Western Canada land sales: Alberta makes history in 2010

Executive Summary

The Albertan oil and gas industry has signalled that confidence has again returned to the province, with companies investing Cdn$2.4 billion (US$2.3 billion) to acquire over 38,000 square kilometres of Crown land in 2010. This is the highest level of revenue ever collected in the province and surpasses the previous 2005 record by more than 30%. Alberta's success propelled this year's western Canadian lease sale proceeds to Cdn$3.7 billion (US$3.6 billion) – over double the 2009 level.

Saskatchewan's land sale revenue also recovered, more than tripling from its 2009 level to reach Cdn$463 million (US$449 million). Almost 70% of this was generated by the southeast of the province, home of the prolific Bakken play. Heightened activity levels throughout Alberta and Saskatchewan mirror a general industry shift from lands with gas to those with untapped liquids potential. Operators are now increasingly targeting the region's tight oil potential through the application of new horizontal well technology. In addition, other notable factors contributed to both provinces' success, including favourable royalty terms, stronger oil prices, and improved market conditions.

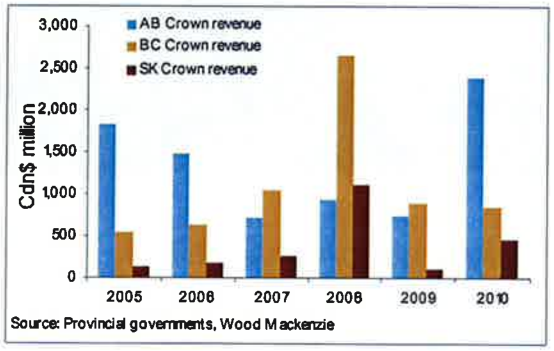
Elsewhere, British Columbia's performance was similar to 2009. The province collected around Cdn$844 million (US$820 million). While subdued when compared to the record-breaking levels set in 2008's land grab, the region nevertheless remained the most expensive in western Canada. With 90% of the newly-leased acreage lying in the north of the province, players are now aggressively targeting lands outside of the more established Horn River area, such as the emerging Cordova Embayment and Liard Basin.

In term of leasing, the oil sands region witnessed another quiet year. Alberta collected Cdn$27 million (US$26 million) in bonuses. Much of the region's most prospective land has now been acquired and operators' are focused on evaluating their lands, developing potential projects, and optimising existing operations.

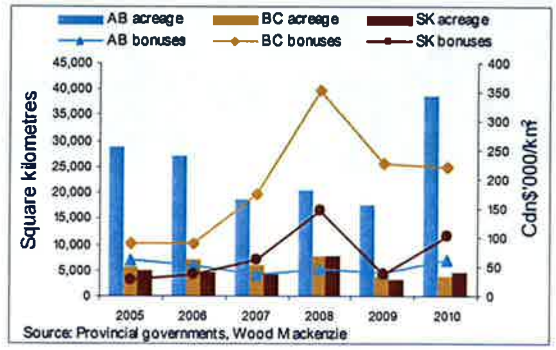
Alberta back on top

Western Canada enjoyed elevated Crown land leasing activity in 2010. A total of Cdn$3.7 billion (US$3.6 billion) in revenue was collected – over double the 2009 level and over 40% more than the five-year average. A closer look reveals that companies are showing an increasing interest in Albertan and Saskatchewan lands.

Western Canada revenues by province



Western Canada trends in leasing



A record-breaking year

During 2010, Alberta Crown land sales soared to an all-time high surpassing the former record set in 2005. The province collected Cdn$2.4 billion (US$2.3 billion) through the sale of over 38,000 square kilometres. This is over double the revenue collected in 2009 and more than 70% greater than the five-year average. In addition, average bonuses per square kilometre increased from Cdn$42,000 (US$37,000) in 2009 to close to Cdn$62,000 (US$60,000) in 2010. This result marks a return to form for Alberta.

Alberta's strong results indicate that industry has responded positively to the province's recently announced changes to the royalty structure. Effective 1 January 2011, new curves with lower maximum royalty rates for oil and gas wells will be implemented. In addition, incentive programmes have been modified, or introduced, to encourage the development of the province's higher-cost unconventional resources.

British Columbia remains steady

British Columbia maintained similar levels of leasing activity compared to 2009. In 2010, companies invested Cdn$844 million (US$820 million) to acquire around 3,800 square kilometres. This result represents a slight drop in revenue compared to 2009 and a 27% drop compared to the five-year average. However, with an average bonus of Cdn$222,000 (US$215,000) per square kilometre, the province remains the most expensive. British Columbia's performance is significantly lower than the record levels enjoyed in 2008, when companies competed to acquire acreage with unconventional gas potential.

