

# Passport Energy Ltd. and Amarok Energy Inc. Propose Merger

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CALGARY, ALBERTA -- (Marketwired - March 21, 2014) - [Passport Energy Ltd.](#) ("Passport") (TSX VENTURE:PPO) and [Amarok Energy Inc.](#) ("Amarok") (TSX VENTURE:AMR) are pleased to announce that they have entered into a non-binding letter of intent (the "LOI") to complete a merger between the two companies (the "Proposed Transaction"). It is currently anticipated that the Proposed Transaction will proceed by way of a court approved plan of arrangement (the "Plan") under the Business Corporations Act (Alberta). The Proposed Transaction will be an arm's length transaction under the policies of the TSX Venture Exchange (the "Exchange").

Passport and Amarok expect to complete their respective due diligence by no later than March 27, 2014 and anticipate entering into an arrangement agreement (the "Arrangement Agreement") on or before March 28, 2014 or such other date as mutually agreed by the parties. As the terms and conditions of the Plan as set out in the LOI impact the minimum CDN\$20 million and maximum CDN\$30 million private placement offering of Passport (the "Original Private Placement Offering") as previously announced by Passport on January 10, 2014, the parties have agreed to jointly announce the execution of the LOI in order to, among other things, permit Passport to update Passport's shareholders on the status of the Original Private Placement Offering.

## Summary of Proposed Transaction

Under the Proposed Transaction, Passport intends to complete a brokered private placement of subscription receipts of Passport for a minimum of CDN\$13,000,000 and up to a maximum of CDN\$23,000,000 at a price of CDN\$0.18 per subscription receipt following which Passport proposes to complete a consolidation of its common shares on a 6 for 1 basis. Each subscription receipt issued pursuant to the private placement offering shall entitle the holder thereof to acquire one post-consolidation common share of Passport. Following the consolidation, and the conversion of the subscription receipts, Passport and Amarok propose to complete a three-cornered amalgamation whereby each post-consolidated Passport common share will be exchanged for one Amarok common share at a deemed price of CDN\$0.18 per Amarok common share. Immediately following the amalgamation, it is proposed that Amarok will consolidate its common shares on a 5 for 1 basis and change its name from "Amarok Energy Inc." to "Powder Mountain Energy Ltd." (the "Resulting Issuer"). Assuming that the maximum amount of subscription receipts are subscribed for under the private placement and completion of each of the above steps, the Resulting Issuer will have approximately 48,000,000 common shares issued and outstanding at a price of approximately CDN\$0.90 per Amarok common share, following the completion of the Proposed Transaction.

If the Proposed Transaction proceeds in the manner described above, it is anticipated that the current Passport shareholders, the subscribers to the private placement (assuming the maximum amount), and the Amarok shareholders will hold approximately 8%, 53% and 39% respectively, of the issued and outstanding common shares of the Resulting Issuer. On completion of the Proposed Transaction, it is anticipated that the Resulting Issuer will have approximately CDN\$38,000,000 in cash and approximately CDN\$5,700,000 of assets in Southeast Saskatchewan, Alberta, Montana and Wyoming.

32 Degrees (as defined below) proposes to subscribe for CDN\$13,000,000 of the private placement offering, which would result in 32 Degrees owning 30% of the Resulting Issuer if the maximum private placement offering is completed (39% if the minimum private placement offering is completed). As a result, if the Proposed Transaction is completed, 32 Degrees will become a "control person" (as such term is defined under the policies of the Exchange) of the Resulting Issuer.

Details of each of the steps of the Proposed Transaction are described in further detail below.

