NYMEX OIL: US$81.77
+$0.26
February
NYMEX N. Gas: US$5.64
-$0.25 per MMBTU
February delivery

Oilfield NEWS

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TUESDAY PRICES

Benchmark crude for February delivery gained US$0.26 to settle at $81.77 on the New York Mercantile Exchange. In other Nymex trading in February contracts, heating oil rose 36 cents to settle at $2.19/gal and gasoline rose 2 cents to $2.12/gal. Natural gas fell 25 cents to finish at $5.64 per 1,000 cubic feet. In London, Brent crude fell $0.09 to $80.21 on the ICE Futures exchange.

NORTH AMERICAN ROTARY RIG COUNTS

The U.S. rotary rig count increased by 11 to 1,189 for the week of January 1, 2010. It is 434 (26.7%) rigs lower than last year. The number of rotary rigs drilling for oil was up 2 at 418. There are 72 more rigs targeting oil than last year. Rigs currently drilling for oil represent 35.3% percent of total drilling activity. Rigs directed toward natural gas were up 8 at 759. The number of rigs currently drilling for gas is 508 less than last year's level of 1,267. Year-over-year oil exploration in the US is up 20.8 percent. Gas exploration is down 40.1 percent. The weekly average of crude oil spot prices is 86.0 percent higher than last year and natural gas spot prices are 3.9 percent higher. Canadian rig activity was down 59 at 209 for the week of January 1, 2010 and is 21 (9.1%) lower than last year's rig count.

COLD SNAP PUSHES OIL ABOVE $80 A BARREL

Oil opened the new year with a bang on Monday, as cold weather boosted expectations of higher energy demand in the northern hemisphere winter. Reports that Russia cut supplies to Belarus also helped push prices higher, even though officials in Belarus denied this, dealers said. New York's main futures contract, light sweet crude for delivery in February, closed up 2.15 dollars at 81.51 dollars per barrel, after trading as high as 81.68 dollars, the steepest price since October 21. Brent North Sea crude for February rose 2.19 dollars to settle at 80.51 dollars in London trading.

OPEC OUTPUT ROSE IN DECEMBER

The Organization of Petroleum Exporting Countries increased crude-oil production in December to the highest level in a year as members took advantage of rising prices. Output averaged 28.965 million barrels a day this month, up 65,000 barrels from November, according to the survey of oil companies, producers and analysts. The 11 countries with quotas, all except Iraq, pumped 26.615 million barrels a day, 1.77 million above their target. All members exceeded their production goals. OPEC cut output quotas by 4.2 million barrels to 24.845 million barrels a day last year as fuel demand tumbled during the worst global recession since World War II. The group left the targets unchanged at a Dec. 22 meeting in Luanda, Angola. Compliance was at about 60 percent, according to the survey. Crude oil futures have more than doubled from a four-year low of $32.40 a barrel touched in December 2008, which caused OPEC to curb production. Prices rose 26 cents to settle at $81.77 a barrel Tuesday on the New York Mercantile Exchange, a six-week closing high.

NOBLE TO BUY SUNCOR OIL AND GAS FIELDS

Noble Energy will spend $494 million for nearly all of the Rockies oil and gas fields owned by the U.S. division of Canada's Suncor Energy, the company said Tuesday. Suncor Energy Inc. last year bought Petro-Canada to create that nation's largest energy producer and the company has been shedding assets since the deal was approved by regulators. About 80 percent of the oil and other liquids are within the Wattenberg field, the largest onshore asset held by Noble. "The addition of complimentary drilling locations and opportunities in Wattenberg allows Noble Energy to continue to strengthen this core area," said Noble Energy chief operating officer David Stover. The deal brings an additional 10,000 barrels of oil equivalent per day to Noble's production, the company said. During the third quarter Noble Energy Inc., based in Houston, reported record volumes of oil and natural gas in the Wattenberg. That assets were under the control of Petro-Canada Resources Inc. and Suncor Energy America Inc. The total purchased properties hold an estimated 53 million barrels of oil equivalent in proved reserves, 45 percent of which are liquids. Stover said the company now controls over 530,000 net acres in the central DJ Basin, with net production approaching 52,000 barrels equivalent per day. Noble expects the deal to close in the first quarter and will fund the purchase through an existing credit facility.

PETROCHINA PULLS OUT OF AUSTRALIAN GAS DEAL

Energy giant PetroChina has pulled out of a $40 billion (R290 billion) deal to buy natural gas from a project off Australia, leaving Woodside Petroleum looking for new customers. Reasons for letting the preliminary agreement lapse were not given, but analysts said Tuesday it was probably because PetroChina had become dissatisfied with the cost in the two years since the deal was signed. Woodside informed Australia's stock exchange on Monday that an early stage agreement for the Browse Basin liquefied natural gas project off Western Australia state had not been settled by a December 31 deadline and had now lapsed. Under the September 2007 agreement, PetroChina would potentially buy up to three million metric tons (3.3 million tons) of LNG per year from the project for up to 20 years. At the time, it was one of Australia's largest export deals with an estimated worth of AU$45 billion. Since then, deals between prospective developers of the massive gas reserves on Australia's so-called Northwest Shelf and customers have accelerated, with companies in China, Japan and South Korea signing on to multibillion dollar, two-decade agreements last year. The lapse of the PetroChina deal means that the terms, including price, for a large chunk of the Brown Basin gas are once again fully open to negotiation.