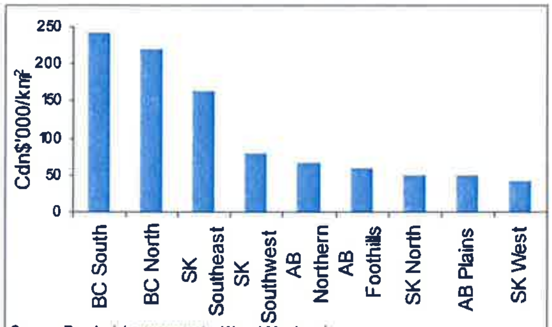
Saskatchewan gains momentum

In 2010, Saskatchewan Crown land sale revenue totalled Cdn$463 million (US$449 million). The province sold about 4,500 square kilometres at an average bonus of Cdn$102,000 (US$99,000) per square kilometre. The total revenue generated is close to four times that of 2009, and over 28% more than the five-year average. This result is driven by companies targeting the province's untapped liquids potential.

A shift to liquids

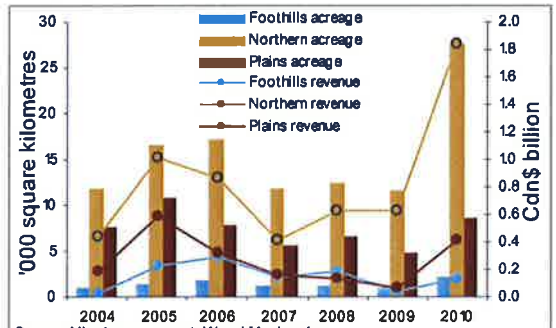
Alberta's record year was driven by increases in leasing activity across all areas of the province. However, the north attracted the greatest level of investment at Cdn$1.8 billion (US$1.8 billion) through the sale of close to 28,000 square kilometres. This represents more than 76% of the province's total revenue in 2010. These results were likely influenced by companies purchasing lands with untapped liquids potential. In the south of the province, the Bakken/Exshaw is emerging as a tight oil play, successfully feeding off activity to the east in Saskatchewan.

Western Canada 2010 leasing results by region



Source: Provincial governments, Wood Mackenzie

Albertan trends in leasing



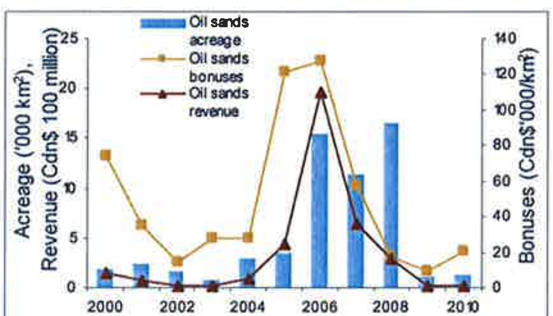
Source: Alberta government, Wood Mackenzie

Southeast Saskatchewan benefited from elevated levels of leasing, bringing in 70% of the province's revenue at an average bonus of Cdn$163,000 (US$159,000) per square kilometre. Land in this area was over 250% more expensive in 2010 than in 2009 and is reflective of an increased level of interest in tight oil plays, such as the Bakken. Furthermore, the southwest of the province also proved to be in demand, as companies targeted other oil plays such as the Lower Shaunavon.

British Columbia offers limited liquids potential. Nonetheless, the region continued to be the most expensive in western Canada, with the southern and northern areas drawing in average bonuses over Cdn$200,000 (US$194,000). However, most of the core acreage around established plays, such as the Horn River, has now been leased. Players are shifting their focus elsewhere in the north of the province and targeting lands in the Cordova Embayment and Liard Basin.

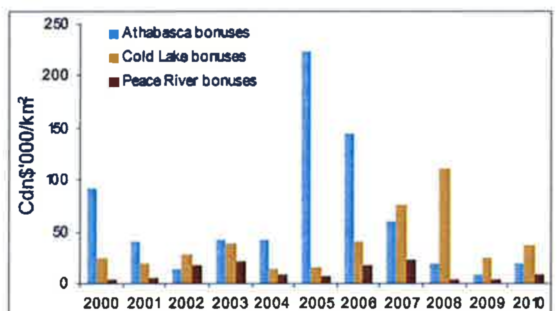
Oil sands remains flat

Oil Sands land sales and bonuses



Source: Alberta government, Wood Mackenzie

Oil Sands bonuses by region



Source: Alberta government, Wood Mackenzie

Leasing in the Alberta's oil sands region remained subdued in 2010. Average bonuses rose a little above 2008 levels to around Cdn$21,000 (US$20,000) per square kilometre. The province leased about 1,300 square kilometres of land for Cdn$27 million (US$26 million). Most of the key oil sands acreage has now been leased and operators are currently focused on evaluating, developing, and optimising their existing project pipelines instead.

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