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ExxonMobil Investor Note:

ExxonMobil de-booked 3.5 billion barrels of Canadian oil sands in 2016, but did not reduce the dollar value of its assets. Is the value of the company overstated?

I. Summary

As a result of persistently low global oil prices over the past three years, most U.S. oil companies with significant holdings in Canadian oil sands have both de-booked these reserves and taken significant impairments on the value of these and other assets. Such impairments totaled $200 billion in 2015 and $36 billion in 2016.

ExxonMobil remains an outlier in the industry in how it discusses Canadian oil sands losses. In its 10k filing in February 2017 the company de-booked 3.5 billion barrels of its oil sands reserves (leaving 700 million barrels on the books), but it did not take a parallel impairment in asset value — a fact that has been largely overlooked by industry analysts. The Institute for Energy Economics and Financial Analysis (IEEFA) estimates that this value could be as much as $22 billion, or 6 percent of the value of the company's long-lived assets.

In this briefing note, IEEFA explores whether the company should be taking a value reduction (asset impairment) in order to properly align the size of its physical assets with the value of the oil sands investment in its financial filings. Asset impairment is typically warranted when the carrying value on the company books exceeds the market value of assets (usually expressed as a function of cash flow). The impairment appears on the books of the company as a charge against revenue on the annual income statement and as a reduction in the value of company assets.

ExxonMobil's write-off of 3.5 billion barrels of Canadian oil sands constitutes 14% of ExxonMobil's 2015 worldwide proved reserves, its physical assets. The company acknowledges that the write-off occurred because the oil sands holdings no longer met the U.S. Securities and Exchange Commission (SEC) definition for proved reserves. The SEC definition allows a company to claim existing reserves if the quantities of oil and gas can be

estimated to a reasonable certainty to be "economically producible" within a given period of time.

Although it took the write-off, ExxonMobil still challenges the SEC definition and its application to the oil sands reserve in its financial filings. The company also asserts its continued confidence in its oil sands holdings as a valuable company asset.

Also of note in its February 10K financial disclosure, the company makes no change to the financial value of its oil sands assets. This means that ExxonMobil is now telling investors that the 4.5 billion barrels of oil sands reserves it held in 2015 (which IEEFA estimates to be worth a total of approximately $28 billion) are still worth the same as the 700 million barrels of oil sands remaining on the books in 2016.

II. De-booking of Reserves

ExxonMobil declared in its 2016 SEC annual filing statement,[1] filed in February 2017, that on an enterprise-wide level it was de-booking 4.3 billion barrels of oil-equivalent reserves, consisting of 3.5 billion barrels[2] of bitumen in Canada and 800 million barrels in its North American gas fields. Typically ExxonMobil counts reserves when senior management has made a funding commitment for the development of the reserves.[3] Conditions changed in 2016 and the reserves no longer met the SEC's definition of proved reserves. The company states that this occurred largely due to lower oil and natural gas prices.[4]

ExxonMobil remains confident that the deletion of the oil sands assets from its reserves calculation will not change its development plans for the de-booked reserves. The change, as ExxonMobil sees it, is largely one of technical compliance with SEC rules and does not change management's confidence in its outlook for the reserves or the region.[5]

The fact that the company did not reduce the value of its Canadian oil sands assets in its annual 10K filing[6] has been largely overlooked by analysts in the weeks that have passed

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1 https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm

2 ExxonMobil identifies its total bitumen holdings as of December 2015 at 4.56 billion (2016 Form 10K, pg. 110). The company states in its narrative that it is de-booking 3.5 billion barrels of Canadian bitumen (2016 Form 10K, p. 6). A detailed chart on page 110 places the revisions to the oil sands holdings at 3.748 billion and another 111 million barrel production write-off. We use the 3.5 billion barrel number throughout this report to be consistent with most of the public statements and dialogue. ExxonMobil's future disclosures on this topic would be improved if this inconsistency were corrected.

3 https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm. P.6.

4 https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm. P. 13

5 https://seekingalpha.com/article/4041222-exxon-mobils-xom-q4-2016-results-earnings-call-transcript?page=12, See page. 12.