## The Passport Private Placement

The LOI contemplates a Plan proceeding by way of a three cornered amalgamation (the "Amalgamation") whereby Amarok will, indirectly through its wholly owned subsidiary ("AcquisitionCo"), acquire all of the issued and outstanding shares of Passport from shareholders of Passport in exchange for shares of Amarok. Prior to the Amalgamation, Passport shall complete a brokered private placement (the "Private Placement")

of subscription receipts ("Subscription Receipts") issued at CDN\$0.18 per Subscription Receipt on a post-Consolidated (as hereinafter defined) basis for minimum gross proceeds of CDN\$13,000,000 (the "Minimum Private Placement Offering") and maximum gross proceeds of up to CDN\$23,000,000 (the "Maximum Private Placement Offering" and together with the Minimum Private Placement Offering, the "Private Placement Offering"). Each Subscription Receipt will be convertible into common shares of Passport ("Passport Shares") on a 1 for 1 basis on a post-Consolidated basis without any additional consideration from the holders of such Subscription Receipts. Passport has engaged Integral Capital Markets, a division of Integral Wealth Securities Limited ("Integral") as its exclusive agent to solicit subscriptions for the sale of the Subscription Receipts on a "reasonable best efforts" basis. In consideration for the engagement by Passport, Integral will be paid a cash amount equal to CDN\$200,000 on the 32 Degrees Subscription (as hereinafter defined) and 6% of the gross proceeds raised from the issuance of the Subscription Receipts from all other subscribers other than the 32 Degrees Subscription and certain subscribers as agreed between Integral and Passport.

The Private Placement Offering will replace the terms of the Original Private Placement Offering.

In order to facilitate a price of CDN\$0.18 per Subscription Receipt under the Private Placement Offering, Passport shall, subject to shareholder approval and regulatory approval, complete a consolidation (the "Consolidation") of all of the issued and outstanding Passport Shares immediately prior to the closing of the Private Placement on the basis of six (6) Passport Shares for every one (1) post-Consolidation Passport Share. Each Subscription Receipt will entitle the holder thereof to acquire one (1) post-Consolidation Passport Share for each Subscription Receipt held, without any additional consideration.

The LOI contemplates that CDN\$13,000,000 of the Private Placement Offering (the "32 Degrees Subscription") will be subscribed for by 32 Degrees Diversified Energy Fund II (Canadian) L.P. and 32 Degrees Diversified Energy Fund II (US) L.P. (collectively referred to as "32 Degrees"). A portion of the subscription price (the "Subscription Portion") payable by 32 Degrees under the 32 Degrees Subscription will be paid by the transfer and conveyance of approximately 24 1/4 contiguous sections in the Hardy area of Southeast Saskatchewan (the "Hardy Lands") owned by a wholly-owned subsidiary of 32 Degrees ("32 Degrees HoldCo"). The estimated value of the Subscription Portion as of the date of this press release is approximately CDN\$702,000. 32 Degrees HoldCo may, in its discretion, acquire additional lands adjacent to, or in close proximity to the Hardy Lands (the "Additional Lands"), prior to the closing of the Private Placement Offering. Additional Lands may, subject to applicable regulatory approval, also be included and form a part of the Subscription Portion. The Subscription Portion amount will equal the aggregate of approximately CDN\$702,000 plus the amount paid for Additional Lands by 32 Degrees HoldCo (if any), the aggregate amount expended or contributed by 32 Degrees HoldCo with respect to the Hardy Lands, and the acquisition price paid by the 32 Degrees HoldCo for the Additional Lands (if any) prior to the completion of the Private Placement Offering (the "Expenditure Amount"), and interest equal to 12% per annum, calculated daily in respect of each contribution or expenditure comprising the Expenditure Amount.

Subject to regulatory approval, the 32 Degrees Subscription will also provide that following the closing of the Private Placement Offering and until the Subscriber Group (as that term is defined below) holds directly or indirectly less than 10% of the shares of the Resulting Issuer, together with: (a) any joint investment fund or limited partnership which is managed by the manager of 32 Degrees or an affiliate of the manager of 32 Degrees; and (b) any limited partner of 32 Degrees or of any joint investment fund or limited partnership which is managed by the manager of 32 Degrees or an affiliate of the manager of 32 Degrees (collectively, the "Subscriber Group") subject to certain limitations, shall have a pre-emptive right to participate in any future issuance of securities in the capital of the Resulting Issuer (or securities convertible into, or exercisable or exchangeable for, such securities) at the same price as the other participants in such financing up to its pro rata interest determined at the time of such proposed issuance of securities.

