

Canadian Overseas Petroleum Ltd Announces Update in Response to Shareholder Queries

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COPL Provides Update in Response to Shareholder Queries

CALGARY, January 10, 2024 - [Canadian Overseas Petroleum Ltd.](#) ("COPL" or the "Company") (XOP:CSE)(COPL:LSE), an international oil and gas exploration, production and development company with production and development operations focused in Converse and Natrona Counties, Wyoming, USA, provides the following update in response to queries from shareholders.

Were the recent financings from Anavio necessary and were the terms reasonable in the circumstances?

Some context is important.

On July 22, 2022, the Company announced its first financing with Anavio with the issue of convertible bonds raising proceeds for the Company of \$19.7 million to finance the acquisition from Cuda Energy LLC of additional interests in the Company's Wyoming assets.

On January 3 and March 27, 2023, the Company announced further issuances of convertible bonds to Anavio and other investors for additional proceeds to the Company of almost \$15 million. The Company noted in its announcement of the March financing that the Company was in serious financial difficulty and without such financing, did not have sufficient working capital for its present requirements. The Company was able to secure limited waivers from its senior lenders for financial covenants until September 2023, conditional on closing the March financing.

On September 6, 2023, the Company issued a press release announcing, among other things, a financing of \$3.5 million (the "Fourth Anavio Financing"). The same press release noted that the pricing of warrants to purchase COPL common shares and the conversion price of outstanding bonds held by Anavio was 4p (\$0.0502) per common share. The exercise price of existing warrants expiring on August 26, 2027 were being amended to 4p.

The terms of the Fourth Anavio Financing, including its pricing, were subject to arm's length negotiations between the Board and Anavio that reflected the Company's circumstances (declining working capital and the fact that previous contractual commitments to Anavio in connection with prior financings gave Anavio certain rights including rights of first refusal on subsequent financings) and market realities, including the price of COPL common shares in the secondary market during the relevant period. The Board considered whether shareholder approval was required for the Fourth Anavio Financing because it was a related party transaction and determined, with the benefit of legal advice, that exemptions under Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions were applicable and necessary in the circumstances. The September 6 press release provided COPL's and the Board's rationale for this determination including the fact that the Company was still in serious financial difficulty and without the latest financing, did not have sufficient working capital for its present requirements.

In the weeks after the Fourth Anavio Financing was first announced, the price of COPL common shares in the secondary market went down. In addition, NYMEX WTI increased through September resulting in an increase of \$0.9 million due for cash settlement for swaps at the end of September and an increase to cost of COPL America's hedges to \$13.1 million at the end of September 2023. An agreement with COPL America's senior lenders to terminate the swaps was reached in early October 2023 to protect COPL America's liquidity from monthly cash settlements of swaps that could result in default of the senior debt; the result was an increase to COPL America's senior secured debt of \$11.96 million and additional future interest costs on that senior debt. Anavio was unwilling to close the Fourth Anavio Financing at 4p per COPL

common share. Given the liquidity needs of COPL and COPL's limited bargaining power, among other things, the Board determined that it was in the best interests of COPL to reprice the financing at 2.6p per COPL common share. It was successful in negotiating an upsizing of the financing from \$3.5 million to \$4 million.

On October 6, COPL announced the closing of the Fourth Anavio Financing. The repricing at 2.6p per COPL common share represented a +30% premium to the closing share price of COPL in the secondary market on October 5. The Board once again considered whether shareholder approval was required for the financing because it was a related party transaction and provided its rationale for determining otherwise with the benefit of legal advice.

On November 15, COPL announced its operational and financial results and, among other things, highlighted the fact that production was below the previously announced 1,200 bbl/d target and made no commitments about how long its working capital would last. In fact, as it had done before, the Company warned that even with the proceeds of the Fourth Anavio Financing, "funds are not sufficient to cover forecasted expenses and there is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be obtained on terms acceptable to the Company. With no assurance that additional finance will be obtained there is material uncertainty that casts significant doubt that the Company will be able to continue as a going concern."

On December 18, COPL announced that the potential joint venture it was hoping to progress was terminated by the counterparty. This was a very significant setback for COPL, as reflected in the reaction of COPL's share price after the news was announced. This news wiped out more than 40% of equity value in the two days after it was announced and triggered a series of events for which the Board had little time to react.

