

Private Companies Emerging As Active Buyers

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Wednesday, April 26, 2023, 6 AM MDT



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Recently, we have seen a number of privately-held oil and natural gas companies emerge as active buyers of oil and natural gas assets. The majority of these transactions involve the acquisition of oil and natural gas production from large, publicly-traded oil and natural gas companies which, for the most part, were deemed to be non-core to their ongoing operations. The proceeds were used by these publicly-traded entities to reduce debt outstanding.

In early February, **Hawthorne Energy, LLC**, through its Canadian subsidiary **HWN Energy Ltd.**, announced the closing of two large complementary asset acquisitions located in central and northern Alberta. The assets were acquired from both **Bonavista Energy Corporation** and **Whitecap Resources Inc.** With these transactions, HWN will have a production base of more than 15,000 boe/d (50 per cent oil/liquids). HWN's land base will also include approximately 667,000 net acres largely held-by-production, with an inventory of light oil drilling opportunities in the Dunvegan, Cardium and other Cretaceous zones of interest.

Hawthorne made its initial entry into Canada in July 2021 through the acquisition of privately-held **Tangle Creek Energy Ltd.** Hawthorne is being funded by **Carnelian Energy Capital Management, L.P.**, an energy investment firm based in Houston, Texas, with approximately US\$2.8 billion of cumulative capital commitments.

In addition to the HWN transaction, Whitecap also closed two additional dispositions in the first quarter of 2023 to an undisclosed company and to publicly-held **ROK Resources Inc.** According to Whitecap, *“we have successfully monetized these non-strategic assets at strong disposition metrics and look forward to demonstrating strong operational performance on our core assets in 2023”*. Whitecap used the cash proceeds of approximately \$400.0 million from the dispositions to reduce its debt outstanding.

Subsequent to completing the purchase of certain of Whitecap’s oil and natural gas interests, ROK announced it has entered into three separate asset purchase and sale agreements to divest of certain non-core assets in Saskatchewan for total combined proceeds of approximately \$47.3 million. One of the transactions included the sale of ROK’s non-operated 2.11685 per cent interest in the Weyburn Unit to privately-held **Rife Resources Ltd.** for total proceeds of approximately \$44.5 million. Rife is a private exploration and production company that is wholly-owned by the **CN Pension Trust Funds**, the pension fund for employees of the **Canadian National Railway Company**. According to ROK, *“the transaction divests significant non-core, non-operated assets, and will allow the Company to focus on its core properties, which provide significant growth potential via 172 undrilled locations. The \$44.5 million in cash proceeds from the Weyburn Unit, before normal closing adjustments, will be accretive to existing shareholders of the Company by immediately eliminating 90 per cent of ROK’s outstanding senior term debt which will result in interest savings of ~\$5.8 million. By June 2023, the Company’s senior term debt is expected to be paid off entirely, providing the Company with incremental cashflow of ~\$2.5 million per month, that can be deployed into organic drilling in its core Southeast Saskatchewan and Kaybob assets”*.

Publicly-traded **Vermilion Energy Inc.** completed the sale of certain non-core interests in southeastern Saskatchewan in the first quarter of 2023 to privately-held **Woodland Development Corp.** for \$225.0 million. The assets consisted of approximately 5,500 boe/d of non-core light oil production spread across the greater Arcola and Queensdale areas of southeastern Saskatchewan. According

to Vermilion, *“the divestment was part of our strategy to re-position Vermilion for long term success by high-grading our North American inventory, reducing unit cost and accelerating the timeline of achieving our debt reduction targets”*. The transaction had an effective date of September 1, 2022.

During the first quarter, it was disclosed that privately-held **Storm Development Corp.** was acquiring certain Montney interests in the Pouce Coupe area of Alberta from publicly-held **ARC Resources Ltd.** The management team of Storm Development previously ran **Storm Resources Ltd.** which was sold to **Canadian Natural Resources Limited** in late 2021 for approximately \$1.0 billion. Storm Development recently raised approximately \$162.0 million in equity through both a brokered and non-brokered private placement financing.

There were also a few private oil and natural gas companies which were sold recently with privately-held **Ridgeback Resources Inc.** being acquired by **Saturn Oil & Gas Inc.** for \$524.7 million, **International Petroleum Corporation** purchasing all of the issued and outstanding shares of privately-held **Cor4 Oil Corp.** for \$84.0 million, as well as the sale of all of the issued and outstanding shares of privately-held **Road 53 Resources Inc.** to an undisclosed buyer. With the recent volatility in oil prices and the softening of natural gas prices so far in 2023 it should be interesting to see if private oil and natural gas companies continue to be active buyers for the remainder of the year.

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