

Santonia Energy Inc. Announces Arrangement, Operations Update & 2013 Year End Reserves Summary

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[Santonia Energy Inc.](#) ("Santonia" or the "Company") (TSX:STE) is pleased to announce that it has entered into an arrangement agreement (the "Arrangement Agreement") with [Tourmaline Oil Corp.](#) ("Tourmaline") (TSX: TOU) pursuant to which Tourmaline, has agreed to acquire all of the issued and outstanding common shares (the "Common Shares") of Santonia on the basis of 0.03012 of a Tourmaline common share ("Tourmaline Shares") for each outstanding Common Share. The transaction is to be completed by way of a plan of arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement").

The consideration reflects a value of \$1.50 per Santonia common share based on the five-day volume weighted average trading price of \$49.81 per Tourmaline share prior to the execution of the Arrangement Agreement. The implied offer of \$1.50 per share represents a 16% premium over Santonia's five-day volume weighted average trading price ending March 3, 2014 on the Toronto Stock Exchange (the "TSX").

Tourmaline will also assume Santonia's net debt, estimated at \$28.3 million (excluding associated transaction costs estimated to be \$9.0 million), as at January 31, 2014. The total value of the Arrangement is approximately \$198 million.

Steven VanSickle, President and Chief Executive Officer of Santonia, stated "Santonia has had encouraging initial success on its Cardium resource play and we see significant potential on a number of other horizons in the Harlech area. With Tourmaline's capacity and technical expertise in drilling deep horizontal wells they will be able to advance these plays at a much faster pace and provide Santonia's shareholders with access to the value of the asset base far more quickly than in our current financial position. We are excited about this opportunity and look forward to the continued drilling success by Tourmaline on the Harlech lands".

THE ARRANGEMENT AGREEMENT

The Arrangement Agreement contains customary representations and warranties of each party, non-solicitation covenants by Santonia and right to match provisions in favour of Tourmaline. Pursuant to the Arrangement Agreement, a termination fee of \$7 million will be payable by the Company in certain circumstances, including if the Company enters into an agreement with respect to a superior proposal or if the Board of Directors of the Company withdraws or modifies its recommendation with respect to the proposed transaction.

The Arrangement is subject to customary conditions for a transaction of this nature, which include court and regulatory approvals (including the TSX), the approval of 66 2/3% of the votes cast by Santonia shareholders represented in person or by proxy at a meeting of Santonia shareholders to be called to consider the Arrangement.

An information circular regarding the Arrangement is expected to be mailed to shareholders of Santonia in late March 2014 for a special meeting of the holders of Common Shares scheduled to take place in April 2014 (the "Meeting"). Closing of the Arrangement is expected to occur shortly thereafter.

A copy of the Arrangement Agreement will be filed on Santonia's SEDAR profile and will be available for viewing at www.sedar.com.

RECOMMENDATION OF THE BOARD OF DIRECTORS

Based upon a verbal fairness opinion from FirstEnergy Capital Corp., the recommendation of the Special Committee of the Board of Directors of Santonia and after consulting with its financial and legal advisors, among other things, the Board of Directors of Santonia has unanimously approved the Arrangement and unanimously determined that the Arrangement is in the best interest of Santonia and its shareholders. The Board of Directors of Santonia unanimously recommends that Santonia shareholders vote in favour of the Arrangement at the Meeting.

All directors and officers of Santonia and a principal shareholder of Santonia, representing an aggregate of 22.2% of the issued and outstanding Common Shares, have entered into voting support agreements with Tourmaline pursuant to which they have agreed to, among other things, support the Arrangement and vote their Common Shares, as applicable, in favour of the Arrangement, subject to certain permitted exceptions.

FINANCIAL ADVISOR

FirstEnergy Capital Corp. is acting as exclusive financial advisor to Santonia in respect of the Arrangement and provided the Board of Directors of Santonia with its verbal opinion that, subject to its review of the final form of the documents affecting the Transaction, the consideration to be paid to Santonia shareholders pursuant to the terms of the Arrangement is fair, from a financial point of view.

OPERATIONS UPDATE

Production in the fourth quarter of 2013 averaged an estimated 3,950 boe/d with January 2014 production estimated to average 3,860 boe/d. Net capital investment during the fourth quarter of 2013 was approximately \$4.4 million resulting in estimated year end 2013 net debt of \$25.3 million.

During the first quarter of 2014 Santonia successfully drilled a Cardium horizontal well at 2-19-44-15W5. The well was drilled to a total measured depth of 4,485 m with a total horizontal section of 1,311 m. A 20 stage fracture stimulation system has been run into the well and the Company is currently designing the completion operation.

The Company also entered into a farmout agreement in the Brazeau River area, wherein the farmee committed to pay 100% of the costs to drill one Belly River horizontal well with an option to drill two additional wells to earn additional lands. Santonia will retain a 30% interest in the lands earned by the farmee. The first well has been drilled and had a total horizontal length of 2,867 m of which approximately 1,000 m was on Santonia land. The well has been fracture stimulated over 16 intervals utilizing a water based fracture fluid. During the final 24 hours of a six day flow test the well produced 1,116 boe's (85 % light oil). Santonia has an 11% working interest in the well resulting in a net rate of 122 boe/d.

