Daily Oil Bulletin
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Whitecap's Acquisition Of Beaumont Indicative Of Trend Toward Using 'Shares As Currency'

BY PAUL WELLS (/AUTHOR/PAUL-WELLS/) – MARCH 19, 2015 – VIEW ISSUE (/HEADLINES/2015-03-19)

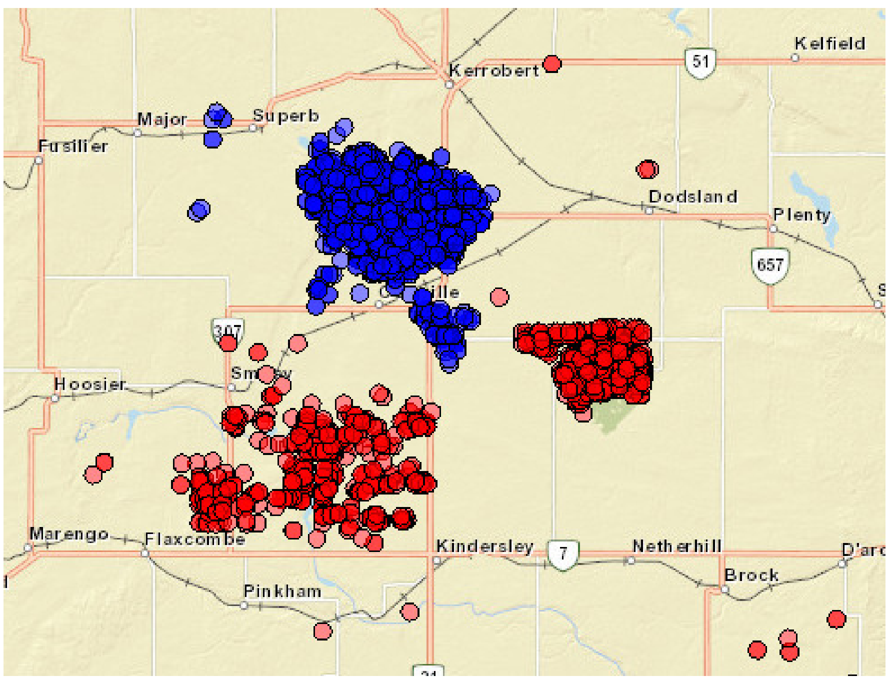
Whitecap Resources Inc. continued to solidify its position in Saskatchewan's Viking light oil resource play yesterday, announcing that it planned to acquire privately-held light oil-weighted **Beaumont Energy Inc.** in a stock-and-cash deal valued at $587.5 million.

The company said the acquisition will be partially funded with a concurrent $110 million bought deal equity financing.

Under the terms of the arrangement agreement, Beaumont shareholders will receive 0.40 of a Whitecap common share for each Beaumont share, with an option to take a portion of the consideration in cash up to a maximum aggregate amount of $103.4 million.

Whitecap will also be assuming the net debt of Beaumont, estimated at $70.5 million as at Feb. 28, 2015, after accounting for proceeds from the exercise of dilutives and severance and transaction costs. Based on an agreed upon Whitecap share price of $14.05 the total consideration including bank debt is $587.5 million.

Post-acquisition, the company's average production for 2015 is estimated at 39,700 boe per day, up from the prior estimate of 36,000 boe per day. The company is now forecasting this year's development capital budget at $242 million versus $200 million pre-acquisition.



Active wells for Whitecap (red) and Beaumont (blue).
Source: CanOils Assets data (www.canoils.com (http://www.canoils.com))

Tom Pavic, vice-president of **Sayer Energy Advisors**, said the deal is indicative of a growing trend whereby companies with solid balance sheets and strong management teams are able to enact transactions largely through the use of shares.

"I guess that it's a trend that we've been seeing over the last few months where stronger companies are being able to use their shares as currency to complete transactions. There is a cash component in this one, but most of it is shares ... if you back out the debt Whitecap is assuming, 20 per cent is cash consideration and the rest is shares," he said.

"And, in a number of the transactions we've seen over the last month to six weeks, we've seen companies using shares as currency."

