ANALYSIS

Pandemic Leads To Increased Number Of CCAA Processes

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The COVID-19 pandemic has driven a number of both private and publicly-held Canadian oil and natural gas companies into insolvency proceedings. The majority of these companies have filed for creditor protection under the *Companies' Creditor Arrangement Act* ("CCAA") rather than heading straight into receivership.

The following explanation taken from the website of **PricewaterhouseCoopers Inc.** ("PwC") provides a description of the CCAA process versus a bankruptcy or receivership and illustrates why some oil and natural gas companies have recently gone down the CCAA route: *"A company (also referred to as the "Debtor") that has filed under the CCAA for protection from its creditors is not in receivership or bankruptcy. Rather, it has filed under the CCAA in order to devise a plan of restructuring and compromise for its creditors that avoids the company going into receivership or bankruptcy, with a view to keeping the Debtor company operating, increasing the amount that may ultimately be paid to creditors and preserving the Debtor's employees."*

Earlier this month, privately-held **Bow River Energy Ltd.** announced that it had entered into a CCAA process and **BDO Canada Limited** was appointed monitor for Bow River pursuant to an order granted by the Court of Queen's Bench of Alberta. Bow River's main producing properties are located in the Provost area of Alberta as well as in northwestern and west central Saskatchewan. Bow River's recent average daily production is approximately 1,400 boe/d consisting of 800 bbls/d of oil and 3.5 mmcf/d of natural gas.

Cequence Energy Ltd. announced late last month that it will be commencing *"a strategic process to identify and pursue potential strategic options and alternatives to maximize the value for its stakeholders,"* which will be carried out under a CCAA process. According to Cequence, *"the strategic process will explore a broad range of options and alternatives that may be available to the company to address its liquidity challenges brought on by the significant deterioration in commodity prices, driven largely by the economic impact of the COVID-19 pandemic. These options may include the sale of all or a portion of the business and assets or shares of the company, renegotiation of certain onerous contracts, refinancing, recapitalization or other restructuring alternatives. Cequence has determined that in the current circumstances it is in the best interests of the company and its stakeholders to implement such strategic process through a Court-supervised restructuring proceeding."* **Ernst & Young Inc.** ("EY") was appointed monitor for Cequence pursuant to an order granted by the Court of Queen's Bench of Alberta.

Cequence's main producing properties are located in the Simonette area of Alberta, on the Peace River Arch and in northeastern British Columbia. Cequence's average daily production for the first quarter of 2020 was approximately 5,700 boe/d consisting of approximately 1,400 bbls/d of oil and liquids and 25.5 mmcf/d of natural gas.

Delphi Energy Corp. announced in April *"that it intends to continue to carry out its strategic alternatives process, which may involve the sale of all or a portion of the business and assets or shares of the company, or a refinancing, recapitalization or other restructuring transaction,"* through a Court-supervised restructuring proceeding. PwC was appointed monitor for Delphi pursuant to an order granted by the Court of Queen's Bench of Alberta.

Delphi's main producing properties are located in the Bigstone area of Alberta. Delphi's average daily field production for the month of March 2020 was approximately 6,700 boe/d consisting of approximately 2,700 bbls/d of condensate and natural gas liquids and 23.5 mmcf/d of natural gas. In late 2019, Delphi completed a recapitalization transaction that extended the maturity date of its second lien senior secured notes by 21 months to mature on April 15, 2023, and raised $46.5 million through private placement financings for the further development of its Bigstone property.

Not all oil and natural gas companies have gone the CCAA route recently, as evidenced by **Bonavista Energy Corporation**, which announced late last week it was entering into a recapitalization transaction along the lines of what Delphi did in late 2019. If Bonavista's proposed recapitalization transaction is implemented it would reduce Bonavista's total debt by approximately $483 million (representing 56 per cent of Bonavista's current outstanding debt) and reduce cash interest payments by approximately $16 million annually (representing 43 per cent of Bonavista's current annual cash interest payments). The proposed recapitalization transaction will be implemented by way of a plan of arrangement under the *Canada Business Corporations Act* and subject to among other things, the approval of the Court of Queen's Bench of Alberta. Bonavista expects the proposed recapitalization transaction will be completed in early to mid-August 2020.

Bonavista's main producing properties are located in the Deep Basin and West Central areas of Alberta. Bonavista's average daily production for the first quarter of 2020 was approximately 67,000 boe/d consisting of approximately 22,000 bbls/d of oil and liquids and 267 mmcf/d of natural gas.

As the Canadian oil and natural gas industry continues to deal with the mess caused by the COVID-19 pandemic, we believe that more oil and natural gas companies will be pursuing a Court-supervised CCAA process. The CCAA process allows companies the ability to maximize returns to all creditors while under a Court-supervised restructuring proceeding and the possibility to come out of CCAA to fight another day.

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