

Will We See An Increase In Consolidation In 2020?

By [Ben Rye, Sayer Energy Advisors \(/author/ben-rye-sayer-energy-advisors/\)](#)

Wednesday, April 29, 2020, 7:20 AM MDT

[Print](#)

In an [article \(https://www.dailyoilbulletin.com/article/2018/4/25/will-increased-strategic-alternatives-processes-ki/\)](https://www.dailyoilbulletin.com/article/2018/4/25/will-increased-strategic-alternatives-processes-ki/) penned by Sayer Energy Advisors in April of 2018 we posed the question; “*Will Increased Strategic Alternatives Processes Kick-Start Consolidation?*” We consider it prudent to revisit our past predictions periodically to check their accuracy. In that article we identified privately-held and publicly-traded companies in the Canadian oil and natural gas industry which had publicly announced strategic alternatives processes at that time.

In that article, we discussed several examples of companies that, at the time, had completed transactions related to strategic alternatives processes. One such company was **Red River Oil Inc.**, which was acquired by **Vermilion Energy Inc.** ([/company/vermilion-energy-inc/](#)) for total cash consideration of \$90.8 million. Following this acquisition, Vermilion continued consolidating its position in southeastern Saskatchewan with its purchase of **Spartan Energy Corp.** ([/company/spartan-energy-corp/](#)) for \$1.7 billion.

Several of the entities we mentioned in the 2018 article, including **Granite Oil Corp.** ([/company/granite-oil-corp/](#)), **Raging River Exploration Inc.** ([/company/raging-river-exploration-inc/](#)) and **Toscana Energy Income Corp.**, also have completed these processes. Raging River was acquired by **Baytex Energy Corp.** ([/company/baytex-energy-corp/](#)) for \$2.0 billion in the summer of 2018. In the first quarter of 2020, **International Petroleum Corp.** acquired Granite, and Toscana, through various transactions since 2018, subsequently entered into an option agreement with **i3 Energy plc** last month.

International Petroleum acquired Granite for total equity and debt consideration of approximately \$98.5 million. Granite’s assets were located in the Ferguson area of Alberta and were producing approximately 1,500 bbl/d of oil.

On March 29, 2020, Toscana announced it had entered into an option agreement with i3, which if exercised by i3, would allow for the acquisition by i3 of all of the issued and outstanding common shares of Toscana. The option agreement allows i3 to exercise into the arrangement by June 30, 2020.

Since the 2018 article, other companies, including **Return Energy Inc.** and **Corridor Resources Inc. (/company/corridor-resources-inc/)** have gone through strategic alternatives processes which have resulted in recapitalization transactions.

In the fourth quarter of 2019 the recapitalization transaction of Return was completed by members of the former Spartan management team and proposed a name change to **Spartan Delta Corp.** Return completed a recapitalization comprised of a non-brokered private placement of \$25.0 million and the appointment of a new management team and board of directors.

Most recently, Return, through its wholly-owned subsidiary, **Winslow Resources Inc.**, will acquire substantially all of the assets of **Bellatrix Exploration Ltd.** for cash consideration of \$87.4 million plus the assumption of certain liabilities at closing. The transaction is subject to the approval of the Court of Queen's Bench of Alberta in the proceedings under the Companies' Creditors Arrangement Act, among other approvals and applicable conditions. Return also announced, and subsequently increased, a financing of subscription receipts for gross proceeds of \$64.0 million to finance the Bellatrix acquisition.

Another similar transaction involved Corridor with certain former executives of Raging River. This recapitalization transaction provided for a non-brokered private placement financing of \$20.0 million, a brokered private placement financing of up to \$30.0 million, the appointment of a new management team and reconstitution of the board of directors of Corridor. Following the transaction, Corridor changed its name to **Headwater Exploration Inc.**

Other recent consolidation transactions include **Tourmaline Oil Corp. (/company/tourmaline-oil-corp/)**'s acquisition of **Chinook Energy Inc. (/company/chinook-energy-inc/)**, which was in a strategic alternatives process, and **Polar Star Canadian Oil and Gas Inc.** Earlier this year, Tourmaline announced it had entered into a definitive agreement to acquire the outstanding shares of Chinook by way of a plan of arrangement for cash consideration of \$0.0675 per share. The total cash consideration was approximately \$24.4 million, including assumed debt. Tourmaline acquired Polar Star on February 14, 2020, for total cash consideration of \$9.0 million, plus working capital adjustments. Tourmaline's recent acquisitions are in an effort to

consolidate Montney interests in northeast British Columbia and stated that its “low capital and cash cost E&P model applied to these assets will ultimately yield a new, highly profitable, liquids-rich Montney gas complex for the company.”

Current ongoing strategic alternatives process include **Drakkar Energy Ltd.** and **Blacksteel Energy Inc.**, which have initiated a joint sales process whereby both companies are pursuing a process to explore strategic alternatives to maximize shareholder value. Strategic alternatives may include, but are not limited to, a sale or merger of the companies or other form of business combination; a recapitalization or other form of strategic investment; or the sale of the working interests in the companies’ property, which consists of a combined 100% working interest in oil and natural gas asset in the Girouxville area of Alberta.

This question of “Will increased strategic alternatives processes kick-start consolidation?” has seemingly evolved into the question of “When will further consolidation take place?” We believe that more consolidation will occur once oil prices begin to stabilize from the carnage caused by the coronavirus. Additional insolvencies will also likely lead to further consolidation as evidenced by the recent transaction announced between Return and Bellatrix.

Sections: [M&A \(/mergers-and-acquisitions/\)](#)

Categories: [Analysis \(/category/analysis/\)](#) /

[Corporate Mergers \(/category/corporate-mergers/\)](#)

Companies: [Baytex Energy Corp. \(/company/baytex-energy-corp/\)](#) /

[Chinook Energy Inc. \(/company/chinook-energy-inc/\)](#) /

[Corridor Resources Inc. \(/company/corridor-resources-inc/\)](#) /

[Granite Oil Corp. \(/company/granite-oil-corp/\)](#) /

[Raging River Exploration Inc. \(/company/raging-river-exploration-inc/\)](#) /

[Spartan Energy Corp. \(/company/spartan-energy-corp/\)](#) /

[Tourmaline Oil Corp. \(/company/tourmaline-oil-corp/\)](#) /

[Vermilion Energy Inc. \(/company/vermilion-energy-inc/\)](#)

Related Articles

- [M&A Value Falls To Lowest Level Since 2003 \(/article/2020/3/25/ma-value-falls-to-lowest-level-since-2003/\)](#)
- [Upstream M&A Reaches US\\$21 Billion In Q1 2020 \(/article/2020/4/29/upstream-ma-reaches-us21-billion-in-q1-2020/\)](#)

