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Public Oil And Natural Gas Producers Pursuing More Flexible Debt Structures

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By Tom Pavic, CFA, Sayer Energy Advisors

Recently we have seen a number of publicly-traded oil and natural gas companies enter into more unconventional debt structures that have provided them more flexibility along with the additional capital to accelerate the development of their respective asset bases. These new credit facilities replaced existing conventional bank debt that these companies previously had but have come at a significantly higher cost.

Marquee Energy Ltd. announced in late May that it had entered into an agreement with **Crown Capital Partners Inc.** for a \$30.0 million subordinated term loan (the "Term Loan"). The Term Loan bears an interest rate of 10 per cent per annum over a term of five years and is second lien secured. In conjunction with the Term Loan, Marquee granted Crown Capital 37,500,000 warrants with each warrant entitling Crown Capital to purchase one common share of Marquee at an average exercise price of \$0.11 any time prior to May 30, 2021. If fully exercised, the warrants would represent approximately eight per cent of the fully diluted common shares outstanding of Marquee.

According to Marquee, *"Proceeds from the Term Loan will fully repay the previous syndicated loan, provide long term funding and liquidity certainty for the company and support an expanded drilling program of high netback and high rate of return horizontal light oil wells at Michichi."* Concurrent with the announcement of the Term Loan, Marquee also announced that it had entered into a \$12.0 million credit facility with a major Canadian bank. As of September 30, 2017, Marquee has not drawn any funds from this \$12.0 million credit facility.

In September, **Hemisphere Energy Corporation** announced that it had entered into a first lien senior secured credit agreement with **Cibolo Energy Partners, LP**, a firm based out of Houston, Texas, providing for a multi-draw, non-revolving term loan facility of a maximum aggregate principal amount of up to US\$35.0 million, with an initial commitment amount of US\$15.0 million (the "New Credit Facility"). Hemisphere has made an initial draw of US\$10.0 million of the initial US\$15.0 million commitment under the New Credit Facility. Additional commitments are subject to further approval by Cibolo. The interest rate for the New Credit Facility is the three-month United States dollar London Interbank Offered Rate with a floor of one per cent, plus 7.50 per cent paid quarterly, for a five year term with a maturity date of September 15, 2022.

In conjunction with the New Credit Facility, Hemisphere issued Cibolo 13,750,000 warrants. Each warrant entitles Cibolo to purchase one common share of Hemisphere at an exercise price of \$0.28 prior to September 15, 2022. If fully exercised, Cibolo would own approximately 15 per cent of the outstanding common shares of Hemisphere. According to Hemisphere, *"The New Credit Facility is a strategic and transformational transaction for Hemisphere that will allow the company to accelerate the development of its southern Alberta Atlee Buffalo waterflood oil assets. Consequently, the company has repaid and terminated its existing credit facility with its Canadian bank."*

In late October, **Prairie Provident Resources Inc.** announced the closing of a two part debt financing through **Prudential Capital Group**. Prudential Capital Group is a private debt capital arm of PGIM, Inc. the global investment management business of Prudential Financial, Inc. The financing involved a three year US\$40.0 million senior secured revolving note facility, under which US\$31.0 million principal amount of senior secured revolving notes due October 21, 2020, were issued at closing, and an issue of US\$16.0 million principal amount of four-year senior subordinated notes due October 31, 2021.

The overall debt structure expands Prairie Provident's borrowing base from \$65.0 million to \$72.0 million and extends the term of its debt instruments. On a blended basis the new debt instruments offer a combined average coupon rate of approximately 8.2 per cent assuming the US\$40.0 million facility is fully drawn. According to Prairie Provident, *"This new financing provides us with two longer term instruments that harness financial stability and enhance our financial flexibility to grow and invest in our Wheatland, Princess and Evi areas where we can create accretive returns for our shareholders."* Approximately \$55.5 million of the new financing was used to repay and retire the previous syndicated credit facility and to cash collateralize approximately \$4.8 million in outstanding letters of credit issued for ordinary business operations. Concurrent with the closing of the financing, Prairie Provident issued warrants to Prudential to purchase up to 2,318,000 common shares, or two per cent of Prairie Provident's outstanding shares, at an exercise price of \$0.549 (subject to adjustment in certain circumstances) with a 5-year term expiring on October 31, 2022.

With capital being scarce for many public junior oil and natural gas companies and potential equity financings being highly dilutive because of depressed share prices, the debt financings described above provide the necessary capital that publicly-traded junior oil and natural gas companies need in the short-term to get some additional financial capability. These types of debt structures do come at a higher cost with both a higher interest rate and further equity dilution with the possible issuance of warrants but these companies are "banking" on the expectation that further development of their respective asset bases will generate enough to cover off these higher costs and consequently provide a significant return to their shareholders in the future.

CATEGORIES: [CAPITAL SPENDING \(\(CATEGORY/CAPITAL-SPENDING\)\)](#), [NATURAL GAS \(\(CATEGORY/NATURAL-GAS\)\)](#), [OIL \(\(CATEGORY/OIL\)\)](#)