DaMina Advisors LLP

FRONTIER MARKETS SPECIALISTS

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DaMina Advisors Note: Global oil companies face a 'winter of discontent' as mining sector-type multibillion dollar write-offs, bankruptcies and forced M&A consolidations loom for sector.

With the global mining sector and natural resources investors still uneasily digesting $80billion in write offs and bad debts, and in the doldrums searching for a new way forward for the beleaguered sector, the global oil industry and its many debt and equity investors face a similar 'winter of discontent' as oil prices skid past $80/ barrel. With many of the world's new oil production occurring at breakeven points above $80/ barrel, any continued slide will imperil dozens if not hundreds of oil companies and energy projects across North America and Europe.

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

Recognizing the significant geopolitical and severe externality effects of a possible crude oil price collapse on investors, pension funds and deflation, in December 2013, DaMina Advisors in its annual 'Periscope 2014' forecasted a likely 2014 oil price collapse below $80/ barrel as the as #1 global risk. (http://daminaadvisors.com/admin/documents/DaMina%202014%20Periscope.pdf)

While the budgets of many major oil exporting nations such as Iran, Nigeria, Libya, Iraq and Venezuela may suffer as oil prices slide further, the immediate investor impacts of a sliding oil price complex will be the companies whose operations can only be sustained at high oil prices. American shale oil and Canadian tar sands companies are particularly vulnerable. Europe's attempt to move away from fossil fuels into biodiesel, ethanol and other sources of renewable energy will also become imperiled by a collapse in the global oil price.

While Rosneft will still get the strong financial support from the Kremlin, backed with loans from China, to accelerate the Russian Artic exploration and production despite its high breakeven costs, financially independent private American, Canadian, Australian and European shale and oil sands companies may be in for a very tough winter of financial discontent as their company stocks fall making it harder to raise financing, bank credit lines pulled, and debtors baying to push many into bankruptcy and get hold of assets before it's too late. Energy sector equity investors, banks, pension funds and other asset managers with high exposure to shale, renewables and tar sands energy companies will also share in the oncoming pain. Once shunned, cheaper onshore production, looks poised to make a comeback.

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

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