Daily Oil Bulletin

The Landscape Of Canadian Publicly-Traded Exploration And Production Companies Has Changed

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The landscape of publicly-traded exploration and production ("E&P") companies in the Canadian oil and natural gas sector has changed. With the commodity price bust over the last couple of years, many E&P companies with unmanageable debt levels, assets that have higher operating costs and/or lower production levels have disappeared in droves. There has been some consolidation in the industry and occurrences of some public companies with strong balance sheets and/or good assets being taken private. Overall, the number of public E&P companies in the Canadian upstream oil and natural gas sector is rapidly shrinking.

The fall in the price of crude oil which started in the summer of 2014 took many by surprise. With the plummeting price of crude oil, corporate cash flows for oil-weighted companies followed suit. The stock prices of publicly-traded companies experienced substantial declines as crude oil bottomed out at USD $26.05 WTI per barrel in February of this year.

While the price of crude oil has recovered to approximately USD $50.00 WTI, the fall and the differential between light and heavy oil prices has caused many casualties among conventional heavy oil producers. Some have been acquired by larger companies while others have been forced to sell assets through a receivership process.

In the second quarter of 2016, heavy oil producer **Hawk Exploration Ltd.** was acquired by privately-held **Kaisen Energy Corp.** and **Rock Energy Inc.** was acquired by **Raging River Exploration Inc.** Rock had Viking assets in the Kerrobert area along with a large heavy oil position in the Mantario/Laporte area of southwestern Saskatchewan.

Among the public company casualties were **Edge Resources Inc**., **Palliser Oil & Gas Corporation** and **Tuscany Energy Ltd.** The three heavy oil producerswent into receivership earlier in the year. **Petrocapita Income Trust** acquired the assets of Palliser while Tuscany's assets are still in the hands of the receiver, **Grant Thornton Limited**. The sale of Edge's Eyehill, Saskatchewan assets is scheduled to close soon.

The biggest heavy oil player to find itself in the hands of a receiver as a result of this downturn is **Twin Butte Energy Ltd.** Twin Butte had an exhaustive strategic alternatives process which resulted in a deal to be acquired by **Reignwood Resources Holdings Pte. Ltd.** in the second quarter of this year. Twin Butte's debenture holders, which were to receive 14 cents on the dollar, cratered the deal, forcing the company into receivership. The assets of Twin Butte are now on the market and will most likely be purchased by multiple parties.

The public companies with a heavy oil focus which are still a going concern are **Northern Blizzard Resources Inc.**, **BlackPearl Resources Inc.** and **Gear Energy Ltd.** In the second quarter of 2016, Gear acquired **Striker Exploration Ltd.** The transaction with Striker added 2,000 boe/d (60% light and medium oil) of production to Gear, along with a new core area in the emerging Belly River light oil resource play.

While it has been noticeable that some conventional heavy oil companies have faltered during this low crude oil price environment, they certainly are not the only public companies to struggle. Companies with a lower production base have found little love from investors and lenders alike. **Anterra Energy Inc.**, **Artisan Energy Corporation**, **Detector Exploration Ltd.**, **High North Resources Ltd.**, **Petro Viking Energy Inc.** and **Waldron Energy Corporation** are among smaller publicly-traded producers that have entered into insolvency processes. Some of the larger public E&P companies that previously experienced the same fate were **Spyglass Resources Corp.** and **Shoreline Energy Corp.** On September 19, 2016, **Lightstream Resources Ltd.** became the most recent large Canadian E&P company to commence proceedings under the Companies' Creditors Arrangement Act.

During the commodity price rout, some companies with good assets and/or a stronger balance sheet have been taken private. **Yoho Resources Inc.** was taken private by **One Stone AcquisitionCo.** in the third quarter of 2016. In the fourth quarter of 2015, prior to the privatization, Yoho wiped out its debt when it sold a significant portion of its Duvernay position in the Kaybob area of Alberta to **XTO Energy Canada ULC** for $50.0 million. Through the privatization, the shareholders of Yoho received $0.475 per share, more than double what the company's shares traded at prior to the announcement of the transaction.

Another company that was taken private in 2016 was **Boulder Energy Ltd.**, when **ARC Energy Fund 8** acquired Boulder for approximately $290.0 million. Boulder's assets were in the Brazeau area of central Alberta. Much like Yoho, the management team of Boulder continues to manage the company as a private entity.

Since the collapse in the price of crude oil over two years ago there has been an abundance of upstream oil and natural gas companies that have been forced to liquidate assets by secured creditors. While some of these E&P companies were struggling prior to the collapse, the commodity rout has caused a lot of the smaller E&P companies and those with high levels of debt to be wiped out completely. This, along with consolidation within the industry and companies being taken private, has decreased the number of publicly-traded E&P companies in Canada. Without support from investors and lenders alike, the number of publicly-traded E&P companies in Canada may continue to get smaller in the near future.

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