DAILY OIL BULLETIN

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Why Are Some Public Juniors Exiting?

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In the first nine months of 2013 we have seen a number of publicly-traded junior oil and natural gas producing companies either merge or be acquired by other domestic or foreign entities. In addition to those that have merged or been acquired, a number have announced an intention to enter a *"strategic alternatives process to maximize shareholder value"* and have either completed, recently entered into, or are currently working through those processes. In some other cases there have been a handful of publicly-traded companies where the end has come via receivership.

The reasons these publicly-traded junior oil and gas companies are selling out varies from entity to entity. **Invicta Energy Corp.**, which announced earlier this year that it was being acquired by **Whitecap Resources Inc.** for $63 million, took advantage of the asset base it possessed to sell out. Invicta's main producing properties offset Whitecap's lands and Viking production in the Lucky Hills area of Saskatchewan. Whitecap also identified a low risk horizontal development inventory of 77 net locations on Invicta's lands. Invicta was the first of a number of acquisitions announced by Whitecap in the first three quarters of 2013.

In the cases of both **Insignia Energy Ltd.** and **Second Wave Petroleum Inc.**, these companies had a major shareholder, **Brookfield Capital Partners Ltd.**, which held approximately 48 per cent and 67 per cent of the outstanding shares of Second Wave and Insignia, respectively, prior to announcing its intention to acquire the remaining shares it did not already own. Insignia and Second Wave basically had a built-in exit strategy in place because of the amount of shares Brookfield held in both of these entities.

Other publicly-traded companies like **Novus Energy Inc.** and **TriOil Resources Ltd.** are in the midst of being acquired by foreign entities looking to get into Canada. **Yanchang Petroleum International Ltd.** announced its intention to acquire Novus for approximately $347 million. Yanchang is a Hong Kong listed public company and is principally engaged in the exploration, exploitation and operation of oil and natural gas fields and refined oil wholesale and retail businesses.

ORLEN Upstream s.p. z.o.o. is in the process of acquiring TriOil for approximately $263 million. ORLEN is a 100 per cent subsidiary of PKN ORLEN S.A., one of the largest petroleum and petrochemical corporations in Central and Eastern Europe. PKN ORLEN operates three petrochemical plants, seven refineries with the total processing capacity of approximately 600,000 barrels per day and a retail gas station network comprising approximately 2,700 outlets offering services in the Czech Republic, Germany, Poland and Lithuania.

It is interesting to note that the pending sales of both Novus and TriOil were instigated by the respective Board of Directors of both companies announcing a public *"strategic alternatives process to maximize shareholder value"*. We witnessed a number of public companies entering into these types of processes in the first nine months of 2013, **Advantage Oil & Gas Ltd.**, **Angle Energy Inc.**, **Alston Energy Inc.**, **Border Petroleum Corp.**, **Renegade Petroleum Ltd.** and **Wrangler West Energy Corp.** to name a few. Earlier this month, Angle announced that it had entered into a business combination with **Bellatrix Exploration Ltd.** whereby Bellatrix will acquire all of the issued and outstanding common shares of Angle and all of Angle's issued and outstanding 5.75 per cent convertible unsecured subordinated debentures.

A majority of these publicly-traded companies are entering into these processes because of the lack of recognition they are receiving from the public markets. A number of these companies are trading at valuations which do not reflect their true asset value and are receiving little to no investor interest, prohibiting them from raising much needed equity to finance development and growth. Consequently some public companies, in the absence of equity, are increasing their debt load while others enter into these *"strategic alternatives processes"* believing they will receive an offer more in line with the asset value of the company.

Unfortunately, there have been a number of public companies that have had too much debt on the balance sheet which has driven them into some form of liquidation (CCAA or receivership) where a monitor/receiver has been appointed along with a financial advisor to sell the remaining assets. Companies such as **Argosy Energy Inc.** and **Twoco Petroleums Ltd.** suffered this fate while **FairWest Energy Corp.** and **Tallgrass Energy Corp.** are currently in the midst of this process.

Recently, there seems to be more interest for publicly-traded junior oil and natural gas companies as evidenced by the equity financings announced by companies such as **RMP Energy Inc.**, **Raging River Exploration Inc.** and **Storm Resources Ltd.** In addition, earlier this month privately-held **Gear Energy Ltd.** filed a non-offering preliminary prospectus with the securities regulatory authorities in Alberta and Ontario. Gear also announced that it has made an application to list its common shares on the **Toronto Stock Exchange**. Gear is currently producing approximately 4,000 bbl/d of heavy oil with properties in east central Alberta and west central Saskatchewan.

These recently announced equity financings coupled with Gear's intentions could hopefully spark more investor interest in the sector and in turn lead to more junior oil and natural gas companies entering the public markets rather than exiting.

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