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Recap Of Insolvencies In 2016

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So far in 2016, there have been 26 oil and natural gas exploration and production (“E&P”) companies that have entered into insolvency processes either through a receivership, the Bankruptcy Insolvency Act (“BIA”) or the Companies’ Creditors Arrangement Act (“CCAA”) (collectively “Insolvency Processes”). This compares to 2015 when there were 20 companies that entered into Insolvency Processes. In a typical year, before the 2014 commodity price crash, there have been on average eight Canadian E&P companies that would have entered into Insolvency Processes.

Since commodity prices plummeted in late 2014, the number of companies entering into Insolvency Processes has been a much more common occurrence among Canadian oil and natural gas producers. The last time we saw a similar number of insolvent E&P companies was during the 2008-2009 global financial crisis, when 20 companies went under.

The recent surge in Insolvency Processes in this capital-intensive industry is mainly a result of E&P companies having unmanageable levels of outstanding debt while cash flows have diminished. The court-appointed receivers, monitors and trustees then attempt to recover all, or a portion of the funds owed to creditors by divesting the companies’ assets through public sales processes. Sometimes this can be done through a CCAA process, eliminating the need for a receivership.

Of the 26 E&P companies which entered into CCAA, BIA or receivership in 2016, 17 were privately-held entities and nine were publicly-traded companies.

The largest company, on a production basis, to enter into CCAA in 2016 was **Lightstream Resources Ltd.**, which has approximately 26,000 boe/d of production in central Alberta and southeastern Saskatchewan. Lightstream recently announced that it had received a successful credit bid by the ad hoc committee of holders of approximately 91.5% of the company’s 9.875% second lien secured notes due in 2019.

Two other private E&P companies went through CCAA processes recently. With production of 16,000 boe/d, **Endurance Energy Ltd.**, entered into CCAA and conducted a process which resulted in the sale of all of the assets of the company. **Laricina Energy Ltd.**, under CCAA, was able to restructure its outstanding debt and continue as a going concern.

Another publicly-traded E&P company of significant size to enter into an Insolvency Process in 2016 was **Twin Butte Energy Ltd.**, with approximately 12,700 boe/d of production. Twin Butte's production was focused mainly in east central Alberta and southwestern Saskatchewan and consisted of medium and heavy oil. Prior to entering into receivership, Twin Butte struck a deal with **Reignwood Resources Holdings Pte Ltd.**, but the transaction was subsequently rejected by Twin Butte's debenture holders, resulting in the termination of the deal and Twin Butte being placed into receivership in September.

Three of the companies which entered into CCAA or receivership in 2016 had assets which focused on heavy oil, namely **Connacher Oil and Gas Limited**, **Edge Resources Inc.** and **Tuscany Energy Ltd.** Two heavy oil companies which were placed into receivership in 2015 were **Palliser Oil & Gas Corporation** and **Southern Pacific Resources Corp.**

Some of the companies in Insolvency Processes which were announced in 2016 and which have to date resulted in a successful sale of all or the majority of the assets of the companies include **GAMET Resources Ltd.**, **Hyperion Exploration Corp.**, **Kinwest 2008 Energy Inc.** and **Northpoint Resources Ltd.** Many other Insolvency Processes which have had transactions concluded in 2016 were initiated prior to this year. Some of these deals include **One Earth Oil & Gas Corporation**, Palliser, **Quicksilver Resources Canada Inc.**, **Spyglass Resources Corp.** and **Waldron Energy Corporation.** Other companies that were pushed over the edge by creditors in 2015 but have not had deals for the sale of assets announced to date include **Conserve Oil Group Inc.**, **COGI Limited Partnership**, **Canadian Oil & Gas International** (the "Conserve Oil Companies"), **RedWater Energy Corp.** and Southern Pacific. The assets of both RedWater and the Conserve Oil Companies were not marketed until recently.

Since abandonment liabilities are often associated with the distressed assets of insolvent companies, the LLR of the entity must be considered. Well license transfer restrictions based on LLR ratios have in some cases limited the ability of receivers to maximize proceeds for creditors. Using best efforts to prevent regulatory disputes, receivers have, in some cases, employed creative solutions to maximize proceeds by only taking possession of certain assets of a company. In the case of **Shoreline Energy Corp.**, the trustee only attempted to sell the non-operated assets of the company. The receiver of **Terra Energy Corp.** only took possession of Terra's assets in British Columbia, while the receiver of Tuscany only took possession of Tuscany's Saskatchewan assets.

Since the beginning of the commodity price collapse, creditors have taken a close look at the companies in their portfolios and have made decisions on the best course of action to maximize their return, which, in some cases resulted in the creditors pushing companies into Insolvency Processes. Going forward, the number of insolvencies is expected to decrease as the majority of the financially distressed oil and natural gas producing companies in Canada have been dealt with and commodity prices seem to have stabilized.

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