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Recap Déjà Vu

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Much like fashion, what was once old is new again. The Canadian oil and natural gas sector has been evolving to a changing environment and what was once in vogue during 2009 is becoming the new trend in 2014. Much like in 2009 when there were ten junior oil and natural gas companies that were involved in recapitalization (“recap”) transactions, including **Glamis Resources Ltd.** which became **Legacy Oil + Gas Inc.** and **Aztek Energy Ltd.** which was recapped by the management team of **Spartan Exploration Ltd.**, in 2014 we are starting to see a rebirth of recaps of companies that have not had a strong investor following.

Recaps have given companies that may have been on the ropes and struggling to withstand growing adversities or which don’t have the appeal many investors of public companies seek, a new lease on life. They have been rewarded with higher trading multiples as investors place bets that the management team that has added shareholder value in the past will be able to do so again.

The capital markets are strong; investors are currently optimistic about the oil and natural gas sector this year and have put approximately \$7.5 billion of new equity in the market up to the end of August 2014, or on average \$941 million per month. This compares to the \$6.0 billion in equity during all of 2009, the same figure as in 2013. With equity flowing more readily during 2014, the management teams that have had a strong track record are again giving less-loved companies restored optimism. While the former management team of **Spartan Oil Corp.** recapped **Alexander Energy Ltd.** and renamed the company **Spartan Energy Corp.** in early December 2013, much like the same management team recapped Artek in 2009, it wasn’t until recently that it has turned into a noticeable trend.

In May, **PanTerra Resource Corp.** entered into a reorganization and investment agreement with some of the former management team of **Manitok Energy Inc.** The new management team of PanTerra provided approximately \$20 million in new equity to the company. PanTerra’s stock price rose 217% the day following the announcement of the recapitalization. In June, PanTerra acquired assets in the Lynx/Palliser/Minnow and Findley/Copton/Ojay areas of

Alberta and British Columbia from **Talisman Energy Inc.** for \$120 million with a concurrent \$130 million bought deal financing. This deal was followed by a small acquisition of assets in the Copton and Narraway areas of the Northern Alberta Foothills in July and a \$24 million acquisition of assets in the Brown Creek, Stolberg, Deanne, Burnt Timber, Moose, Jumping Pound and Ricinus areas in the Alberta Foothills. Panterra recently did a share consolidation and changed its name to **Ikkuma Resources Corp.**

Elkwater Resources Ltd. entered into a recap in June with former executives mainly of **Hyperion Exploration Corp.** and **WestFire Energy Ltd.**, injecting \$25 million into the company. Elkwater's share price rose 300% following the news of the recap. The new management team of Elkwater plan to change the name of the company to **Striker Exploration Corp.** While no acquisitions have been announced, Striker intends to focus predominantly on light oil opportunities in Western Canada.

In early September, **Blackdog Resources Ltd.** joined the recap party with its announcement that it entered into a reorganization and investment agreement with the former management team of **Santonia Energy Inc.**, who plan to build Blackdog into a Deep Basin and Peace River Arch focused growth company to be named **StonePoint Energy Inc.** The initial investor group entered into a private placement for proceeds of up to \$21 million. The news sent Blackdog's stock up 88% by the close of business the following day.

Kallisto Energy Corp. kicked off its own reorganization and investment agreement earlier this month, announcing a \$25 million private placement with former management of **Orleans Energy Ltd.**, **Angle Energy Inc.** and **Cordero Energy Inc.**, to name a few. Kallisto will be renamed **Toro Oil & Gas Ltd.** The new management team expects to implement a growth strategy established on the acquisition and consolidation of light oil and liquids-rich natural gas horizons in central Alberta and southern Saskatchewan, targeting the Bakken, Cardium, Glauconitic, Mannville and Viking oil Formations. Kallisto's share price closed up 80% on the news, breathing new life into the company.

The recapped companies typically have subsequently concluded significant transactions, which has resulted in a new direction from the former entity, which has been the case with Spartan. Ikkuma, the first recap of 2014, has already done three deals worth nearly \$150 million in aggregate. The other companies that have been recapped are still fresh out of the gate and have yet to announce deals but significant M&A activity should follow.

The announcement of a recap transaction has paid off well for the shareholders as share prices have surged for all of the companies involved. The increases have ranged from 80% to 300% immediately upon the news being released. The question now is: Who will be the next company to announce a recap transaction and which new management teams will play the game for another round and ride the current wave?

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