SAYER ENERGY ADVISORS

Viewpoint

An Oil and Natural Gas Industry Newsletter

Summer 2022

Junior E&P Companies Using Unconventional Debt to Finance Acquisitions

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 year and will amortize over three years, with 50% repayable in the first year, 30% in the second year and 20% 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% 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% and will amortize over three years, with 50% repayable in the first year, 30% in the second year and 20% 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

(continued on page 2)

Index

Junior E&P Companies ...

(continued from page 1)

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% 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% 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% of oil and natural gas production until the maturity date of the loan facility, and 1.5% 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.

Written by Ben Rye
Sayer Energy Advisors
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Canadian Bank-Owned Firms Dominate Financings in 2021

A total of $10.8 billion in capital was raised by the Canadian oil and natural gas industry in 2021, down slightly from the $10.9 billion raised in 2020. The small drop in total financings led to a slight decrease in the number of dealers servicing the sector. Year-over-year the number of active dealers servicing the Canadian oil and natural gas industry fell to 32 in 2021 down from the 33 recorded in 2020.

The total number of active dealers in 2021 (defined as those completing over $5.0 million in total issues per year) was comprised of 15 foreign-based dealers, 10 Canadian independent brokerage companies and seven Canadian bank-owned firms. By comparison, in 2020 the total number of active dealers was comprised of 19 foreign-based dealers, seven Canadian bank-owned firms and seven Canadian independent brokerage companies.

In 2021, total debt financings decreased to $8.6 billion, down 13% from the $9.9 billion raised in 2020. The top five spots in 2021 were all Canadian bank-owned firms whereas, in 2020, the top five dealers consisted of four Canadian bank-owned firms and one foreign based dealer. The top five dealers in debt financings in 2021 were **RBC Dominion Securities Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., Scotia Capital Inc.** and **TD Securities Inc.,** each with over $300.0 million in financings in the category. The only change in the top five year over year was BMO replacing **BofA Securities, Inc**.

Cenovus Energy Inc. completed two separate debt financings for total proceeds of approximately $1.6 billion in September 2021. All five Canadian-bank owned firms listed above were part of the underwriting syndicate for both financings. **Suncor Energy Inc.** completed a $950.0 million debt financing in March 2021. CIBC and RBC were part of the lead underwriting group for this financing while BMO, Scotia and TD were also part of the syndicate.

There was a total of approximately $2.2 billion in equity raised during 2021, up 113% from the approximately $1.0 billion raised in 2020. The top five equity underwriters in 2021 consisted of four Canadian bank-owned firms and one Canadian independent brokerage company. In 2020, the top five equity underwriters consisted of three Canadian bank-owned firms and two Canadian independent brokerage companies.

The top five dealers in equity financings in 2021 were: **National Bank Financial Inc., Peters & Co. Limited**, BMO, TD and CIBC. Together these dealers raised over $600.0 million of equity in 2021. Three of these top five dealers, National Bank, Peters and TD remained in the top five year-over-year.

PrairieSky Royalty Ltd. completed the largest equity financing in 2021 for approximately $230.0 million. BMO, CIBC and TD were all lead underwriters in the financing. The financing was announced concurrently with PrairieSky's acquisition of assets from **Heritage Royalty Resource Corp.** for $728.0 million. The assets comprised of over 1.9 million acres of royalty lands which includes in excess of 1.7 million net acres of Fee Simple mineral title lands and seismic assets throughout Alberta, Saskatchewan and Manitoba. Total royalty production acquired by PrairieSky through this transaction was 2,700 boe/d (92% liquids).

In terms of the number of equity financings completed, **ATB Capital Markets Inc.** was the most active dealer by participating in 18 equity financings of which it was the lead in three of them. National Bank participated in 17 deals of which it was the lead in eight. In third place was **Canaccord Genuity Corp.** which participated in 16 equity financings in 2021 and was the lead underwriter in five of them.

