ANALYSIS

Junior E&P Companies Using Unconventional Debt To Finance Acquisitions

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Over the last year we have seen a number oil and natural gas companies, both privately-held and publicly-traded, enter into more unconventional debt structures which provide the capital required for the acquisition of oil and natural gas assets and companies. These unconventional debt structures have, for the most part, taken the place of conventional bank debt.

Publicly-traded **Saturn Oil & Gas Inc.** has been working with a U.S. based institutional lender to finance a couple of significant acquisitions over the last year. In May 2021, Saturn announced the acquisition of certain assets from **Crescent Point Energy Corp.** for $93.0 million. The assets acquired are located in the Oxbow area of southeastern Saskatchewan and produce light oil from the Frobisher and Midale formations. The acquisition was funded through an $87.0 million senior secured term loan, as well as non-brokered and brokered private placements of special warrants for $18.4 million (non-brokered) and subscription receipts for $13.8 million (brokered) which collectively raised gross proceeds of $32.2 million. The senior secured term loan bears interest at the Canadian Dollar Offered Rate ("CDOR") plus 11.5 per cent per year and will amortize over three years, with 50 per cent repayable in the first year, 30 per cent in the second year and 20 per cent in the final year.

On May 31, 2022, Saturn announced that it had entered into an agreement to purchase certain assets in the Viking area of west-central Saskatchewan for approximately $260.0 million. The assets consist of approximately 4,000 boe/d (98 per cent light oil and liquids) of production. Concurrent with the acquisition, Saturn announced that its lender agreed to provide an additional $200.0 million from its existing senior secured term loan. The loan will continue to bear interest at a rate of CDOR + 11.5 per cent and will amortize over three years, with 50 per cent repayable in the first year, 30 per cent in the second year and 20 per cent in the final year. Concurrent with the announcement of the transaction, Saturn stated the following: "*Based on forecast production rates and hedged commodity prices, Saturn anticipates repaying the loan in full well in advance of its scheduled amortization payments.*"

Certus Oil and Gas Inc., a privately-owned oil and natural gas company, also raised debt through a private lender: **Anvil Channel Energy Solutions**. Anvil is a private direct lender focused on the upstream energy space. With offices in Houston and Los Angeles, the company invests with tightly bound perimeters of value-oriented oil and natural gas opportunities backed by blue-chip institutional investors. Anvil provided USD$65.0 million in capital to Certus to finance the acquisition of privately-held **Sitka Exploration Ltd.** in July 2021. Sitka's main producing property was located in the Sundre area of Alberta proximal to Certus' operations. With this acquisition, Certus' production increased to 10,000 boe/d (50 per cent natural gas).

Rob Brady, President and CEO of Certus, stated the following at the time of the acquisition: *“We are excited to have successfully executed this transformative transaction with support from the Anvil team; the creative capital solution structured by Anvil came at a critical time in our company’s growth cycle.”*

Anvil also financed **ROK Resources Inc.**, in the first quarter of 2022, with the acquisition of certain assets from **Federated Co-operatives Limited** for $71.7 million. The assets acquired are located in the Kaybob area of Alberta, the Butte Shaunavon and Dodsland areas of southwestern Saskatchewan including an interest in the Weyburn Unit operated by **Whitecap Resources Inc.** The acquisition was funded through a combination of proceeds from Anvil, which provided a senior loan facility to ROK for an aggregate amount of $65.0 million, and a bought-deal equity financing of subscription receipts for proceeds of approximately $17.3 million. The senior loan facility bears interest at a rate of US prime interest rate + 8.00 per cent and will amortize over a four-year period, with monthly combined payments of principal and interest. Under the terms of the loan, ROK also granted an overriding royalty to Anvil on the future and existing natural gas assets of ROK. The overriding royalty will be 2.5 per cent of oil and natural gas production until the maturity date of the loan facility, and 1.5 per cent thereafter. The subscription receipts were converted into common shares of ROK at the closing of the acquisition.

With conventional bank debt not available for many junior oil and natural gas companies these unconventional debt instruments are the only source of debt financing available. With continued strong commodity prices, we believe we may see more junior oil and natural gas producers financing acquisitions using these unconventional debt structures in the future.

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