On December 20, COPL announced that its affiliate had received a notice of default that indicated, among other things, the senior lender was unwilling to further amend or waive certain terms of its Senior Credit Facility. COPL disclosed that without an amendment or waiver from the lender, the Company's indirect affiliate would be in breach of the terms of the Senior Credit Facility on or before January 1, 2024. COPL noted that it required additional financing in January 2024 and if such financing was not raised, it would have to seek some form of creditor protection.

On December 29, COPL announced that it had agreed to equity financing of \$2.5 million from Anavio (the "Fifth Anavio Financing"), which it expected to close by January 15, 2024. The funds raised would be used for working capital purposes and to allow for short term operations and improvements. COPL also disclosed it had negotiated a forbearance agreement with its senior lender and in relation to that forbearance agreement appointed a Chief Restructuring Officer.

At each of the financings described above (which were all unanimously approved by every Board member at the time) the Board had the benefit of outside legal advice, was cognisant of its duties to the Company and also explored with its brokers whether any alternative financing options were available in the circumstances.

The Chief Restructuring Officer has been appointed by the Company and, like the members of the Board, has no business or other relationship with Anavio.

As with the Fourth Anavio Financing, the Board considered whether shareholder approval was required for the Fifth Anavio Financing because it was a related party transaction and provided its rationale for determining otherwise with the benefit of legal advice.

With this context, COPL makes the following observations:

1. The Board considered various options when negotiating and agreeing to reprice the Fourth Anavio Financing, and negotiating the Fifth Anavio Financing. Among other things, it considered whether or not it should wind down operations and determined that doing so was not in the best interest of COPL.
2. The Board was open to liquidity sources other than Anavio but in addition to being constrained by certain contractual commitments previously made to Anavio, it was informed by two brokers in London that there

was no institutional interest in funding on the same terms or better than those proposed by Anavio. There was also very limited time to do so with respect to the Fifth Anavio Financing, which was negotiated in the ten days following the collapse of the JV negotiations during the holiday season and against deadlines of covenant default. Moreover, in calls with certain shareholders to see if there were alternatives to alleviate the Company's serious liquidity issues, shareholders were clear that they had no alternative financing proposals for the Company to consider. As such, Anavio was the only credible source of financing available to the Company when the Fifth Anavio Financing was negotiated.

3. The terms of the Fourth Anavio Financing and the Fifth Anavio Financing were the product of arm's length negotiations. During these negotiations, the Board acted in the best interests of COPL, while considering the interests of its shareholders and other stakeholders. As noted above, due to the depreciation of the secondary market price of COPL common shares and risks associated with the COPL America hedge profile, the Fourth Anavio Financing had to be repriced. The Fifth Anavio Financing was negotiated after several negative developments impacted the Company's value, as noted above. Moreover, the common shares to be issued to Anavio will rank pari passu in all respects with the existing COPL common shares.

4. The Board denies any suggestion that it preferred the interests of Anavio over COPL's shareholders. Having taken legal advice in relation to its duties, the Board specifically considered the interests of various stakeholders, including COPL's shareholders. Had the Board taken steps to wind down COPL, as some shareholders suggest, it was the Board's business judgment that COPL shareholders would have almost certainly been entirely wiped out. In considering various options, the Board concluded that the value of COPL's assets were insufficient to cover the claims of secured and unsecured creditors which today stand in excess of \$135 million as compared with approximately \$1 million of cash on hand on a group wide basis (the majority of such liquidity being at COPL's US subsidiary which is subject directly to the security interests of the senior lender). In addition to the \$135 million of secured obligations which take priority over equity an orderly formal restructuring proceeding would require a super priority loan of approximately \$10 million, putting equity investors of COPL even further "out of the money". As such, the steps taken by the Board (including the recent hiring of an independent engineering consulting firm) were designed to give COPL an opportunity to become more viable over time and to provide shareholders with a potential opportunity to realize some value (over no value in the wind down scenario).

