Daily Oil Bulletin

Analysis: Total Financings At Its Lowest Level Since 2003

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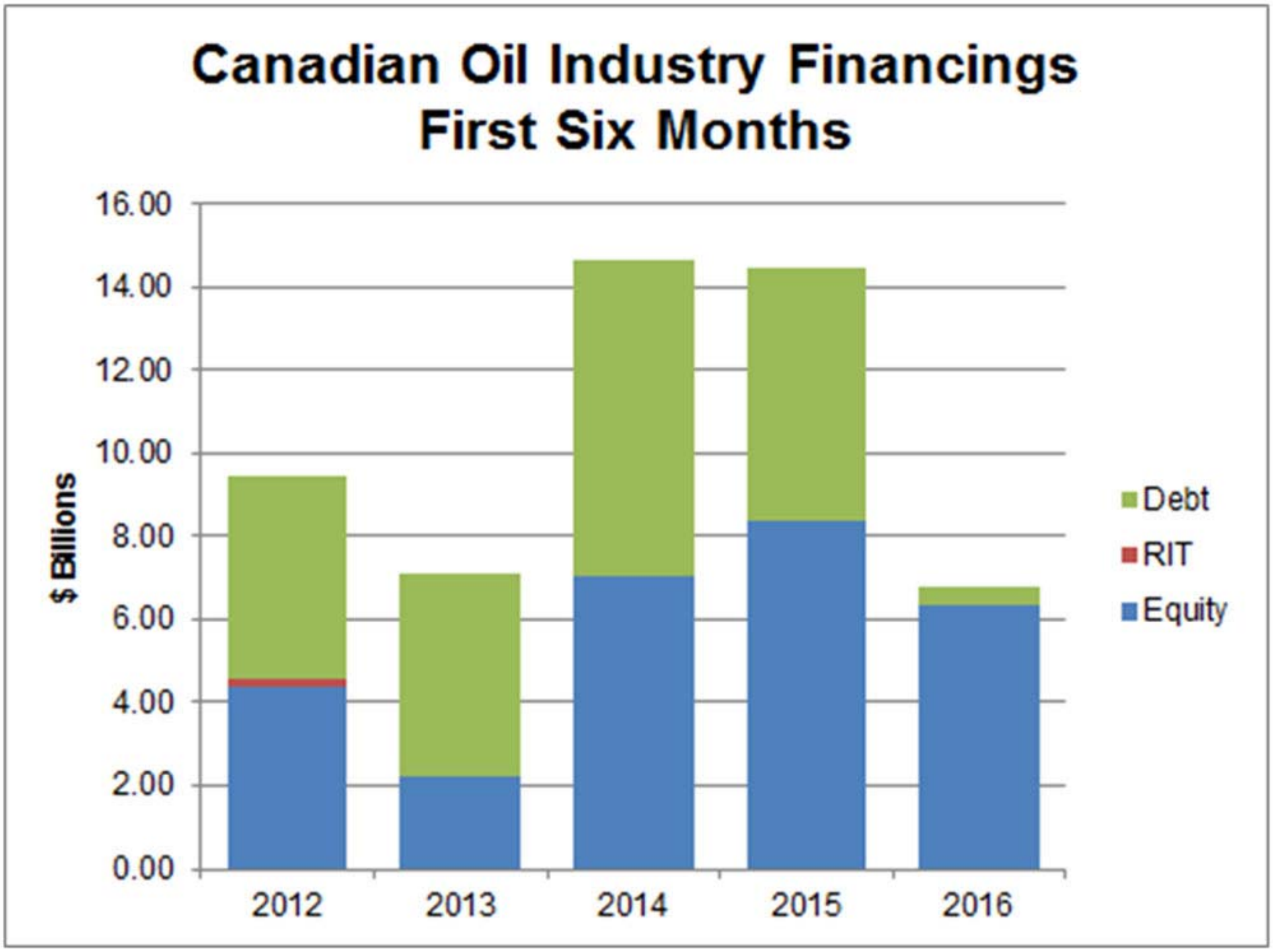
A total of $6.8 billion of capital was raised by the Canadian oil and natural gas industry in the first six months of 2016, down 53 per cent from the $14.5 billion recorded over the same time period in 2015. Financings were down year-over-year in both equity and debt categories — the largest drop occurring in the debt category, which plummeted 93 per cent to $457.5 million from $6.1 billion in 2015. Equity financings decreased 24 per cent to $6.4 billion from $8.3 billion in 2015. This is the lowest amount of capital raised in the first six months since 2003 when there was only $4.5 billion in capital raised.

