March 2, 2017 • Volume 08, No. 03

PLS CANADIANCAPITAL

Serving the marketplace with news, analysis and business opportunities

ENERGY FINANCE

Suncor exits 2016 strong, beats Q4 earnings estimates

Low oil prices in 1H16 and the Fort McMurray wildfires in May did not stop **Suncor Energy** from a strong finish to the year and strong start to 2017. While FY16 revenue of $27.1 billion was down compared to $29.2 billion in 2015 due mainly to these two factors, 4Q16 revenue of $8.14 billion was up from $6.5 billion in the same period in 2015. Annual and Q4 earnings particularly reflect improvement from 2015. For the quarter, earnings were $531 million vs. a loss of $2.0 billion in the same period last year, and FY16 earnings of $445 million contrasted to a $1.9 billion loss in 2015.

Boosted utilization of Syncrude from 73% to 102% of nominal capacity.

Suncor spent $1.6 billion in Q4, which brought 2016 total spend to $6.0 billion, within its revised guidance range of $5.8-6.0 billion. As a result of this investment, Suncor achieved a new quarterly crude production record of 738,500 boe/d, including 187,000 bbl/d from its majority-owned Syncrude JV and reflecting additional working interest in the JV from its acquisition of **Canadian Oil Sands** in January 2016 and from stakes bought from **Murphy Oil** in April.

Continues On Pg 4

Step's $200MM IPO could be Canada's largest since 2014

Arc Financial-backed **Step Energy Services** plans to raise about $200 million for what will be the largest initial public offering in the Canadian oil and gas sector in over two years. According to an updated prospectus filed with regulators on Feb. 26, the shares will be sold at $14-$16 each, giving Step a $802 million valuation at the high end of the range based on its 50.1 million shares outstanding.

Step has hired more than 300 people since YE15, even as peers downsized.

This would be the largest IPO in Canada's oil and gas sector since **Seven Generations Energy's** $932 million offering in October 2014 and the first Canadian oil and gas company to IPO since **Northern Blizzard's** $500 million IPO that August. Both followed **Encana's** $1.46 billion **PrairieSky** IPO in May before oil prices crashed.

Cont's On Pg 11

Athabasca 'transformed' after wrapping up refinancing

Athabasca Oil Corp. completed a comprehensive refinancing plan that will fund its five-year growth strategy and increase its exposure in the Montney, Duvernay and oil sands regions. The company described the plan as the last step in its transformation into an intermediate oil-weighted producer with an asset base of high rate of return light oil opportunities and low-decline thermal production positions.

The refinancing supports Athabasca's strategy to cultivate its operated Montney position and funded Duvernay development through the JV with **Murphy Oil.** Regarding its thermal oil assets, a large low-decline asset base will accelerate free cash flow generation with future low-risk expansion options. The plan also facilitates the company's maturing cash flow profile aided by a diverse asset base that will provide flexibility in future capital allocation.

$240MM 2017 capex: $105MM in thermal oil and $135MM in light oil.

The five-part refinancing plan consists of Athabasca's agreement to issue secured second-lien notes due 2022 for US$450 million in proceeds that will be directed to retiring its existing C$550 million second-lien notes due November 2017, for which the company has announced the commencement of a cash tender offer.

Continues On Pg 8

Finance sector shows signs of recovery

Canada's oil and gas sector is beginning to recover after nearly three years of low oil prices, and there are signs that a longer-term resuscitation could be underway as well. The most quantifiable, company-specific data that points to the beginnings of a short-term recovery is the transition from maintenance to growth seen in 2017 budget plans and improved performance seen toward YE16. **Suncor,** for instance, reported record production of 738,500 bbl/d in Q4. Moving from micro to macro, signs of a recovery are also increasingly abundant.

Part-time employment represented 69% of all employment gains in 2016.

Energy products exports rose to $8.5 billion in December, the highest since November 2014 and nearly double the 2016 nadir.

Continues On Pg 9

Earnings & Capex

Chinook shifts entire focus to British Columbia Montney

Chinook Energy completed the sale of its Alberta oil and natural gas assets last year and consolidated its Montney footprint in Birly/Umbach area of British Columbia, which will be its sole focus this year as it allocates its entire $22-23 million capex to this area. This exclusive BC focus and the corresponding divestiture of its Alberta assets are the results of an ongoing strategic review process launched in August.

In 1Q16, Chinook commenced production from its new 25 MMcf/d compression facility at Birley. In June, it sold most of its Alberta oil and natural gas assets, including undeveloped lands in exchange for 70% of the common shares of **Craft Oil,** which were then distributed to Chinook's shareholders on Dec. 12. Chinook also completed the sale in January of oil and natural gas properties in the Gold Creek area of northwestern Alberta, which resulted in net proceeds of $8.7 million.

Sold Alberta assets to Craft for 70% stake in company & $925,000 cash.

Chinook drilled three horizontal wells at Birley/Umbach in Q4, targeting the liquids-rich natural gas in the area. The drilling of these wells was completed on schedule and under budget by around 26% with average drilling costs of about $1.28 million per well. Chinook expects to complete and tie-in the three wells during 1Q17. These wells will be a centerpiece of its 2017 plans.

Chinook, reporting its unaudited 2016 results, said expected outflow from operations in 2016 was $5.2 million. The company also exited 2016 with no bank debt and with about $15.6 million in working capital surplus.

CanadianScout Jan. 27

Chinook to concentrate solely on BC Montney.

TransGlobe builds contingency into US$56MM capex

Factoring in the uncertain trajectory of oil prices this year, **TransGlobe Energy** published both a US$35.2 million firm and a US$21.2 million contingent 2017 capex, totaling US$56.4 million, which includes US$40.2 million for its core operations in Egypt and US$16.8 million (C$22.4 million) for Canada.

The approved $12.5 million firm Canadian program consists of four horizontal multi-stage wells targeting the Cardium in the Harmattan area in central Alberta and additional maintenance/development capital for potential workover/refracs. The $9.0 million Canada contingent program depends on the results of oil prices and the results of the initial drilling program and budgets for an additional four horizontal wells in the Harmattan area.

Capital guidance of US$56.4MM includes US$16.8MM for Canada.

Fifty-six percent of the firm US$25.8 million Egypt program is allocated to exploration and the remaining 44% to development. The exploration program includes drilling eight new wells (six in the Eastern Desert and two Boraq wells) and a 3D seismic program at NW Sitra in the Western Desert. The development program calls for one development well in West Bakr K-South field, development/maintenance projects at West Gharib, West Bakr and NW Gharib.

The US$14.4 million Egyptian contingent capex is heavily weighted toward development, with US$12.2 million (86%) allocated to nine additional wells focused in NW Gharib to appraise/develop the NW Gharib discoveries and to increase West Bakr production. The budget is contingent upon timing of cargo/inventory sales, oil prices and Q1 drilling results.

In a separate announcement, TransGlobe's subsidiary **TransGlobe Petroleum International** and **Mercuria Energy Trading** signed a US$75 million crude oil prepayment agreement, the initial advance of which will be used to refinance the 6.0% convertible debentures of the company maturing on March 31.

Raging River sets '17 capex lower at $310 million

Raging River Exploration's unaudited results showed total investment of $403.5 million in 2016 compared with its $150-160 million plan. The Viking-centered company said $192 million of last year's spend consisted of acquisition capital and $211.5 million of development capital, resulting in 281 wells drilled and estimated average annual production of 17,900 boe/d (92% oil), representing YOY production growth of 20%.

QTD onstream costs averaged 5-7% higher than 2016 levels.

The company's 2017 budget is $310 million, with $100 million spent in Q1. Waterflood execution is one of Raging River's priorities in Q1 with an estimated $20 million spent on its Viking facilities.

About 85% of the $310 million capital budget will be directed toward drilling 336 net wells. Of those, 135 will be extended-reach horizontal wells drilled across the Viking asset base. Raging River will also drill nine new EOR wells for injection and convert 60 horizontal producers to injectors for $35 million.

ABOUT PLS

CanadianCapital is published every three weeks by PLS Inc.

PLS CanadianCapital covers the energy finance sector.

In addition, the CanadianCapital report has deals for sale, coded alpha-numerically. To obtain additional PLS product details, drill **www.plsx.com/publications**.

PLS Inc.

3300, 205-5th Avenue SW • Calgary AB T2P 2V7

403-294-1906 (Canada)

713-650-1212 (US)

To obtain additional listing info, contact us at **403-294-1906** or **listingmgr@plsx.com** with the listing code. Only clients are able to receive additional information. To become a client call **403-294-1906**.

Three patterns stand out this earnings season

With earnings season in full swing, Canada's oil and gas companies are detailing what they did in 2016 and what they plan to do in 2017. Three general patterns have emerged that make up the background of these reports. First, FY16 results reflect the impact of lower oil prices during 1H16. Second, 4Q16 numbers reflect recovering oil prices at year's end. Finally, companies are transitioning from maintenance to growth and allocating capital accordingly as oil prices continue to recover.

IN THIS ISSUE

Low prices in 1H16 affected FY results more than higher prices in Q4.

