

Private Oil-Weighted Companies Hitting The Sell Button

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Strengthening oil prices in the second quarter of 2018 seem to have spurred a wave of privately-held oil weighted companies to hit the sell button. In the second quarter of 2018, the industry saw private companies such as **Mount Bastion Oil & Gas Corp.**, **Primrose Drilling Ventures Ltd.** and **Venturion Oil Limited** put themselves up for sale. What types of deals can we expect to see come out of the private market? With the continued lack of capital for oil and natural gas exploration and production companies, we would expect to see more all-stock transactions, similar to those that have recently occurred in the public market.

Mount Bastion announced its intention to sell the shares of the company in early June. The company's main assets are located in the Evi-Otter, Red Earth and Sawm Lake areas of Alberta. Mount Bastion's current production is approximately 6,500 boe/d (98 per cent oil).

Sayer Energy Advisors has been retained to assist Primrose with the sale of the shares of the company. Primrose's main assets are working interests and royalty interests located in various areas of Alberta and Saskatchewan, with the majority of production from the Workman area of Saskatchewan. Primrose's current production is about 354 boe/d (85 per cent oil).

Venturion announced in the second quarter that it was seeking a purchaser for all of the company's common shares. The company's interests are located in the Cessford, Killam, Viking Kinsella and Worsley areas of Alberta and in the Mica and Boundary Lake areas of British Columbia. Venturion's current production is about 5,700 boe/d (84 per cent oil).

Baytex Energy Corp.'s merger with **Raging River Exploration Inc.** is an example of a recent transaction occurring in the public market. Raging River commenced a process in early March to initiate strategic repositioning of the company in an effort to enhance shareholder value. The company's main assets are located in the Doddsland area of southwestern Saskatchewan, the Esther area of southeastern Alberta as well as a 100 per cent working interest in more than 260,000 net acres of land in the Duvernay play in the East Shale Basin.

The \$2.0 billion acquisition is structured as an all-stock deal, with Raging River shareholders set to receive 1.36 common shares of Baytex for each Raging River share owned. The combined entity will have an enterprise value of approximately \$5.0 billion, and will have estimated total production of about 100,000 to 105,000 boe/d (85 per cent oil and NGLs), with both heavy and light oil assets spanning throughout North America.

Another large deal that occurred in the public market this year was **Vermilion Energy Inc.**'s acquisition of **Spartan Energy Corp.** The total consideration was approximately \$1.4 billion, comprised of \$1.23 billion in Vermilion shares plus the assumption of about \$175.0 million in Spartan's debt. The Spartan assets were comprised of light oil producing properties, on approximately 480,000 net acres of land in southeastern Saskatchewan. The deal included approximately 80,000 net acres of land in other areas of Alberta, Saskatchewan and Manitoba. Spartan's production was projected to be approximately 23,000 boe/d in 2018.

Publicly traded **Point Loma Resources Ltd.** recently announced it has entered into a definitive agreement to acquire an undisclosed private oil and gas company for total consideration of approximately \$1.6 million, in an all-stock deal. Although smaller than the previously mentioned Baytex/Raging River and Vermilion/Spartan deals, this highlights another deal that was structured as an all-stock transaction. The acquired assets are located in East Central Alberta and have associated production of approximately 130 boe/d.

The all-stock nature of the three previously mentioned transactions highlights the fact that the industry continues to suffer from a lack of capital. The use of company paper as currency is something we could see more of in the near future, with private companies possibly accepting public company stock, or in some cases private company stock, as a form of payment in a merger or sale transaction.

Strengthening oil prices in the second quarter of 2018 have spurred a rise in the number of privately-held oil-weighted companies which are hitting the sell button. It is possible that there are a lot more patiently waiting to announce similar intentions and we could see more names come up for sale later in the year. As company paper has been the form of currency used in recent public market transactions, we would expect to see similar deal structures occur with privately-held oil and natural gas companies.

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