Daily Oil Bulletin

Total Oil & Natural Gas Financings Up 43 Per Cent In 2017

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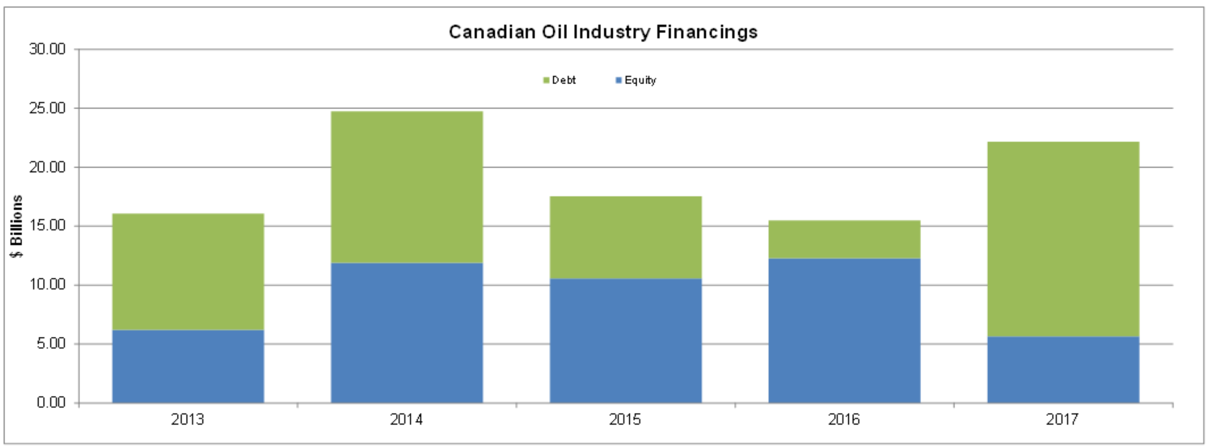
The total amount of capital raised in the Canadian oil and natural gas industry in 2017 increased 43 per cent from the previous year. In 2017, there was a total of $22.2 billion in capital raised, compared to $15.5 billion in 2016. Equity financings of $5.7 billion accounted for 26 per cent of the capital raised, with debt financings of $16.5 billion taking the balance of 74 per cent. Almost the exact opposite weighting was seen in 2016, with 79 per cent coming from equity financings and 21 per cent from debt financings.

The largest contributing factor for the increase in capital raised in 2017 was the year-over-year rise in the total amount of debt financings. In 2017 debt financings increased 417 per cent to $16.5 billion, up from $3.2 billion in 2016, reaching the highest level since **Sayer** began tracking industry financing.



The debt category described herein is comprised of straight and convertible debt. There were 74 debt financings in 2017, up 48 per cent from the 50 in 2016. The majority of the debt issues in 2017 were straight debt, accounting for 99 per cent of the total debt issued. The amount of straight debt issues was $16.4 billion, up 480 per cent from the $2.8 billion in 2016. Convertible debt decreased 69 per cent year-over-year to $112.1 million from $362.6 million in 2016.

In 2017, all of the top ten debt issues were straight debt, while in 2016, seven of the top ten debt issues were straight debt. In 2015, all of the top ten debt issues were straight debt.

Canadian Natural Resources Limited's six separate debt issues in May for total proceeds of over $5.8 billion remains the largest debt financing activity in 2017. These six financings account for about 35 per cent of the total debt raised throughout the year. Canadian Natural used the proceeds to partially finance its acquisition of a 70 per cent working interest in the Athabasca Oil Sands Project ("AOSP") for $12.6 billion. Canadian Natural and **Shell Canada Limited** also agreed to jointly acquire **Marathon Oil Corporation**'s 20 per cent share in AOSP and related oil sands investments.

Cenovus Energy Inc. raised an aggregate of approximately $3.9 billion in debt through three unsecured note offerings in April of 2017, representing 24 per cent of total debt raised in the year. The proceeds were used to partially finance Cenovus' $17.7 billion acquisition of assets from **ConocoPhillips Co.** Cenovus acquired ConocoPhillips' 50 per cent interest in the Foster Creek, Christina Lake and Narrows Lake oil sands assets, which Cenovus previously jointly owned and operated. With this acquisition, Cenovus gained full control of these oil sands projects. The transaction also included the majority of ConocoPhillips' Deep Basin conventional oil and natural gas assets in Alberta and British Columbia.

Rounding out the largest debt financings in 2017 was **Suncor Energy Inc.** The company issued approximately $954.7 million in senior unsecured notes in November 2017 on a 30-year term with a coupon rate of 4.00 per cent per annum. Gross proceeds from this issuance, along with the proceeds received from the sale of a 49 per cent equity interest in the company's East Tank Farm Development project, were directed towards the early redemption of outstanding notes due in 2018; US$600 million 6.05 per cent senior unsecured notes as well as $700 million 5.80 per cent medium term notes.

Painted Pony Energy Ltd.'s $50.0 million financing in August was the largest convertible financing in 2017. **Surge Energy Inc.** had the second-largest convertible financing in 2017, raising $40.0 million in October. Rounding out the top three convertible financings in 2017 was **Octant Energy Corp.**'s $12.1 million convertible financing in April.

The total amount of equity raised in 2017 was $5.7 billion, a 54 per cent decrease from the $12.3 billion in equity raised in 2016. The total number of equity issues dropped to 188 from 240, a 22 per cent decrease. The average size of issues in 2017 decreased to $30.1 million from $51.2 million in 2016.

Included in the equity category is the flow-through equity raised during 2017, which totaled $92.1 million, a 64 per cent drop from the $258.3 million in flow-through raised in 2016. In 2017 there were 24 flow-through equity issuances compared to 48 in 2016, a 50 per cent drop.

The largest single equity financing in 2017 was Cenovus' $3.0 billion bought-deal common share financing in March. Proceeds from the offering were used to fund a portion of Cenovus' acquisition of assets in Western Canada from ConocoPhillips.The second-largest equity offering in 2017 was **MEG Energy Corp.**'s $517.8 million subscription receipt bought deal financing in January. Proceeds were used to fund a portion of MEG's 2017 capital program and for general corporate purposes. Rounding out the top three equity financings was **Whitecap Resources Inc.**, which completed both a $332.5 million bought deal equity financing and a $92.5 million non-brokered equity private placement. Proceeds were used to partially fund Whitecap's $940.0 million acquisition of light oil assets in southeast Saskatchewan. The assets acquired were Cenovus' 62.1 per cent interest in the Weyburn Unit as well as other minor interests.

There were no initial public offerings completed by exploration and production companies in the Canadian oil and natural gas industry in 2017 or 2016.

With the recent increase in oil prices, capital markets (while continuing to be selective by primarily supporting larger, stronger oil-weighted public entities), may loosen up a bit in 2018; however, the capital markets have not yet shown a positive response to the increase in oil prices this year. In January 2018 there was approximately $232.8 million in total capital raised, comprised of about $100.0 million in debt and $132.8 million in equity. This is considerably lower than the approximate $915.3 million of total capital raised in January 2017, comprised of about $254.3 million in debt and $661.0 million in equity.

CATEGORY: FINANCIAL RESULTS (/CATEGORY/FINANCIAL-RESULTS/)