Suncor's FY16 revenue reflects the first pattern as low oil prices and the Fort McMurray wildfires last May contributed to a $2.0 billion YOY decline in revenue, with the latter driving the estimated cost of the Fort Hills oil sands mining project up $1.4-1.9 billion **(PG. 1).** **Birchcliff Energy's** strong momentum exiting 2016 is indicative of the second pattern. Its 4Q16 revenue of $135 million was up $60 million from the prior year quarter, and its $71.8 million in cash flow for Q4 represented a 113% increase from 4Q15 **(PG. 5).** **Cenovus Energy** reflects the third pattern, pegging its 2017 capex at $1.2-1.4 billion, up from the $1.0 billion it spent in 2016, as it plans to ramp up its Christina Lake and Foster Creek projects **(PG. 6).**

More companies this month than last are pursuing refinancing initiatives to strengthen their balance sheets. **Athabasca** completed a refinancing plan that will fund its five-year growth strategy in the Montney, Duvernay and oil sands **(PG. 1)** while **Perpetual** executes its refinancing strategy by increasing its credit facility from $6.0 to $20 million after selling its Alberta gas assets last year **(PG. 7).** Companies raising equity to fund their upcoming plans including **Prairie Provident Resources,** which will raise $8.0 million in equity financing to help fund its $41 million purchase of Alberta Red Earth assets **(PG. 4).**

Earnings & Capex

MEG reports $1.8B in 2016 revenue, set for growth in 2017

Like many of its peers, **MEG Energy** devoted 2016 to maintenance instead of growth, reducing capital spending while awaiting an oil price recovery. MEG's total 2016 revenue of $1.87 billion, vs. $1.93 million in 2015, reflects the decrease in blend sales revenue as a result of the YOY average decline of WTI oil prices. Conversely, 4Q16 revenue of $566 million—vs. $444.5 million for the same quarter in 2015—was attributable to a rise in WTI prices toward year-end.

NEB dismissed Northern Gateway application, resulting in the $80MM charge.

However, the company's net loss widened to $305 million in Q4 from $297 million in 4Q15 due to an $80.1 million impairment charge related to the Northern Gateway pipeline. MEG spent $137 million in 2016, lower than the previous guidance of $140 million and the original budget of $328 million, and far south of 2015's $257.2 million spend. Full-year production was a record 81,245 bbl/d, with Q4 production of 81,780 bbl/d, the latter increase again reflecting the oil price recovery.

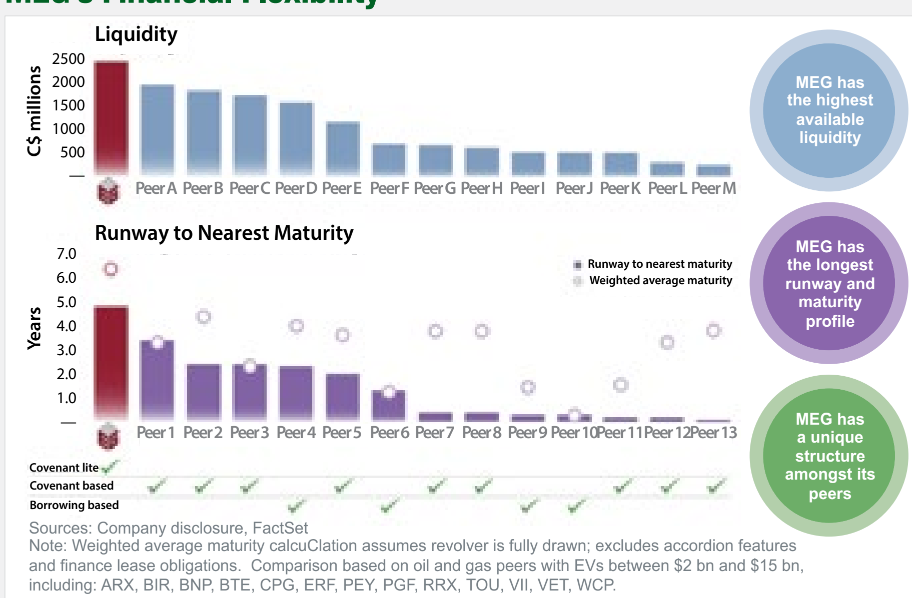
MEG's US$1.2 billion term loan will be refinanced to extend its maturity.

The results come amid the recent completion of MEG's four-part refinancing plan, which included a $518 million equity raise. The company said the transactions will enable it to increase production and reduce costs per barrel in 2017. The company previously announced 2017 capital guidance of $590 million, a significant increase from the $137 million actual 2016 spend as growth rather than maintenance becomes the focus. MEG will fund the 2017 capital program with net proceeds from the above-mentioned $518 million equity raise, internally generated cash flow and $156 million of cash on hand as of Dec. 31.

MEG has no maturies until Nov. 2021 after refinancing much of its debt.

The company identified its eMSAGP expansion at the Christina Lake Project and the upcoming Phase 2B brownfield expansion as the first of a series of high-return projects in 2017 expected to increase production, decrease cash costs and further the sustainability of the company's balance sheet. About 55% of the 2017 spend will be allocated to the initiation of the eMSAGP project.

MEG's Financial Flexibility



Source: MEG's Financial Flexibility Presentation via **PLS docFinder www.plsx.com/finder**

Earnings & Capex

Suncor exits 2016 strong Continued From Pg 1

Q4 production represented a 27% increase vs. 4Q15, and full-year production grew 8% YOY to 623,000 bbl/d. Syncrude is forecast to have costs of $32-35/bbl in 2017, also below the 2016 forecast of $37-39/bbl. Suncor exited the year with about $3.0 billion in cash, net debt to cash flow of 2.4x and debt to capitalization of 28%. With around $6.5 billion of unutilized lines of credit, Suncor says it has ample liquidity, especially because of recovering oil prices.

Fort Hills' cost raised to $16.5-17B from $14-16B due to May wildfires.

CEO Steve Williams said on the quarterly conference call that the estimated costs of the Fort Hills oil sands mining project increased by $1.4-1.9 billion because of delays caused by the Fort McMurray wildfires and construction changes to increase capacity. The estimated overall cost is now $16.5-17.0 billion. Suncor's share of the remaining project capital is between $1.6-1.8 billion, most of which will be spent this year. The project was 76% complete as of YE16. Fort Hills production is expected to gradually ramp up through 2018. Suncor says the costs will stay at around $84,000 per flowing barrel of bitumen because nameplate capacity has been boosted to 194,000 bbl/d from 180,000 bbl/d.

Fort Hills owned 50.8% by Suncor, 29.2% by Total, 20% by Teck Resources.

The company also closed the sale of its **Petro-Canada** lubricants business and its interest in the Cedar Point wind facility in 1Q17 with $1.4 billion cash received. This brought total divestment proceeds to $2.0 billion since the start of 2016, exceeding the $1.0-1.5 billion target.

Suncor 2017: Spending falls, production rises—

Suncor expects spending to fall more than $1.0 billion in 2017 with production increasing more than 13%. The $4.8-5.2 billion capex will be directed toward total production of 680,000-720,000 boe/d, mostly at its oil sands (420,000-450,000 boe/d) and Syncrude (150,000-165,000 boe/d) assets. Nearly 40% of the budget will be spent on exploration and development projects, including Fort Hills and Hebron. The Hebron oil field offshore Newfoundland and Labrador is expected to produce oil by YE17. The remaining 60% of capex will be directed to sustaining capital in the upstream, downstream and corporate segments.

Prairie Provident's $8MM equity raise funds Red Earth buy

Prairie Provident entered into an agreement with **Mackie Research Capital** for an $8.0 million bought-deal equity financing, through which MRCC will purchase 5,971,000 subscription receipts at $0.67 each as well as 5,195,000 flow-through shares at $0.77 each. Underwriters will be able to purchase up to an additional 15% of subscription receipts and flow-through shares at the same offering price for additional proceeds of up to $1.2 million.

2017 capex of $25-35 million aimed at exit production of 7,500-8,000 boe/d.

The proceeds from the sale of the subscription receipts will be held in escrow pending the close of Prairie's acquisition of assets in northern Alberta's Greater Red Earth area in a $41 million deal that complements its existing core operations at Evi in the Peace River Arch area. The acquisition is a result of the company's strategy to generate steady cash flows to fund its Wheatland and Princess developments in southern Alberta, which, along with Evi, comprise its three core areas.

The Red Earth acquisition will also be funded through Prairie's $55 million credit facility, which is expected to be increased following the closing of the deal in March. Funds flow from operations for the next 12 months is expected to increase by $12 million following the acquisition, which will encourage the company to pursue other acquisition opportunities, including its large inventory on the Mannville trend at Wheatland and Princess.

Equity

■ **Marksmen Energy** plans to complete one or more additional closings of its private placement of up to 12.5 million units at $0.10 each for proceeds of up to $1.25 million by March 3. The company completed the first closing of 1.46 million units for proceeds of $146,000. Marksmen will use the net proceeds to drill one or two offset wells to the Davis Holbrook #1 well in Pickaway County, Ohio, estimated at $400,000 each.

