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Is Starting Private in Vogue?

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In the first four months of 2012 one of the prevalent themes we have seen in the Canadian oil industry is well financed private oil and natural gas companies announcing significant asset acquisitions. The interesting thing about this is that the principals of most of these private entities have successful track records of previously running public oil and natural gas companies.

Velvet Energy Ltd. announced the purchase of natural gas assets from **Vero Energy Inc.** for $209 million early in 2012. Velvet is led by Mr. Ken Woolner, who previously successfully ran publicly held companies such as **Lightning Energy Ltd.**, **Velvet Exploration Ltd** and **White Fire Energy Ltd.** Velvet Exploration was sold to **El Paso Corporation** in 2001 for $457 million, while in 2005 Lightning merged with **Argo Energy Ltd.** to form **Sequoia Oil & Gas Trust** and the aforementioned White Fire. White Fire was subsequently sold later that year to **Highpine Oil & Gas Limited** for approximately $104 million.

Velvet is backed by some well known international private equity firms, notably **Trilantic Capital Partners, Warburg Pincus** and **ZAM Ventures, L.P**. Velvet will be focusing on oil and liquids rich natural gas opportunities in west central Alberta and intends to exploit these opportunities through the utilization of horizontal multi-stage completion technology.

Mr. **Steve Sugianto**, who was previously the President & CEO of **Galleon Energy Inc.**, is also starting his next venture, **New Star Energy Ltd.** privately. New Star announced in the first quarter of 2012 that it has entered into a letter of intent with a US-based producer to acquire an asset located in the Highvale area of west central Alberta with current production of approximately 1,550 boe/d (45% oil and ngls).

New Star's strategy will be to focus on assets with large reserves of original oil and gas in place where opportunities exist to increase recovery factors through low-risk infill, step out and multi-frac drilling, waterfloods and optimizations. New Star is targeting a three-year exit strategy by way of a sale, initial public offering, merger or recapitalization.

Red River Oil Inc. recently announced its intention to purchase the majority of **Fairborne Energy Ltd.**'s properties in southeastern Saskatchewan and southwestern Manitoba for $80 million. Mr. **Ken Frankiw**, the President & CEO of Red River, was most recently the President and Director of **Midway Energy Ltd.** until February 2011. Midway was acquired by **Whitecap Resources Inc.** for approximately $614 million earlier this year.

Prior to Midway, Mr. Frankiw was part of the executive management team at **Pilot Energy Ltd.**, which had operations in southeastern Saskatchewan and it was acquired by **Crescent Point Energy Corp.** (then known as **Crescent Point Energy Trust**) for $81 million in late 2007.

Both New Star and Red River are being partly financed by **JOG Capital**, which is a well known private equity firm in Calgary. Mr. **Don Cowie**, the President of JOG, will be a Director of both companies, while Mr. **Paul Colborne** will be Chairman of the Board of Directors of both companies. Mr. Colborne is a well known oil executive and has been associated with a number of successful oil and natural gas companies past and present, notably Crescent Point, **Legacy Oil + Gas Inc.**, **Startech Energy Inc.** and **Surge Energy Inc.**

Even though the recent trend has been to start out in the private arena, as shown by the examples illustrated, other companies such as **Raging River Exploration Inc.** are starting out in the public domain. Raging River is run by the former principals of **Wild Stream Exploration Inc.**, which was sold to Crescent Point in the first quarter of 2012 for approximately $686 million. As part of the sale to Crescent Point, Wild Stream spun out its interests in the Dodsland and Lucky Hills areas of Saskatchewan into Raging River.

Raging River, which began trading in late March, has already announced its first acquisition with its planned purchase of additional assets in the Dodsland area of Saskatchewan. The deal is valued at approximately $30 million in a combination of cash and the issuance of special warrants which are convertible into shares of Raging River upon the completion of the acquisition. Raging River acquired an additional 175 bbl/d of production and 13,400 net acres of undeveloped land. Raging River plans on financing the cash portion of the consideration through a bought deal financing for gross proceeds of $35 million.

The one common theme amongst all four of these new startups is that the senior management have had success in the past running oil and natural gas companies. Due to their previous accomplishments they are able to get funding to start a new venture, either as a privately or publicly held company.

Lately the trend has been to restart privately, which in large part can be attributed to negative public market sentiment in general which has led to lower valuations for most publicly traded oil and natural gas companies. As we saw though in 2009 when there was positive public market sentiment the opposite occurred as previously successful management teams would start out by recapitalizing and taking over control of an existing publicly traded oil and natural gas company. This is what the management of Midway did with publicly held **Trafalgar Energy Ltd.** in June 2009.

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