Mirroring last year, there were no trust unit financings completed by oil and natural gas royalty income trusts ("RITS") in the first half of the 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, predominately focused on international assets.



The $6.4 billion in equity raised in the first half of 2016 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 2016 accounted for 93 per cent of the total capital raised, up from 58 per cent in 2015 and 48 per cent in 2014.

Suncor Energy Inc. raised the highest amount of equity during the first half of 2016 when it tapped the market in a $2.9 billion bought deal common share financing in June. Suncor offered 82,225,000 common shares, which included 10,725,000 common shares pursuant to a fully exercised over-allotment option, at a price of $35.00 per share. The net proceeds of this offering was used for its acquisition of a five per cent interest in the Syncrude oilsands mining project located near Fort McMurray, Alberta, from Murphy Oil Corporation's Canadian subsidiary for approximately $937.0 million and to reduce certain outstanding indebtedness in order to provide ongoing balance sheet flexibility.

Birchcliff Energy Ltd. raised the second highest amount of equity in the first six months of 2016 when in June it announced a $530.0 million subscription receipt bought deal financing and subsequently increased the offering to $634.5 million. Including the over-allotment option of 6,000,000 subscription receipts, the company raised gross proceeds of $672.0 million from the bought deal financing. In addition, Birchcliff closed a non-brokered private placement for 3,000,000 subscriptions receipts at $6.25 per share for gross proceeds of approximately $18.8 million from The Schulich Foundation, an entity controlled by Mr. Seymour Schulich, Birchcliff's largest shareholder. The proceeds from the financings were used to finance Birchcliff's acquisition of assets in the Gordondale area of Alberta from **Encana Corporation** for $625.0 million.

The third highest equity financing in the first half of 2016 was done by **Whitecap Resources Inc.**,which issued 51,087,000 subscription receipts at a price of $9.20 per subscription receipt for approximately $470.0 million. The proceeds from the bought deal offering were used to partially finance Whitecap's acquisition of assets located in southwestern Saskatchewan from **Husky Energy Inc.** for $595.0 million.

Of the $6.4 billion in equity raised in the first six months of 2016, approximately $68.9 million consisted of flow-through equity, down 51 per cent from the $139.5 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 **NuVista Energy Ltd.**, which raised approximately $21.0 million in June. 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 $457.5 million, accounting for seven per cent of the total capital raised in the first six months of 2016. The majority of the debt issues in the first half of this year were comprised of convertible debt, contributing 67 per cent, with the remaining 33 per cent consisting of straight debt.

Gran Tierra Energy Inc. had the largest debt issue in the first six months of 2016, completing a $115.0 million offering of 5.0 per cent convertible senior notes due in 2021. The proceeds of the offering will be used for general corporate purposes, which may include acquisitions and/or capital expenditures. Gran Tierra is an independent company with securities listed on the Toronto stock exchange, with activities in Colombia, Peru and Brazil.

Strategic Oil & Gas Ltd. had the second largest debt offering in the first half of 2016. The company raised approximately $94.9 million in secured convertible notes with a five-year term which bear interest at eight per cent payable semi-annually. Strategic used the proceeds from the offering to repay its existing credit facilities, the bridge loan from its major shareholder and provide funding for its winter capital program and general corporate purposes.

The third highest debt issue was done by **Kelt Exploration Ltd.,** which raised a total of $90.0 million in five per cent, five-year convertible debentures through a $75.0 bought deal financing and an additional $15.0 million private placement to certain directors, officers and employees. Kelt indicated that it would initially use the proceeds from the financings to pay down existing bank credit facilities and thereafter, for general corporate and working capital purposes.

Investors are being selective on the companies that they are willing to fund, which is understandable. We expect this to continue for the second half of the year. Strong companies with disciplined management teams and assets that are economic in the current commodity price environment will continue to receive investor support; especially when announcing a concurrent acquisition.

The commodity prices have firmed up in the second quarter of 2016 and have been fairly stable which has resulted in an increase in investor confidence. If this holds there could be an increase in M&A activity and financings in the Canadian oil and natural gas industry during the second half of 2016.

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