■ **Northern Blizzard Resources** has taken up and paid for 22.5 million common shares at $4.00 each under its $90 million issue bid. The shares represent 18.2% of the shares outstanding immediately before purchase. The company now has 101,005,757 shares issued and outstanding. 96.1 million shares were tendered. Northern Blizzard plans to spend $60 million on capex and decommissioning costs this year.

■ **Petrus Resources** placed 4.35 million shares privately at $2.53 each for proceeds of $11 million, which will partially fund its acquisition of oil and gas interests at its core Ferrier area in Alberta's Deep Basin. Petrus recently entered an agreement with **Macquarie Bank** to extend its $42 million second-lien term loan by two years and reduced the amount outstanding by $7.0 million through working capital and available credit facilities.

■ **Return Energy** will complete a private placement of 25 million shares at $0.12 each, 23 million Canadian development expense flow-through shares at $0.14 each, and 7.1 million Canadian exploration expense flow-through shares at $0.14 each, for $7.0 million in proceeds. The first tranche will close by Feb. 28 and the final tranche in March. Proceeds will go to development of its Rycroft, Gordondale, and Valhalla Albertan assets.

Equity

Questerre raises $24MM to fund Montney, Quebec ops

Questerre Energy completed its private placement of 30.8 common shares at NOK 5.0 ($0.79) each directed toward Norwegian and global investors. The proceeds of NOK 154 million ($24 million) will used to partially finance the company's Montney capital program and preliminary work for its planned Utica development project in St. Lawrence Lowlands, Quebec, where unrisked prospective resources net to Questerre are 5.8 Tcf. **Pareto Securities** and **Swedbank** were managers and bookrunners in the private placement.

Questerre's primary credit facility will be renewed at $23MM from $25MM.

Questerre plans to ramp up activity further this year pending improvement in oil prices and capital availability. $20 million of the company's $25 million 2017 capex will be allocated to its participation in up to eight wells on Montney JV acreage at Kakwa North and the remaining $5.0 million will be dedicated to infrastructure expansion.

Crew selling $300 million of senior notes in offering

Crew Energy will sell $300 million aggregate principal amount of 6.5% senior unsecured notes due 2024 in a private placement. Proceeds will be used to redeem all of its 8.375% 2020 notes. An aggregate principal amount of $150 million is outstanding and excess proceeds will be used for a non-permanent repayment of indebtedness under Crew's existing credit facility.

Provides additional liquidity to fund development of BC Montney assets.

Crew also issued a notice of conditional redemption to redeem the 2020 notes at $1,041.88 per $1,000 of principal amount redeemed, plus accrued and unpaid interest to the March 23 redemption date. **National Bank Financial Markets** and **TD Securities** were joint bookrunners and co-lead managers for the offering.

Petrocapita offers $20 million preferred trust units

Petrocapita Income Trust will offer up to $20 million of series one preferred trust units through a tied offering of company units and Class A shares of subsidiary **Petrocapita Energy Corp.** Each unit is priced at $1.00, while each share is exchangeable for 32 of the publicly traded units at any time after 18 months from the date of the share issuance. Petrocapita will use the net proceeds to acquire and develop oil and gas in the Lloydminster and surrounding area of Alberta and Saskatchewan.

Kicked off M&A in 2016 after raising $9.0 million in debenture sales.

The company also closed an additional $427,000 for proceeds so far of $6.9 million from the sale of its 8.0% secured convertible debentures. The maximum amount to be raised has also been increased to $15 million. This is in addition to the gross proceeds from the sale of a $5.0 million secured debenture of which $3.0 million was spent for the acquisition in July of the assets of bankrupt **Palliser Oil and Gas**.

Earnings & Capex

Birchcliff's Q4 $135MM revenue shows strong 2016 exit

Birchcliff Energy reported total revenue in 2016 of $263 million, down from $306 million in 2015 and $437 million in 2014. But for 4Q16, the company's $135 million of oil and gas revenue was up markedly from the $75 million for the same quarter in 2015. For the full year, capex was $762 million versus $247 million in 2015. In 2016, the company's production was 49,236 boe/d, a 26% increase from its 2015 average of 38,950 boe/d.

2017 capex includes 14 horizontal wells at Gordondale assets.

This YOY increase was largely due to its $625 million acquisition of **Encana's** Gordondale assets (Alberta) last summer as well as incremental production added from new Montney/Doig horizontal natural gas wells that were tied into the company's natural gas plant in the Pouce Coupe (100% WI) area of Alberta. The company also completed equity financings of $691 million to fund the Gordondale buy.

Q4 cash flow of $71.8MM a 113% increase from $33.7MM in 4Q15.

Birchcliff's total finding and development capital during 2016 was $165.5 million, which consisted of $76.2 million on drilling and completions, $66.8 million on facilities and infrastructure, $5.7 million on land and seismic and $16.8 million on other capital expenditures. Of the $66.8 million spent on facilities and infrastructure, approximately $27.6 million was spent on Birchcliff's Phase V expansion of the aforementioned PC Gas Plant. The capital for the Phase V expansion was primarily for the completion of the engineering, procurement and fabrication work required for the expansion.

Birchcliff spent $62 million in 4Q16 compared with $33 million in 4Q15.

For 2017, Birchcliff plans to spend $355 million with the aim of 70,000-74,000 boe/d average production. $129.2 million will be allocated to its drilling and development program at Pouce Coupe, while $81.2 million is allocated to its newly acquired Gordondale assets. The budget also includes investment of about $85.6 million for facilities and infrastructure (24% of the budget). Birchcliff plans to drill, complete, equip and tie in 46 new wells and complete, equip and tie in 10 wells drilled last year.

Bought Gordondale assets from Encana last summer for $625 million.

At YE16, the company's total debt stood at $600 million, below the previous guidance of $607 million. Birchcliff has extendible revolving credit facilities of $950 million with maturity dates of May 11, 2018, which are comprised of an extendible revolving syndicated term credit facility of $900 million and an extendible revolving working capital facility of $50 million.

Equity

Cenovus sets $1.2-1.7 billion capex after lean 2016

Cenovus Energy ended FY16 with a $545 million net loss, a reversal from FY15's $618 million in profit, but reported $91 million of net income in Q4, reversing a $641 million net loss from 4Q15—reflecting a "starting weak, ending strong" pattern many oil companies are displaying after oil prices rose from 13-year lows in 1H16 to the mid-$50s by year-end. Revenue came in last year at $12.1 billion, down from $13 billion a year earlier.

Plans to boost total production by 14% this year, driven by oil sands.

CEO Brian Ferguson said the company focused its efforts last year on cutting costs and spending less capex than originally planned as it adjusted to low oil prices. The company invested $1.0 billion in 2016, 40% less YOY and slightly less than its initial 2016 plan of $1.4-1.6 billion. Its 2017 capex is $1.2-1.4 billion, down from the original 2016 plan but a 24% increase from the amended $1.2-1.3 billion capex announced in February.

Cenovus has $4.0 billion committed credit facility maturing in 2019.

Cost-reduction initiatives—

Cenovus' per-barrel oil operating costs significantly declined. In the oil sands, they were $8.91/bbl in 2016, a 12% YOY decrease, while non-fuel oil sands operating costs were $6.65/bbl, a 13% decline compared with 2015 and 30% lower than in 2014. By YE17, the company is targeting a 48% reduction in oil sands sustaining capital costs to $7.00/bbl from 2014 levels. At Cenovus' conventional oil assets in Alberta and Saskatchewan, per-unit operating costs continued to improve, falling 10% YOY to $14.18/bbl and down 24% compared with 2014. G&A costs were $326 million in 2016, down from $335 million in 2015. In the quarterly conference call, management identified the efficiency gains that have driven capital reduction. These include 30% faster drilling times, a 35-50% reduction in the size and costs of redesigned well pads, longer-reach horizontal well pairs and enhanced start-up procedures.

Free funds flow from A&D proceeds of $9.7MM since 2010.

Cenovus ended 2016 with cash and equivalents of about $3.7 billion and $4.0 billion in undrawn capacity under its committed credit facility, with no debt maturities until 4Q19. At YE16, Cenovus' net debt to capitalization was 18% compared with 16% at the end of 2015. Its EBITDA was 1.9x on a trailing 12-month basis compared with 1.2x at the end of 2015.

Building on 2016 exit momentum—

The company achieved first oil at its Northern Alberta Christina Lake Phase F and Foster Creek Phase G expansion projects last year, which increased the company's total oil sands production capacity by 26% to 390,000 bbl/d. The ramp-up of both projects is expected to be completed in 2017. Cenovus also plans to resume investment in its Phase G expansion at Christina Lake, which it expects to complete with capital investment of $16,000-18,000 per flowing barrel.

Targeting oil sands sustaining capital costs of $7.00/bbl.

The company has also launched a targeted conventional drilling program on the Palliser Block in southern Alberta, where it has a large inventory of short-cycle tight oil opportunities. So far, the company has identified about 700 drilling locations and plans to spend around $160 million to drill 50 horizontal development wells and 60 stratigraphic wells at Palliser.

