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Is Consolidation On The Horizon?

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In the early part of the fourth quarter there have been a number of corporate merger and acquisition ("M&A") deals announced, with possibly more on the horizon as there are a significant number of oil and natural gas companies currently publicly available for sale. The large number of companies publicly available for sale could precipitate the long-anticipated round of consolidation amongst junior entities, which has been talked about for some time.

Over the last few years, the capital markets have favoured companies which have been led by high profile management teams and entities that are chasing oil-weighted resource plays such as the Bakken, Cardium, Slave Point and Viking. This has left a number of both private and public companies which are not in these types of resource plays unable to raise needed capital to continue to develop their assets. These companies are left with limited alternatives, one of which is consolidating with another entity to get bigger and possibly gain more exposure in the investment community.

Seaview Energy Inc. recently announced its intention to merge with three privately-held companies, **Charger Energy Corp.**, **Silverback Energy Ltd.** and **Sirius Energy Inc.** The combined entity will be run by the management team of Charger, which previously worked together at **Provident Energy Trust**. The merged company will be renamed **Charger Energy Inc.** and will have over 3,500 boe/d (30% oil & ngl's) of production. This entity will be a focused, growth-oriented company with light oil development opportunities in the Cardium and Viking resource plays in northwestern and central Alberta. Charger is forecasting average daily production for 2012 to increase to over 4,600 boe/d (>40% oil & ngl's).

Storm Resources Ltd. ("Storm") recently announced its intention to acquire privately-held **Storm Gas Resource Corp.** ("Storm Gas") for approximately \$56 million. Storm Gas' main area of operations is in the Horn River Basin where its current production is approximately 400 boe/d (100% natural gas). Through this transaction Storm will consolidate its interests in the Horn River Basin.

There has been a couple of consolidation transactions announced earlier this quarter involving public companies. Of note are the transactions between **Marquee Petroleum Ltd.** and **SkyWest Energy Corp.**, as well as **Twin Butte Energy Ltd.'s** arrangement with **Emerge Oil & Gas Inc.**

The Marquee-SkyWest combination will create a publicly-traded entity with approximately 2,000 boe/d (40% oil & ngl's) of production focused in the Michichi and Pembina areas of Alberta. The combined company will be run by the management team of Marquee, which was previously together at **Cequence Energy Ltd.** and **Cyries Energy Inc.**

The proposed transaction between Twin Butte and Emerge, like the Marquee-SkyWest deal, is a share for share exchange. This deal will create a combined entity with approximately 13,500 boe/d (70% heavy oil) of production. After completion of the transaction, Twin Butte is planning to pay an annualized dividend of \$0.18 per share.

It is interesting to note that, with the exception of the Storm-Storm Gas deal, all of these transactions, for the most part, share an underlying theme, which is increased financial flexibility and strength to compete in the industry. They also all result in entities with a strong combined portfolio of oil resource plays and assets. The Marquee-SkyWest press release noted, *"This business combination will create a company with technical expertise and financial strength to compete in the play types in their joint inventory, focusing on horizontal and vertical development opportunities in an increased number of areas."* The Twin Butte-Emerge press release stated *"As a larger, stronger company, Twin Butte will use its financial flexibility to capitalize on its low risk drilling inventory while paying an attractive dividend."* The Seaview-Charger-Silverback-Sirius press release said, *"This transaction creates an entity with greater financial flexibility to support profitable growth from a portfolio of quality light oil resource plays."*

In our article in the October 26, 2011 edition of the *Daily Oil Bulletin*, titled *"Companies And Properties Flood the A&D Market"* Sayer listed a number of both private and public companies which announced their intention to sell or enter into a *"strategic alternatives process to maximize shareholder value"*. In addition to those companies listed in the

article, a number of other companies have subsequently decided to put up the "For Sale" sign, or explore strategic alternatives, notably, **Edalis Energy Inc.**, **Magellan Resources Ltd.**, **Mosaic Energy Ltd.**, **TimberRock Energy Corporation** and **Waseca Energy Inc.**

In addition to the recent number of companies for sale, another factor which could lead to more consolidation is the continued weak price of natural gas, as AECO slipped below the psychological \$3.00 mark last week. The falling price of natural gas, coupled with continual economic uncertainty could lead to even more consolidation late in 2011 and early in 2012.

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