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Published By: NEWS COMMUNICATIONS since 1977

Saturday May 30th, 2015

WHY A TAKEOVER OF CANADIAN OIL SANDS LTD IS UNLIKELY

Canadian Oil Sands Ltd. (TSX:COS) is, in many ways, a unique energy company. Unlike its competitors that are diversified across geography, assets, and product type, Canadian Oil Sands has one asset—its 36.74% stake in the Syncrude oil sands mining project.

This lack of diversity provides both risk and opportunity, and Canadian Oil Sands embraces both of these by being one of the few Canadian energy companies that chooses to expose itself directly to oil prices by having no production hedged.

As a result, Canadian Oil Sands was hit exceptionally hard by the oil rout, with its current share price 54% lower than it was in September 2014. This has prompted takeover rumours, as larger producers seek to purchase high-quality assets at attractive prices. Canadian Oil Sands fits the criteria, having access to over 40 years of reserves (with the possibility to extend it over 10 years should the Mildred Lake Extension project go through), and it has a non-declining production profile that keeps sustaining capital costs low.

The result is that Canadian Oil Sands has been called a prime candidate for takeover. Here's why this is not as likely as it seems.

Who would buy Canadian Oil Sands? The most obvious possibilities would be Canadian Oil Sands fellow Syncrude owners. While Canadian Oil Sands is the largest owner of Syncrude, the second- and third-largest stakes belong to Imperial Oil Ltd. and Suncor Energy Inc., with 25% and 12% stakes, respectively. One or both of these companies would be the most probable buyers given the fact that they already own stakes, and synergies with current operations would be readily available.

The problem? There is a good chance neither of these buyers are interested. Suncor has a recent track record of being extremely disciplined with acquisitions, focusing more recently on divesting assets that do not fit with its core business. The company is also focusing on low-cost capital projects, such as debottlenecking initiatives that work to maximize

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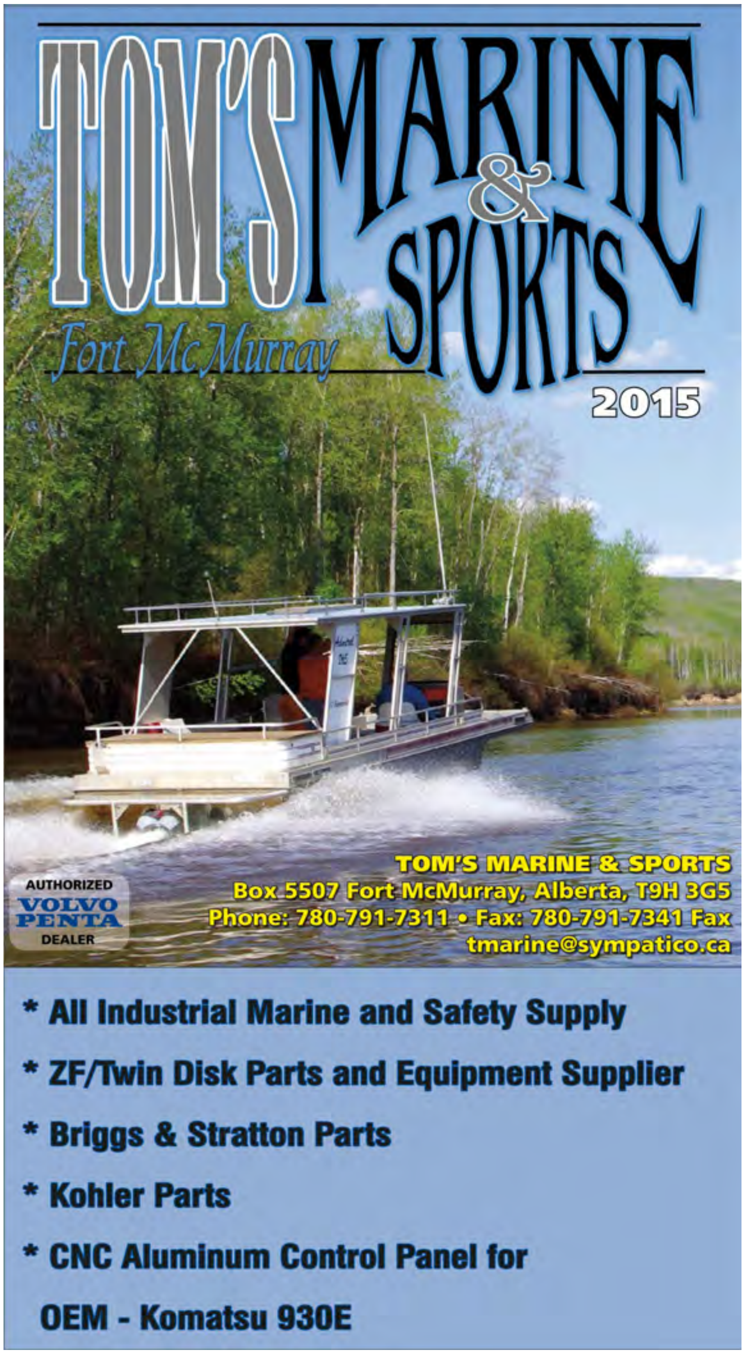

production and allow it to be more profitable on a per-barrel basis.