TSX gives Gran Tierra nod for issuer bid

The TSX granted approval to Colombia-focused **Gran Tierra Energy** to proceed with its normal course issuer bid. The company also announced the sale of its Brazilian assets for US$35 million, which buyer **Maha Energy** will finance through the purchase of all shares and outstanding debt of Gran Tierra.

The issuer bid allows Gran Tierra to purchase up to 19,540,359 shares, representing 5.0% of its 390,807,191 issued and outstanding shares, for one year starting Feb. 8. The brokerage firm conducting the bid on behalf of Gran Tierra is **GMP FirstEnergy** for TSX purchases and **Griffiths McBurney Corp.** for NYSE purchases.

Maha assumed operatorship of Brazil's Tartaruga oil field in December.

In the Brazilian sale, Maha provided Gran Tierra a non-refundable initial cash deposit of $3.5 million and will be required to pay US$35 million cash and arrange financial guarantees, including letters of credit or surety bonds, for work commitments totaling US$12 million. The deal will be financed through a fully committed directed share issue of SEK 91.7 million (US$10.5 million). Maha will also carry out a rights issue by June 1 of 12,919,326 shares at same price (7.10 crowns per share). **Stockholm Corporate Finance** is acting as financial adviser and **Setterwalls Advokatbyrå** is acting as legal adviser (as to Swedish law) to Maha in connection with the directed share issue and the rights issue.

The move comes as Maha seeks to grow its cash-flowing production base through the acquisition of low-risk development initiatives, and as Gran Tierra narrows its focus to its core Colombian operations.

January 14, 2015 • Volume 07, No. 01
PLS INTERNATIONALDEALS A&D
InternationalDeals Feb. 16
Maha Energy buys Gran Tierra's Brazilian assets for $35MM.

Debt

Quattro enters receivership, Hardie & Kelly appointed

The Business Development Bank of Canada, **Quattro Exploration and Production's** primary lender, obtained an order from the Court of Queen's Bench appointing **Hardie & Kelly** as receiver and manager of the company's assets and all related proceeds. The claims procedure has been suspended upon the entrance into receivership.

Loan has interest rate of 1.0% per month & 2.0% fee on $15MM total.

In early February, Quattro signed a binding term sheet with **Advisco Capital Corp.** for Advisco to provide a secured revolving credit facility and secured term loan for $15 million. The proposed loan was negotiated with Advisco to satisfy all amounts outstanding to senior secured lender Business Development Bank of Canada. Quattro said that the loan, together with non-core asset sales, will allow it to exit from its current Companies' Creditors Arrangement Act (CCAA) process.

Quattro's listing was transferred from TSX to NEX on Feb. 15.

In August, Quattro began the process of divesting its assets. In early October, Quattro was granted court approval for its application under the Bankruptcy and Insolvency Act to protect it from creditor claims while it completes the sales. On Jan. 5, the stay of proceedings under the CCAA for the company was extended to Feb. 17. Quattro then entered into a term sheet whereby its senior lender agreed to provide an additional $650,000 of debtor-in-possession financing, which brought the total amount to $1.9 million.

The term of this additional loan was to expire on March 20. As of Feb. 2, $440,000 had been advanced by the lender. However, the loan did not satisfy the conditions of the term sheet and BDC rejected the remaining interim financing and petitioned the court to appoint a receiver.

Perpetual's $70 million capex underpinned by refinancing

Perpetual Energy is enacting three new initiatives per its refinancing strategy that will underpin its $70 million capex this year. These include a $45 million second-lien senior secured term loan provided by **Alberta Investment Management Company (AIMCo),** a $9.0 million private placement, and an increase and extension of Perpetual's current bank lending arrangements to Oct. 31, which provides for a $14 million increase in total borrowing capacity under the credit facility to $20 million. These transactions will yield an additional $68 million in liquidity and reduce the company's debt load by $9.0 million to $38 million.

NPV of total 2P reserves grew by 12% in 2016 to $380.7 million.

The second-lien facility provided by AIMCo is repayable for four years following the March closing date with 8.1% annual interest. Loans will be available in an initial drawdown of $35 million on the closing date followed by a second drawdown of the remaining $10 million before Nov. 30. AIMCo will also receive warrants to buy Perpetual shares at a ratio of 120 warrants for every $1,000 committed. Perpetual will also complete a private placement of 5,143,000 shares and 1,080,030 warrants to purchase shares, per the same terms of the warrants issued with the second-lien facility, for $9.0 million of proceeds. AIMCo agreed to purchase 50% of the equity units, 5.1 million shares and 1.0 million warrants, and it will own about 4.0% of the outstanding shares and 13% if the warrants are fully exercised.

Perpetual's YE16 net asset value is estimated at $394.8 million.

In January, Perpetual completed the partial repayment and refinancing of its financial arrangement secured by 840,619 of its shares of **Tourmaline Oil** and maturing in March 2017. Perpetual sold the shares for net proceeds of $5.7 million and reduced the outstanding loan amount to $18.9 million and extended the maturity date to Aug. 1. Perpetual currently owns 1.67 million shares of which 1.54 million have been pledged as collateral against a total of $36.5 million Tourmaline share-based financing arrangements.

$68 million provides liquidity for 2017-18 drilling program.

The company has been seeking to lighten its tax and debt load through the sale of some of its gas assets in east-central and northeast Alberta, while high-grading its core assets in East Edson and Mannville. In September, the company sold all of its shallow gas assets and liabilities in eastern Alberta, excluding heavy oil and gas assets in the Mannville and Panny areas and other bitumen leases in northeast Alberta. That move followed the company's sale of its 30% partnership interest in **Warwick Gas Storage LP** for $20 million, and the sale of 23,680 acres of oil sales leases in northern Alberta, or about 9% of its 272,000-acre holdings, in exchange for $6.1 million in cash and a 1.0% gross overriding royalty.

Second lien facility repayable for four years after March closing date.

Perpetual prioritized liquidity management in 2016 through restricted capital spending, the aforementioned divestitures, and focusing on cost reduction and efficiency gains. Of the $14.5 million total spend in 2016, the company allocated $10.6 million to its liquids-rich gas assets in the west-central Alberta Deep Basin, $3.3 million to its Mannville heavy oil assets in eastern Alberta, $500,000 to its remaining shallow gas assets, and $100,000 to the Panny pilot program in the Bluesky formation in northeast Alberta. The company's 2017 budget will be directed to the development of its East Edson and Mannville assets.

Debt

Pine Cliff cuts bank debt by $125 million YOY

Pine Cliff Energy reduced its bank debt by $125 million from $155.9 million at YE15 to $30.9 million at YE16. Non-core asset divestitures, royalty sales and several other transactions brought about the significantly reduced debt level. The company also approved 2017 capital guidance of $18.5 million compared with the $10 million plan in 2016.

> *Pine Cliff could consider acquisitions this year pending oil price movement.*

In June, the natural gas producer sold fee title land and other minor overriding royalty interests to an unidentified buyer for $25 million in cash. That followed the sale of public security investments that netted proceeds of $5.5 million. In Q2, Pine Cliff sold an unidentified non-core asset producing 130 bo/d for $5.0 million. Then in Q4, the company sold all of its non-core Viking oil properties in central Alberta for $31.4 million. Consolidating with a $41 million term loan and a syndicated $85 million credit facility, together with the excess cash flow from operations, brought the company's debt down to $30.9 million.

> *Sold royalty assets for $24.7MM and non-core assets for $37MM in 2016.*

Of the $18.5 million budget, $13.5 million will be allocated to drilling in the Edson and Viking areas of Alberta and conducting recompletions in various areas. Pine Cliff expects to spend $3.3 million on major maintenance capital and $1.7 million on facility and other capital this year. Pine Cliff exited 2016 with production of about 22,000 boe/d. Volumes are expected to range 21,250-21,750 boe/d in 2017.

Athabasca wraps up refinancing

Continued From Pg 1

Concurrent with the issuance of the 2022 notes, Athabasca has established a new $120 million credit facility. The company granted an additional royalty grant to **Burgess Energy Holdings** on the acquired Leismer and Corner leases for $90 million. About $400 million have been raised in return for a sliding-scale royalty on its thermal assets that is not triggered until WTI prices hit at least US$75/bbl. Athabasca also hedged 12,000 bbl/d at an average price of C$52.75/bbl WCS for the remainder of 2017 and intends to hedge up to 50% of its corporate production this year to protect near-term cash flow. The refinancing transaction was supported by pro forma YE16 2P reserves of 1.12 Bboe, representing about 210% per share YOY growth.

> *5-year outlook expected to deliver 30% per share production CAGR.*

Athabasca's pro forma net debt is estimated at $290 million and $400 million of available liquidity on closing of the refinancing. The company expects sustainable free cash flow generation in 2018 under current strip pricing with net debt to cash flow of less than 2.5x at year-end 2018 and trending lower in subsequent years.

