



Equity Financings Surge with \$24.0 Billion in Capital Raised in 2014

The total amount of capital raised in the Canadian oil and natural gas industry in 2014 surged to \$24.0 billion, up approximately 50% from 2013's value of \$15.9 billion. This is the highest level since the \$25.5 billion record set in 2007.

The largest contributing factor to the increase in capital raised in 2014 was the spike in the total amount of new equity raised year-over-year. In 2014, equity financings returned to 2012 levels, with \$11.5 billion raised, up 93% from the depressed total of \$6.1 billion raised in 2013. Equity financings accounted for 68% of the increase in total capital raised year-over-year.

This year breaks the three consecutive year trend of falling equity financings in the industry. The number of equity issues also increased year-over-year, rising 6% to 305 issues in 2014, up from 289 issues in 2013. The 93% increase in the amount of equity raised, coupled with the slightly higher number of equity issues resulted in the average size of issues increasing to approximately \$38 million in 2014 from \$21 million in 2013.

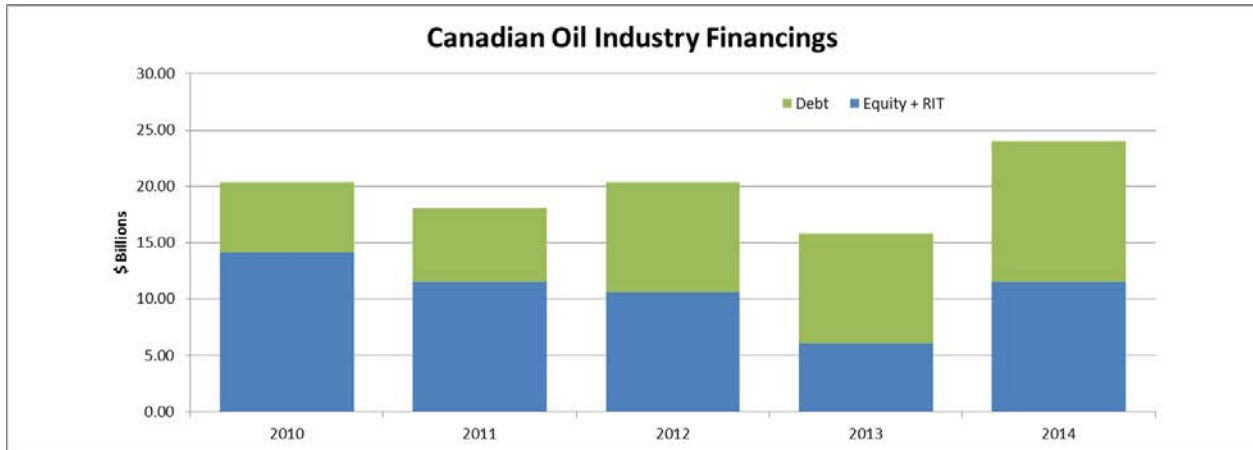
Included in the equity category is the flow-through equity value of \$356 million in 2014, which was down 12% from the \$404 million in flow-through equity issues in 2013. In 2014 there were 47 flow-through equity issuances compared to 66 in 2013, a 28% drop. Flow-through equity is typically raised in last half of a year; however, the plummeting crude oil prices may have had a negative impact on flow-through financings being completed during this time period.

The largest single equity financing in 2014 was the \$1.5 billion bought deal subscription receipt financing by **Baytex Energy Corp.** concurrent with its announcement of its acquisition of **Aurora Oil & Gas Limited** for total consideration of \$2.6 billion. The Aurora acquisition allowed Baytex to obtain a strong position in the Eagle Ford shale oil play in Texas.

Two notable transactions involved **PrairieSky Royalty Ltd.**, which was formed to acquire a royalty business from **Encana Corporation**. In the second quarter of 2014, PrairieSky undertook an initial public offering ("IPO") whereby Encana sold 59,800,000 common shares of PrairieSky at \$28.00 per share, raising approximately \$1.7 billion. In the third quarter of 2014, Encana sold its remaining 54% interest in PrairieSky at \$36.50 per share raising additional gross proceeds of approximately \$2.6 billion. Sayer treated these two transactions as dispositions rather than financings and as a result the amounts raised are not included in our financings totals.