6 The SEC requirements for declaring proved reserves are designed to allow investors to compare similarly measured physical assets between companies in the same industry. The use of economic measures is broadly designed to facilitate this objective. SEC requirements and company practices for value impairments or asset valuations are separate, different calculations from those used to derive the company's formal physical asset reserve measure. By definition valuation measures are more company-specific. Valuation measures and subsequent impairment decisions are nevertheless used to understand the specific financial condition of a company and its comparative standing among industry competitors. Despite the many regulatory issues involved, both regulatory systems (for impairment and proved reserves) and the metrics they produce are designed to clarify how underlying economic conditions affect company performance and position. The regulatory and financial issues regarding reserve levels and valuation are discussed at length by the SEC and include various oil company perspectives (including ExxonMobil) in https://www.sec.gov/rules/final/2008/33-8995.pdf.

since both the 10K and the company's year-end financial report[7] were released. ExxonMobil did, however, reduce the value of its 800,000 barrels of de-booked natural gas reserves in the Rocky Mountains by $2 billion.

III. Does the De-booking of Canadian Oil Sands Meet Exxon's Standards for Taking an Impairment?

ExxonMobil has historically been reluctant to take value impairments on its assets.[8] Nevertheless, some analysts in the oil and gas trade press anticipated that the company's recent de-booking of 3.5 billion barrels of oil sands would be accompanied by an asset impairment.[9]

ExxonMobil's policy is to reduce the value of an asset when the ability of the asset to produce cash is less than the company's estimated carrying value. In short, the impairment occurs when the value accorded the asset by the company is less than the amount the company could actually receive from market performance. The impairment decision is governed by a set of criteria, which, if met, require the company to reduce the carrying value of the asset to more properly align with its actual market value. This disclosure tool allows management and investors to carefully monitor the value of the company and the efficiency of the assets it owns as markets evolve.

This briefing note focuses on whether ExxonMobil should reduce the carrying value of its Canadian oil sands assets given current and expected market conditions. ExxonMobil's formal financial presentation in its 2016 annual filing contains a significant, unexplained disparity between the size of the company's physical assets and its valuation of its oil sands assets.

As it stands, ExxonMobil has recorded spending $53 billion on its Canadian/South American[10] investments over the past decade.[11] The company carries a $40 billion value in 2016 for its long-lived assets[12] in these areas. IEEFA estimates that $28 billion of this $40 billion estimate

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[7] https://seekingalpha.com/article/4041222-exxon-mobils-xom-q4-2016-results-earnings-call-transcript?page=15. Over a dozen analysts participated in the ExxonMobil 4Q 2016 end of year conference call. There were no questions directly on point as to why the company took no value impairment for the oil sands reserve. The 4Q 2016 press materials and announcement included the natural gas write-down and asset impairment. (See Exxon slide presentation https://seekingalpha.com/article/4040958-exxon-mobil-corporation-2016-q4-results-earnings-call-slides, slides 7, 8, 9, 20 and 21). Only the analyst from Barclay's asked a question that was tangentially related to whether the company had completed its full impairment analysis up to that point. The response from management was that the company had completed its full impairment analysis. The subsequent filing of the 2016 10K confirmed that the company did not take a value impairment for the oil sands investment.

[8] https://www.wsj.com/articles/sec-investigating-exxon-on-valuing-of-assets-accounting-practices-1474393593

[9] http://www.ogfj.com/articles/print/volume-14/issue-1/features/the-top-10-impairments-in-oil-and-gas.html

[10] ExxonMobil's presentation of its Canadian oil sands portfolio, reserves, revenues, net cash flow and capital investments are intermingled with its investments in South America (Venezuela). Where possible we have factored out the Venezuelan portion or use ExxonMobil's various Canadian and bitumen specific treatments. Where necessary we have derived our own estimates. Those IEEFA estimates are labelled as such. By 2016 the 701 million barrels in ExxonMobil's portfolio are totally attributed to Canadian holdings. https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm Footnote 2, p. 111.

[11] To derive this figure we tallied the amounts carried in the company 10K for 2006 through 2016 for "Cost Incurred Property Acquisition, Exploration and Development Activities: Canada."