Suncor's strategy is focused on profitable growth rather than simply growing the top line through acquisitions, and as a result, CEO Steve Williams said recently that any potential acquisitions would need to pass a very high hurdle. He also stated that oil sands acquisitions are very difficult for them to make work due to the fact that Suncor has some of the highest-quality resources in the industry, and any potential acquisitions would need to be bench marked against them.

While Syncrude is a high-quality asset, it is considered lower quality than Suncor's Millenium mining project, and has higher operating and sustaining capital costs. These have been caused partially by frequent reliability and production problems, and it is likely Suncor would look to higher return areas for any potential acquisition, should they even make any.

As for Imperial Oil, while Canadian Oil Sands would indeed meet many of the firm's key requirements for an acquisition, including synergy, high-quality reserves, and scale, RBC analyst Greg Pardy estimates the odds of such an acquisition are 10% or less. This is because Imperial already has an extremely large upstream portfolio, and that the company has been having difficulties generating solid operating results at Syncrude.

Imperial Oil manages Syncrude's operations after signing a 10-year management agreement in 2006, which was supposed to see best practices and operating expertise from Exxon and Imperial's operations brought to Syncrude. This has been a challenging road, however, and Syncrude has since suffered the worst reliability in the oil sands, with equipment breakdowns being a regular occurrence.

Most importantly, Canadian Oil Sands CEO recently stated that selling is not on their minds, and it's questionable if investors would support such a move either. Canadian Oil Sands investors see the company as a pure play on oil prices, as well as a source of income, and with WTI prices up 40% since mid-March, the company is set to generate positive free cash flow even after dividends are factored in. Should oil prices stay where they are or recover, it is unlikely Canadian Oil Sands management or investors would favour a take over.

ALBERTA WILDFIRES BURN FOR 6TH DAY, 10 PERCENT OF OIL SANDS CRUDE OFFLINE

Firefighters battled wildfires in northern Alberta, Canada's biggest crude-producing region, for a sixth day on Thursday, with two blazes near oil sands facilities still out of control.

The wildfires have forced producers in the Western Canadian province, the largest source of U.S. crude imports, to shut in 233,000 barrels per day of crude production, around 10 percent of total oil sands output.

The biggest fire, on the Canadian military's Cold Lake Air Weapons Range, had grown in size to 20,000 hectares (49,000 acres) from 17,000 hectares on Wednesday.

That blaze has forced Cenovus

Energy Inc and Canadian Natural Resources Ltd to shut down production and evacuate staff from their Foster Creek and Primrose oil sands projects.

Janelle Lane, a wildfire information officer at the Alberta government, said the fire had advanced to roughly 15 kilometers (9.3 miles) away from Cenovus's Foster Creek site.

Although the two oil sands facilities are not threatened directly by the wildfire, it has closed the only access road to the projects. Both Cenovus and Canadian Natural said the status of their operations was unchanged on Thursday.

Rich Kruger, chief executive of Imperial Oil Ltd, told reporters on Thursday the blaze was just six kilometers away from one of the company's wells but there was as yet little risk to Imperial's extensive operations in the region.

"We're monitoring it very carefully," he said. "It's had a minimal impact on our operations to date but as winds change, I find myself praying for rain more often than I used to."

A separate wildfire north of the hamlet of Conklin forced MEG Energy to evacuate nonessential staff and halt planned maintenance work at its Christina Lake oil sands project earlier in the week. That blaze has grown to 3,300 hectares and was still classed as out of control, Lane said.

A number of other oil sands projects across the province have evacuated staff and slowed operations due to other fires.

Firefighters made some progress in tackling blazes elsewhere in Alberta, with the number of fires burning dropping to 42 on Thursday morning from 63 on Wednesday afternoon. Of those, 10 were uncontrolled.

Lane said a low pressure system moving east from British Columbia had already brought much-needed rain to some parts of the province, with more precipitation expected over the weekend.

REPORT SAYS NATURAL GAS RESERVES NOT AS BIG AS PROVINCE CLAIMS

In the wake of the recent memorandum of understanding signed last week by the provincial government and Pacific NorthWest LNG, the Canadian Centre for Policy Alternatives (CCPA) has released a report, stating that the LNG picture is not as rosy as the province has painted it.

In its report, the CCPA says that Canada's long-term energy security may be compromised by plans to export LNG. Of main concern, is the assertion that there will not be enough natural gas to meet these long-term needs. According to the report, the National Energy Board has approved 12 terminals with a total capacity of 251 trillion cubic feet (tcf) of LNG exports over the next 20-25 years. Yet only a small percentage of that amount, 18 tcf is available for export, even if BC triples its production.

Trying to meet these high levels of LNG exports from BC could require Canada to become a net importer of natural gas, in order to meet its domestic needs.