Pavic pointed to recent deals announced by **Tourmaline Oil Corp.** (DOB, March 13, 2015 (http://www.dailyoilbulletin.com/article/2015/3/13/tourmaline-consolidates-deep-basin-assets/)), **Kelt Exploration Ltd.** (DOB, Feb. 23, 2015 (http://www.dailyoilbulletin.com/article/2015/2/23/efficiencies-combining-keltartek-working-interests/)) and **TORC Oil & Gas Ltd.** (DOB, Feb. 26, 2015 (http://www.dailyoilbulletin.com/article/2015/2/26/torc-closes-acquisition-light-oil-assets-saskatche/)) as other examples of the trend.

"You're seeing a lot of share-for-assets or share-for-share deals," he said, adding that it is a trend he suspects will continue moving forward in 2015.

"I think there will be more similar deals to come. I know that there was a bit of a slow start to the year, but that's typical at the beginning of a year as companies are waiting to get their year-end reserve reports done. The other thing is companies that are favoured in the market are able to complete a financing. Whitecap is an example of that — it's a so-called 'market darling' if you will, so their ability to raise capital is still there for the right transaction."

Beaumont is a concentrated, high netback, light oil-weighted Viking focused company with operations primarily in the Kerrobert area of west-central Saskatchewan, which immediately offsets Whitecap's lands and production in its Viking core area.

The acquisition has significant upside potential with large original-oil-in-place [OOIP], an active waterflood and low recovery factors to date.

"It's just another synergistic acquisition for Whtecap in the Viking," Pavic said.

The acquisition will increase Whitecap's estimated 2015 production to 39,700 boe per day from 36,000 boe per day and oil-weighting to 78 per cent from 76 per cent. The company said its cash flow netback and cash flow per share will also increase, while net debt to cash flow ratio will decrease. In addition, Whitecap anticipates maintaining a 95 per cent total payout ratio in 2015.

Whitecap noted that all of the Beaumont lands are de-risked with a large inventory of repeatable light oil development drilling opportunities and include strategic oil and gas facilities and infrastructure requiring limited capital requirements to process additional production volumes.

Strategic rationale

Whitecap continues to focus on targeting light oil acquisitions in its core areas that maintain the company's low cost structure and long-term sustainability.

The company said the Kerrobert property is an excellent operational fit with its lands located 23 kilometres northeast of Whitecap's Lucky Hills battery and 22 kilometres northwest of its EagleLake battery. This Viking oil pool, which is operated with a 97 per cent working interest, can be enhanced and optimized by Whitecap's existing Viking team.

The Kerrobert Viking oil property has a large OOIP with a current recovery of only four per cent in comparison to offsetting analog Viking pools that have been under waterflood for a longer period of time and have recovery factors of 16 to 20 per cent to date.

Beaumont purchased the Kerrobert pool in November 2012 and has since drilled 229 Viking horizontal wells and has increased production from 700 boe per day to 5,100 boe per day. In addition, the company has reactivated the original waterflood of four sections (five per cent of the pool) and converted an additional 100 vertical wells amounting to 122 active injectors currently in place.

By early April 2015, Beaumont will have extended the waterflood to 17 sections in size (22 per cent of the pool). Whitecap plans to continue the development of this resource with the conversion of further vertical wells to waterflood injectors.

“Additionally, we will continue to develop beyond the original vertical well development with horizontal wells and potentially expand the waterflood development by utilizing horizontal producers and injectors,” the company said.

Whitecap’s initial evaluation shows an inventory of 715 repeatable, low-risk operated Viking locations on the property. Approximately 70 drills per year are required to achieve the company’s corporate growth target of three to five per cent per year, which leads to a greater than 10-year inventory on the property.

“Although not reflected in our modelling of Beaumont, Whitecap has been able to extend and improve the completions relative to the prior operator for each of the acquisitions we have made in our Viking core area and our objective would be to improve the type curve on the horizontal drills in this area,” the company said.

This long-life property adds to Whitecap’s current suite of assets under waterflood, which given their inherent pressure maintenance are particularly suited to the company’s sustainable dividend model. The current base decline of 45 per cent is due to the recent growth phase in the property, but with Whitecap’s more moderate capital pace the company projects the decline to be less than 30 per cent by late 2016.

“On a pro forma basis we anticipate our corporate base decline rate to be 25 per cent in 2015 and 21 per cent in 2016,” Whitecap said.