[12] ExxonMobil includes this valuation under two separate accounting categories. The Canadian valuation is included as part of the aggregate "Property Plant and Equipment" on page 36 under Financial Information and again as part of the

can be attributed to Canadian oil sands holdings.[13] With the reduction of 3.5 billion barrels of oil sands, the company's Canadian oil sands portfolio stands at 700 million barrels of reserves. ExxonMobil is now telling investors that the $28 billion in oil sands that was carried by 4.5 billion barrels of Canadian oil sands in 2015 is being carried by 700 million barrels of Canadian oil sands in 2016.

The company's stated criteria for when to take an impairment are as follows:[14]

a) A significant decrease in the market price of a long-lived asset;

b) A significant adverse change in the extent or manner in which an asset is being used or in its physical condition, including a significant decrease in current and projected reserve volumes;

c) A significant adverse change in legal factors or in the business climate that could affect the value, including an adverse action or assessment by a regulator;

d) An accumulation of project costs significantly in excess of the amount originally expected;

e) A current-period operating loss combined with a history and forecast of operating or cash flow losses;

f) A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.[15]

It is not clear from Exxon's description of its standards whether the criteria are weighted or whether a cumulative set of indicators trigger an impairment.

IEEFA reviews below some of the facts regarding the oil sands de-booking in relation to the company's stated criteria for asset impairments.

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company's Consolidated Balance Sheet, p. 67. The valuation is further delineated on page 99 as "Long Lived Assets." Under this presentation ExxonMobil presents a geographic breakout by value for some of the larger porfolios, including Canadian holdings, at $40 billion.

[13] ExxonMobil's financial filings do not disaggregate Canadian bitumen from its other holdings in a clear, consistent manner. For purposes of reserve calculations ExxonMobil combines its bitumen assets in Canada and South America. One can only derive an estimate of Canadian oil sands reserves from charts and footnotes and then recalculating the charts. The company's reserves in Canada/South America include bitumen, conventional oil, natural gas and synthetic oil. In 2015 the company recorded 5.4 billion barrels in its Canada/South American holdings of which 3.5 billion or 65% were Canadian oil sands (2016 Form 10K, p. 110). For purposes of determining the value of the oil sands holdings ExxonMobil combines long lived values of all assets in Canada and South America. Various footnotes (2016 Form 10K, pps. 115-116) disclose that at its most robust in 2014 Canadian oil sands accounted for 75% of future cash flow from ExxonMobil's Canadian/South American holding and 71% in 2015. IEEFA's estimate of $28 billion is derived by taking 70% of the $40 billion listed as the total value of long-lived assets in the Canadian and South America financial presentation. Some media outlets have put the total investment number at $20 billion. http://www.foxbusiness.com/features/2017/02/17/energy-companies-face-crude-reality-better-to-leave-it-in-ground.html. Further disclosures by the company would improve the precision of this estimate.

[14] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, p. 58

[15] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm. P. 58

a. A significant decrease in the market price of long-lived assets

In 2015, U.S. oil companies, many with significant holdings in Canadian oil sands, took $200 billion in impairments.[16] In 2016, the number declined but still amounted to $36 billion.[17] Some of the largest Canadian oil sands producers took headline-creating value impairments.[18] For example, Shell's recent sale of oil sands assets to Canadian Natural Resources was accompanied by a $1.3 to $1.5 billion value impairment.[19] CNOOC, China's largest producer of oil and gas, disclosed a $1.5 billion impairment.[20]

The collapse of oil prices during 2014 has had a significant impact on oil companies generally.[21] Industry experts have offered warnings about the implications for company valuations:

> "The decline in oil prices in late 2014 has rattled the oil and gas industry as a whole and will probably suppress exploration in the near term. Therefore, with this radical decline in prices in the latter part of 2014, as of December 31, 2014 the reserve values and quantities reported on E&P companies SEC Form 10Ks or other reports may not represent the Fair Market Value."[22]

In high-cost production areas like Canada's oil sands fields, the risk of deteriorated values in the annual filings of oil investments is increased.

