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Posthaste: It's not just Chesapeake — these Canadian oil and gas companies are in trouble too

12-15 minutes

1. Energy
2. Business

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The pandemic and the oil war has badly damaged the North American oil and gas industry. Andrey Rudakov/Bloomberg

Good morning!

Chesapeake Energy Corp. is the depressed oil market's latest victim — but it likely won't be the last.

On Sunday, the company filed for Chapter 11 to become the largest American oil and gas producer to seek bankruptcy protection in recent years, as the pandemic and heavy debt levels weighed on the company.

While not as high profile, a number of private and public Canadian energy companies are also discovering that they are unable to cope with the commodity price depression. Brent crude dropped 2 per cent to US$40.21 this morning, while U.S. crude was at US$37.74, also down 2 per cent.

While the pandemic is to blame for demand destruction, Saudi Arabia and Russia are also responsible for triggering an oil market share war as the pandemic was unfolding in the first quarter, that pretty much smashed investor confidence.

Sayer Energy Advisors, a Calgary-based mergers and acquisitions broker, notes that privately-held Bow River Energy Ltd. has entered into The Companies' Creditors Arrangement Act (CCAA) process and BBDO Canada Ltd. has been appointed monitor for the company. Bow produces around 1,400 barrels of oil equivalent per day from its assets in Alberta and Saskatchewan.

In late May, Cequence Energy Ltd. said it started a strategic process to identify and pursue potential strategic options and alternatives to maximize value for its stakeholders, which will be carried out under the CCAA.

"The strategic process will explore a broad range of options and alternatives that may be available to the Company to address its liquidity challenges brought on by the significant deterioration in commodity prices, driven largely by the economic impact of the COVID-19 pandemic," the company said.

Cequence's produced around 5,700 boed from its assets in Simonette area in Alberta, and the Peace River Arch and in British Columbia.

Calgary-based Delphi Energy Corp. also announced in April "that it intends to continue to carry out its strategic alternatives process, which may involve the sale of all or a portion of the business and assets or shares of the company, or a refinancing, recapitalization or other restructuring transaction", through a court-supervised restructuring proceeding.

The company also intends to pursue well abandonment funding from the federal and provincial government programs, to continue to reduce its well abandonment obligations.

Meanwhile, Bonavista Energy Corp. is also entering into a recapitalization transaction along the lines of what Delphi did in late 2019.

The company said its proposed recapitalization transaction would reduce its total outstanding debt by approximately $482.6 million (representing 56 per cent of the company's current outstanding debt), reduce cash interest payments by approximately $16 million annually (or 43 per cent of the company's current annual cash interest payments), and strengthen its overall financial position.

"As the Canadian oil and natural gas industry continues to deal with the mess caused by the COVID-19 pandemic, we believe that more oil and natural gas companies will be pursuing a Court-supervised CCAA process," Tom Pavic, analyst at Sayer Energy Advisors, wrote in a note last week.

"The CCAA process allows companies the ability to maximize returns to all creditors while under a Court-supervised restructuring proceeding and the possibility to come out of CCAA to fight another day."

Today's Posthaste was written by Yadullah Hussain (@Yad_Fpenergy), with files from The Canadian Press, Thomson Reuters and Bloomberg.

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