In reviewing the financings completed in the first three months of 2022 and comparing them to the first quarter of 2021, the total amount of capital raised is down 81%, to approximately $900.0 million from the $4.7 billion raised over the same time period last year. This decrease in the amount of capital raised could possibly lead to a decline in the number of dealers servicing the Canadian oil and natural gas industry in 2022.

Note that the methodology we have used to derive the dollar value for dealer activity was to assign the lead dealer of a financing a value of two and all the other dealers in an underwriting syndicate a value of one. For example, in a $40.0 million financing with one lead dealer and two other dealers in an underwriting syndicate, the lead dealer would be credited a value of $20.0 million and the other two dealers would be assigned a value of $10.0 million each.

Written by Tom Pavic
Sayer Energy Advisors
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Sayer in the News...

Calgary Herald

Varcoe: Whitecap Resources Secures Biggest Takeover in its History, Nabbing XTO Energy for $1.9B

Chris Varcoe
Published June 30, 2022

As the industry pumps out record amounts of cash and higher profits, expect to see more consolidation take place this year, predicted Rafi Tahmazian, a senior portfolio manager at Canoe Financial
Author of the article:

Whitecap Resources continues its acquisitive ways in the oilpatch, securing the biggest deal yet in its 14-year history by snapping up XTO Energy Canada for $1.9 billion.

Calgary-based Whitecap announced late Tuesday it struck an agreement to buy XTO from joint owners Imperial Oil and ExxonMobil in an all-cash transaction, the largest purchase in the Canadian oil and gas industry this year.

The takeover gives Whitecap, an intermediate-sized petroleum producer, a significant footprint in the prolific Duvernay and Montney plays, to go along with its core oil assets in Saskatchewan and Alberta.

It also marks the company's fifth major purchase since the pandemic began, a "truly transformational acquisition" with long-life assets, said CEO Grant Fagerheim.

"These types — we'll call them once-in-a-lifetime opportunities — don't come along (often). XTO Canada was not spending money on their conventional assets in Canada," Fagerheim said Wednesday in an interview.

"I believe so strongly that energy is going to be needed, utilized, from an energy security perspective … moving forward. Those that have good inventories of opportunities into the future should be rewarded."

As oil and gas prices have surged this year following Russia's invasion of Ukraine, merger and acquisition activity in the Canadian oilpatch has been relatively quiet, although it's picked up steam recently.

According to data from Sayer Energy Advisors, the XTO deal is the largest acquisition of the year. It's pushed the total value of Canadian industry M&A to an estimated $4.5 billion, down from $11.1 billion in the first half of 2021.

Earlier this month, Cenovus Energy agreed to buy BP's stake in the Sunrise oilsands assets for $600 million in cash — and a contingent variable payment of up to $600 million — while Vermilion Energy announced in March it would buy Leucrotta Exploration for $530 million.

With global energy prices escalating, it's been tricky for the bidders and sellers to agree on valuations and strike deals, said analyst Phil Skolnick with Eight Capital. "But this shows there are still willing buyers," he said.

As the industry pumps out record amounts of cash and higher profits, expect to see more consolidation take place this year, predicted Rafi Tahmazian, a senior portfolio manager at Canoe Financial.

"The system is massively cashed up and these producers are going to use their cash to buy assets," he said.

Whitecap's latest deal will see the company expand its natural gas portfolio significantly. The XTO properties produce about 32,000 barrels of oil equivalent (boe) per day, with more than two-thirds coming from natural gas volumes.

The agreement includes 567,000 net acres in the Montney shale and 72,000 net acres in the Duvernay shale, as well as additional Alberta acreage, according to Imperial Oil.

Industry players noted interest in the XTO sale was high and the deal was being closely watched in the Canadian sector.

Once the transaction closes, likely by the end of September, it will increase Whitecap's net debt to $2.1 billion. The company said that number is expected to drop to $1.5 billion by the end of this year.