Seven Generations Energy Ltd. had the second-largest equity offering in 2014, raising approximately \$932 million as part of its November IPO, followed by **Crescent Point Energy Corp.** at \$800 million in September to round out the top three.

The number of IPOs completed in the Canadian oil and natural gas industry was flat year-over-year, at five. The total amount of capital raised through IPOs was approximately \$1.5 billion, compared to \$512 million in 2013, a 188% increase. There were three notable IPOs which accounted for almost all the capital raised, including Seven Generations' \$932 million IPO, along with **Northern Blizzard Resources Inc.** raising \$350 million in August and **Journey Energy Inc.** raising \$168 million in June.



Debt financings accounted for 52% of the capital raised with equity and royalty income trust (“RIT”) financings taking the balance. Last year debt financing accounted for 62% of the total amount of capital raised in the year.

The debt category described herein is comprised of straight and convertible debt. The total value of debt financings increased 26% to \$12.4 billion, up from \$9.8 billion in 2013. While the total value of debt increased year-over-year, the number of debt issues in 2014 decreased. There were 62 debt financings in 2014, down 24% from the 82 in 2013.

The majority of the debt issues in 2014 were straight debt, accounting for 99% of the total debt issued. The total amount of straight debt issues was \$12.3 billion, up 31% from the \$9.4 billion in 2013. Convertible debt decreased year-over-year, dropping 69% to \$153 million from the \$487 million in 2013.

The largest debt issue in 2014 was **Ecopetrol S.A.’s** USD \$2.0 billion (CDN \$2.2 billion) debt financing with a 31 year term which closed in May 2014. Ecopetrol is listed on the TSX even though it is Colombia's largest integrated oil & natural gas company, where it accounts for 60% of total production. It is one of the top 50 oil companies in the world and the fourth largest oil company in Latin America. Ecopetrol used the proceeds for general corporate purposes, including capital expenditures.

Suncor Energy Inc. had the second-largest debt offering in 2014. The company raised USD \$750 million (CDN \$843 million) in November and used the net proceeds from the 10 year notes to replenish cash balances following the repayment of certain outstanding indebtedness. Also in November, Suncor raised \$750 million of senior unsecured medium term notes which have a seven year maturity.

Canadian Natural Resources Limited raised the most debt in 2014. The company raised in aggregate approximately \$3.5 billion in debt through six issues ranging from \$500 million to \$677 million. There were two issues closed by Canadian Natural in each of the months of March, May and November.



Long Run Exploration Ltd. had the largest single convertible debenture financing in 2014, raising \$75 million in January. The net proceeds of the financing were used to provide Long Run with additional financial flexibility through the diversification of its indebtedness and interest rate certainty on a portion of its core debt, and for general corporate purposes. This convertible debt issue accounted for approximately 49% of the total amount of convertible debentures raised in 2014. There were a total of 13 convertible debenture financings in 2014.

So far in 2015, the equity markets are off to a strong start considering the plummet in crude oil prices which has taken place since the beginning of the fourth quarter of 2014. At that time, WTI oil prices were in the low USD \$90's, falling to a low of USD \$43.58 at the end of January 2015. In January 2015, there was approximately \$700 million raised in the industry, starting with **ARC Resources Ltd.** raising approximately \$403 million through a bought deal financing. ARC plans to use the net proceeds to temporarily reduce bank indebtedness, increase working capital and to fund ongoing capital expenditure programs. Another significant financing which occurred in January involved **Rifle Shot Oil Corp.**, a new private start up being run by Mr. Bruce Hall, formerly of **Twin Butte Energy Ltd.**, and backed by **ARC Financial Corp.** The company raised \$100 million.

Last week, **Cenovus Energy Ltd.**, announced a significant bought deal financing, raising \$1.5 billion at \$22.25 per share. Cenovus stated that *"the net proceeds of the offering, combined with the company's \$3.0 billion of undrawn committed credit lines, provide Cenovus with a stronger balance sheet and financial flexibility to pursue its planned capital program"*.

We expect that the capital markets will be selective this year and despite what appears to be a strong start, the overall capital raised may fall year-over-year as companies and investors alike wait to see where commodity prices settle.