

X. Financial Aspects of Petroleum Development

It is the policy of federal and provincial governments in Canada that petroleum and natural gas resources are to be developed by private enterprise. All phases, from exploration through to marketing, are financed by industry. Possibly the only exceptions are the natural gas distribution activities of the Saskatchewan Power Corporation, a Crown company of the Government of Saskatchewan, and the role of the federal government in building part of the Trans-Canada natural gas pipeline. The part of the Trans-Canada line being built by the federal government will be turned over to Trans-Canada Pipe Lines Limited as soon as the company is able to purchase it.

Certain institutions provide assistance to companies in finance matters. Prominent among these are Canadian banks. There are nine chartered banks in Canada all of which operate under Government charter and in accordance with provisions of The Bank Act. Under Section 82 of The Bank Act, "production loans" may be granted to oil companies actively engaged in drilling for oil and gas. Such loans make funds available for immediate use in anticipation of future proceeds of the sale of production. A company with limited cash resources may thus borrow against its future production in order to provide ready funds for its current program. The company must, however, have other developed and producing properties with sufficient reserves adequately to secure its loan obligation. Under Section 86 of The Bank Act, equipment and supply companies servicing the oil industry may borrow against existing inventories. A petroleum refinery may borrow against the security of its crude oil and petroleum products inventories, under terms of Section 88. Drilling contractors and geophysical companies may borrow from the bank against an assignment of accounts receivable. A Canadian company operating as a subsidiary of a foreign corporation may finance its operations under certain circumstances by borrowing from the bank under the guarantee of the parent corporation. Oil companies who have arranged a public stock issue may obtain a short term bank loan against an assignment of the proceeds of the underwriter's sale of their shares and/or debentures. In general, most bank lending to the oil industry in Canada is of a relatively short term variety.

Trust companies also have an important role in petroleum financing in Canada. Canadian banks, by law, are not permitted to provide trustee service, this work being allocated to trust companies. The trust company acts as a stock transfer agent or registrar when an oil company creates its capital and makes a public issue of common, preferred or other shares. As a transfer agent, the trust company keeps accurate records of the issuance of share capital and up-to-date particulars of changes in share ownerships. Other services relate to distribution of dividend cheques and the convening of shareholders meetings. Trust companies are also active in matters concerning oil royalty distribution. One of their most important functions is that of trustee when financing is undertaken by raising capital through borrowings from the public or from other companies or institutions. Through these and other specialized services, trust companies (which are not in any way affiliated with government) play an important role in petroleum financing,