> *Current net debt of $300 million and total liquidity of $400 million.*

Prior to the refinancing, the most significant recent moves aimed at Athabasca's transformation were its $582 million acquisition of **Statoil's** Canadian oil sands, including the Leismer SAGD project and the undeveloped Corner lease; the $475 million Kaybob Duvernay and Greater Placid Area Montney JV with Murphy; and a contingent royalty sale on its thermal oil sands assets to **Burgess Energy Holdings**. Athabasca expects Leismer to generate more than $325 million in free cash flow over the next five years.

> *Sustainable free cash flow generation in 2018; net debt to cash flow >2.5x.*

CanadianAcquirer Dec. 14

Athabasca acquires Statoil's oil sands business for $582MM.

■ **Panorama Petroleum** extinguished all its $5.3 million in debt by converting it into 106 million shares to creditors **Maverick Petroleum** and **Larnite Corp.** at $0.05 each. Panorama also placed 10 million shares privately at $0.02 each in two tranches to gross $200,000. Proceeds will be used for staff salaries, legal and third-party corporate expenses as well as for the evaluation of new projects in the company's core areas of north-central Africa and the Middle East.

■ CSE-listed **Range Energy Resources** received secured convertible loans totaling $1.5 million from **Gulf LNG America** and **Harrington Global Opportunities Fund**, the first advances under a loan facility with both major shareholders. The loans are evidenced by a secured convertible promissory note for Gulf for the principal amount of $1.3 million and a note for Harrington for $160,000 and collateralized by all of its property. The company will use part of the principal amounts for its project in the Khalakan Block in Iraqi Kurdistan.

■ **Strad Energy Services** closed its offering of 8,928,572 shares, including 1,164,596 shares per the exercise of the overallotment option, at $1.68 each for proceeds of about $15 million. Strad will use the proceeds to pay down its bank debt of $30.2 million. Strad provides rental equipment and matting solutions to the North American oil and gas and energy infrastructure sectors.

■ **US Oil Sands** hopes to complete commissioning procedures and achieve first oil at its PR Spring Project in Utah over the next eight to 10 weeks after reaching a deal with service providers to defer payments and/or issue shares on outstanding accounts. The shares for debt agreements with four service providers provide for the issuance of 793,857 shares for $1.15 each for $912,934 in debt.

Oilfield Services

Trinidad closes US$350 million private placement

Trinidad Drilling closed its private placement of US$350 million principal amount of 6.625% senior notes due February 2025. Further, the company's cash tender offer to purchase any and all outstanding aggregate principal amount of its 7.875% 2019 senior notes expired Feb. 8. Trinidad took up all of the US$203 million aggregate principal amount of 2019 notes that were validly tendered. Trinidad also gave notice that all 2019 notes outstanding after the expiration of the tender offer will be redeemed on March 10, 2017, at their principal amount plus any accrued and unpaid interest. The company will use the proceeds from the private placement to fund a portion of the cash purchase price for the repurchase of the 2019 notes.

Long-term debt/EBITDA target range of 1.0-2.0x for lower overall leverage.

The Canada and US-focused drilling services provider has entered several transactions to refinance its fixed long-term indebtedness. Trinidad said these transactions are expected to improve Trinidad's debt to EBITDA ratio, extend its long-term debt maturities to 2025 and lower the interest rate on its senior notes from 7.875% to 6.625%.

Debt

Virginia Hills enters receivership after $95.6MM default

Virginia Hills Oil Corp. entered receivership Feb. 13 after the Court of Queen's Bench granted the application of Virginia and subsidiary **Dolomite Energy's** lenders to appoint **Alvarez & Marsal Canada** to manage its assets. The company previously received a demand notice and notice of intention to enforce security from its lenders and agreed to consent to the early enforcement of the lenders' security and the appointment of a receiver pursuant per the Bankruptcy and Insolvency Act.

Alberta-focused Dolomite is a wholly owned subsidiary of Virginia Hills.

The company announced on Feb. 2 that its syndicated credit facility had matured and remained unpaid. The failure to repay the $95.6 million principal amount constituted an event of default under the credit facility. Last August, the company extended its syndicated lending facility through Jan. 31. Its ongoing strategic review is aimed at maximizing the value of the company's Slave Point light oil resource base in the Red Earth area of Alberta.

Pengrowth to cut debt by $127 million to $1.0 billion

Pengrowth Energy plans to reduce its $1.7 billion debt by $127 million by using its $530 million cash on hand following the recent acquisition of a 4.0% royalty interest in the Lindbergh SAGD terminal. The company will retire the $127 million of convertible debentures that mature on March 31 and use the remaining $403 million to prepay US$300 million principal amount outstanding of the US$400 million 6.35% senior notes maturity July 26.

Pengrowth expects $23MM reduction in YOY gross operating expenses in 2017.

The company gave notice to the noteholders to prepay 75% of the notes plus interest. The prepayment will be made on a pro-rata basis on March 30. After these actions, the company expects its debt to be reduced to $1.1 billion and comprised entirely of senior-term notes. Pengrowth plans to apply the proceeds of any future asset divestitures to the prepayment of the remaining outstanding balance of the 6.35% notes and to prepay the remaining outstanding notes in order of maturity.

CanadianScout Jan. 18

Pengrowth ends hibernation with new thermal work.

Oil & Gas sector shows signs of recovery Continued From Pg 1

And for Q4 as a whole, Canada exported $22.7 billion in energy products, also the most since pre-downturn 2014. According to the National Energy Board, heavy crude exports increased to a record 396,000 bbl/d in November due to rising production. In the same month, output spiked 6.1% from December 2015 levels, four times the rate of growth for the Canadian economy as a whole, Bloomberg reported. Further, **Baker Hughes** data shows that the active oil rig count in Canada surpassed 300 in January, nearly 50% more than January 2016.

Keystone, Trans Mountain, Line 3 represent $20 billion investment.

Longer term, the outlook for the sector is also more bullish. US President Donald Trump's revival of **TransCanada's** Keystone XL pipeline project, joined with Prime Minister Justin Trudeau's approval of the expansion of **Kinder Morgan's** Trans Mountain and **Enbridge's** Line Three, also bode well for the longer-term outlook. The three pipelines combined represent a $20 billion investment, which the NEB says will eventually be capable of handling 20 years of expanding oil production in Western Canada.

But the overall state of O&G employment in Canada is more ambivalent. Though jobs are being added at the fastest rate since 2010, hourly wage growth is stagnating, with the average increasing only 1.0% in January from last year, the slowest since 2003, Bloomberg reported. Moreover, temporary employment is up 7.3% in January from last year, representing the largest YOY increase since 2010.

Oilfield Services

Hyduke upsizes private placement to $12.8 million

Hyduke Energy Services increased the size of its best efforts private placement of common shares at $0.34 each to 37,647,057 from 33,823,528 common shares to gross $12.8 million. Hyduke granted placement agents **Lightyear Capital** and **PI Financial** overallotment options of up to 3,823,529 common shares, which would increase gross proceeds by $1.3 million if fully exercised.

Hyduke has been vendor-approved by ~100 new customers in the past year.

The proceeds will be used to fund future acquisitions, which would further part of its major corporate turnaround and restructuring plan initiated in early 2014 before the collapse of oil prices. "With a meaningful recovery underway," Hyduke believes "now is the time" to execute its strategy to acquire compatible assets or companies per the three-year-old plan. The objective laid out in early 2014 was for Hyduke to become a key supplier of oilfield services equipment to the industry. The company said it has been awaiting "the right market conditions" to expand its rig supply (BW RIG) business which has returned to profitability in recent months. In the past year, Hyduke has been vendor-approved by about 100 new customers that it expects doing business with in 2017 and beyond.

Trican Well Services takes $50 million loss in 2016

Trican Well Service reported $352.2 million in revenue for 2016, down from $649.7 million in 2015, and posted a smaller net loss of $49.7 million last year compared with a $62.8 million loss in 2015. But comparing 3Q16 financial metrics to those of Q4, the company showed signs of improvement, reporting generated adjusted operating income of $1.1 million, $4.3 million higher than in Q3.

Revenue increased 47% sequentially, driven by a 10% increase in jobs performed and continued growth in frac stages and proppant pumped per well. Trican also increased pricing 10% from the end of Q3 to 1Q17 because of an undersupply of manned equipment in the Canadian market that resulted from a substantial increase in activity due to recovering oil prices.

Trican also continued paying down debt after the January sale of its shares to **National Oilwell Varco** and the monetization of a portion of its investment in US-based **Keane Group** for proceeds of US$20.7 million and US$28.4 million, respectively. The partial monetization of its Keane investments was a result of Keane's IPO on Jan. 20. Because the IPO valuation was substantially higher that its valuation as a private company, Trican increased the value of its investments in Keane to $231 million.

58% of 2016 revenue sourced from fracking services, 26% cementing.

