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- Financial Services

Stornoway Portfolio Management Supports Arcan Resources' Recapitalization Proposal

- *The Recapitalization Proposal significantly strengthens Arcan's balance sheet by eliminating approximately \$171.25 million of debt and reducing its annual interest obligations by approximately \$10.9 million*
- *Revitalizes Arcan for the benefit of all stakeholders, frees management to focus on continuing its operational success and further exploit growth opportunities within its existing asset base*
- *Stornoway is pleased to have played constructive role in developing Recapitalization Proposal*

TORONTO, Dec. 22, 2014 /CNW/ - Stornoway Portfolio Management Inc. ("Stornoway") announced today that it supports Arcan Resources Ltd. ("Arcan")(ARN: TSX-V) proposed transaction (the "Recapitalization Proposal") in which \$171.25 million of Arcan's Convertible Debentures (the "Debentures") would be exchanged for equity of the company.

The Ravensource Fund ("Ravensource") and The Stornoway Recovery Fund LP ("SRFLP"), both managed by Stornoway, have significant investments in Arcan's Debentures. In its capacity as the investment manager of Ravensource and SRFLP, Stornoway executed a support agreement whereby Stornoway has agreed, subject to certain terms and conditions, to vote in favour of and support the Recapitalization Proposal.

"Stornoway is pleased to have played an active and constructive role in working with other key stakeholders to develop an alternative solution to strengthen Arcan's capital structure. We have always believed that Arcan was on the right operational path, but was significantly hampered by its substantial debt and interest burden. The passage of the Recapitalization Proposal will free Arcan management to focus on exploiting opportunities for continued growth

and driving operational efficiency while dramatically reducing the pressures that a highly leveraged balance sheet

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and driving operational efficiency while dramatically reducing the pressures that a highly leveraged balance sheet imposes on it. We believe that the Recapitalization Proposal is a truly transformative transaction developed at a time of significant headwinds - and opportunity - in the oil & gas sector," said Scott Reid, President.

Stornoway SUPPORTS the Recapitalization Proposal for reasons that include the following:

- Dramatically reduces the company's current capital structure risks through the elimination of \$171.25 million of debt and \$10.9 million of annual interest expense while simplifying the capital structure in the process
- Allows Arcan to focus its operating cash flow by investing in the drill bit rather than paying interest to debentureholders
- Provides increased certainty to the capital markets and Arcan's banking syndicate with respect to Arcan's capital structure
- Recapitalization proposal was the product of a constructive discussions between Arcan and debentureholders

Background to Stornoway's SUPPORT of the Recapitalization Proposal

In August 2014, Stornoway voted against the proposed arrangement between Arcan and Aspenleaf Energy Limited ("Aspenleaf") in which Aspenleaf would acquire 87.5% of Arcan's assets (the "Aspenleaf Proposal"). Stornoway acknowledges that Arcan has too much debt and that vital cash flow is being diverted to paying interest rather than used to harvest its reserves. This excessive debt-load not only places a significant interest burden on the company but leaves the company financially vulnerable. However, Stornoway believed that an internal solution to strengthen Arcan's capital structure existed that would deliver superior long-term results compared to the Aspenleaf Proposal.

While rejecting the Aspenleaf Proposal, Stornoway announced its willingness and commitment to working constructively with Arcan and other key stakeholders to develop an alternative solution to repair its capital structure and allow Arcan to exploit its resources for the benefit of all stakeholders. The Recapitalization Proposal is the result of constructive discussions between Arcan and an ad hoc committee of debentureholders (the "Ad Hoc Committee of Debentureholders") holding approximately 40% of the Debentures, in which Stornoway played an active role.

Goodmans LLP acted as counsel to the Ad Hoc Committee of Debentureholders.

Stornoway Portfolio Management

Stornoway Portfolio Management Inc. is an employee-owned asset management firm located in Toronto, Canada. Stornoway's investment team has extensive experience investing in and restructuring companies that are in financial distress. Stornoway takes a solution-oriented approach and has a successful track record of working with management teams and fellow stakeholders to inject the necessary capital, time and energy to fix the root cause of financial distress, unlocking stakeholder value in the process.

SOURCE: Stornoway Portfolio Management Inc.

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