

# Daily Oil Bulletin

COPYRIGHT OF THE DAILY OIL BULLETIN 2015

## Bring On The Poison!

OCT. 28, 2015 – [VIEW ISSUE \(/HEADLINES/2015-10-28\)](#)



By Ryan Ferguson Young, B. Comm.  
Sayer Energy Advisors

The pervasively low commodity prices which the industry has recently been suffering through, coupled with the continued weakness in the stock prices of many public oil and natural gas companies has caused the board of directors of certain of these companies to announce a “strategic alternatives process.” In most cases these boards are being proactive while in another case they are being reactive and have implemented a “poison pill” to give them time to evaluate all available options to them.

In June, Terra Energy Corp. announced its intention to review and evaluate possible opportunities to enhance shareholder value. In early August, Terra selected a financial advisor and by the end of September it closed the sale of 500 boe/d of assets in the Boundary Lake and Worsley areas of Alberta for approximately \$10.6 million. Net proceeds from the sale transaction were used to reduce total debt and improve on operational efficiencies and production. In the second quarter of 2015, Terra had \$25 million in net debt and 2,400 boe/d of production.

In August, Zargon Oil & Gas Ltd., which focuses on properties under waterflood in the Williston Basin and Alberta Plains and its Alkaline Surfactant Polymer (“ASP”) project in Southern Alberta, announced it was seeking strategic alternatives. During the second quarter of 2015, Zargon had production of 4,607 boe/d and net debt of approximately \$108 million (including convertible debentures).

The most recent public company to announce a strategic alternatives process is Cequence Energy Ltd., which made the announcement two weeks ago. Cequence’s main property is its Montney resource play in the Simonette area of Alberta, which produced 8,045 boe/d, or approximately 85% of the corporate total in the second quarter of 9,726 boe/d. The company has maintained a strong balance sheet during the low commodity environment with modest net debt of approximately \$45 million.

While the management and board of directors’ of companies in a strategic alternatives process welcome amicable discussions and are open to a friendly takeover, other companies are staying the course, are not for sale and are trying to ride out the current low commodity prices. However, sometimes it can get “hostile” and that is when survival instincts kick in as seen by Canadian Oil Sands Ltd.’s reaction to the hostile bid for the company by Suncor Energy Inc.

Earlier this month, Suncor made an unsolicited all-share offer to acquire all of the outstanding common shares of Canadian Oil Sands on a basis of 0.25 of a common share of Suncor for each Canadian Oil Sands share, equating to a value of \$8.84/share based on Suncor’s share price the day prior to the announcement. The offer was a 43% premium to Canadian Oil Sands trading price of \$6.19/share the day before the announcement. Canadian Oil Sands responded by adopting a new shareholders rights plan, effective immediately, to ensure that the company has “adequate time to consider and evaluate Suncor’s offer and any other unsolicited bid or other strategic alternatives”.

The implementation of a shareholder rights plan by Canadian Oil Sands is an approach known as a poison pill. This is a strategy used by corporations to discourage hostile takeovers and make the bid more onerous, and at times, more costly. With a poison pill, the target company attempts to make its stock less attractive to the acquirer. They can do one of two things, first they can do 1) a “flip-in” which allows existing shareholders (except the acquirer) to buy more shares at a discount; or 2) a “flip-over” which allows stockholders to buy the acquirer’s shares at a discounted price after the merger. Canadian Oil Sands is implementing a flip in strategy.

The share price of Canadian Oil Sands is currently hovering around \$10.00/share, indicating that Suncor may need to sweeten its bid as the market is speculating that there is a chance that a third party or a “White Knight” will sweep in with a friendly offer for Canadian Oil Sands that is superior to the offer made by Suncor.

Hostile bids have not been common in Canada, especially in the tight knit oil and natural gas sector. Ironically, the party making the “hostile” approach often ends up concluding a “friendly” transaction to acquire the target company.

The last hostile bid attempt was in early 2009 during the global financial crisis, when Total E&P Canada Ltd., a subsidiary of France’s Total S.A., attempted to take over oilsands-focused, UTS Energy Corp. for \$1.30/share in cash. Total eventually closed a deal with UTS in October 2010 for \$1.5 billion in cash or \$3.08/share and 0.1 of a common share in a spin out company named SilverBirch Energy Corporation.

A notable hostile takeover bid in early 2001 involved Benson Petroleum Ltd., which received an unsolicited bid of \$2.65 in cash for each common share from 896543 Alberta Ltd., a wholly owned subsidiary of Southward Energy Ltd. Benson ultimately closed a transaction in March 2001 at \$3.05 in cash per common share with 896543, which was fronting for Talisman Energy Inc.

It is too soon to see how the hostile bid for Canadian Oil Sands will unfold but it is evident that when things get hostile a little bit of “poison” may be required to fend off the aggression. For Canadian Oil Sands, by using the “poison,” they can pursue a formal strategic alternatives process to ensure that all avenues have been explored to maximize shareholder value.

ARTICLE SECTION: [MARKET INTELLIGENCE \(/SECTION/MARKET-INTELLIGENCE/\)](#)

ARTICLE CATEGORY: [MERGERS AND ACQUISITIONS \(/CATEGORY/MERGERS-AND-ACQUISITIONS/\)](#)