Assuming the Transaction is completed, 32 Degrees Subscription will result in 32 Degrees becoming a "control person" (as such term is defined under the policies of the Exchange) of the Resulting Issuer, holding 39% of the issued and outstanding shares of the Resulting Issuer in the event the minimum private placement offering is completed and 30% of the issued and outstanding shares of the Resulting Issuer in the event the Maximum Private Placement Offering is completed.

## **The Amalgamation**

Passport currently has 111,548,781 Passport Shares issued and outstanding, 10,250,000 stock options ("Passport Options") issued and outstanding, 815,221 Common Share purchase warrants ("Passport Warrants") and no other securities of any class issued or outstanding. It is anticipated that upon completion of the Consolidation and assuming the Maximum Private Placement Offering is fully subscribed, there will be approximately 146,369,241 Passport Shares, 1,708,333 Passport Options and 135,870 Passport Warrants issued and outstanding. Amarok currently has 93,215,292 Common Shares issued and outstanding and

8,137,534 stock options ("Amarok Options") and no other securities of any class issued or outstanding.

As part of the Amalgamation, it is proposed that each one (1) post-Consolidated Passport Share (which shall include the post-Consolidated Passport Shares issued pursuant to the Subscription Receipts) shall be tendered to the AcquisitionCo in exchange for one (1) Amarok common share ("Amarok Share"). Assuming the Maximum Private Placement Offering is fully subscribed, it is anticipated that the shareholders of Passport and Subscription Receipt holders will, upon completion of the Amalgamation, hold in aggregate 61.1% of issued and outstanding Amarok Shares with Amarok having approximately 239,584,533 Amarok Shares issued and outstanding. Pursuant to the LOI, it is anticipated that all unexercised Passport Options, Passport Warrants and Amarok Options will be cancelled or terminated.

The LOI anticipates that as at the closing of the Proposed Transaction Amarok shall have not less than: (i) CDN\$15 million in cash and cash equivalents; and (ii) oil and gas assets located in Wyoming and Montana (the "U.S. Assets") of not less than CDN\$2.0M in value (or such other value as mutually agreed by the parties acting reasonably). The LOI provides that the U.S. Assets may be sold (or an agreement entered into to sell the U.S. Assets) by Amarok prior to the completion of the Plan with the prior written consent of Passport. Amarok also owns oil and gas assets located at Stolbert, Alberta producing approximately 5 barrels of oil per day.

### **The Amarok Consolidation and Name Change**

The LOI contemplates that Amarok will seek regulatory and shareholder approval to: (i) consolidate its shares on a five (5) to one (1) basis (the "Amarok Consolidation") immediately following the Amalgamation so that the approximately 239,584,533 Amarok Shares issued and outstanding will be consolidated to approximately 47,916,907 Amarok Shares; and (ii) change its name from "Amarok Energy Inc." to "Powder Mountain Energy Ltd." (the "Name Change") or such other name as the parties may mutually agree.

Following the Amalgamation, it is anticipated that the directors of Amarok will be:

- (i) Massimo Geremia;
- (ii) Bruce Murray;
- (iii) Gregg Smith;
- (iv) Larry Evans;
- (v) Mitch Putnam;
- (vi) Trent Baker; and
- (vii) Samuel Ingram.

Messrs. Massimo Geremia and Samuel Ingram are currently directors of Amarok. Messrs. Gregg Smith and Bruce Murray are currently directors of Passport. Messrs. Larry Evans, Mitch Putnam and Trent Baker are director nominees of 32 Degrees.

### **Management of Post-Amalgamation Amarok**

The LOI contemplates that on closing of the Proposed Transaction, the Chief Executive Officer of Amarok shall be Bruce Murray, the Chief Operating Officer shall be Daniel Tiberio, and the Exploration Manager of Amarok shall be Jessica Gordon-Metez each of whom are presently on the management team of Passport.

