Daily Oil Bulletin

Canadian Asset Sales By Multi-National Companies In 2017

JUNE 28, 2017 – VIEW ISSUE (/HEADLINES/2017-06-28)

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In the first half of 2017 there were five transactions announced involving multi-national oil and natural gas producing companies divesting a large part of their Canadian assets. The total value of these transactions was over $32 billion, a significant increase from the $3.4 billion in similar transactions that were concluded in all of 2016.

In 2016 there were nine transactions involving international oil and natural gas exploration and production companies divesting Canadian assets. The sellers included **ConocoPhillips Co.**, **Mitsubishi Corporation**, **Murphy Oil Corporation**, **Shell Canada Limited**, **Statoil ASA** and **Quicksilver Resources Canada Inc.** The five transactions to date in 2017 involve **Apache Corporation**, **Centrica PLC**, ConocoPhillips, **Marathon Oil Corporation** and Shell as sellers.

The largest transaction of this nature in the first quarter of 2017 was **Cenovus Energy Inc.**'s acquisition of assets from ConocoPhillips for approximately $17.7 billion. The transaction included ConocoPhillips' 50 per cent interest in the Foster Creek, Christina Lake and Narrows Lake oilsands assets which are operated by Cenovus. Cenovus also acquired the majority of ConocoPhillips' Deep Basin conventional oil and natural gas assets in Alberta and British Columbia. As a result of the transaction, Cenovus now has full control over the Foster Creek, Christina Lake and Narrows Lake oilsands projects and a new core area in the Deep Basin, while at the same time it has doubled its production and reserves base.

ConocoPhillips' stated plan is to accelerate its value proposition by reducing outstanding debt through the sale of assets. In addition to this divestiture, ConocoPhillips recently announced an agreement to sell its interests in the San Juan Basin, which spans from Colorado to New Mexico, USA, to an affiliate of **Hilcorp Energy Company** for approximately US$3.0 billion. These transactions will materially reduce ConocoPhillips' exposure to North American natural gas.

The second-largest transaction involving an international company as a seller of Canadian assets in the first half of 2017 was **Canadian Natural Resources Limited**'s acquisition of assets from Shelland Marathon for approximately $12.6 billion.

Canadian Natural acquired 70 per cent of the Athabasca Oil Sands Project ("AOSP"), including 70 per cent of the Scotford upgrader as well as additional working interests in other producing and non-producing oilsands leases. Canadian Natural acquired Shell Canada's 60 per cent working interest in the AOSP (comprising the Jackpine Mine and the Muskeg River mine), the Scotford Upgrader and the Quest Carbon Capture and Storage project located north of Edmonton, its 100 per cent working interest in the Peace River/Carmon Creek thermal in situ operations and Shell Canada's 100 per cent interest in the Cliffdale heavy oil field, as well as other oilsands leases in the Birchwood, Ells River, Namur, Pierre River and Saleski areas. Canadian Natural and Shell Canada also jointly acquired Marathon Oil's 20 per cent share in the AOSP and related oilsands investments for $1.25 billion each.

As per the press release dated March 9, 2017, Shell's Chief Executive Officer Ben van Beurden said: "*This announcement is a significant step in re-shaping Shell's portfolio in line with our long-term strategy. We are strengthening Shell's world-class investment case by focusing on free cash flow and higher returns on capital, and prioritising businesses where we have global scale and a competitive advantage such as Integrated Gas and deep water. The proceeds will accelerate free cash flow and reduce gearing and make a meaningful contribution to Shell's $30 billion divestment programme.*"

Shell Canada previously sold its Alberta Deep Basin and northeastern British Columbia assets to **Tourmaline Oil Corp.** in the fourth quarter of 2016 for approximately $1.4 billion.

Shell has operated in Canada for over 100 years and plans to carry on its presence in Canada through continuing to operate the Scotford upgrader and Quest Carbon Capture and Storage project.

In the second quarter of 2017, **Cardinal Energy Ltd.** entered into an agreement to purchase certain assets held by Apache in Western Canada for approximately $330 million. The assets are located in the Weyburn/Midale area of southeastern Saskatchewan and in the House Mountain area of Alberta, with total production of approximately 5,000 boe/d.

Apache continues to evaluate its portfolio and assess opportunities to further streamline its asset base and redeploy capital into its primary growth areas in North America. In addition to the assets sold to Cardinal, Apache has other operations in Western Canada producing around 50,000 boe/d.

Most recently, Centrica PLC announced a deal to sell **CQ Energy Canada Partnership**, under which all of Centrica's Canadian exploration and production assets are held. CQ is to be sold to a consortium comprised of Hong Kong-listed **MIE Holdings Corp.**, the **Can-China Global Resource Fund**, and Switzerland-based **Mercuria Energy Group** for approximately $722 million. The consortium is setting up a new company, **Maple Felix Energy Corporation,** to acquire CQ. Centrica owns a 60 per cent interest in CQ and proceeds net to Centrica from the sale are expected to be approximately $420 million.

CQ's assets in Western Canada are comprised of approximately 56,000 boe/d of production (88% natural gas), two million net acres of land, plus ownership in 11 processing facilities. According to Centrica's news release dated June 9, 2017, the company's strategy is to focus solely on its European assets, with the group having completed the sale of its natural gas assets in Trinidad and Tobago in May 2017.

The proceeds from the transaction will be used to reduce Centrica's outstanding debt. The sale is subject to approval under the Canadian Competition Act, the Investment Canada Act, and is also subject to approval from MIE's shareholders.

As previously mentioned, the $32 billion in transaction value involving international oil and natural gas exploration and production companies divesting Canadian assets so far in 2017 far surpasses the total of $3.4 billion for similar transactions in 2016. It appears that this trend will continue as multi-national companies focus development on the assets in their portfolios with the highest rate of return, which aren't always located in Canada.

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