5. The Board members have gained no benefit from the Fourth Anavio Financing and the Fifth Anavio Financing. COPL has not issued bonds to any of the directors who have not been compensated at all for their work in 2023. In fact, the Board has disclaimed any right to bonds. The Board's intention in September of last year (when the issue of bonds to directors was proposed) was to preserve liquidity at the Company which was a reasonable exercise of their business judgement and demonstrably beneficial to COPL.

6. The Company's press releases of September 6 and October 6 were based on the information reasonably known to COPL at the relevant time. The repricing of the Fourth Anavio Financing was not reasonably foreseeable by COPL on September 6. Similarly, when the Fourth Anavio Financing was announced and closed, the Board did not reasonably expect further financing to be required by January 2023 (let alone the default notice and termination of the proposed joint venture).

7. COPL denies any speculation that there were any efforts by the Board to depress the value of COPL's assets and undermine production efforts for the benefit of Anavio or anyone else. The Board members had no reason or incentive to act in such a way and in fact, and have recently retained a third party expert to evaluate field performance and development options going forward as well as financial advisors and a restructuring specialist all with a view to maximizing value for all stakeholders including COPL's shareholders and all with the approval of the senior lender. In the absence of the Fifth Anavio Financing, it was the Board's considered opinion that the only alternative was a distressed insolvency sale process which likely would not have yielded any value for COPL's shareholders.

Next Steps

The Forbearance Agreement committed the Company to the following:

1. Subject to certain conditions precedent and the continued compliance with the terms of the Forbearance Agreement, the senior lender agreed not to exercise certain rights and remedies, including foreclosure, that it

might otherwise have as a result of the default(s) under the Senior Credit Facility until February 29, 2024;

2. The Company is required to complete the Fifth Anavio Financing by January 15, 2024.

3. The Company was required to appoint both a Chief Restructuring Officer and a financial advisor whose identities and scope of work were both subject to the approval of the senior lender;

4. Within 45 days, an agreement with the senior lender on a process and milestones for either a comprehensive sale of the Company's US assets, a foreclosure of the Company's equity interests in its US assets or a "take out offer" in an amount satisfactory to the senior lender.

5. Within 30 days, a business plan must be delivered to the senior lender that includes proposed steps and terms for the sale of the Company's US assets.

The Chief Restructuring Officer has been appointed by the Company in compliance with the Forbearance Agreement and the approval of the senior lender and, like the members of the Board, has no business or other relationship with Anavio.

The Board is also exploring ways to allow shareholders and other investors the chance to participate in an equity placing.

About the Company:

COPL is an international oil and gas exploration, development and production company actively pursuing opportunities in the United States with operations in Converse County Wyoming.

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The Common Shares are listed under the symbol "XOP" on the CSE and under the symbol "COPL" on the

London Stock Exchange.

Market Abuse Regulation disclosure

The information contained within this announcement is deemed by the Company to constitute inside information pursuant to Article 7 of EU Regulation 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 as amended ("MAR") encompassing information relating to the Placing described above, and is disclosed in accordance with the Company's obligations under Article 17 of MAR. In addition, market soundings (as defined in MAR) were taken in respect of the Placing with the result that certain persons became aware of inside information (as defined in MAR), as permitted by MAR. This inside information is set out in this Announcement. Therefore, upon publication of this announcement, those persons that received such inside information in a market sounding are no longer in possession of such inside information relating to the Company and its securities.

Caution regarding forward looking statements

This news release contains forward-looking statements. The use of any of the words "initial", "scheduled", "can", "will", "prior to", "estimate", "anticipate", "believe", "should", "forecast", "future", "continue", "may", "expect", and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained herein are based on certain key expectations and assumptions made by the Company, including, but not limited to, the ability to raise the necessary funding for operations, delays or changes in plans with respect to exploration or development projects or capital expenditures. Although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements since the Company can give no assurance that they will prove to be correct since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties most of which are beyond the control of [Canadian Overseas Petroleum Ltd.](#) For example, the uncertainty of reserve estimates, the uncertainty that the Financing will complete, the uncertainty of estimates and projections relating to production, cost overruns, health and safety issues, political and environmental risks, commodity price and exchange rate fluctuations, changes in legislation affecting the oil and gas industry could cause actual results to vary materially from those expressed or implied by the forward-looking information.

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