What You Need to Know About the Future of Shale Oil

Description

According to the U.S. Energy Information Administration, or EIA, Canada ranks 10th in the world in recoverable shale oil resources. It is estimated that Canada holds 9 billion barrels of technically recoverable shale oil. While that number is dwarfed by the country's massive oil sands reserves, it's still an important resource to the country and one that could make investors a lot of money in the future.

What is shale oil?

Shale oil, or tight oil as it's often referred to, refers to oil accumulations in tightly packed rock that are difficult to extract. The combination of hydraulic fracturing and horizontal drilling has unlocked many of North America's shale oil resources. In fact, the U.S. is likely to become the world's top oil producer within the next year or so.

While U.S. shale oil production growth grabs the headlines, investors shouldn't forget that Canada is a major resource holder of tight oil reserves. This is starting to draw in producers looking to unlock its resources. Given the returns early American investors have enjoyed as the shale revolution spreads, this could have a positive impact on Canadian investors as well.

Where is it?
The EIA believes Canada has upwards of 162 billion barrels of shale oil, however, only about 9 billion barrels of that is likely technically recoverable at this point. The bulk of this oil is located in Alberta, with Saskatchewan and Manitoba also containing recoverable shale oil.

There are five potential shale oil resources plays. In Alberta these include the Banff/Exshaw, Duvernay, Nordegg and Muskwa. Saskatchewan and Manitoba contain portions of the Bakken shale that's famous in the U.S. The largest recoverable sources of oil are believed to be in the Duvernay, which is likely to contain almost half of Canada's recoverable shale oil. The Muskwa at more than 2 billion barrels and the Bakken at about 1.6 billion barrels round out Canada's top three shale oil plays.

Duvernay: North America's next big shale play?
The Duvernay Shale is currently receiving a lot of attention from the oil and gas industry thanks to its Eagle Ford Shale like characteristics and the fact that it contains nearly half of Canada's shale oil

reserves. Global oil companies spent more than $2 billion in 2010 and 2011 to lock up leases for this emerging world-class shale play. Companies like **Athabasca Oil** (TSX:ATH), **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), **EnCana** (TSX:ECA)(NYSE:ECA), and **Talisman** (TSX:TLM)(NYSE:TLM) were among those that locked up early positions.

Most producers are still in the early stages of exploring. For example, this year Athabasca Oil plans to spend just $76 million of its $460 million capital budget on the play. That will enable it to drill two wells as well as to complete and tie in four additional wells. However, with more than 1,000 potential future well locations, the Duvernay could really fuel Athabasca Oil's future as it begins full field development next year.

Other top land holders like EnCana and Talisman are moving forward with plans to develop the Duvernay. However, because of the development costs, both companies are planning to fund development by selling a portion of the acreage that each has accumulated. EnCana already completed its asset sale by selling a 49.9% stake in 445,000 acres for a total of $2.18 billion. Meanwhile, Talisman is looking to sell or joint venture a portion of its Duvernay holdings in order to fund development.

Canadian Natural Resources, on the other hand, doesn't yet place the Duvernay along with its core growth pillars. However, that could change over time as Canadian Natural Resources holds 480,000 net acres in the play.

Canada's Bakken

The Bakken Shale fueled an economic revival in North Dakota, catapulting it to become a top five oil producing state and slashing its unemployment rate. While that same shale oil play extends into Canada, it's not as richly packed with oil north of the border. While some American producers think that more than 45 billion barrels of oil will one day be extracted from the play, at this point Canada would be lucky to extract anything more than 2 billion barrels from its Bakken.

That's still a lot of oil. It's more than enough to fuel growth at companies like **Crescent Point Energy** (TSX:CPG)(NYSE:CPG). The company is investing more than half of its 2014 capital budget into its Bakken landholdings. With nearly 2,000 drilling locations and another 1,000 additional infill drilling locations, Crescent Point has a lot of growth left in the Bakken. This is why, over the long term, Crescent Point sees its position in the Bakken adding another 200 million of reserves as it works to recover more of the oil that's in place.

Foolish bottom line

While the Canadian oil sands will continue to dominate Canada's oil production, it's important for investors to know that Canada is also a top holder of shale oil reserves. Because of this, these tight oil resources have the potential to really fuel the returns of Canadian producers. The Duvernay in particular looks to be a real world-class resource that has a lot of companies really excited. If that excitement is backed up by results, the play could really reward investors over the long-term.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CNQ (Canadian Natural Resources Limited)
2. TSX:VRN (Veren Inc.)

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