Trican's Cash Flow Management

- Managing cash flow and liquidity a key focus
- Dividend suspended until financial performance improves
- Total capital spend of less than $1 million in 2016
  - No expansion initiatives will be considered until financial performance improves
- Approximately $121 million of cash and available debt as of January 26, 2017
- Proceeds from NOV transaction and corresponding working capital adjustment as well as distribution from Keane IPO total approximately CAD $73.5 million and is intended to reduce outstanding debt with noteholders and banks

Source: Trican February 1 Presentation via **PLS docFinder www.plsx.com/finder**

As activity continues rising with recovering oil prices, some of Trican's customers are increasing their work programs in 2Q17, resulting in its expectation that Q2 activity levels will be higher YOY. The company anticipates demand for its services to continue rising this year if oil and gas prices remain in the current ranges.

Midstream

AltaGas raises $2.5 billion in two offerings

AltaGas closed its bought deal offering of 12 million Series K preferred shares at $25 each for gross proceeds of $300 million on Feb. 22. Proceeds will be used to reduce debt and for general corporate purposes. **CIBC Capital Markets, BMO Capital Markets, National Bank Financial Inc.** and **Scotiabank** were the underwriters.

Capex funded through bank liquidity, preferred shares, non-core sales.

That offering came after AltaGas earlier in the month closed its public offering of 67.8 million subscription receipts at $31 each for total gross proceeds of around $2.1 billion, and concurrently completed the private placement to OMERS, the pension plan for Ontario's municipal employees, of 12.9 million subscription receipts at the offering price for proceeds of about $400 million. Net proceeds from the receipts offering and OMERS placement were used to finance AltaGas' $8.4 billion acquisition of **WGL Holdings**, which expands the company's midstream footprint in the US Appalachian Basin.

Midstream in focus in 2017—

AltaGas reported FY16 revenue of $2.1 billion, essentially flat YOY. For 4Q16, revenue came in at $661 million, compared to $580 million for the same period in 2015. AltaGas announced 2017 capex of $550-650 million, with the gas segment accounting for 65-75% of the total, with the remainder divided up between its power (8-10%) and utility (20-25%) segments. The majority of AltaGas' capex relating to its gas segment will be allocated toward its growth projects including the Ridley Island Propane Export Terminal, Townsend Phase 2, the North Pine Facility, the North Pine Pipelines, and the new Montney Gas and Liquids Processing Facilities.

2017 budget plan significantly up from 2016's $550-600 million plan.

Oilfield Services

■ **Aveda Transportation and Energy Services** closed its short-form prospectus offering after filing its prospectus on Feb. 9, issuing 37,433,625 shares at $0.60 each for proceeds of $22 million. Aveda also closed a private placement of 666,667 shares at $0.60 each for $400,000. Proceeds of both offerings will be used to reduce debt under the company's senior credit facility. The syndicate was co-led by **Beacon Securities** and **Canaccord Genuity.**

■ 2D and 3D data provider **Pulse Seismic** said 2016 data library sales revenue was $14.3 million vs. $21.2 million in 2015. For 4Q16, sales were $4.2 million vs. $8.8 million for the same period in 2015. YE16, Pulse had $5.8 million in cash and no debt. Pulse owns the second-largest licensable seismic data library in Canada, consisting of 28,642 sq km of 3D seismic and 447,000 km of 2D seismic.

■ **Raise Production** closed the two tranches of its private placement, wherein 12 million units were placed at $0.25 each for proceeds of $3.0 million. The first tranche consisted of 7,112,144 units at $0.25 each for proceeds of $1,778,036. The second tranche consisted of 1,820,000 units at $0.25 each for $455,000. The proceeds will be used for testing, development, and commercialization activities.

■ **Total Energy Services** amended its Dec. 9 offer to purchase all of the shares of **Savanna Energy Services,** raising its bid to 0.1300 share of Total and $0.20 in cash per Savanna share. Total submitted its original proposal to acquire Savanna in November, offering 0.1132 of its shares for each Savanna share. It then raised its bid and took the offer directly to Savanna's shareholders. Total is finalizing a notice of change to amend the original offer, which remains open until March 24.

Source Energy files preliminary prospectus for IPO

Canada's largest fracking sand distributor, **Source Energy Services,** filed a preliminary prospectus with the securities commissions of Canada's provinces (except Quebec) relating to an IPO of its common shares as well as a secondary offering by entities controlled by private equity firm **TriWest Capital Partners** and other Source shareholders. Source could seek a valuation of around $1.0 billion, according to sources who spoke to Bloomberg. **Scotiabank, Morgan Stanley Canada Ltd** and **BMO Capital Markets** are acting as joint bookrunners.

TriWest Capital Partners first invested in Source Energy in 2013.

The company received $130 million in a round of funding on Dec. 2 with the reported IPO in view. In that transaction, Source issued senior secured first-lien notes, which included participation from **Crown Capital Fund IV, LP**; a fund managed by **Crown Capital Partners** for $15 million. The notes bear fixed interest at an annual rate of 10.5%, payable semi-annually, and mature on Dec. 15, 2021. They also provide the holders the right to participate in the equity of the company.

Hopes to capitalize on turnaround in North America's fracking business.

In addition to frac sand, Source Energy also provides oil field logistics solutions, including the transportation, on-site delivery and handling of materials; operates rail terminals to receive and unload rail cars; and stores and handles chemicals, such as hydrochloric acid and carbon dioxide. Calgary-based Source Energy has operations in British Columbia, Alberta, Saskatchewan, Wisconsin and Texas.

Step poised for largest Canada O&G IPO

Continued From Pg 1

The Step offering is being led by **CIBC Capital Markets** and **Raymond James Ltd.,** which have the option to purchase more shares that could increase proceeds to $230 million. The Calgary-based company plans to use proceeds to pay down debt, fund its 2017 capital program and for general corporate purposes. Step provides coiled tubing, pumping and fracking technology to the Western Canadian oil industry and also has coiled tubing operations in the Eagle Ford in South Texas.

First Canadian OFS IPO since Strad Energy Services in October 2010.

While many of its peers were filing for creditor protection or divesting assets, Step took advantage of the oil price downturn by increasing its size and scope. Its April 2016 acquisition of the Canadian pressure-pumping, coiled-tubing and cementing assets of **Sanjel Corp.** more than doubled the size of its fleet from 115,000 hp to 280,000 hp, making it the largest privately held completion services company in Western Canada. Analysts pegged the value of the deal at about $200 million. Step now believes that the recovering market "should increase demand for services and create a more positive environment for its services than has been experienced in the prior two years."

Step is third-largest pressure pumper in Canada after Trican & Calfrac.

Step recently announced the completion of a coiled tubing project on a four-well pad in the Duvernay play where it achieved a new Canadian record depth of 7,115 m with 2-3/8 in. coil tubing. Step's overall depth record of 7,150 m was achieved in September 2016 for a client in South Texas.

Midstream

Enbridge $34 billion 2016 revenue up YOY, earnings down

Enbridge reported 2016 revenue of $34.5 billion compared with $33.8 billion in 2015. Earnings last year came in at $1.78 billion, vs. $2.2 billion in 2015, while Q4 earnings were $365 million. The company also closed its $59 billion merger with **Spectra Energy**, creating a company with a $165 billion enterprise value and a $26 billion portfolio of commercially secured growth projects through 2019. Cash flow from operations was $879 million for Q4 compared with $876 million for the same quarter in 2015. Cash flow was $3.7 billion in FY16 vs. $3.1 billion in 2015. The YOY increase was due mainly to lower maintenance capex compared to 2015 as higher expenditures in Enbridge's gas distribution segment were offset by lower maintenance capex in the liquids pipelines segment.

Enbridge raised $750 million in preference shares in 4Q16, US$750 million of hybrid securities and US$1.5 billion of term debt. The preference shares and hybrid securities offerings represent about $900 million in common equity equivalent funding that will be used to finance the Bakken Pipeline System, in which it recently acquired a 27.6% interest for $1.5 billion, and the acquisition of a 49.9% stake in German energy firm **EnBW's** planned North Sea wind park Hohe See Offshore Wind Project for $1.7 billion. It also plans to monetize $2.0 billion in assets to provide for financing flexibility over the next year.

NGL buy boosts Inter Pipeline's Q4, YOY results

Inter Pipeline reported a rise in both annual and quarterly revenue, with $1.8 billion of revenue in 2016 and $560.7 million in 4Q16, vs. $1.6 billion in 2015 and $455.7 million in 4Q15. The oil transportation segment continued to bring in the most revenue of the company's four segments: $778.6 million in 2016, up about $1.0 million YOY, while the conventional oil pipeline, NGL processing and bulk liquid segments brought in a total of ~$1.0 billion compared with $908 million in 2015. Recovering commodity prices and a new growth platform established via the $1.35 billion acquisition in September of **Williams'** Canadian NGL business largely accounted for the positive results.

Identified ~$4.0 billion of long-term potential oil sands opportunities.

The acquisition contributed to record funds from operations in 2016, which increased by $74.7 million from 2015 to $848.8 million. The NGL processing division generated most of this increase at $147.8 million, driven by the full quarter of cash flow from the new assets and higher propane-plus frac-spread pricing at the Cochrane straddle plant. The segment contributed $65 million of cash flow in 4Q16, $27 million of which was sourced from the acquired Williams business.

