ANALYSIS

Total Financings Down Year-Over-Year

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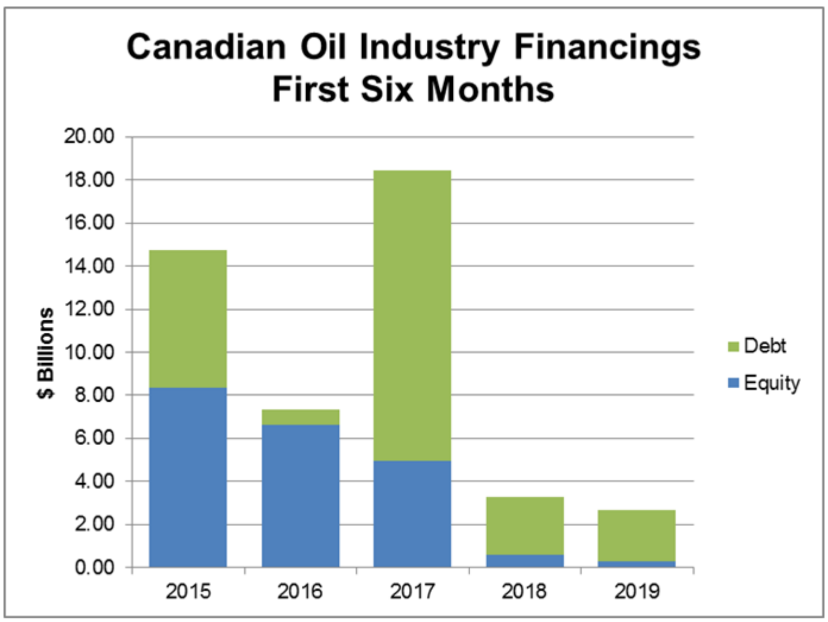
A total of $2.7 billion in capital was raised by the Canadian oil and natural gas industry in the first six months of 2019, down 18 per cent from the $3.3 billion recorded over the same time period in 2018. Financings were down year-over-year in both equity and debt categories. For the second year in a row, this is the lowest amount of total capital raised in the first six months since 2001, when there was only $2.3 billion in capital raised.

Total debt raised in the first six months of 2019 was down $312.4 million or 12 per cent to $2.4 billion from the $2.7 billion raised during the same time period in 2018.

The year-over-year decrease in debt and equity financings were similar in value. The equity category dropped $299.1 million or 5.1 per cent, with only $292.3 million raised in the first half of 2019, down from $591.4 million of equity raised during the same time period in 2018. This is the lowest value of equity financings since 2001 when approximately $312.0 million was raised.



Of the approximately $2.4 billion of debt that was raised in the first six months of 2019, the majority of the debt issues comprised straight debt. Convertible debt accounted for only $57.1 million of the total debt financings in the first half of the year. The top three debt issuances accounted for approximately $2.0 billion, or 86 per cent of the total debt raised in the first half of 2019.

Husky Energy Inc. had the largest debt issue in the first six months of 2019, completing a US$750.0 million (approximately CDN$999.5 million) public offering of 4.40 per cent senior unsecured notes on a ten-year term. The proceeds of the notes offering were used for general corporate purposes, which included, among other things, the repayment of certain outstanding debt securities maturing in 2019.

The second-largest debt offering in the first half of 2019 was completed by **Suncor Energy Inc.** in a public offering. During the second quarter Suncor raised approximately $750.0 million in notes with a 10-year term which bear interest at 3.10 per cent. Suncor used the proceeds from the offering to reduce its existing $1.3 billion of short-term debt and US$140.0 million of maturing high interest long-term debt, further improving its liquidity and balance sheet flexibility.

The third-largest debt financing was completed by **Gran Tierra Energy Inc.**, which raised $300.0 million in a private placement of 7.75 per cent senior secured notes due in 2027. Gran Tierra used the net proceeds from the offering to repay the outstanding amounts borrowed under its senior secured revolving credit facility, for capital expenditures and for general corporate purposes including the repurchase of its outstanding 5.00 per cent convertible senior notes due 2021. Gran Tierra is a public exploration and production ("E&P") company with operations focused in Colombia and Ecuador.

In the first six months of 2019 only one of the top four debt financings was completed by a Canadian-based company with activities focused outside of Canada. This is down compared to the first six months of 2018 when three of the top four debt financings were completed by such companies. The two top financings in the first half of this year were completed by Canadian-based companies with operations in Canada and three of the top four debt financings were used to repay or to repurchase previously-issued debt.

As previously-mentioned, equity financings totaled $292.3 million, accounting for only 11 per cent of the total capital raised in the first six months of 2019. The top three equity issuances, totaling approximately $148.2 million, accounted for 51 per cent of the total of equity raised in the first half of 2019. This is the fourth consecutive year where equity financings have declined year-over-year.

The largest equity financing was completed by **Pipestone Oil Corp.**, which received an $85.0 million equity injection from its existing shareholder **Canadian Non-Operated Resources L.P.** This equity financing was announced concurrently with the merger between **Blackbird Energy Inc.** and Pipestone Oil and in conjunction with a $26.0 million raise by Blackbird. The proceeds from this common share private placement were used to fund the go-forward entity, **Pipestone Energy Corp.**'s capital expenditure program.

The second-largest equity issuance in the first half of 2019 was a private placement completed by **PetroTal Corp.** PetroTal raised £20.0 million (approximately CDN$34.1 million) by issuing common shares at a price of £0.15 per share. PetroTal is a Canadian-based public E&P company with operations focused in Peru. PetroTal intends to use the net proceeds of the financing to accelerate its development activity in Peru.

Rounding out the top three equity issuances was **CGX Energy Inc**., which raised $29.0 million through a rights offering whereby holders of its common shares subscribed for 116,102,318 common shares. Each right entitled the holder to subscribe for one common share at a subscription price of $0.25. As **Frontera Energy Corporation** is CGX's largest shareholder and CGX entered a farm-in agreement with Frontera in February 2019, Frontera, acquired 101,316,916 common shares in connection with the rights offering. In consideration for the commitment by Frontera under the offering, Frontera received five-year warrants to purchase up to 15,009,026 common shares of CGX at an exercise price equal to $0.415 per common share. CGX is a Canadian-based public E&P company with operations focused in the Guyana-Suriname Basin. CGX used a portion of the proceeds to settle its outstanding debt and the remainder was to be used in the exploration and development of its properties in Guyana.

As the year continues, capital should continue to flow to companies with an international focus and also to domestically-focused entities active in resource plays or non-conventional assets such as oilsands.

In terms of equity financings, the trend whereby investors are being selective with the companies that they are prepared to fund is continuing and we expect this to endure for the second half of the year. Strong integrated companies with large assets that are economic in the current commodity price environment will continue to receive investor support.

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