

# Leucrotta Exploration Inc. Announces Strategic Transaction with Vermilion Energy Inc. and Creation of a New Pure-Play Montney Company

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[Leucrotta Exploration Inc.](#) (TSXV: LXE) ("Leucrotta" or the "Company") is pleased to announce that it has entered into an arrangement agreement (the "Arrangement") pursuant to which [Vermilion Energy Inc.](#) ("Vermilion") will acquire all of the issued and outstanding securities of Leucrotta ("Leucrotta Shares") for an aggregate consideration of approximately \$500 million, excluding value assigned to the newly formed Montney company ("ExploreCo").

The transaction will be accomplished by way of a statutory plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement"). Under the terms of the Arrangement, the holders of Leucrotta Shares will receive \$1.73 in cash per Leucrotta Share held, plus 1.0 common share of [ExploreCo](#) ("ExploreCo Share") and 0.1917 of one ExploreCo common share purchase warrant (each whole ExploreCo common share purchase warrant, an "ExploreCo Arrangement Warrant"). Each ExploreCo Arrangement Warrant will entitle the holder to acquire one ExploreCo Share at an exercise price of \$0.27 per share at any time on or before 30 days following the closing of the Arrangement. If all ExploreCo Arrangement Warrants are exercised by the holders, proceeds to ExploreCo will be approximately \$15 million.

In conjunction with the Arrangement, Vermilion has agreed to purchase approximately 53.3 million ExploreCo Shares at a price of \$0.27 per share for total proceeds of approximately \$14.4 million (the "Vermilion Financing"), and ExploreCo has agreed to conduct a non-brokered private placement to certain current officers, employees, directors and shareholders of Leucrotta whereby ExploreCo will offer to such subscribers up to approximately 27.8 million units of ExploreCo ("ExploreCo Units") at a price of \$0.27 per ExploreCo Unit, for total gross proceeds of up to approximately \$7.5 million (the "ExploreCo Unit Financing", and together with the Vermilion Financing, the "ExploreCo Private Placements"). Additional details regarding the ExploreCo Private Placements are provided under the heading "Financings" below.

The closing of the Arrangement is subject to the Company satisfying certain customary conditions, including, but not limited to: (i) the receipt by Vermilion and Leucrotta of all court, TSX Venture Exchange ("TSXV") and other regulatory approvals, (ii) receipt of the requisite securityholder approvals of Leucrotta regarding the Arrangement and related matters, (iii) no material adverse change having occurred in respect of Leucrotta, and (iv) a number of other conditions customary in a transaction of the nature of the Arrangement.

It is anticipated that a management information circular and proxy statement detailing the Arrangement and the ExploreCo Private Placements, and containing a copy of the written fairness opinion will be mailed to Leucrotta's shareholders in late April or early May of 2022 with a shareholder meeting to be scheduled for late May of 2022. The Arrangement is expected to close shortly after the meeting of the securityholders of the Company, but in any event no later than July 31, 2022, which is the outside date under the Agreement to complete the Arrangement.

The Agreement provides that Leucrotta will pay Vermilion a non-completion fee of \$20 million under certain circumstances. The Agreement also provides for customary non-solicitation covenants in favour of Vermilion and customary acquisition proposal provisions and a right to match granted to Vermilion should such acquisition proposal is determined by the board of directors of the Company (the "Board") to be a superior proposal to the Arrangement.

## STRATEGIC RATIONALE FOR TRANSACTION

Leucrotta has accumulated over 270 net sections of Montney lands containing a resource of over 17.8 billion barrels OOIP and 17.2 TCF of OGIP. While it has recently formulated a plan to start to surface value through the development of the Mica and Alberta Projects, there are many tracts of land that would not see any capital for many years.

The Company believes Vermilion is well capitalized and suited to surface value sooner on the Mica and Alberta Projects than Leucrotta will, and that Vermilion has shared some of that upside in their offer to the mutual benefit of both parties. The Arrangement will also permit the ExploreCo lands to be capitalized faster

than previously planned, benefitting Leucrotta's shareholders as a result of the lands' accelerated development.

