Daily Oil Bulletin

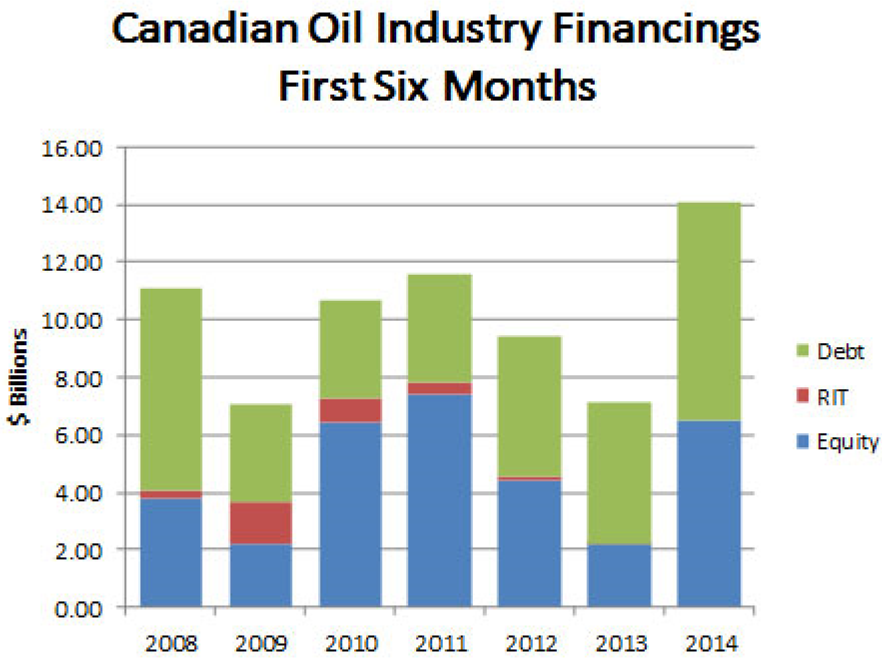
Total Financings Almost Double Year-Over-Year

JULY 30, 2014 – VIEW ISSUE (/HEADLINES/2014-07-30)

By: Robert Panek, M.Sc., P. Geol.
Sayer Energy Advisors

A total of $14.1 billion was raised by the Canadian oil and natural gas industry in the first six months of 2014, up 98 per cent from the $7.1 billion recorded over the same time period in 2013. Financings were up year-over-year in both equity and debt categories, with the largest gain occurring in the equity category, which climbed 197 per cent to $6.5 billion from $2.2 billion in 2013. Debt financings increased 54 per cent to $7.5 billion from $4.9 billion in 2013. It is the third consecutive year that debt financings have been greater than equity in the first six months of the year.

There were no trust unit financings completed by oil and natural gas royalty income trusts ("RITS") in the first half of 2014. In comparison, a total of $12 million in trust units were raised by RITS over the same time period last year. The little to no amount of trust unit financings done by RITS over the last three years comes as no surprise as there are only a select few RITS remaining, all of which are focused on international assets.



For a larger image click here! (http://www.dailyoilbulletin.com/media/images/sayergraph6.jpg)

The $6.5 billion in equity raised in the first half of 2014 is similar to the amount that was raised in the first six months of 2010, when the capital markets were climbing out of the depths of the Global Financial Crisis. The amount of equity raised in the first half of 2014 accounted for 46 per cent of the total capital raised, up from 31 per cent in 2013 and similar to the 47 per cent in 2012.

PrairieSky Royalty Ltd. had the largest initial public offering ("IPO") during the first half of 2014. PrairieSky was formed to acquire a royalty business from **Encana Corporation**. Encana sold approximately 59.8 million common shares of PrairieSky by way of an IPO at a price of $28 per share for gross proceeds of approximately $1.7 billion.

The largest single equity issue recorded in the first six months of 2014 was the $1.5 billion raised by **Baytex Energy Corp.** Baytex used the proceeds to partially finance its $2.8 billion acquisition, which closed in June, of Australian company **Aurora Oil & Gas Limited**.

Another significant financing which occurred in the first half of 2014 involved **Whitecap Resources Inc.** raising $500 million through a bought deal financing in conjunction with its announcement of a total of $800 million in acquisitions. The acquisitions included Whitecap's purchase of **Imperial Oil Limited** assets in Alberta and British Columbia for approximately $693 million, and in a separate transaction, the purchase of an undisclosed company with assets in north central Alberta for $107 million.

There was a total of approximately $208 million in flow-through equity raised in the first half of 2014, up 94 per cent from the $107 million raised during the same time period last year. The largest flow-through financing in the first six months of this year was completed by **Tourmaline Oil Corp.**, which raised approximately $68 million. Tourmaline also completed the largest flow-through offerings over the same time periods in the past three years, raising $35 million in 2013, $40 million in 2012 and $47 million in 2011. Typically, most of the flow-through financings occur in the second half of the year and are a common source of financing for junior oil and natural gas producers because of the tax advantages they provide investors.

As previously mentioned, debt financings totaled $7.5 billion, accounting for 54 per cent of the total capital raised in the first six months of 2014. The vast majority of the debt issues in the first half of this year were comprised of straight debt, contributing 99 per cent, with the remaining one per cent consisting of convertible debt.

Ecopetrol S.A. had the largest single debt issue in the first six months of 2014, raising approximately $2.2 billion in 31 year bonds with a coupon rate of 5.875 per cent per annum. The proceeds of the offering will be used for general corporate purposes, including capital expenditures. Ecopetrol, a company based in Colombia with securities listed on the **Toronto Stock Exchange**, is Colombia's largest integrated oil & gas company, with activities mainly in Colombia, but also in Brazil, Peru and the Gulf Coast of the USA.

Canadian Natural Resources Limited was very active in the debt and mergers and acquisitions markets during the first half of 2014, raising over $2.1 billion in debt through four separate debt issues. In March, Canadian Natural completed two unsecured note offerings, each for approximately $557 million. One issue has a two-year term and a floating coupon rate per annum and the other issue has a ten-year term and a coupon rate of 3.8 per cent per annum. In May, Canadian Natural completed two unsecured note offerings, each for $500 million. One has a five-year term and a coupon rate of 2.60 per cent per annum and the other is a ten-year note with a coupon rate of 3.55 per cent per annum. Canadian Natural used the proceeds to partially finance the $3.1 billion acquisition of assets from **Devon Canada Corporation**. The acquisition included production of approximately 87,000 barrels of oil equivalent per day (74 per cent natural gas weighting) from conventional assets located in Western Canada, excluding Devon's Horn River, British Columbia and heavy oil properties.

Unlike the past few years, the capital markets have started to flow more readily, providing additional companies access to capital. In addition to the usual public companies raising equity, other companies such as **Bellatrix Exploration Ltd.** and **Journey Energy Inc.** have raised equity in the first half of 2014. Journey raised $168 million through its June IPO while Bellatrix raised approximately $173 million through a bought deal financing to temporarily reduce outstanding indebtedness, thereby freeing up borrowing capacity to fund its ongoing capital expenditures. Financings in both the debt and equity categories have increased year-over-year, with the equity raised in the first six months of 2014 already exceeding the total equity of approximately $6.0 billion raised in 2013, by nine per cent. At this rate the total equity raised in 2014 could double year-over-year.

ARTICLE SECTION: PRODUCER NEWS (/SECTION/PRODUCER-NEWS/)
ARTICLE CATEGORY: FINANCE - INVESTMENT (/CATEGORY/FINANCE-INVESTMENT/)