According to the report, the BC Oil and Gas Commission has estimated BC's raw gas reserves to be 42.3 tcf, with a further potential marketable resource of 442 tcf. Yet the BC government has stated that the marketable resource is six times higher, with 2,900 tcf available for export. If the BC government was to realize its export target, the scale-up in drilling and associated infrastructure would be massive and dramatically alter the landscape of northeastern BC.

Fracking is also a major public concern, states the report, not only in the amount of water required, but in the potential for contamination of surface water through surface casing failures and improper disposal of fracking wastewater.

The CCPA believes the amount and intensity of land disturbance has also been underestimated by the government, in addition to the roads, pipelines and facilities needed to develop this resource, there are potential seismic impact.

Finally, the report states that there are considerable financial risks for companies entering BC's fledgling LNG industry. The potential for rising domestic gas prices and falling international prices could prove disastrous when companies try to pay off their multi-billion dollar investments.

"It is highly likely that fossil fuels will be needed at some level for the foreseeable future," read the report. "These resources are precious, non-renewable and come with collateral environmental impacts.

They demand more balanced stewardship in view of the needs of future generations of Canadians."

KINDER MORGAN PIPELINE COULD POSE FIRE RISK IN BURNABY, SAYS DEPUTY FIRE CHIEF

If the oil giant's plan to triple its pipeline is approved, its Burnaby storage facility would double in size

Kinder Morgan's proposed tripling of its Trans Mountain pipelineis a major fire safety concern, says Burnaby's deputy fire chief Chris Bowcock.

The oil giant wants to increase its bitumen-carrying capacity to 890,000 barrels a day by laying almost 1,000 kilometres of new pipe near the existing pipeline that runs from Alberta to Burnaby, B.C.

• Full coverage: Kinder Morgan pipeline

But Bowcock says the increased storage capacity that would be needed at Kinder Morgan's Burnaby tank farm on the Burrard Inlet - from 13 tanks to 26 tanks - would put residents at risk.

"We think the risk to the community from a fire and safety perspective is significant. This is not just continuing on with the existing facility the way it is," he told Stephen Quinn on CBC Radio One's The Early Edition.

"It's significantly changing the impacts to the community, the lives that live in and around, throughout the city of Burnaby ... and that has to be taken seriously in the approval process of this project."

In a report released earlier this month, Bowcock outlined concerns about the positioning and configuration of new tanks on the Kinder Morgan premises.

He says if the tanks are too close together, that increases the possibility of fires spreading from tank to tank. The close proximity would also make it difficult for firefighters.

"A multiple tank event typically creates such a fire front, such a heat impact, and also reduces the places that we can place emergency responders to fight the fire, that in many cases, the extinguishment of that fire would not be possible."

As a result, area residents, property, and parks would be at risk, he says.

Kinder Morgan has acknowledged the expanded tank farm in its risk assessment of the proposed expansion project, saying it would be within what is considered an acceptable risk by the Major Industrial Accidents Council of Canada.

The risk assessment also says each new tank will have a floating roof and water will be routinely collected to avoid fire-igniting boil-overs.

In a statement, Kinder Morgan said safety is its top priority:

"There's nothing more important than the safety of our neighbours and the communities where our pipeline and terminals operate. The terminal in Burnaby has been operating safely for 60 years."

The Burnaby Fire Department has submitted its report as evidence to the National Energy Board's hearings process on the project. Wednesday is the last day for written evidence to be filed with the NEB.

IMPERIAL SEES POLICY-REVAMP WINDOW IN ALBERTA ROYALTY REVIEW

The Alberta government's plans to review royalty payments from energy producers are also an opportunity to consider other aspects of regulation and policy, Imperial Oil Ltd. Chief Executive Officer Rich Kruger said.

"It's a good time to look at all the pieces," Kruger said during a PricewaterhouseCoopers LLP conference in Calgary on Thursday. Imperial, owned by Exxon Mobil Corp., looks at the overall mix of taxes, regulation and royalties when it reviews investments, he said, adding there are "probably some efficiencies" that could be made to regulations.

Alberta's recently elected New Democratic Party has promised to review royalties that producers pay to the oil-rich Canadian province, as well as raising corporate taxes. Imperial's Kruger said he hasn't yet had an opportunity to discuss the industry and regulations with Premier Rachel Notley.

The petroleum industry has said operating costs are already high, with Canadian Natural Resources Ltd. yesterday holding off on investments amid "uncertainty" because of proposed regulatory changes. Imperial is among producers that develop the world's third-largest proven crude reserves in Alberta's oil sands.

Global discussions about climate change will play a role in a revamped policy in Alberta, Premier Notley said yesterday in Calgary, responding to questions about Canadian Natural's announcement.

"There's uncertainty created by the climate change issues" for the oil and gas industry, she said at the time. "It's not responsible" to not consider changes to regulation given the "worldwide conversation around climate change," she said.

28-May-15

PROVINCE	ACTIVE	DOWN	TOTAL
AB	66	461	527
SK	29	101	130
BC	15	67	82
MB	0	15	15
QC	0	1	1
Canada	110	645	755