When compared to industry competitors that have written down the value of their oil and gas and oil sands assets,[23] ExxonMobil's financial presentation of its oil sands assets stands as an industry outlier. The general practice by the company of not taking value impairments is now under scrutiny.[24] Over the three years from 2012 to 2015 the valuation of ExxonMobil's oil assets in Canada/South America averaged $41 billion. The company maintains that these investments carry a $40 billion long-lived asset valuation in 2016.[25]

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[16] See also email exchange between Tom Sanzillo, Director of Finance, Institute for Energy Economics and Financial Analysis (IEEFA.org), and Mark Young, Senior Analyst, Evaluate Energy, April 11, 2017.

[17] https://www.albertaoilmagazine.com/2017/02/energy-company-impairment-charges-u-s/ ; see also discussion Mark Young, Senior Analyst, Evaluate Energy, http://www.ogfj.com/articles/print/volume-14/issue-1/features/the-top-10-impairments-in-oil-and-gas.html.

[18] https://www.theguardian.com/business/2015/oct/28/shell-halts-carmon-creek-oil-sands-project-in-alberta-canada http://www.reuters.com/article/total-results-idUSL5N0VM1G320150212

[19] https://www.ft.com/content/a27be066-04a3-11e7-ace0-1ce02ef0def9

[20] https://www.bloomberg.com/news/articles/2016-08-24/china-s-cnooc-posts-half-year-loss-on-canadian-oil-sands-charge

[21] https://www.wsj.com/articles/oil-companies-modest-prize-breaking-even-1491134405

[22] https://www.srr.com/article/understanding-sec-oil-and-gas-reserve-reporting#sthash.q56lgl1h.dpuf

[23] https://www.albertaoilmagazine.com/2017/02/energy-company-impairment-charges-u-s/ and https://www.wsj.com/articles/write-downs-abound-for-oil-producers-1442184600

[24] https://www.wsj.com/articles/sec-investigating-exxon-on-valuing-of-assets-accounting-practices-1474393593

[25] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm. P. 99

b. A significant adverse change in the extent or manner in which an asset is being used or in its physical condition, including a significant decrease in current and projected reserve volumes

Exxon's criteria for impairment include "a significant decrease in current and projected reserve volumes." The company makes clear that the recent reserve reduction was taken in order to comply with SEC requirements and spells out conditions under which the oil sands reserves can be re-booked.[26] The company has de-booked the reserves because it cannot with reasonable certainty say that the reserves are "economically producible."

A review of ExxonMobil's most recent investor presentation[27] demonstrates that the company continues to work to extract value from its current holdings in Canada, most notably in its Kearl oil sands investment. A question emerges as to how the remaining oil sands reserves in the company's portfolio will be treated. As the company now begins to concentrate on short-cycle investments, will its oil sands holdings be pushed further down its capital spending list? Will the assets in Canada be reprioritized and extracted over a longer period of time than originally planned? Are the assets expected to produce lower returns than originally anticipated? Are technological breakthroughs required to make development of the Canadian assets profitable? ExxonMobil's capital plans do not include additional oil sands development investment for the foreseeable future. The company plans no new upstream investments in Canada through 2020. Most of the company's new investments emphasize natural gas investments and oil plays on other continents.[28]

c. A significant adverse change in legal factors or in the business climate that could affect the value, including an adverse action or assessment by a regulator

No legal or regulatory orders have required the company to change its method of calculating value impairments. However, various aspects of the company's accounting for reserves are being reviewed by the New York State Attorney General and the Massachusetts Attorney General. The company is aggressively contesting these inquiries.

The SEC has requested information from the company on these matters.[29] Some analysts have surmised that the ExxonMobil de-booking is in response to the questions raised by the SEC inquiry.[30]

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26 https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, p. 13.
27 https://www.sec.gov/Archives/edgar/data/34088/000119312517072778/d350900dex992.htm
28 https://www.sec.gov/Archives/edgar/data/34088/000119312517072778/d350900dex992.htm
29 https://www.wsj.com/articles/sec-investigating-exxon-on-valuing-of-assets-accounting-practices-1474393593 and http://business.financialpost.com/news/energy/u-s-securities-commission-probes-exxons-climate-reserves-accounting-report
30 http://fortune.com/2017/02/23/exxon-mobil-oil-sands-sec/

d. An accumulation of project costs significantly in excess of the amount originally expected