“Given the capital already incurred on the waterflood, the results of which have yet to be realized on most of the pool, we expect to outperform the typical Viking decline profile over the long term. Our current reserves assessment does not include the upside of the waterflood expansion.”

Whitecap said the key benefits to its shareholders pro forma the acquisition and financing are as follows:

- 2015 accretion on a leverage neutral basis is forecast to be six per cent accretive on cash flow per share, one per cent accretive on production per share, nine per cent accretive on net asset value per share and one per cent accretive on proved plus probable reserves per share, on a fully diluted basis.
- 2016 accretion on a leverage neutral basis is forecast to be 10 per cent accretive on cash flow per share and four per cent accretive on production per share, on a fully diluted basis.
- Increases the company’s cash flow netback in 2015 by five per cent to $32.65 per boe and by seven per cent to $33.94 per boe in 2016 and increases Whitecap’s oil weighting in both years by two per cent to 78 per cent.
- Net debt to cash flow decreases five per cent in 2015 to 1.9x and 12 per cent in 2016 to 1.7x.
- Reduces the company’s 2015 basic payout ratio to 44 per cent from 46 per cent and maintains its total payout ratio at 95 per cent in 2015.
- Increases the company’s light oil development drilling inventory by 715 (699.6 net) drilling locations.

Whitecap said the acquisition will generate free cash flow and further strengthen the sustainability of its dividend-growth strategy in the short- and long-term. The company estimates the acquisition will positively impact its 2015 and 2016 forecast as follows (based on a closing date of May 1, 2015):

- Average production: 3,700 boe per day in 2015 and 5,700 boe per day in 2016;
- Cash flow: $67 million in 2015 and $106 million in 206;
- Development capital spending: $42 million in 2015 and $106 million in 2016; and
- Free cash flow: $25 million in 2015 and $41 million in 2016.

Financing

In connection with the acquisition, Whitecap has entered into an agreement with a syndicate of underwriters led by **National Bank Financial Inc.** and including **GMP Securities L.P.**, **TD Securities Inc.**, **CIBC World Markets**, **Peters & Co. Limited**, **RBC Capital Markets**, **Scotia Capital Inc.**, **FirstEnergy Capital Corp.**, **Macquarie Capital Markets Canada Ltd.**, **BMO Nesbitt Burns Inc.** and **Dundee Securities Inc.**

The underwriters have agreed to purchase for resale to the public, on a bought deal basis, 8.1 5 million subscription receipts of Whitecap at a price of $13.50 per subscription receipt for gross proceeds of approximately $110 million.

Members of the Whitecap board of directors, management team and employees intend to participate in the financing for approximately $2.8 million. Gross proceeds from the sale of subscription receipts will be held in escrow pending the completion of the acquisition.

If all outstanding conditions to the completion of the acquisition are met and all necessary approvals for the financing and the acquisition have been obtained on or before June 30, 2015, the net proceeds from the sale of the subscription receipts will be released from escrow to Whitecap and each subscription receipt will be exchanged for one common share of Whitecap for no additional consideration.

If the acquisition is not completed on or before June 30, 2015, then the purchase price for the subscription receipts will be returned to subscribers, together with a pro rata portion of interest earned on the escrowed funds.

Additional details

National Bank Financial Inc. has acted as financial advisor to Whitecap with respect to the acquisition.

The arrangement agreement contemplates that Beaumont will hold a meeting of its shareholders on or prior to May 8, 2015, to permit shareholders to vote on the arrangement.

The board of directors of Beaumont has received an opinion from its financial advisor, FirstEnergy Capital, that subject to the review of final documentation, the consideration to be received under the terms of the arrangement agreement is fair, from a financial point of view, to Beaumont's shareholders.

Certain Beaumont shareholders, including all senior officers and directors who collectively hold over 60 per cent of the issued and outstanding voting shares of Beaumont (assuming exercise of performance shares and warrants), have entered into agreements with Whitecap pursuant to which they have agreed to vote their shares in favour of the acquisition at the Beaumont shareholder meeting.

The arrangement agreement provides for non-solicitation covenants (subject to the fiduciary obligations of the board of directors of Beaumont and the right of Whitecap to match any superior proposal).

The arrangement agreement, among other things, provides a non-completion fee of $19 million in the event the acquisition is not completed or is terminated by Beaumont in certain circumstances.

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