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# Will Increased Strategic Alternatives Processes Kick-Start Consolidation?

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In the first quarter of 2018 there were a significant number of oil and natural gas companies which publicly announced strategic alternatives processes. The list of companies which entered such processes includes **Granite Oil Corp.**, **Laricina Energy Ltd.**, **Marquee Energy Ltd.**, **Raging River Exploration Inc.** and **Toscana Energy Income Corp.** With the exception of Laricina, the remaining names which have publicly entered into processes thus far in 2018 are all publicly-traded oil and natural gas companies. This is in contrast to the latter part of 2017, where the majority of the companies which underwent a strategic alternatives or corporate sales process were privately held, namely **Corval Energy Ltd.**, **Jayhawk Resources Ltd.**, **Red River Oil Inc.** and **Ventura Resources Inc.**

Granite's core property is located in the Ferguson area of southern Alberta, with total production of approximately 2,210 boe/d. Laricina's main assets are oil sands interests located in the Germain and Saleski areas of Alberta. Marquee's core operations are primarily located in the Michichi area of southeastern Alberta, with total production of about 2,875 boe/d. Raging River's core assets are located in the Dodsland area of southwest Saskatchewan and the Esther area of southeastern Alberta, with production totaling approximately 23,676 boe/d.

In February 2018, Toscana announced it was commencing a strategic alternatives process to enhance shareholder value. As part of this process, Toscana engaged **Sayer Energy Advisors** to assist **Firenze Energy Ltd.** (a subsidiary of Toscana) with the sale of its interests in the Nevis, Willesden Green and Tony Creek areas of Alberta. Total oil and natural gas sales net to Firenze from the divestment package have recently averaged approximately 272 boe/d (73 barrels of oil and natural gas liquids per day and 1.2 MMcf/d of natural gas). In addition, Toscana also announced in late March a proposal to amend the terms of its outstanding convertible debentures. The amendments to the debentures were subsequently approved at a special meeting of the debentureholders.

To determine the possible outcome these public companies may have to their processes, we should review how successful some of the private companies that announced strategic alternatives in late 2017 were. Jayhawk entered into a corporate sales process in the second half of 2017. Jayhawk's assets were primarily located in the Minnehik – Buck Lake area of Alberta and had total production of approximately 330 boe/d (1.6 MMcf/d and 56 bbl/d). Sayer was engaged to assist the company and as a result of the process, closed a corporate sale of the company in March 2018.

Another private company which had a successful outcome was Red River. The company initiated a process to evaluate potential strategic alternatives to enhance shareholder value in the fourth quarter of 2017. Red River was a light oil weighted company with its main assets located in southeastern Saskatchewan and southwestern Manitoba. Total corporate production was approximately 1,200 bbl/d of oil. Up until the end of 2017, the company had developed seven waterflood projects and had infrastructure in place to support future expansion. In the first quarter of 2018, Red River was sold to **Vermilion Energy Inc.** for total cash consideration of $90.8 million.

Early in the second quarter of 2018, Vermilion also announced that it had entered into an arrangement agreement to acquire **Spartan Energy Corp.** Spartan's operations are oil weighed and focused in southeast Saskatchewan, with total production of 23,000 boe/d. Although Spartan was not in a publicly-announced strategic alternatives process, this transaction shows that there is a M&A market for publicly traded oil and natural gas companies.

In a market with an increasing number of "strategic alternative process" announcements, it appears that exit strategies do still exist. Even with the current depressed commodity price environment and a lack of capital, some oil and natural gas companies have proven to be successful in creating shareholder value through a strategic alternatives process. Along with this, the recently announced transaction between Vermilion and Spartan may be the catalyst to start the long talked about wave of industry consolidation. It will be interesting to see how the remainder of 2018 plays out and what paths names such as Granite, Laricina, Marquee, Raging River and Toscana pursue in order to further enhance shareholder value.

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