ExxonMobil's oil sands investments have been confounded by a series of changes in supply and demand factors. ExxonMobil's acquisitions in the Canadian oil sands,[31] like those of many other companies,[32] took place during a period of relatively high oil prices. The subsequent collapse in the price of oil caused many companies to reduce their annual capex expenditures.[33] As the low price environment has persisted, the Canadian Association of Petroleum Producers has trimmed its long-term projections for oil sands expansion.[34] Other analysts have noted that a $50 per barrel oil price range renders many new, greenfield oil sands investments uneconomic.[35] Several major oil companies have withdrawn from the oil sands market and less investment is expected in the future.[36]

During this period oil producers have substantially reduced operating budgets[37] and introduced new technologies. This has allowed many existing fields to remain profitable, though several companies reported losses on oil sands production at the lowest point of the price collapse in 2016.[38] As prices remain low, pressure to reduce costs further will continue, testing the long term economic viability of the investment.[39]

e. A current-period operating loss combined with a history and forecast of operating or cash flow losses

The company has declared losses in its Canadian/South American investments, and industry outlooks suggest continued stress in a low-price oil environment going forward. ExxonMobil posted operating losses in 2015 and 2016 on its Canada/South American investments.[40] In 2014, ExxonMobil reported a net discounted cash flow value of its Canadian oil sands investment of $30.1 billion.[41] From the summer of 2012 through the summer of 2014, the price of oil remained consistently above $100 per barrel. In 2016, the net cash flow value of ExxonMobil's oil sands assets declined to $2.3 billion. The company is projecting a $57-per-barrel price through 2020 and a $3 mmbtu Henry Hub natural gas price (generally used as

[31] https://www.dallasnews.com/news/investigations/2016/12/13/exxon-bets-big-extracting-dirty-canadian-oil-despite-climate-cost-concerns

[32] https://www.bloomberg.com/news/articles/2016-04-01/alberta-s-great-oil-sands-boom-is-poised-to-end-in-2018-chart

[33] http://www.capp.ca/media/news-releases/capital-investment-in-canada-oil-and-gas-industry-down-62-per-cent-in-2-years

[34] http://www.capp.ca/publications-and-statistics/publications/284950: See" 2016 CAPP Crude Oil Forecast, Markets and Transportation, p.5. See also: http://www.reuters.com/article/canada-oil-capp-idUSL2N0OQ12J20140609

[35] http://resources.ceri.ca/PDF/Pubs/Studies/Study_163_Full_Report.pdf, p. 22.

[36] http://blog.ihs.com/production-cost-and-the-canadian-oil-sands-in-a-lower-price-environment

[37] http://www.theglobeandmail.com/globe-investor/investment-ideas/oil-sands-cost-cutting-getting-close-to-bone-as-crude-prices-stalls/article32174444/

[38] http://rmicri.org/media/static/images/thumbnail-pdf/WCBAUG25AUG312015.pdf

[39] http://www.theglobeandmail.com/globe-investor/investment-ideas/oil-sands-cost-cutting-getting-close-to-bone-as-crude-prices-stalls/article32174444/

[40] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm., p. 104-105

[41] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, p.99.

the national benchmark price).[42] These low prices will place continued stress on oil sands operations.

Similar to its treatment of SEC rules related to proven and probable oil reserves, ExxonMobil dismisses the use of the discounted cash flow measure as a reliable gauge of expected future cash flows:

> "In the Upstream, the standardized measure of discounted cash flows included in the Supplemental Information on Oil and Gas Exploration and Production Activities is required to use prices based on the average of first-of-month prices. These prices represent discrete points in time and could be higher or lower than the Corporation's long-term price assumptions which are used for impairment assessments. The Corporation believes the standardized measure does not provide a reliable estimate of the expected future cash flows to be obtained from the development and production of its oil and gas properties or of the value of its oil and gas reserves and therefore does not consider it relevant in determining whether events or changes in circumstances indicate the need for an impairment assessment."[43]

Following this language in its management discussion, ExxonMobil describes its methodology for impairment. The discussion ends with the company declaring that an impairment is declared when the carrying value exceeds market value. The company offers a qualitative description of its methods but does not provide a quantitative application of those principles to either actual or hypothetical scenarios. The company does not disclose in either its annual filing or other financial presentations its long-term price assumptions or what a qualitative and quantitative "reliable measure" of future cash flow is.