The Company believes that Leucrotta shareholders should also benefit from Vermilion's equity participation in ExploreCo (see "Vermilion Financing" heading below) through collaborative sharing of information and potential access to future capital.

## **EXPLORECO**

ExploreCo is anticipated to be a new junior energy company led by Robert Zakresky as President and CEO and certain members of Leucrotta's current management team. ExploreCo will be a growth-oriented entity with assets focused in the highly prolific Montney resource trend in the Two Rivers area of northeast British Columbia.

Assuming ExploreCo receives the maximum proceeds from all financings described under the "Financings" heading, ExploreCo will have the following characteristics:

- Approximately \$80 million cash (no debt);
- >140 net sections of Montney land;
- Approximately 400 BOEPD of production; and
- 426 million ExploreCo shares outstanding.

## **SUMMARY**

Leucrotta's Board and management view the Arrangement as an advantageous transaction for Leucrotta shareholders. As a result of the Arrangement, existing Leucrotta shareholders will benefit from realizing on a portion of their investment while still retaining ownership in ExploreCo, which will own certain Montney assets that Leucrotta's management believe to contain significant value and growth potential that can now be accelerated.

Consideration Received by Leucrotta Shareholders:

Cash \$1.73/share

One (1) ExploreCo Share \$0.27/share<sup>(1)</sup>

Total Value (not including ExploreCo Arrangement Warrants) \$2.00/share

1) Based on cash value, independent reserve value and estimated land value net of total asset retirement obligations (ARO)

## **FINANCINGS**

ExploreCo will raise additional capital of up to approximately \$36.9 million through the following financings, as outlined in the Arrangement:

### **Exercise of ExploreCo Arrangement Warrants**

As part of the consideration to be received by holders of Leucrotta Shares pursuant to the Arrangement, ExploreCo has agreed to issue a total of approximately 55.6 million ExploreCo Arrangement Warrants, each entitling the holder to purchase one ExploreCo Share at a price of \$0.27, at any time on or before the date that is 30 days following the closing of the Arrangement. If all of the Arrangement Warrants are duly exercised, ExploreCo would receive gross exercise proceeds of approximately \$15 million.

### **Vermilion Financing**

Pursuant to and concurrent with the closing of the Arrangement, Vermilion has agreed to purchase approximately 53.3 million ExploreCo shares at a price of \$0.27 per share for total gross proceeds of approximately \$14.4 million pursuant to the Vermilion Financing.

## **ExploreCo Unit Financing**

The ExploreCo Unit Financing consists of a non-brokered private placement of up to approximately 27.8

million ExploreCo Units, at a price of \$0.27 per ExploreCo Unit, to certain current officers, employees, directors and shareholders of Leucrotta for total gross proceeds of up to approximately \$7.5 million. Each ExploreCo Unit shall be comprised of one ExploreCo Share and one ExploreCo Share purchase warrant (a "Warrant"), with each Warrant to be exercisable to purchase one ExploreCo Share at a price of \$0.27 until the date that is 5 years from the date of issuance. The ExploreCo Unit Financing is expected to close within 30 days following the completion of the Arrangement, subject to the receipt of any required shareholder, regulatory or stock exchange approvals, as applicable.

## **BOARD OF DIRECTORS RECOMMENDATION AND FINANCIAL ADVISORS**

The Board has unanimously determined that the Arrangement is in the best interests of Leucrotta and the Arrangement is fair to shareholders, has approved the Agreement and the transactions contemplated thereby and unanimously resolved to recommend that the Leucrotta shareholders vote in favour of the Arrangement and the financings.

The Agreement has the support of all of Leucrotta's management and directors. Directors, officers and entities exercising control or direction over approximately 41% of Leucrotta's fully diluted shares (calculated based on the full exercise of currently issued and outstanding Leucrotta Share purchase warrants as of the date hereof) have entered into support agreements in favour of the Arrangement.

