ANALYSIS

Banks Adjusting To Redwater Ruling

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Over the last number of weeks we have seen a number of publicly-traded oil and natural gas production companies announcing revised borrowing bases with their respective banks. In the vast majority of cases, borrowing bases for most oil and natural gas companies have been adjusted downward, which is not surprising considering the Supreme Court of Canada ruling on **Redwater Energy Corporation**. What is surprising is that a number of companies that have had their borrowing bases adjusted have a very strong Liability Management Rating ("LMR"), indicating how cautious banks are being after the Redwater ruling.

Bonterra Energy Corp. recently announced its amended credit facilities, which are now comprised of a $300 million syndicated revolving credit facility (previously $330 million), a $40 million non-syndicated revolving credit facility (previously $50 million) and the addition of an accordion feature which allows Bonterra to obtain future funding of up to $40 million for opportunities outside of normal operations, such as acquisitions, subject to unanimous lender approval. At the time its credit facilities were amended Bonterra had drawn approximately $300 million of the $340 million facility.

According to Bonterra, the terms of the amended credit facilities are substantially consistent with those governing the previous credit facilities, with enhanced compliance and reporting features related to **Alberta Energy Regulator** ("AER") regulations regarding abandonment and reclamation activities and certain restrictions on acquisition and disposition activity to ensure strict conformance with pre-determined liability management ratings. Bonterra's most recent LMR in Alberta is 1.97.

Gear Energy Ltd. recently announced that the annual borrowing base redetermination of its credit facilities had been finalized. Gear's amended credit facilities were reduced from a total of $115 million to $90 million and are now comprised of a $70 million syndicated revolving term credit facility and a $20 million operating credit facility. According to Gear, the reduction is the result of a variety of factors including the recent Supreme Court of Canada ruling on Redwater whereby

any financial resources of a bankrupt entity will first be used to satisfy the outstanding abandonment obligations of its unproductive assets ahead of any secured creditors.

Gear had drawn $70 million on its credit facilities as of May 31, 2019. At the time, Gear's net debt inclusive of its convertible debentures, was estimated to be approximately $74 million. The terms of Gear's amended credit facilities remain unchanged with the exception of additional compliance, consent and reporting requirements relating to Gear's provincial liability management rating and decommissioning obligation. According to Gear, these addendums are normal course and are being applied industry-wide in Canada. Gear's most recent LMR in Alberta is 1.76, while in Saskatchewan it is 4.94.

Journey Energy Inc. recently announced that its amended credit facilities have been reduced from the current amount of $100 million to $90 million. According to Journey, the new facility is comprised of a $75 million syndicated revolving term credit facility and a $15 million working capital facility. Journey also stated that the reduction in the facility was the result of several factors, with the most significant items being the reduction in forecast natural gas prices, as well as the potential lending implications stemming from the recent Supreme Court of Canada ruling in the receivership of Redwater.

According to Journey, the terms of the amended credit facilities generally remain unchanged with the following exceptions: i) Journey must seek the approval of the lending syndicate to borrow any amount above $85 million; ii) the maturity date of the borrowings under the facility will now be April 30, 2020; and iii) there are new compliance, consent and reporting requirements to the banks relating to Journey's provincial liability management rating, as well as the calculation of its future abandonment and reclamation costs. Journey has currently drawn approximately $70 million on its credit facilities. Journey's most recent LMR in Alberta is 2.16.

Petrus Resources Ltd. recently announced that its 2019 annual review of its revolving credit facility ("RCF") was completed. The RCF syndicate of lenders have reduced Petrus' borrowing base from $110 million to $100 million. According to Petrus, borrowings under the RCF above $95 million are subject to an approved development plan under the RCF and subsequent to Aug. 31, 2019, consent from each of the RCF syndicate of lenders is required for borrowings under the RCF to exceed $95 million. At May 31, 2019, Petrus had drawn $95 million of the $100 million facility.

The terms of Petrus' RCF have also been amended to include enhanced compliance and reporting features related to AER regulations regarding abandonment and reclamation activities and certain restrictions on acquisitions and dispositions to ensure compliance with liability management ratings. Petrus' most recent LMR in Alberta is 4.41.

The combination of banks taking a cautious approach with their clients after the Redwater ruling, as illustrated with the examples mentioned above, and the lack of financing available to both publicly and privately-held oil and natural gas producers, shows how devastating the Redwater ruling has been for access to capital. Unfortunately this will be the status quo until we receive more clarity on how the Redwater ruling will be applied by the oil and natural regulators in all provinces going forward. Only when we have certainty will we see potential for more capital coming back to the industry.

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