



Is This Saskatchewan Oil Field the Next Bakken?

Description

Over the past few month, a handful of major oil and gas explorers have been quietly accumulating vast tracks on land in a little known area of Southern Saskatchewan.

Early estimates show that this oil-rich layer of rock could contain billions of barrels of recoverable crude oil and rank as one of the largest shale fields in the country.

And their bet is starting to pay off. Drilling in the area is so lucrative, operators are generating returns up to 300% on each well. And many of the area's big operators are posting massive production gains. Yet this might only be the beginning.

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Oil prospectors are hunting for North America's next big shale play in a layer of rock dubbed the Torquay in Canada, also known at the Three Forks in the United States.

The formation is located about two kilometres beneath the surface and is a part of the vast 250,000-square-kilometre Williston Basin that underlies Saskatchewan and North Dakota and well as parts of Montana and South Dakota. Over the past few weeks oil producers like **Crescent Point Energy** (TSX: CPG)(NYSE: CPG), **Vermilion Energy** (TSX: VET)(NYSE: VET), and **Legacy Oil Plus Gas** (TSX: LEG) have been buying up acreage in the Torquay like crazy.

Earlier this month, Bakken veteran Crescent Point [purchased privately held CanEra Energy](#) for \$1.1 billion. The acquisition includes 680 square kilometres of Torquay drilling rights and boosts the company's disclosed drilling locations in the play to 480 well sites.

"We're very excited about the results we've seen in the Torquay so far," Crescent Point Energy President and Chief Executive Officer Scott Saxberg wrote in a April press release, "To put it in context, this play has the potential to be the equivalent size of our Viewfield Bakken play."

Given how lucrative drilling in the Torquay has been, it's no surprise Crescent Point is so optimistic. A typical well in the emerging field costs only \$3.35 million to complete, covers its capital costs within seven months, and generates an annual rate of return north of 300%.

Now the company is betting big on the play. In 2014, Crescent Point expects to spend \$200 million of its \$1.7 billion capital budget developing its Torquay acreage. Specifically, the firm is looking to drill approximately 48 net wells by the end of the year.

Other producers are rushing into the Torquay as well. In April, Vermilion Energy paid \$427 million to break into the emerging shale field with a takeover of privately held Elkhorn Resources and its extensive undeveloped acreage.

A few weeks later, Legacy Oil and Gas paid \$588 million in a combination of shares, cash, and debt to buy privately owned Highrock Energy. In announcing the deal, Legacy vowed to drill more than 100 locations in Saskatchewan later this year, including multiple sites in the Torquay and the Bakken.

All three of the companies I have mentioned in this post are going 'all-in' on the Torquay, spending hundreds of millions of dollars to expand their operations in the area. While it's still too early to tell how this play will turn out, the Torquay certainly has the potential to be one of North America's big new shale finds. Investors should keep a close eye on drilling results from these operators in upcoming quarters.

CATEGORY

1. Investing

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2. NYSE:VRN (Veren)
3. TSX:VET (Vermilion Energy Inc.)
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