2013 YEAR END RESERVE SUMMARY

The following table summarizes Santonia's year end 2013 reserves as evaluated by GLJ Petroleum Consultants Ltd. ("GLJ") in accordance with the definitions set out under National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").

Summary of Oil and Gas Reserves - Working Interest⁽¹⁾ Reserves (Forecast Prices)

	Crude Oil (Mbbbls)	Natural Gas (MMcf)	Natural Gas Liquids (Mbbbls)	Oil Equivalent (MBOE)
Proved reserves				
Developed producing	104	49,702	1,654	10,042
Developed non-producing	3	1,299	100	319
Undeveloped	0	28,306	1,242	5,960
Total Proved	107	79,307	2,996	16,321
Probable	54	37,812	1,535	7,891
Total Proved plus Probable	160	117,119	4,532	24,212

NOTE: May not add due to rounding.

(1) "Working interest" reserves means "gross" reserves or Santonia's working interest (operating and non-operating) share before deduction of royalties payable to others and without including any royalty interest of Santonia.

Net Present Value of Future Net Revenue of Reserves, before income taxes at December 31, 2013

(thousands)	Undiscounted	Discounted at:		
		5%	10%	15%

Proved reserves					
Developed producing	\$	224,706	\$ 165,020	\$ 131,479	\$ 110,077
Developed non-producing		9,945	7,673	6,236	5,263
Undeveloped		92,264	47,026	23,258	9,384
Total Proved	\$	326,916	\$ 219,718	\$ 160,973	\$ 124,723
Probable		183,327	96,134	57,672	37,489
Total Proved plus Probable	\$	510,242	\$ 315,853	\$ 218,646	\$ 162,212

Note: May not add due to rounding

- Based on forecast prices and costs utilizing the GLJ January 1, 2014 price forecast
- As required by NI 51-101, undiscounted well abandonment costs of \$4.3 million for total proved reserves and \$5.5 million for total proved plus probable reserves are included in the Net Present Value determination
- Prior to provision of income taxes, interest, debt service charges and general and administrative expenses.
- Net present value of future net revenue of reserves does not represent the fair market value of the reserves.
- Net present value after income taxes for total proved reserves is \$160.9 million and for total proved plus probable reserves is \$209.8 million based on a discount factor of 10%.

Additional information relating to the Company's year-end reserve evaluation will be available in the Company's Annual Information Form for the year ended December 31, 2013 which will be filed on SEDAR on or before March 31, 2014.

ABOUT SANTONIA

Santonia is a crude oil and natural gas exploration, development and production company headquartered in Calgary, Alberta, Canada. Santonia's common shares trade on the Toronto Stock Exchange under the symbol "STE".

Forward-Looking Information

Certain information set forth in this press release, including information and statements which may contain words such as "could", "plans", "should", "anticipates", "expects", "believes", "will" and similar expressions and statements relating to matters that are not historical facts, contains forward-looking statements including but not limited to statement regarding the proposed acquisition of Santonia by Tourmaline pursuant to a plan of arrangement, the anticipated benefits of the Arrangement, the future drilling plans of Tourmaline with regard to the Santonia assets and the anticipated benefits thereof, mailing of the information circular related to the Arrangement and the calling of the meeting of Santonia shareholders to approve the Arrangement, timing of the closing of the Arrangement, and the timing of filing of Santonia's Annual Information Form. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Santonia's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, delays resulting from or the inability to obtain required regulatory approvals, currency fluctuations, imprecision of reserve estimates, environmental risks, and stock market volatility. In addition, the Arrangement Agreement is subject to a number of conditions which are typical for transactions of this nature. Failure to satisfy any of these conditions, the emergence of a Superior Proposal or the failure to obtain approval of the Santonia shareholders may result in the termination of the Arrangement Agreement. In addition, statements relating to "reserves" are by their nature forward-looking information, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. The recovery and reserves estimates provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

The foregoing list is not exhaustive. Additional information on these and other risks that could affect Santonia's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or at Santonia's website (www.santoniaenergy.com). Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as

such, undue reliance should not be placed on forward-looking statements. The actual results, performance or achievement of Santonia could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Santonia will derive therefrom. Santonia disclaims 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 required by applicable securities laws.

Initial Production and Test Rates

Test results and initial production rates are not necessarily indicative of long-term performance or of ultimate recovery from wells.

Basis of Presentation

Natural gas volumes are converted to barrels of oil equivalent (BOE) on the basis of 6,000 cubic feet (Mcf) of gas for 1 barrel (Bbl) of oil. The term "barrels of oil equivalent" may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf to 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1; utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Non-GAAP Measures

This document contains the term "net debt" which is a non-GAAP financial measure. The Company uses this measures to help evaluate its performance. "Net debt" does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. The Company uses net debt (bank indebtedness plus negative working capital or less positive working capital) as an alternative measure of outstanding debt.

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