



Canada's Next Big Oil Boom Might Be in the East

Description

Norway's **Statoil** (NYSE: STO) has a big decision to make. The company has until March of 2014 to make a final investment decision for its Corner oil sands expansion project in Canada's western oil sands. However, Statoil also has a [massive oil discovery](#) off Canada's Atlantic shore that is also deserving of its investment dollars. If Statoil does choose the Atlantic opportunity, it could set off quite an investment boom for Canada's East.

World class oil find

The Bay du Nord prospect, which is 500 kilometers northeast of St. John's, Newfoundland is a true world class discovery. It's estimated the discovery holds 600 million barrels of oil, however, the find with its partner **Husky Energy** (TSX: HSE) is just one of three discoveries the partners have made over the past few years. The Mizzen discovery of 2010 is estimated to hold between 100 million and 200 million barrels of oil. Meanwhile, the Harpoon discovery from this past June is still being appraised.

Both Statoil and Husky Energy see this part of Canada becoming core producing areas in the future. However, knowing the oil is there and actually producing it commercially takes a lot of money.

There is no better example than **ExxonMobil's** (NYSE: XOM) massive Hebron discovery. The massive field is estimated to contain 700 million barrels of oil. It was originally discovered in 1981, but is just now being developed. The field, where Statoil and **Suncor** (TSX: SU) (NYSE: SU) are also partners with Exxon, is expected to cost more than \$14 billion to bring online and should begin producing by 2017.

That said, if Husky and Statoil do decide to invest to bring these fields online we can expect the partners to spend several billion dollars over the next few years. Further, these discoveries are likely to draw more exploration dollars to the region. The domino effect could set off quite an oil boom off Canada's eastern shore for more reasons than just the oil that's in place.

Backing off on the oil sands

While there is much more oil in Western Canada, it's expensive to produce and sells at a discount to

world oil prices because of pipeline problems. Oil produced in eastern Canada, on the other hand, doesn't have the same infrastructure issues as it can be shipped much more easily to refineries. Not only that but it can sell at higher globally benchmarked oil prices, instead of the discount that's placed on oil out of Western Canada.

The other issue is the great expense to bring an oil sands project online. Many oil companies, ExxonMobil included, have found massive cost overruns as these projects are brought online. For example, its Kearl oil sands mine with **Imperial Oil** ([TSX: IMO](#)) (NYSE: IMO) was originally budgeted for \$7.9 billion in 2009. The project ended up costing \$12.9 billion after it was plagued with cost overruns. However, with 4.6 billion barrels of recoverable bitumen to be produced over the next four decades, there is still plenty of money to be made by both Imperial Oil and ExxonMobil.

Further, despite the caution, we're still seeing oil sands projects approved. Suncor Energy and its partners [recently gave the green light](#) to the Fort Hills oil sands project. The C\$13.5 billion mining project is expected to unlock 3.3 billion barrels of bitumen over the next 50 years. While caution is warranted in the short-term as more pipelines are approved it should relieve some of the price disparity between Western Canadian oil and the global benchmark price.

Investor takeaway

Still, it is important for investors to realize that we are seeing oil producers take a more cautious approach to future investments. Producers like Statoil are looking at the cost and weighing it against returns. Because of the global run up in development costs, it's becoming harder for companies to green light these massive projects, especially when there is the worry that the oil won't sell for a high enough price to make the projects worth the expense.

That's why investors should keep an eye on the pipeline situation in Western Canada as that could really impact future investment from global producers like Statoil. What we might see is more investment dollars being allocated to Canada's Atlantic coast until these pipelines are built. That could set off a nice boom for the region's oil production.

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