Further, the company states that its determination of fair market value of an asset is based on the following:

> "The principal parameters used to establish fair values included estimates of both proved and unproved reserves, future commodity prices which were consistent with the average of third-party industry experts and government agencies, drilling and development costs, discount rates ranging from 5.5 percent to 8 percent depending on the characteristics of the asset group, and comparable market transactions."[44]

IEEFA finds that the company's oil sands assets have lost market value under most of these criteria. The company has recently reduced its estimate of reserves in the oil sands. Commodity prices, as described in ExxonMobil's most recent investor outlook, are at $57 per barrel through 2020, substantially less than more robust previous periods of $100-per-barrel oil. Subpar oil prices took root in mid-2014 and are now expected to remain low through 2020. Recent market transactions are demonstrating that sales in the oil sands region are distressed and require significant value impairments by companies looking to sell their assets.[45] Although some analysis (including by Imperial Oil, ExxonMobil's Canadian subsidiary)[46] are claiming that oil sands production costs can be substantially reduced,[47] the company has not

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[42] https://www.sec.gov/Archives/edgar/data/34088/000119312517072778/d350900dex992.htm , p. 22.
[43] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm., p.59
[44] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm., p.59
[45] https://www.bloomberg.com/news/articles/2017-03-09/shell-agrees-to-sell-oil-sands-operations-for-7-25-billion
[46] http://www.cbc.ca/news/canada/calgary/imperial-oil-oilsands-plants-aspen-cold-lake-1.3773167
[47] http://business.financialpost.com/news/energy/oil-sands-crude-not-as-expensive-to-produce-as-it-used-to-be

disclosed any systematic financial treatment that can be independently reviewed by investors.

Interestingly, when it de-booked its natural gas assets in the Rocky Mountains by 800 million barrels of oil-equivalent natural gas, ExxonMobil took a $2 billion impairment.[48]
Yet the financial presentation in its most recent filing is silent as to how the company reached a conclusion that the 3.5 billion barrel de-booking of oil sands in Canada retained its value against significant market headwinds.

f. A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life

ExxonMobil has given no indication that it is looking to sell its oil sands assets in Canada. However, Imperial Oil ,the company's Canadian subsidiary, has been selling other non- oil sands assets to raise revenues. The company announced a plan to market its crude oil holdings in the Norman Wells during the fourth quarter of 2016.[49] Imperial also successfully raised revenue when it sold its retail, downstream holdings in Canada in 2016.[50]

Although ExxonMobil continues to receive revenues from its oil sands investments in Canada, operating margins have deteriorated significantly over the past two years.[51] This decline in combination with other financial weaknesses in the Canadian operation resulted in ExxonMobil posting losses for its entire Canadian operation in 2015 and 2016.[52] Whether these investments will continue to produce losses is uncertain, as is how the company will ultimately dispose of these assets.

IV. Options to Improve Company Transparency Regarding Impairments

In adopting its current stance of taking no value impairment on the Canadian assets, ExxonMobil faces two significant problems related to the issues raised in this research note:

First, the company has not explained to its investors how its own internal accounting treatments have allowed it to conclude that the 4.5 billion barrels of bitumen in its portfolio in

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48 https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, p. 59.
49 http://www.imperialoil.ca/en-ca/company/media/news-releases/161009-imperial-to-market-norman-wells-assets?parentId=5e0912d5-dddf-4478-9345-edbcfe012b52 http://www.cbc.ca/news/canada/north/imperial-oil-selling-norman-wells-oil-assets-1.3755968, http://www.cbc.ca/news/canada/north/imperial-oil-norman-wells-1.3764911
50 http://www.reuters.com/article/imperial-oil-results-idUSL4N1FL22G
51 Margins for ExxonMobil's Bitumen holdings in Canada peaked at $46.49 per barrel in 2012 to $1.05 per barrel in 2016. https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, p. 9-10. For 2009 see price of bitumen: $61.26, minus cost of production: $14.77. https://www.sec.gov/Archives/edgar/data/34088/000119312511047394/d10k.htm, p. 11.
52 https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, Results of Operations,Consolidated Subsidiaries, Canada/South America, p. 104-105,

2015 have the same value as the 700 million barrels in its portfolio in 2016.[53] The company has taken a position that the SEC and accounting rules have caused it to misstate reserve levels and distort the asset-impairment process.

