBT CONTRIBUTION
MID-MARKET M&A TRANSACTIONS



Sources: Bank of Canada, GF Data, Capital IQ

TOP 10 M&A DEALS IN WESTERN CANADA

In Q3 2019 the top ten Western Canadian M&A deals crossed a wide range of industries, with two acquisitions exceeding $1B in value. Pembina Pipeline purchased Kinder Morgan Canada for $3.1B, representing a 37% premium over the prior day closing share price. Other notable activity includes the Jim Pattison led Great Pacific Capital's proposal to acquire the remaining 49% of Canfor Corporation for $16/share, representing an 82% premium over the prior day closing share price.

Top 10 Western Canadian Deals in Q3 2019

Date	Industry	Target	Headquarters	Buyer	Value (C$MM)
Aug. 21	Oil and Gas Storage and Transportation	Kinder Morgan Canada	Calgary, AB	Pembina Pipeline Corporation	$ 3,079
Jul. 18	Residential REITs	Pure Multi-Family REIT	Vancouver, BC	Cortland Partners	$ 1,631
Aug. 11	Forest Products	Canfor Corporation	Vancouver, BC	Great Pacific Capital	$ 984
Jul. 12	Marine Ports and Services	Ridley Terminals	Prince Rupert, BC	American Metals & Coal & Riverstone	$ 350
Aug. 20	Forest Products	Acadian Timber	Vancouver, BC	Macer Forest Holdings	$ 170
Aug. 29	Cannabis	420 Investments	Calgary, AB	High Park Holdings	$ 110
Jul. 22	Mining	Puna Operations	Vancouver, BC	SSR Mining	$ 44
Sep. 09	Systems Software	Xtract Technologies	Vancouver, BC	Patriot One Technologies	$ 23
Jul. 31	Oil and Gas Exploration and Production	Range Energy Resources	Vancouver, BC	Private Investor	$ 21
Jul. 23	Cannabis	Private Company	Calgary, AB	Sundial Growers	$ 19

DEALS WEST

Q3 2019

WESTERN CANADA'S CORPORATE TRANSACTION QUARTERLY

The Evolving Capital Structure

Alternative Financing Sources

The business financing landscape has evolved, creating attractive M&A financing options with non-traditional and alternative capital providers. These alternative capital providers are able to supply a diverse range of financing options with more flexibility and capital beyond what's available from traditional sources.

The illustration below highlights financing solutions starting with the lowest cost and least flexible and finishing with the highest cost and most flexible:

Lowest Cost of Capital and Least Flexible

Asset Based Loans	• Loan secured by specific asset (i.e. inventory, receivables, etc.) • Obtained through traditional banks/lenders
Senior Secured Debt	• Loan secured by a blanket lien on a business • Obtained through traditional banks/lenders
Senior Unsecured Debt	• Loan governed by financial covenant, no security • Obtained through traditional banks/lenders
Sub / Mezzanine Debt	• Unsecured, hybrid between debt and equity • Generally obtained through non-traditional, alternative capital providers
Preferred Equity	• Capital provided in exchange for equity with unique attributes • Obtained through external investor or private equity firm
Common Equity	• Capital provided in exchange for equity • Obtained through external investor or private equity firm

Highest Cost of Capital and Most Flexible

Optimal Capital Structure

When optimizing the capital structure of a business it is important to consider the cost of capital utilized and the risks associated with the various forms of capital. Although debt generally brings a lower cost of capital and tax benefits, it is important to consider the following when determining the optimal amount of leverage in the capital structure:

1. Cash flow relative to debt service costs including principal and interest repayment requirements
2. Level of fixed costs and stability of cash flow
3. Covenant restrictions and implications if breached

Key Benefits of Debt versus Equity

- Maintain control – debt providers do not have control/influence over business
- Lower cost – cost will be less than equity, particularly if the business continues to grow and is sold
- Tax benefits – interest payments are tax deductible

Summary

The growing number of alternative capital solutions combined with near historic low interest rates has resulted in increased access to various forms of capital. Now is an ideal time for business owners to re-evaluate capital structures to ensure an optimal level of debt and equity and consider strategic transactions.

When determining the optimal capital structure it is important to consider long-term growth objectives and flexibility required to navigate unanticipated events. The capital structure will affect overall value through its impact on cost of capital, free cash flow generation and ability to invest in growth.