### **Interim Period**

The LOI provides that until the earlier of the termination of the LOI and the closing date of the Proposed Transaction, Passport and Amarok shall not approve or undertake any of the following activities in their respective businesses without the prior written consent of the other party, not to be unreasonably withheld: (i) any material change in operating strategy; (ii) any sale, transfer, pledge or other disposition of any assets, business or operation; (iii) any acquisition of any assets, shares, business or operations; (iv) declaration of a payment of a dividend; and (v) any other material transaction or expenditure.

### **Break Fee**

The LOI provides that the Arrangement Agreement will include a reciprocal break fee equal to CDN\$300,000 payable by one party to the other in circumstances customary with industry practice.

### **Arrangement Agreement**

The LOI is non-binding with respect to commercial terms, but includes binding obligations typical in the circumstances, including those relating to a period of exclusive dealing and confidentiality. The LOI contemplates that the parties shall enter into an Arrangement Agreement that will substantially reflect the terms of the LOI and will contain representations, warranties, conditions and covenants typical for a transaction of this nature and magnitude.

The Proposed Transaction is subject to a number of terms and conditions, including the entering into by the parties of the Arrangement Agreement with respect to the Proposed Transaction on or prior to March 28, 2014 or such other date mutually agreed by the parties, the completion of the Private Placement, the completion of satisfactory due diligence investigations, the approval of the directors of each of Passport and Amarok, the approval of the shareholders of Passport, the approval of the shareholders of Amarok and the approval of the Exchange and other applicable regulatory authorities. The obligation of the parties to complete the Proposed Transaction will be further subject to each of the parties receiving their respective Board of Directors' approval.

Passport and Amarok intend to provide a further update on the Proposed Transaction, including any substantive changes to the proposed structure or any of the terms and conditions set out herein, if and when an Arrangement Agreement is entered into.

The Amarok Shares have been voluntarily halted pending receipt and review of the Proposed Transaction by the Exchange. Trading of the Passport Shares were halted when the Original Private Placement was announced and have remained halted. Passport anticipates that subject to regulatory approval, if the parties enter into an Arrangement Agreement, the Passport Shares will remain halted until the Amalgamation is completed.

The Proposed Transaction, including Private Placement Offering, the Consolidation, the Plan, the Amarok Consolidation, the Name Change and all the securities transactions associated therewith or arising therefrom shall be subject to all applicable rules, policies and regulations of securities regulatory authorities (including applicable stock exchange and shareholder approvals) and securities and corporate laws.

## **General**

*The Exchange has in no way passed upon the merits of the proposed transaction and has neither approved nor disapproved the contents of this press release.*

*Neither the Exchange nor its Regulation Service Provider (as that term is defined in policies of the Exchange) accepts responsibility for the adequacy or accuracy of this news release.*

*Certain statements contained in this news release constitute forward-looking statements. These statements relate to future events. All statements other than statements of historical fact are forward-looking statements. The use of the words "may", "expected", "believes" and other words of a similar nature are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Although Passport and Amarok believe these statements to be reasonable, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this news release should not be unduly relied upon. Such statements include statements with respect to the anticipated entering into of the Arrangement Agreement, the Private Placement Offering, the Consolidation, the Amarok Consolidation and Name Change and the timing thereof. There is no assurance that the parties will carry out the terms of the LOI, that the parties will enter into the Arrangement Agreement, or that the Arrangement Agreement, if entered into, will reflect the terms of the LOI. Actual results could differ materially from those anticipated in these forward-looking statements as a result of prevailing economic conditions, receipt of requisite regulatory approvals, and other factors, many of which are beyond the control of Passport and Amarok. There is no assurance that all terms and conditions set forth in the LOI or any of the contemplated transactions set out therein will be undertaken or met in a timely manner. The forward-looking statements contained in this news release represent Passport and Amarok's expectations as of the date hereof, and are subject to change after such date. Passport and Amarok each disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by applicable securities regulations.*

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