# Billions of Barrels of Canadian Oil Are About to Disappear

## Description

Crashing crude prices over the past couple of years have forced oil companies to make a myriad of cuts. Producers have laid off thousands of employees, cut investment spending, and slashed or eliminated dividend payments to stay afloat amid the worst downturn in decades.



While oil prices have started improving in recent months, more cuts could be on the way. This time producers will likely be forced to cut their reserve estimates because prices are so low that some of this oil is no longer economical to produce. It could result in billions of barrels of oil disappearing from these reserve estimates.

**A dire warning**

Global oil giant **Exxon Mobil Corporation** (NYSE:XOM) and its Canadian subsidiary **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) recently warned that a large swath of their Canadian oil sands assets are at risk of a big reserve write-down.

According to Exxon, it might need to write off 3.6 billion barrels of its reserves in the oil sands because of low prices through the first half of the year. On top of that, the company estimates that it has another one billion barrels of oil equivalent reserves elsewhere in North America that are at risk. Add it up, and that is 19% of the company's current reserve base that could disappear at the end of the year if prices don't improve.

The primary driver of Exxon's potential reserve write-downs stems from its investments in Imperial Oil. According to Exxon, it could write off a substantial portion of its reserves at Kearl and Cold Lake unless prices rebound. That is because the company is unlikely to invest the capital needed to bring these additional reserves online at current prices.

That is evident by the amount of money the company is spending these days to maintain and grow its output. Last quarter, for example, Exxon only spent $205 million on capex, which is down from $937 million in the year-ago quarter.

**The end of the run?**

Most Canadian oil producers have avoided big reserve write-downs during the downturn. Instead, several continued to add reserves because of investments sanctioned before prices crashed.

For example, **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) reported an 11% increase in its oil sands reserves last year to 2.2 billion barrels. Driving that growth in reserve additions was an improvement in reservoir performance of its Christina Lake facility, which it continued to expand. In addition, it received regulatory approval for its Kirby East expansion, which allowed it to book additional reserves for that project.

Likewise, **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) reported an increase in its proved reserves last year. Overall, its liquids reserves rose 4% to 4.7 billion barrels. Driving that growth was the continued progress of the company's Horizon oil sands expansion, which it is close to completing.

That said, with most Canadian oil sands producers nearing the end of their current development phases, it could cause them to start trimming their reserve estimates if prices remain low. That is because most companies are forsaking expansion projects that are no longer viable.



**Investor takeaway**

Exxon Mobil and its Canadian arm Imperial Oil could eliminate a significant amount of their proved oil reserves at the end of this year unless prices improve. While that doesn't mean that the oil actually vanished, it does mean that it is no longer accessible to them until economics improve so that they can develop these resources. Given the current outlook on prices and the bounty of cheap oil due to shale plays, that could be quite some time.

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3. NYSE:XOM (Exxon Mobil Corporation)
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