ExxonMobil is in a state of decline as shown by low oil prices, lower revenues, declining payouts to shareholders, rising debt levels and shrinking cash reserves.[54] Absent a thorough, compelling case that the SEC and accounting rules are deficient, investors are being asked to accept a financial disclosure that is incomplete and otherwise reflective of a company in a state of financial distress.

IEEFA estimates that ExxonMobil's oil sands investment holds $28 billion of value. IEEFA derived this figure from the valuations offered by ExxonMobil as part of its broad category of Canada/South America holdings (which are inclusive of its Canadian oil sands assets). Although there has been a precipitous decline in the size of these holdings as a result of the 2016 de-booking, the total long-lived asset value of these holdings is listed at $40 billion in 2016[55] as it was in 2015.[56] This creates a significant anomaly between the size of the physical assets and the asset value. Further company disclosures are warranted.

Second, the current state of ExxonMobil's financial reporting leaves unanswered several important questions regarding the financial value of the company. The lack of transparency on a matter of this size should be a major consideration by investors.

The company has a number of options by which it could address the declining value of these assets. These options would allow it both to continue to develop the oil sands and to address changes in the size and underlying value of these assets.

- One scenario is for the company to take a value impairment commensurate with the size of the 3.5 billion barrel write-down of the physical assets. Under such a scenario, the company would reduce the $28 billion by $22.4 billion, reflecting the remaining value of the 700 million barrels. This would reduce the company's total long lived-asset value[57] for 2016 from $244 billion[58] to $222 billion.

- The company could also either book a partial impairment or segment its valuation based upon its ongoing strategic planning. Although it has concluded that there is still value in its oil sands investment, a considerable body of evidence supports a lower valuation of the asset. Low oil prices, distressed market sales and competitor impairments are important factors. Add to this the company's loss declaration and an unproven new business model assuming a low future oil price and diminished profitability. The result suggests that the market value of the asset has been eroded and the question then becomes by how much and based upon what rationale.

[53] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, p. 110.

[54] http://ieefa.org/ieefa-issues-red-flag-report-exxonmobil-%E2%80%A8core-financials-show-oil-giant-decline-institutional-investors-owe-shareholders-fiduciary-review/

[55] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, p. 99

[56] The 2015 Form 10K lists the asset at $39.7 billion. https://www.sec.gov/Archives/edgar/data/34088/000003408816000065/xom10k2015.htm, p.95.

[57] We would anticipate that there would also be a write-down reflected on the Property Plant and Equipment lines in the company's Consolidated Balance Sheet.

[58] https://www.sec.gov/Archives/edgar/data/34088/000003408817000017/xom10k2016.htm, p. 99.

V. Conclusion

ExxonMobil managers may have harmed the company by preparing the market for the de-booking write-down and then failing to take a value impairment. A value reduction of the amount implied in this document would be considerable and would probably have an impact on ExxonMobil's stock value.[59] Whether it does have such an impact — or whether the company is correct in its assessment of SEC and standard accounting rules — misses a larger point as to how the company has failed to provide the transparency that investors require.

59 http://www.businesstoday.in/moneytoday/investment/impairment-charges-can-affect-a-company-stock-price/story/197163.html

Institute for Energy Economics and Financial Analysis

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Tom Sanzillo, director of finance for IEEFA, is the author of several studies on coal plants, rate impacts, credit analyses, and public and private financial structures for the energy industry. He has testified as an expert witness, taught energy-industry finance training sessions, and is quoted frequently by the media. Sanzillo has 17 years of experience with the City and the State of New York in various senior financial and policy management positions. He is a former first deputy comptroller for the State of New York, where he oversaw the finances of 1,300 units of local government, the annual management of 44,000 government contracts, and where he had oversight of over $200 billion in state and local municipal bond programs and a $156 billion pension fund.

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Important Information