

DAILY OIL BULLETIN

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[Contents](#) | [Previous Article](#) | [Next Article](#)

Vero And TORC Announce Business Combination

By Richard Macedo

Vero Energy Inc. and private producer **TORC Oil & Gas Ltd.** have entered into an agreement to create a new light oil focused company.

TORC, which currently has focused operations in the Cardium light oil resource trend and in the southern Alberta Bakken/Exshaw petroleum system, will be combined with Vero's focused Cardium light oil assets.

Pro-forma, the new TORC will exit 2012 at over 3,900 bbls of oil equivalent per day, 75 per cent light oil and natural gas liquids. Proved reserves will be 5.1 million boe (68 per cent light oil and NGLs). Total proved plus probable reserves will be 10 million boe (65 per cent light oil and NGLs).

"What you saw with this deal is that TORC has been a private company for about two years; they've got some production, Vero has a considerable amount of production. To go public [TORC] wanted to get to a certain size where they'll be recognized in the market," said **Tom Pavic**, vice-president with **Sayer Energy Advisors**. "They're not starting out from scratch. [They'll have] a base of production to continue to grow and generate cash flow to develop these horizontal plays that they're chasing."

He noted there's been a number of deals announced over the past few weeks, both property and corporate transactions.

"You're starting to see more money coming in, too; a number of companies have announced financings," Pavic said. "I think there's a little bit more capital out there."

"Everyone's preference is for liquids and oil, so I think that will continue."

"It seems like things are warming up, and we are expecting a very active Q4 for M&A activity," added **Don Rawson**, managing director, institutional research, with **AltaCorp Capital Inc.**

In terms of the Cardium, there will be over 75 net unbooked sections and over 300 net unbooked locations. TORC will have over 350 net total sections of emerging light oil resource exposure, with over 150 net sections at Monarch. The company will have over \$400 million in tax pools.

Concurrent with the transaction, TORC has entered into a \$100 million bought deal private placement financing with a syndicate of underwriters. The combined entity will be financially strong and well-positioned with a large inventory of lower risk, high netback Cardium light oil development assets, complemented by significant exposure to TORC's emerging Monarch light oil resource play in the southern Alberta Bakken/Exshaw petroleum system, the companies said in announcing the transaction this morning.

The arrangement steps will result in the combination of Vero and TORC under the new name TORC Oil & Gas Ltd. under the **TSX** trading symbol TOG.

New TORC will be led by the existing management team and board of directors of TORC. The TORC management team is led by **Brett Herman** as president and chief executive officer, **Jason Zabinsky** as vice-president of finance and chief financial officer, **Eric Strachan** as vice-president of exploration, **Jeremy Wallis** as vice-president of land, **Mike Wihak** as vice-president of operations and **Filippo Angelini** as vice-president and controller.

The new TORC board of directors will include **John Brussa**, **Raymond Chan** (chairman), **Bruce Chernoff**, **Herman**, **Dave Johnson**, **Dale Shwed** and **Hank Swartout**. **James Pasieka** will act as corporate secretary.

Under the terms of the arrangement agreement, TORC shareholders will receive consideration of 0.87 common shares of new TORC for each common share of TORC held, and each Vero shareholder will continue to hold one common share of new TORC for each common share of Vero held. Based on the TORC financing price, the implied price per Vero share is \$3 representing a 48 per cent premium to Vero's 10-day weighted average trading price.

"This transaction is a natural progression in the evolution of TORC. Over the past year-and-a-half we have built a substantial light oil resource portfolio ranging from our development focused Cardium assets, to our emerging Monarch play in the southern Alberta Bakken petroleum system, augmented by substantial light oil focused exploration acreage throughout Alberta," Herman said in a news release. "Vero's focused light oil Cardium asset base significantly complements our existing Cardium portfolio, provides a solid base of lower risk development opportunities, and accelerates our Cardium production growth phase. We look forward to substantially growing the combined entity through our proven strategy of acquiring,

exploiting and exploring."

"TORC has put together an exciting and significant resource base of development and high impact light oil opportunities," added **Doug Bartole**, Vero's president and chief executive officer. "We are proud of the high-quality assets that our team of employees has put together and is contributing to the transaction. The combined entity represents an exciting opportunity for Vero shareholders to maintain ownership in a large, financially strong, light oil focused entity with a substantial platform for growth."

The company will have a strong balance sheet with over \$20 million of cash at year-end plus an undrawn bank facility.

It's anticipated that the new TORC's 2013 drilling program will primarily consist of a high-graded Cardium development program focused on production growth combined with the continued delineation of the Monarch asset in order to move this emerging resource play towards the production growth phase.

In connection with the transaction, TORC has entered into an agreement, on a bought deal private placement basis, with a syndicate of underwriters led by **Macquarie Capital Markets Canada Ltd.** and including **FirstEnergy Capital Corp.**, **TD Securities Inc.**, **Dundee Securities Ltd.**, **GMP Securities L.P.**, **BMO Capital Markets**, **CIBC**, **National Bank Financial Inc.**, **Peters & Co. Limited**, **RBC Capital Markets**, **Canaccord Genuity Corp.**, **Cormark Securities Inc.** and **Raymond James Ltd.** for an offering of 28.85 million subscription receipts at \$2.60 per subscription receipt to raise gross proceeds of \$75.01 million and 8.07 million subscription receipts at \$3.10 per flow-through subscription receipt to raise gross proceeds of \$25 million.

The subscription receipts and flow-through subscription receipts (offered securities) together will raise gross proceeds of \$100.01 million.

TORC will grant the underwriters an option to purchase from treasury an additional 4.32 million subscription receipts, on the same terms, exercisable in whole or in part at any time up to 48 hours prior to the arrangement closing. Closing of the TORC financing is expected to occur on or about Oct. 4 and is subject to customary conditions and regulatory approvals. Net proceeds from the subscription receipts will be used to fund ongoing capital expenditures and for general corporate purposes and the proceeds from the flow-through subscription receipts financing will be used to incur Canadian exploration expense for purposes of the Income Tax Act.

Gross proceeds from the TORC financing will be held in escrow pending the receipt by the escrow agent and Macquarie Capital of a joint notice of TORC and Vero that all conditions precedent to the completion of the transaction have been satisfied or waived. If the transaction is completed on or before Dec. 21, the proceeds will be released to new TORC and each subscription receipt and flow-through subscription receipt will be exchanged for one common share of TORC for no additional consideration as a step to the arrangement. If the transaction is not completed on or before Dec. 21 or the arrangement agreement is terminated at an earlier time, holders of offered securities will receive a cash payment equal to the offering price of the offered securities and any interest that was earned thereon during the time of escrow.

FirstEnergy and GMP Securities are acting as financial advisors to Vero with respect to the transaction. CIBC and Raymond James are acting as strategic advisors to Vero. Macquarie Capital and TD Securities are acting as financial advisors to TORC. Dundee Securities and RBC Capital Markets are acting as strategic advisors to TORC.

[Contents](#) | [Previous Article](#) | [Next Article](#)