RBC Capital Markets has provided an opinion to the Board of Directors of Leucrotta that, as of the date thereof and subject to the assumptions, limitations and qualifications set forth therein, the consideration to be received under the Arrangement is fair from a financial point of view to the Leucrotta shareholders.

## **ADVISORS**

RBC Capital Markets acted financial advisor to Leucrotta and Desjardins Securities Inc. acted as strategic advisor to Leucrotta. Haywood Securities Inc. acted as strategic advisor to ExploreCo. Gowling WLG (Canada) LLP acted as legal counsel to Leucrotta and ExploreCo with respect to the Arrangement.

## **FOR FURTHER INFORMATION PLEASE CONTACT:**

[Leucrotta Exploration Inc.](http://www.Leucrotta.ca)  
2110, 530 - 8th Ave SW  
Calgary, Alberta T2P 3S8  
Phone: 403-705-4525  
[www.Leucrotta.ca](http://www.Leucrotta.ca)

Mr. Robert J. Zakresky, President and Chief Executive Officer  
Mr. Nolan Chicoine, Vice President, Finance and Chief Financial Officer

## **FORWARD LOOKING STATEMENTS:**

*This press release contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "should", "believe", "intends", "forecast", "plans", "guidance" and similar expressions are intended to identify forward-looking statements or information.*

*More particularly and without limitation, this document contains forward looking statements and information relating to the terms of the Arrangement and the ExploreCo Private Placements, the anticipated closing date of the Arrangement and the ExploreCo Private Placements, the anticipated mailing date of the management information circular and proxy materials in connection with the Arrangement, ExploreCo's anticipated development of the Montney lands to be owned by ExploreCo following the completion of the Arrangement, number of net sections of Montney land that ExploreCo is anticipated to have in the future, anticipated production of ExploreCo's assets, anticipated debt of ExploreCo, and ExploreCo's future growth plans and strategy. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company and ExploreCo, including expectations and assumptions relating to the Company and ExploreCo being able to receive all required regulatory and stock exchange approvals to consummate the Arrangement and the ExploreCo Private Placements, the number of ExploreCo Arrangement Warrants and Warrants anticipated to be exercised in the future, anticipated participation in the*

*ExploreCo Unit Financing, Leucrotta receiving the requisite shareholder approvals of Leucrotta to complete the Arrangement and the ExploreCo Unit Financing (including but not limited to any minority approval requirements pursuant to Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions, as applicable), prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the availability of capital to undertake planned activities and the availability and cost of labour and services.*

*Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition, the ability to access sufficient capital from internal and external sources and changes in tax, royalty and environmental legislation. The forward looking statements and information contained in this document are made as of the date hereof for the purpose of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. The Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.*

*Meaning of OOPI and OGIP: When used in this press release, OGIP (Original Gas in Place) and OOIP (Original Oil in Place) are equivalent to Total Petroleum Initially In Place ("TPIIP"). TCF means trillion cubic feet. TPIIP, as defined in the Canadian Oil and Gas Evaluations Handbook ("COGEH"), means that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations and is potentially producible. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered (equivalent to "total resources"). There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.*

*The OGIP and OOIP estimates quoted in this news release are unaudited internal estimates effective December 31, 2020 prepared by a qualified reserves evaluator in accordance with the COGEH Handbook. "Internal estimate" means an estimate that is derived by the Company's internal APEGA certified engineer(s), and geologist(s) and prepared in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities. Product type for the OOIP number is "tight oil" and product type for the OGIP number is "shale gas". The location of the resource is the Montney formation in the Doe, Mica and Two Rivers areas of Northeast British Columbia, north of the Town of Dawson Creek and east of Fort St. John where Leucrotta owned 246 net sections (258 Gross) with an average ownership working interest of 95% at the time of the evaluation. The key variables relevant to the evaluation are porosity, reservoir thickness, pressure, water saturation and gas composition which have increasing uncertainty, both positive and negative, with distance from existing wells.*

*Meaning of boepd: When used in this press release, boepd means a barrel of oil equivalent per day. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent has been used for the calculation of boe amounts in this news release. This boe conversion rate is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

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