Sign Up with the Oilfield News Online

Weekender

# Oilfield NEWS

www.oilfieldnews.ca



Published By: NEWS COMMUNICATIONS since 1977

Saturday April11th, 2015

## CANADIAN OIL COMPANY TO LIQUIDATE DUE TO CRISIS IN YEMEN

Canadian oil and gas producer Calvalley Petroleum Inc said on Thursday it will liquidate and restructure due to the political crisis in Yemen, where it has almost all of its operations.

The Calgary-based junior has a 50 percent working interest in a block in Yemen's Sayun-Masila Basin, producing 3,700 barrels per day gross, but was forced to shut down production on Tuesday as conflict in the Middle Eastern country escalated.

The block is owned by the Yemeni government.

Saudi Arabia and Arab allies have launched air strikes against the Iran-allied Houthi movement in Yemen, which has taken most of the country and forced President Abd-Rabbu Mansour Hadi to flee to Riyadh.

The company said its efforts to diversify out of Yemen or sell itself or its assets had not resulted in "compelling" opportunities.

Under the restructuring, shareholders will have options to buy shares in the company's unlisted unit, Calvalley Energy Ltd. Those who decide not to participate in the option will receive cash. Calvalley's financial chief said both options are better than trying to sell one's shares.

"With the current events in Yemen and lack of other alternatives we think this is the best position for shareholders at the moment," said Gerry Elms, Calvalley chief financial officer.

Shareholders will vote on May 8 on whether to take shares in Calvalley Energy Ltd, a private subsidiary in Cyprus.

Elms said there may be an opportunity to list Calvalley Energy Ltd as a public company in future, but much would depend on the situation in Yemen and whether production is able to resume.

"We have no indication when or if things in Yemen are going to improve. It's difficult to put a crystal ball in front of you and say what will happen," he added.

Calvalley also has a small working interest in a property in Saskatchewan, Canada, although Elms said that related to reclamation liabilities.



## CANADIAN OIL PATCH FIRMS PREPARE FOR LONG-TERM RECOVERY

Companies operating in the Canadian oil patch say they are coping with the downturn, and planting the seeds



To receive our Online Publication, please fax back with your email in the space provided to 1(800) 309-1170: ____________________

for a rebound when prices recover.

"What we are seeing today will pass," Christian Bayle, president and chief executive officer of Calgary-based oil storage and pipeline company Inter Pipeline Ltd., told investors at an industry conference in Toronto Thursday. While short-term prospects, especially for the oil sands, may seem diminished, "there is still going to be a lot of growth over the long term," he said.

While low oil prices are forcing many companies to cut capital spending and trim work forces, some are still generating solid profits if they have low-cost assets.

Cenovus Energy Inc. chief financial officer Ivor Ruste told the conference that two of his company's key oil sands projects, Christina Lake and Foster Creek, have a "break-even cost" of between $40 (U.S.) and $45 a barrel, so they remain profitable even at current prices. "You can see that even in a low oil price environment, we have the opportunity to make money, and will continue to expand those two particular assets."

Oil was trading Thursday at just over $50 a barrel.

To ensure the company can keep funding those low-cost projects in light of cash-flow constraints, Cenovus raised money in an equity offering early this year – a deal that generated $1.5-billion. It didn't want to sell any assets – which would have sold at cut-rate prices – to raise the money, Mr. Ruste said.

Cenovus plans to continue expansion of Christina Lake and Foster Creek "even at these lower prices," he said. And "as we see a line of sight to higher prices – $60 or $65 [and] longer term to $75 – we will continue to expand our oil sands portfolio" beyond those projects, he added.

On the other side of the continent, the break-even cost of East Coast offshore oil is even lower, said Jim Keating, vice-president of oil and gas for Nalcor Energy Inc., the provincial entity owned by the Newfoundland and Labrador government that takes a stake in offshore projects.

"Our break-evens are between $20 and $35 a barrel across the offshore projects," Mr. Keating told the conference. "It is only when we get out to deep water we may creep up to the 50s and 60s. So in terms of robustness and resilience to the market pressures, we are pretty good."

While many producers have been hit hard by the sharp drop in oil prices, firms operating in some other sectors of the oil patch have not taken an immediate hit because the nature of their business gives them stable cash flow.

That's the case at Gibson Energy Inc., a Calgary-based firm that owns terminals and storage facilities. "We underpin all the infrastructure that we are investing in with longer-term, very stable fixed-fee contracts," CEO Stewart Hanlon said. Indeed, in the current environment storage has been a growth area as there is an incentive to hold onto supplies rather than sell at low prices.

Bruce Beynon, vice-president of exploration at junior oil producer Raging River Exploration Inc., said his firm made very good returns at $70 a barrel on some wells and an "exceptionally quick payout" at $90 or above. "There is a tremendous amount of torque to oil price recovery," he said. Firms like his "really have the ability to move capital into the ground fast" when prices rise.

If prices don't rise soon, a lot of oil assets will go on the auction block and become available to acquisitors with strong balance sheets. Mr. Beynon said if oil prices stay low, the "garden hose" of good assets that are currently being put up for sale "is going to become a fire hydrant by the fall."



## CANADIAN SHALE IN 2015 - NEW REALITY

The WTI oil price being around 55 $/bbl and AECO gas price around 2.5 $/GJ have significantly affected the upstream activities in Canada. Rystad Energy forecasts ~30% decrease in the total 2015 upstream activity in the Canadian tight oil and shale gas plays, compared to 2014. Regarding production levels, the industry will further see the impact in 2016 as a result of the cost cuts during 2015. Rystad Energy expects the 2015 shale production to be 16% higher compared to 2014.

There are only a handful of companies active in Canadian Shale that are expected to realize a positive free cash flow from their shale operations in 2015 (Figure 1). Crescent Point Energy has the highest FCF from its shale operations among Canadian operators. The company has maintained a 2015 budget at nearly $1 billion to be invested in its shale operations, primarily in the Bakken Shale Play in Saskatchewan, Viking and Shaunavon. The peer group, which includes shale-focused companies in Canada, has decreased its 2015 capital spending by 35% on average, compared to 2014 spending levels. The spending cuts range from ~10% to almost 80%; and we can observe cuts across the board.

On average, the upstream companies in Canada are more disciplined when it comes to their debt. The average debt to total assets ratio for the largest shale companies in Canada is 22% (Figure 2). This is 4% lower than for the peer group in US, including the largest shale players. For instance, companies like Painted Pony Petroleum reported not to have any debt.

The well count for Canadian shale plays split by the breakeven prices. In 2015, 75% of the wells are expected to be drilled with a wellhead breakeven price lower than 60 $/bbl. These wells will be drilled in the core positions of Bakken Shale, Viking and liquid-rich Montney. Non-core and exploration activities are expected to be lower in 2015 and 2016 compared to the historical developments. The shale activity is expected to recover in 2017 and 2018 as a result of higher oil prices. Most of the growth will come from wells with breakeven prices above 60 $/bbl.

| 9-Apr | | | | |
|---|---|---|---|---|
| 2015 | | | | |
| | Active | Down | Total | % Active |
| | | Western Canada | | |
| AB | 55 | 473 | 528 | 10% |
| SK | 6 | 124 | 130 | 5% |
| BC | 26 | 55 | 81 | 32% |
| MB | - | 15 | 15 | 0% |
| WC Total | 87 | 667 | 754 | 12% |
| | | Eastern Canada | | |
| QC | - | 1 | 1 | 0% |
| Canada | 87 | 668 | 755 | 12% |