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Increase Of 15 Per Cent In Total Amount Of Production For Sale

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By Ben Rye, G.I. T. of Sayer Energy Advisors

In the second quarter of 2014 the total amount of oil and natural gas production for sale in Canada totaled approximately 102,500 barrels of oil equivalent per day “boe/d”, using a natural gas to barrel of oil equivalent conversion ratio of 6 Mcf: 1 bbl. The total amount of production currently available on the market is up 15 per cent compared to the second quarter of last year, when approximately 89,000 boe/d was up for sale. The total production amount consists of production associated with publicly announced corporate sale offerings, strategic alternatives processes and entities soliciting bids for non-core oil and natural gas properties and companies under creditor protection or in receivership.

Of the 102,500 boe/d of production available on the market in the second quarter of this year, approximately 13,500 boe/d of the total production consists of corporate opportunities and the remaining 89,000 boe/d is available through asset packages. This differs from the same time last

year when approximately half of the total production available was from corporate sale offerings and half was from asset packages. On a year-over-year basis, there was a 68 per cent decrease in the amount of production available through corporate divestitures.

Despite the decrease in the amount of publicly available corporate opportunities, the total amount of production available is up. The increase can be attributed to a higher number of asset packages on the market. The Canadian oil and natural gas industry is trending towards companies becoming more focused, concentrating on very few core areas. In order for companies to become area focused, non-core assets are being divested, with capital being refocused on core areas.

Not only has the total available production increased year-over-year, but since the end of the first quarter of 2014, the amount of production on the market has increased 11 per cent from 92,500 boe/d to 102,500 boe/d. While some of the companies and properties for sale in the first quarter of 2014 have since been sold, such as the shares of **Baccalieu Energy Inc.** and **Birchhill Exploration LP**, and non-core assets of **Rock Energy Inc.** and **Velvet Energy Ltd.**, the increase in available production is a result of companies such as **Delphi Energy Corp.**, **Lightstream Resources Ltd.** and **Spyglass Resources Corp.** listing non-core assets for sale.

The increase in production for sale publicly this year is likely due to the renewed interest in the Canadian oil and natural gas industry from the capital markets. At the end of the second quarter of 2013 there was limited capital available for purchasers, and many companies believed it would be difficult to get full value for the production they were prepared to sell. Investor sentiment has changed, and a larger number of companies are now able to do financings. The total amount of equity raised to date in 2014 is approximately \$4.2 billion, up 147 per cent from the \$1.7 billion total over the same time period in 2013.

Concurrent with the increase in the amount of production currently available, the percentage weighting of oil and natural gas liquids (“NGLs”) associated with the production has also increased. Of the total 102,500 boe/d of production for sale in the second quarter of 2014 approximately 65 per cent is made up of oil and NGLs. This increased marginally from a 59 per cent weighting in the second quarter of 2013.

The recent increase in capital in the Canadian oil and natural gas industry in the first half of 2014 has had positive effects on the mergers and acquisitions “M&A” marketplace, increasing the number of deals, and leading to a higher number of production available for sale. This is expected to lead to robust M&A activity throughout the remainder of 2014 in comparison to 2013.

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