Over $580 million in announced bolt-on oil sands connections.

Funds flow from operations from the oil sands transportation segment reached a record $581.6 million in 2016, compared to $569.1 million in 2015, driven by revenue associated with the expansion of the Kearl oil sands project and other increases in capital fee payments. Bitumen blend and diluent volumes averaged ~1.1 MMbbl/d for the year, a 5.0% increase over 2015. Inter Pipeline's late 2016 acquisition of **Canadian Natural Resources Ltd's** 15% interest in the Cold Lake pipeline system for $527.5 million and its long-term, take-or-pay arrangement with CNRL to transport diluent and bitumen blend for its Kirby North SAGD oil sands project will further strengthen this segment in 2017.

Inter Pipeline issued $450 million of 10-year senior unsecured notes in December. Proceeds from this offering and a $177.5 million common share issuance to CNRL were used to fund the acquisition of the remaining 15% interest in Cold Lake and reduce bank debt. At YE16, Inter Pipeline had $587 million of available capacity on its $1.5 billion revolving credit facility and had a consolidated net debt to total capitalization ratio of 57.2%.

MidstreamNews Dec. 12

Inter Pipeline takes Cold Lake pipeline stake to 100%.

Developments & Trends

'Trump tax' still weighing on Canadian investors' minds

Discussions about the implications of the so-called "Trump border tax" on the Canadian oil sector have grown more frequent over the last month. As Canada's oil companies report their Q4 and FY16 progress, growing concerns are being expressed about the potential impact of the border tax.

Tax would raise import costs ~25% by eliminating existing tax write-off.

ConocoPhillips CEO Ryan Lance said in the company's 4Q16 conference call that there "is a lot of uncertainty on the border adjustment tax and its potential impact on how crude and other products move across the border." He added, "There's a little bit to be seen yet, what that means. Does it get exempted, or how are the details of that going to unfold? We're watching it closely." Conoco achieved record production in its Alberta oil sands operations in Q4, averaging 213,000 bbl/d.

The import tax is part of a series of reforms that would also steeply cut the corporate tax rate. The chief aim is to increase US manufacturing by discouraging imports from other countries.

Analysts at **RBC Capital Markets** said that Canadian investors' concerns include the impact of recovering oil prices on production, the effect of higher interest rates and the potential effects of changes in US tax policy. "In general, it appears that the market is shying away from the uncertainty," they said, "and we look to the various conference calls to see if the companies provide color that helps define the upside and downside scenarios to enable investors to move forward with greater confidence."

Canada O&G so far ambivalent on Trump: import tax bad, Keystone OK good.

CapitalMarkets Jan. 23

Quick changes to US energy policy expected.

Developments & Trends

Canada's banks start lending again to O&G companies

Many Canadian oil and gas companies have had their credit lines cut over the past three years due to low oil prices. But now credit has begun to flow more freely to the sector as prices have rebounded since late 2016 when OPEC and major non-OPEC producers agreed to cut output.

Doubling of oil prices since Feb. 2016 has prompted banks to extend credit.

The improved credit availability partially explains why only $220 million has been placed from a $750 million Export Development Canada Fund set aside in February 2016 to support small and mid-cap oil and gas companies impacted by low oil prices, Mark Stenn, Western Canada VP for the government-owned credit agency, told the Canadian Press. If current market and price conditions continue, Stenn says he expects the EDC to place an additional $100 million in loans by this fall on top of his previous expectation to place about $300 million in loans in the first year.

Lenders mostly favoring larger, more financially secure producers so far.

That would be a marked improvement from the past few years. **Barclays** recently calculated that over the five quarters ended Sept. 30, Canada's six largest banks took $1.3 billion in energy industry loan loss provisions. Barclays analyst John Aiken told the Canadian Press that banks did the bulk of their oil and gas sector loan loss writedowns in 1H16 and since then provisions for losses have tailed off.

John Rooney, CEO of mid-cap producer **Northern Blizzard Resources**, which had its borrowing base reduced twice in 2016, said the bank lending sector is growing more comfortable with the stability of oil prices, which have doubled since February 2016, and are hence lending more. "There is a stratification, in that banks appear to be pretty comfortable with mid-market and up but are still being pretty tight with smaller companies," he was quoted as saying.

Modest O&G salary increases expected as oil prices recover

Recovering oil prices has prompted Alberta government and oil industry officials to adjust their salary projections since last summer, according to a survey conducted by **The Conference Board of Canada**. Though projected salary increases have generally remained unchanged since last summer, the energy sector is responding to higher oil prices with greater confidence in business conditions and "a slightly better" outlook for compensation.

The survey showed 77% of O&G organizations believe business conditions will improve compared to just 9.0% in 2016. Only 8.0% believe that business conditions will deteriorate and 68% expect conditions to be similar to those in 2016. Projected salary increases in the O&G industry rose from 1.1% in the summer to 1.4%. Overall salary increase projections have remained muted since the summer due to the ongoing downward pressure exerted by the struggling labor market. Most projected increases remain in line with those made in the summer except for Alberta and Saskatchewan. Alberta organizations expect slightly higher increases since the summer, from 1.4% to 1.6%. In Saskatchewan, projections have been decreased from 2.4% to 1.9%.

Alberta's GDP expected to expand 2.8% but mixed impact on jobs creation.

Higher oil prices yield trade surplus for 2 straight months

Canada posted a trade surplus for the second consecutive month in December, the first time this has happened in two years. Recovering oil prices and the dwindling impact of last year's Fort McMurray wildfires helped produce the country's first positive trade balance since the beginning of the oil price downturn in mid-2014.

Canada's trade balance posted a $612 million surplus in 4Q16, compared with an $8.6 billion deficit in the previous three months, Canada's federal statistics agency reported. The $923 million December surplus followed the revised $1.0 billion surplus posted in November. Energy product exports increased 16%, the largest monthly gain since 2010, which helped offset a decline in shipments of manufactured goods.

Strong end to tough year: merchandise trade deficit rose to record $26.1B.

For FY16, Canada's merchandise trade deficit increased to a record $26.1 billion from $23 billion in 2015. Non-energy exports were down 2.1% in December, driven by a 5.2% decline in exports from the motor vehicle industry. For the first time in over a year, energy exports surpassed motor vehicle shipments in December. Consequently, Canada's trade surplus with the US narrowed to $4.42 billion in the month from $4.74 billion in November.

Canadian Upstream Market Movers—Last 30 Days

Source: Bloomberg

	Company	Ticker	$/Share 2/28/17	$/Share 1/27/17	% Change	YOY % Change
Top 5	Paramount Resources	POU	$17.43	$16.67	5%	238%
	MEG Energy	MEG	$7.10	$6.92	3%	50%
	Parex Resources	PXT	$15.82	$15.58	2%	66%
	Whitecap Resources	WCP	$10.87	$10.71	1%	47%
	Suncor Energy	SU	$41.35	$41.32	0%	26%
Bottom 5	Bonavista Energy	BNP	$3.75	$4.69	-20%	67%
	Painted Pony Petroleum	PPY	$6.87	$8.34	-18%	78%
	Trilogy Energy	TET	$5.72	$6.86	-17%	93%
	Birchcliff Energy	BIR	$7.16	$8.43	-15%	43%
	Encana	ECA	$14.72	$17.09	-14%	177%

Note: data includes public, Canadian-based companies operating in the oil & gas space, limited to companies >$1.00/share and market cap >$100MM.

CENTRAL ALBERTA

ALBERTA NON-CORE PROPERTY

PP

2-Producing Properties.
BRAZEAU, PEMBINA, WOLF LAKE---
- HINTON & WASKAHIGAN AREAS
Cardium, Rock Creek, Ostracod, Shunda-
--Mannville And Other Formations.
WORKING INTEREST FOR SALE
Feb 2016 Avg. Production: 502 BOEPD
Comb. Operating Income: $1,400,000
Total Proved Reserves: 2,966 MMBOE
CONTACT AGENT FOR UPDATE
PP 11425

~500 BOED

ALBERTA OPPORTUNITY

L

26.25-Sections of Land. 16,800 Acres.
WASKAHIGAN / KAYBOB T59-65.
Duvernay Land Rights.
Unencumbered Crown Lands.
Seismic Data & Stratigraphy Available.
100% WORKING INTEREST FOR SALE
ORIGINALLY Q3 2016 SALE
CONTACT AGENT - POST BID STATUS
L 11247DV

FOR SALE

ALBERTA PROPERTY

PP

2-Producing Wells. 1-Water Injection Well.
PEMBINA.
Nisku Oil Pool.
1-Water Potential Injector Well And ---
---Associated Pad Facilities.
46.875% OPERATED WI FOR SALE
Gross Production: ~1,500 BOED
Original Oil-In-Place: 8.2 MMBBLS
ORIGINALLY Q4 2016 SALE
CONTACT AGENT FOR UPDATE
PP 11179DV

