DaMina Advisors LLP

FRONTIER MARKETS SPECIALISTS

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DaMina Advisors Note: Independent oil E&P firms, renewables technology sector face multibillion dollar write-offs, bankruptcies and forced M&A as oil slides towards $60/ barrel.

With global mining sector investors still reeling from over $80billion in write offs and bad debts and searching for a new profitable operating paradigm, the global oil industry and its many debt and equity investors face a severe 'winter of financial discontent' as oil prices skid towards $60/ barrel, and possibly even lower to $50/barrel. With most of the world's small and mid-tier oil E&P and renewables companies operating at breakeven points above $85/ barrel, the current slide imperils hundreds of marginal oil and renewables projects worldwide.

Oil Producing Regions	Breakeven cost per barrel ($/bbl)	
Russian Arctic	*$*	*119*
EU Biodiesel	*$*	*110*
EU Ethanol	*$*	*102*
Canada Oil Sands	*$*	*93*
US Ethanol	*$*	*84*
US Shale Oil	*$*	*74*
Brazil Ethanol	$	66
Deepwater Offshore	$	57
UK North Sea	$	50
West Africa Offshore	$	41
Central and South America	$	32
Central Asian Republics Onshore	$	22
Russia Onshore	$	18
Middle East Onshore	$	14
Source: IEA/ EIA/ DaMina Advisors calculations		

Oil E&P projects being undertaken by mid-tier and small oil companies offshore Mozambique, offshore Kenya, Tanzania and South Africa, as well as other similarly situated marginal E&P projects in Latin America, Northern Europe and Asia look to all come to a screeching halt if oil prices continue their current slide. Many independent shale oil sands, traditional offshore, and onshore oil companies, as well as several renewables projects may be in for a very tough winter of financial discontent as their company stocks fall making it harder to raise equity or equity linked financing. With many bank credit lines of these companies likely to be cut back in coming days, and some debtors baying to push many into bankruptcy to get hold of hard assets before it's too late, the cascading confusion could also affect some global banks with large exposure to shall oil companies, renewable energy firms and traditional independent E&P firms. Energy sector equity investors, oil services firms, rig owners, eco-friendly car manufacturers, exposed regional US mid-western and western Canadian banks, pension funds and asset managers with high portfolio exposure to independent mid-tier oil producers may be in for a tough ride.

Furthermore, despite the recent climate change accord between China and the US, and the impending raft of executive orders from the US EPA on carbon emissions, the slide in oil prices also imperils the relative competitiveness of most renewable alternatives, as consumption will shift back to fossil fuels and away from renewables. Solar, wind, biodiesel, and other renewables companies, including electric car companies, who are marginally profitable and overloaded with debt may also face possible bankruptcies and forced M&A actions. The London AIM exchange, the NASDAQ and the Toronto stock exchanges which host many of the world's independent oil and renewables firms may see potential material erosion in their own operating margins, spurring new consolidations among global stock exchanges.

For more in-depth analysis on this subject kindly contact us.

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