(continued on page 5)

Sayer in the...

(continued from page 4)

Whitecap will also increase its monthly dividend by 22 per cent. Further dividend increases are expected once net debt levels hit $1.8 billion, and then again when it falls to $1.3 billion, which is projected to take place in the first half of 2023.

Imperial and Exxon announced in January they were putting XTO Energy up for sale. Skolnick initially expected it to garner bids around $1.1 billion, but rising commodity prices boosted its value throughout the year.

Imperial, which will collect $940 million from its ownership stake in XTO, said the deal was consistent with its broader strategy of focusing on the oilsands.

For Whitecap, it marks another acquisition in a consolidation phase that has seen its production nearly double from an average of 69,000 boe per day in 2020, to almost 133,000 boe per day in the first quarter.

In the past two years, Whitecap has used its strong balance sheet to acquire NAL Resources, TORC Oil & Gas, Kicking Horse Oil & Gas, before acquiring TimberRock Energy Corp. in January.

Analyst Jeremy McCrea with Raymond James touted the long-term potential of the XTO properties, noting Whitecap is expected to grow production from the assets to 50,000 to 60,000 boe per day within three to five years.

“The value won’t truly come to life until a couple of years down the road,” he said.

Whitecap’s stock dropped 63 cents to close Wednesday at $9.12 on the Toronto Stock Exchange.

Eric Nuttall, a senior portfolio manager with Ninepoint Partners, which owns stock in Whitecap, sees the value for the Canadian producer to buy high-quality Montney and Duvernay properties.

But in a competitive bidding process, “they were not going to get the deal of the century” by acquiring XTO.

“With the benefit of time, this will look like a good acquisition for them,” he said.

“But relative to what they paid, I can go buy similar or higher quality assets at a cheaper price tag, just because of how mispriced the small-cap and mid-cap Canadian energy stocks remain.”

Whitecap is expected to increase its overall development capital spending next year by 35 per cent to about $1 billion, while total company production climbs to between 168,000 to 174,000 boe per day.

With the ongoing focus of companies to pay down debt and return money to shareholders, there’s been far less emphasis on growing production in the industry this year than during past energy price spikes.

Fagerheim said Whitecap is committing to deleveraging and returning more money to investors but also sees the need to pursue measured growth for the longer term.

“We will always have to grow somewhat,” he added.

“And this is where modest growth matters. If you’re just producing things out and harvesting out your business, I don’t think you’ve got a long-term sustainable business.”

Recent Transactions Completed by Sayer Energy Advisors

This announcement appears as a matter of record only.

Ascensun Oil and Gas Ltd.

has sold its interests in the Leduc area of Alberta

The undersigned acted as financial advisor to Ascensun for this transaction.

SAYER ENERGY ADVISORS

May 2022

This announcement appears as a matter of record only.

Certain oil and natural gas interests in Alberta held by

POINT LOMA RESOURCES LTD.

have been sold through its receiver

BDO CANADA

The undersigned acted as financial advisor to BDO for these transactions.

SAYER ENERGY ADVISORS

May 2022

This announcement appears as a matter of record only.

EDMONTON COMMUNITY FOUNDATION

has sold certain Fee Title interests in the Westlock area of Alberta

The undersigned acted as financial advisor to the Edmonton Community Foundation for this transaction.

SAYER ENERGY ADVISORS

June 2022

This announcement appears as a matter of record only.

CHAIR RESOURCES INC.

has sold its interests in the Fontas, Hangingstone/Portage, Lloydminster, Nipisi & Swan Hills areas of Alberta

The undersigned acted as financial advisor to Chair for this transaction.

SAYER ENERGY ADVISORS

July 2022

This announcement appears as a matter of record only.

Certain oil and natural gas interests held by

SanLing ENERGY LTD.

have been sold through its receiver

pwc

The undersigned acted as financial advisor to PwC for these transactions.

SAYER ENERGY ADVISORS

July 2022