Petroamerica Reaffires of the Vetra Hostile Offer

26.06.2014 | CNW

CALGARY, June 25, 2014 - Petroamerica Oil Corp. ("Petroamerica" or the "Company") (TSX-V:PTA) confirms its intention to proceed with its proposed business combination with Suroco Energy Inc. ("Suroco") as outlined in the June 20, 2014 joint press release by Suroco and Petroamerica. This combined cash and share offer of $0.80 per common share of Suroco ("Suroco Share") represents Petroamerica's final offer which will be put before the holders of Suroco Shares ("Suroco Shareholders") for approval at the Annual and Special Shareholder Meeting of Suroco Shareholders which has been adjourned until 10:00 a.m. (Calgary time) on Monday, June 30, 2014, with an extended proxy deadline of 8:00 a.m. (Calgary time) on such date.

Suroco's Board of Directors, Executive Management, and largest shareholder continue to reassert their unanimous support of the cash and share offer made by Petroamerica (please refer to Suroco's press releases dated June 20, 2014 and June 25, 2014).

Jeff Boyce, Executive Chairman of Petroamerica, commented: "The Vetra Offer should create some doubt amongst the Suroco Shareholders. There is too much upside value at stake, especially with the upcoming drilling in the PUT-7 block, for shareholders to sell out for cash at this point. The Vetra offer doesn't allow Suroco shareholders to participate and share in the substantial potential upside of the N Sand oil play. This further begs the question - what else could Vetra know about the Suroco assets? For this reason, Petroamerica is offering shareholders of the combined company the opportunity to participate in expected significant equity value appreciation over the next couple of years".

Risks and Uncertainties of the Vetra Hostile Offer

Petroamerica believes that Suroco Shareholders should be aware of the numerous risks and uncertainties of the hostile and coercive take-over bid offer (the "Vetra Offer") by Vetra Acquisition Ltd. ("Vetra").

- **Vetra is attempting to extract value that should accrue to existing Suroco Shareholders.** Vetra holds interests in three out of five of Suroco's oil and gas exploration and production properties in Colombia. As a result, Vetra has a clear understanding of the upside potential of a significant portion of Suroco's asset base. To date, Vetra has repeatedly attempted to acquire Suroco for cash and, until recently, at "low-ball" prices. The Vetra Offer is a further attempt to acquire ownership of Suroco's assets in a manner whereby existing Suroco shareholders are precluded from participating in Suroco's anticipated growth.
- **The Vetra Offer is not a contract with Suroco and there is no certainty of closing.** Suroco Shareholders should be aware that Vetra has no obligation to take up and pay for the Suroco Shares and complete its bid. In addition, if less than 50.1% of the Suroco Shares are tendered to the Vetra Offer, the Vetra Offer will not proceed and the Suroco Shares will not be taken up and paid for.
- **Vetra can reduce its consideration to Suroco Shareholders if the Petroamerica Arrangement is not approved.** The Vetra Offer has been structured such that Vetra can decrease or withdraw its offer to Suroco Shareholders at any time.
- **All Suroco Shareholders are not guaranteed to be treated equally under the Vetra Offer.** In the event that Vetra acquires 50.1% of the Suroco Shares, a Suroco Shareholder may be left holding a minority investment, at a reduced price, reflective of a minority discount in a company under the control of Vetra with reduced liquidity in the Suroco Shares.
- **The Vetra Offer will breach a financial covenant and may trigger a material debt repayment that could place Suroco under serious financial distress.** Vetra taking up and paying for more than 50% of Suroco's outstanding common shares pursuant to the Vetra Offer will constitute a "Change of Control" under Suroco's principal secured credit facility and 30 days thereafter an "Event of Default" under such credit facility, at which time Suroco will be obligated to repay the approximately US$23.5 million that is outstanding under such credit facility. Vetra has included in the Vetra Offer a condition that there be no "Material Adverse Change" as a consequence of taking up and paying for Suroco common shares under the Vetra Offer. It would appear that this condition cannot be satisfied, creating additional uncertainty as to whether the Vetra Offer can proceed.

Strengths and Upside in the Petroamerica Offer

The Petroamerica Offer provides Suroco Shareholders with deal certainty, and exposure to material growth, upside and share price reevaluation.

- Suroco Shareholders Retain Ongoing Exposure to the Prolific N Sand Oil Play. Petroamerica's offer provides Suroco Shareholders with the option to maintain material exposure to the prolific N Sand oil play, with more than a billion barrels of oil in place proved in northern Ecuador. Accepting the Vetra Offer prohibits Suroco Shareholders from participating in this upside.