~1,500 BOED

BUYERS! NO COMMISSIONS

ALBERTA PROPERTY SALE

PP

2-Producing Properties.
BIGSTONE & WILSON CREEK
3-Horizontal Montney Producing Wells.
2-Belly River Oil Producing Wells.
Natural Gas Infrastructure Available.
OPERATED & NonOp WI FOR SALE
Comb Est. Net Production: 49 BOED
PV10 Value: $11,600,000
Total Proved Reserves: 983 MBOE
ORIGINALLY Q4 2016 SALE
CONTACT AGENT FOR UPDATE
PP 11101

49 BOED

ALBERTA PROPERTY SALE

PP

1-Producing Property.
NITON / MCLEOD AREA T54-56.
Production From Cardium, Wilrich--
--And Lower Mannville Formations.
OPERATED WI FOR SALE
Recent Net Operating Income: $90,000/M
Est, Net PV10 Value: $26,200,000
Total Proved Reserves: 3,208 MBOE
CONTACT AGENT FOR UPDATE
PP 11275DV

195 BOED

CENTRAL ALBERTA

CANADA PROPERTY PACKAGE 5

PP

24,000-Gross Hectares. 7-Wells.
ALBERTA
BIRCH HILLS EAST AREA. T75-81.
Peace River Arch & Wabamun Formations.
Varying OPERARED & NonOp WI
Total Net Production: 45 BOED
Proved Plus Reserves: 81 MBOE
ORIGINALLY Q3 2015 SALE
CONTACT AGENT - POST BID STATUS
PP 12205

SUB PACKAGE

CALL PLS FOR INFO

CANADA PROPERTY PACKAGE 6

PP

21,000-Gross Hectares. 10-Wells.
ALBERTA
BIRCH HILLS WEST. T75-81.
Peace River Arch & Wabamun Formations.
OPERATED & NonOP WI FOR SALE
Total Net Production: 145 BOED
Proved Probable Reserves: 1,007 MBOE
ORIGINALLY Q3 2015 SALE
CONTACT AGENT - POST BID STATUS
PP 12206

145 BOED

CENTRAL ALBERTA ASSET SALE

PP

11-Units. 327-Sections. ~210,000 Acres.
SWAN HILL AREA
BEAVERHILL LAKE FORMATION
Low Risk - Impactful Opportunites
OPERATED WI AVAILABLE
Current Production: 13,000 BOED
12-Mn Avg Operating Income: $4,166,666
Total 2P Reserves: 74.8 MMBOE (76% Oil)
Total 2P Reserves PV10: $951,000,000
CONTACT AGENT FORE MORE INFO
PP 13542

13,000 BOED

DEALS FOR SALE

NONCORE ALBERTA LAND SALE

PP

50-Sections. 1-Producing Hz Well.
KAYBOB. T62-65.
Duvernay Rights.
Swap & Farmout Proposals Considered
100% OPERATED WI FOR SALE
Current Production: 50 BOED
CONTACT AGENT FOR UPDATE
PP 11001

~50 BOED

EAST ALBERTA

ALBERTA NON-OP PROPERTY

PP

1-Producing Well. 4-Non-Unit Wells.
HARMATTAN EAST T32.
Upper & Lower Viking Formation.
Oil & Natural Gas Non-Unit Wells.
Horizontal Well Potential.
Non-Operated WI FOR SALE
Total Net Production: 100 BOEPD
Total Income Q4 2015: $170,000
Total Proved Reserves: 514 MMBOE
Total Proved Plus Probable: 1,229 MMBOE
CONTACT AGENT FOR UPDATE
PP 11224

100 BOED

People & Companies

■ **Blackbird Energy** hired *Paul Goodman* as manager of completions and production. He was previously responsible for multi-pad completions programs and Blackbird's fracking business in the Alberta Montney. Additionally, David Mills was named Blackbird's manager of facilities engineering. Mills has held senior positions with **Mosaic Energy, ConocoPhillips, Imperial Oil, Canetic Resources** and **Qatar Liquefied Gas Company.**

■ **Hyduke Energy Services** announced the appointment of *James M. Hill* to the position of interim CFO. He will work with CEO *Patrick F. Floss* and the board to execute the company's strategy launched in 2014 to acquire compatible assets or companies. In September, the company expanded its board of directors to bring in more corporate finance and M&A experience and improved financial management processes for monitoring cash flow, fabrication margins and bidding win/loss ratios.

■ **Inter Pipeline** appointed *Christian Bayle* to its board of directors. Bayle has been an employee of Inter Pipeline for nearly 20 years, including serving as its president and CEO since January 2014. He joined Inter Pipeline in 1997 and prior to his role as CEO he was VP of operations, SVP of corporate development and COO.

People & Companies

■ **Bellatrix Exploration** appointed *Brent Eshleman* as president and CEO, a position that he has held on an interim basis since November when *Raymond Smith* announced his retirement from these positions after leading the company since January 2009. Eschleman joined Bellatrix's board as EVP in July 2012 and was named COO in September 2014.

■ *Daryl H. Gilbert* resigned from the board of directors of Calgary-based, Europe-focused **PRD Energy,** of which he became an independent director in 2010. Since 1985, he has been CEO of **Bondi Energy.** He is a managing director of private equity firm **JOG Capital**, which primarily is involved in deal sourcing and investment analysis. In June, PRD completed the review of its strategic alternatives process and decided to commence the orderly liquidation and dissolution of the company, which began in late August.

■ Montney-focused **RMP Energy** announced the retirement of *Doug Baker* from the board of directors. He was chair of the company's audit committee and a member of RMP's Engineering, Health and Safety Committee and the Governance and Nominating Committee. The board now consists of *Josh Young, Andrew Hogg, Jim Saunders, Craig Stewart* and *Lloyd Swift.*

■ **Suncor Energy** announced the retirement of Chairman *James (Jim) W. Simpson*. *Michael Wilson*, appointed to the board in February 2014, will replace him. Wilson has extensive management experience in the petrochemical sector, including as former CEO of **Methanex Corp.** Simpson joined Suncor's board in 2009 after the merger with **Petro-Canada.** He is also past-president of **Chevron Canada Resources.**

Analyst Takes

Canadian Natural Resources (CNQ; $39.30-Feb. 1; PT-$46.00)

Reduction in operating cost guidance implies a $130mm annual cost improvement. CNQ lowered its 2017 SCO operating cost guidance by $2/bbl to a range of $24/bbl-$27/bbl. This guidance is above Q4 average operating costs of C$22.53/bbl- but the guidance reflects a planned 24-day, Q3 maintenance turnaround and tie-in activities related to the Horizon Phase 3 [oil sands] expansion. The $2/bbl reduction equates to roughly $130mm of savings at our 178 mbpd 2017 production estimate and could increase EBITDAX by ~2%. —**Barclays**

MEG Energy (MEG; $6.33-Feb. 9; Equal Weight; PT- $8.00)

MEG should be able to fund additional growth projects, such as brownfield expansions, as its eMSAGP expansion drives incremental cash flow. Additionally, with the refinancing of much of its debt, MEG has no maturities until November 2021 and **should be able to naturally work down debt as incremental cash flow comes online.** —**Barclays**

Wood Mac: Earnings diagnose what 'lower for longer' looks like

Those who predicted that oil prices would remain "lower for longer" have so far been validated. Though recovering from the upper $20s/bbl range this time last year, prices are still a far cry from the ~$100/bbl levels this time three years ago. As earnings season is in full swing, companies are adjusting their budgets and operations to the new $50s/bbl reality.

"[These earnings] will be a good data point in regards to what business-as-usual operations look like in this new world…I think that we've hit the bottom of what the cost cycle is going to look like," Stephen Kallir, a Calgary-based analyst with **Wood Mackenzie,** told the Financial Post.

BMO: Dollar, oil prices aren't going to decouple

At the macro level, the value of the US dollar and crude oil prices are highly correlated, and this is unlikely to change in the short- and medium-term. In Canada, a rising dollar is largely due to rising oil prices before other factors, according to one analyst.

"Most companies and investors take the view that the dollar is pretty tightly linked to oil prices and it's not going to decouple…So if the dollar is rising it's probably more a function of rising oil prices than something else in the Canadian economy," said Randy Ollenberger, a Calgary-based analyst with **BMO Capital Markets.**

Barclays: Banks start to selectively lend to Canadian O&G firms

As oil prices recover, Canada's major banks are slowly and selectively beginning to extend credit. But analysts note that lenders are mainly favoring mid-cap and large companies, as full-throttled confidence hasn't yet returned concerning smaller players.

"It's not surprising that the traditional banks are definitely more open to lending. Part of it is the recovery in WTI. But we've had very significant resiliency in terms of the energy companies operating in Canada," **Barclays** analyst John Aiken told the Canadian Press.

GMP: Canada's oil sands 'not as sexy as they used to be'

With **ExxonMobil** and **ConocoPhillips** erasing their Canadian oil sands reserves, and **Shell** planning no new investment in the region, it has become apparent over the last month that the IOCs are looking to less costly projects as oil prices, though recovering, are remaining lower for longer.

"The oil sands are not as sexy as they used to be. The focus is on the United States--there are more immediate returns and lower drilling costs," **GMP FirstEnergy** analyst Martin King told Reuters.