Ralph Gillcrist, COO and Executive VP Exploration, commented: "*We believe we can unlock tremendous future value for the combined company from the N Sand oil play. For example, based on our internal estimates, a 20 million barrel oil discovery in the PUT-7 block could easily deliver over $250 million in after tax net present value discounted at 10% to the combined company, which based on current market multiples implies a return of over 100% for Suroco Shareholders to the Vetra Offer. We have structured our offer so that Suroco and Petroamerica shareholders can jointly participate in this considerable reserve growth and value creation we envision*"

- Suroco Shareholders will gain exposure to the successful emerging low-side fault closure play in the Llanos Basin. Petroamerica's LLA-19 and LLA-10 blocks have a number of drillable prospects identified by 3D seismic that could add substantial near term value to the combined company.
- Suroco Shareholders will be part of a leading, well capitalized, Colombia focused E&P company. The combined asset base provides the potential for oil production upwards of 30,000 barrels of oil per day and a sustainable reserve life of more than 5 years over a 2 to 3 year time frame. The combined company is expected to continue to consolidate its land position through opportunistic acquisitions in its Llanos and Putumayo core areas.
- Research Analysts target prices for Petroamerica imply $0.98 per Suroco Share of potential value to Suroco Shareholders with equal treatment of all shareholders. Petroamerica is covered by seven research analysts (five of them unrestricted) with an average target price of $0.44 per Petroamerica Share, which equates to $0.98 per Suroco Share based on the 2.2161 exchange ratio per Suroco Share under the Petroamerica offer.
- Closing the valuation gap enables Suroco Shareholders the opportunity to realize further upside. Petroamerica is currently trading considerably below its peer group valuation range based on current and forward looking production and cash flow multiples. Petroamerica strongly believes that the size of the combined company with its diversified asset base, strong balance sheet and increased market capitalization, will facilitate easier access to capital, open up additional growth opportunities and close the valuation gap with our peer group.

About Petroamerica

Petroamerica Oil Corp. is a Canadian oil and gas exploration and production company with activities in Colombia. Petroamerica currently produces more than 6,500 boepd and has interests in five blocks, all located in Colombia's Llanos Basin. Petroamerica's shares are listed on the TSX Venture Exchange under the symbol "PTA". A summary of the Company property holdings, including maps of the above noted acquisition, has been included in the current presentation located at www.PetroamericaOilCorp.com.

Forward Looking Statements:

This news release includes information that constitutes "forward-looking information" or "forward-looking statements". More particularly, this news release contains statements concerning expectations regarding the timing and successful completion of the Petroamerica Arrangement, cash flow, business strategy, priorities and plans, expected production, the evaluation of certain prospects in which Petroamerica will hold an interest following the completion of the Petroamerica Arrangement, the potential of the N Sand play, possible amendments to the Vetra Offer, estimated number of drilling locations, production growth, reserves growth, the ability of Petroamerica to sell its crude volume and other statements, expectations, beliefs, goals, objectives assumptions and information about possible future events, conditions, results of operations or performance. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, estimates, forecasts, projections and other forward-looking statements will not occur, which may cause actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Business priorities disclosed herein are objectives only and their achievement cannot be guaranteed.

Material risk factors include, but are not limited to: the inability to obtain regulatory approval for any operational activities, inability to get all necessary approvals for completion of the Petroamerica Arrangement, the risks of the oil and gas industry in general, such as operational risks in exploring for, developing and producing crude oil and natural gas, market demand and unpredictable shortages of equipment and/or labour; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; fluctuations in oil and gas prices, foreign currency exchange rates and interest rates, and reliance on industry partners and other factors, many of which are beyond the control of Petroamerica. You can find an additional discussion of those assumptions, risks and uncertainties in Petroamerica's Canadian securities filings.

Neither Petroamerica nor any of its subsidiaries nor any of its officers, directors or employees guarantees that the assumptions underlying such forward-looking statements are free from errors nor do any of the foregoing accept any responsibility for the future accuracy of the opinions expressed in this document or the actual occurrence of the forecasted developments.

Readers should also note that even if the drilling program as proposed by Petroamerica is successful, there are many factors that could result in production levels being less than anticipated or targeted, including without limitation, greater than anticipated declines in existing production due to poor reservoir performance, mechanical failures or inability to access production facilities, among other factors.

The TSX Venture Exchange Inc. has in no way passed upon the merits of the proposed Petroamerica Arrangement and has neither approved nor disapproved the contents of this press release. Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Use of 'boe'

Throughout this press release, the calculation of barrels of oil equivalent ("boe") is at a conversion rate of 6,000 cubic feet ("cf") of natural gas for one barrel of oil and is based on an energy equivalence conversion method. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6,000 cf: 1 barrel is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalence at the wellhead.

Contact

Petroamerica Oil Corp.
Nelson Navarrete, President and Chief Executive Officer
Colin Wagner, Chief Financial Officer
Ralph Gillcrist, Chief Operating Officer and Executive Vice President
Tel Bogota, Colombia: +57-1-744-0644
Tel Calgary, Canada: +1-403-237-8300

Email: investorrelations@pta-oil.com
Web Page: www.PetroamericaOilCorp.com