CONNACHER COMMENCES WINTER DRILLING PROGRAM

Connacher Oil and Gas Limited has announced the commencement of its first quarter 2010 drilling program. The primary focus of the drilling program is on expanding bitumen resources and reserves through the drilling of core holes on the company's Great Divide and Halfway Creek oil sands leases in northern Alberta. It will also include a conventional oil and gas exploration and exploitation program in northern Alberta and southwest Saskatchewan. In addition, two horizontal well pairs will be added at Great

Divide Pod One ("Pod One"), the company's first 10,000 bbl/d steam assisted gravity drainage ("SAGD") oil sands project. The company's Q1 2010 core hole program anticipates 60 wells at Great Divide; however, subject to budget and other considerations, including per well costs, weather and actual results obtained, it could accommodate up to 70 core holes. Five drilling rigs are contracted to be utilized for the core hole program, three rigs having already commenced operations and two more scheduled to follow later this week. A sixth rig is also being utilized as a surface hole pre-set rig. The program is expected to finish in early March 2010. Additionally, there will be stepout core holes drilled to delineate and extend the existing pods already identified within the main Great Divide lease block. The Halfway Creek core hole program will also commence this week and is designed to explore the oil sands potential of this block. Ten core holes (50% Connacher or 5 net core holes) will be drilled on this block. In addition, two 3D seismic programs will be run at Great Divide and at Thornbury, located southwest of Great Divide, to identify potential oil sands accumulations that could be the target of future core hole programs. The budget for the core hole and seismic programs is $28.3 million and was included in the company's previously announced 2010 capital program. It is anticipated the planned core hole and seismic programs will largely satisfy the company's flow-through obligation, which arose from the October 2009 sale of $30 million of flow-through common shares, proceeds of which will fund the planned activity. The company's Q1 2010 conventional drilling program will consist of nine wells to be drilled primarily for natural gas in northern Alberta, including offset locations to a new pool discovery made in 2007. Also, one development oil well will be drilled on the company's lands at Battrum in southwest Saskatchewan. The budget for the 2010 conventional drilling program is $6.4 million and was also included in the company's previously announced 2010 capital program. The drilling of the two additional horizontal SAGD well pairs at Pod One commenced in December 2009 and is anticipated to be completed in January 2010. The drilling rig used for this program was one of the two rigs which recently drilled 17 horizontal SAGD well pairs at Connacher's second 10,000 bbl/d oil sands project ("Algar" at Great Divide. The Algar drilling program came in both under budget and ahead of schedule, as previously reported in a December 4, 2009 operational update press release. The two new well pairs will increase the total number of horizontal well pairs at Pod One to 19. It is anticipated these two new well pairs will be completed and tied-in to Pads 101 and 102 at Pod One, but will not receive steam injection until 2011 or until "surplus" steam is available at Pod One, once the full impact of the installation of electrical submersible pumps and other operations procedures is evident. The budget for the two new well pairs is $10.2 million and was included in the company's previously announced 2010 capital budget. It is expected that the results from these drilling and seismic programs will be evaluated and included in the company's mid-year 2010 reserve report, scheduled to be prepared by our independent evaluator, GLJ Petroleum Consultants Ltd., who will also complete a year-end 2009 evaluation of Connacher's reserves and resources, which is anticipated to be available during February 2010.

TOTAL SA ENTERS BARNETT SHALE PLAY

Europe's third-largest oil company, Total SA, will be spending $2.25 billion for a stake in Chesapeake Energy Corp. operations in Barnett Shale. As per the terms of the deal, Total will pay the biggest U.S. natural-gas field $800 million in cash and another $1.45 billion of Chesapeake's Barnett drilling costs over the next three years. "This is clearly in line with Total's strategy to get into U.S. shale gas. The price looks reasonable," said Aymeric de Villaret, an analyst at Societe Generale. The two companies are said to be considering joint ventures in South Texas and in Canada. The present deal marks Chesapeake's fourth joint-venture agreement since the fall of 2008. The investment will enable Total to acquire a 25 percent stake in Oklahoma City-based Chesapeake and thus enable it speed up its expansion in unconventional energy. The Barnett discovery is termed as unconventional formations as it entails the usage of high-tech drilling techniques to discharge the gas trapped in dense rocks. The Barnett field generates close to 50 percent of all shale gas in the U.S. Total CEO Christophe de Margerie said that in addition to giving an immediate access to a major U.S. gas field, the deal will also enable Total to gain knowledge developing similar fields around the world. "This deal will allow Total to develop its expertise in the unconventional hydrocarbons in order to expand its unconventional business worldwide," Mr. de Margerie said. Meanwhile Chesapeake Chief Executive Aubrey McClendon intends to use the proceeds from the Total deal to finance drilling and other capital expenses across the country. The deal is a pointer to the fact that international energy behemoths are moving in to make the most of the large U.S. gas discoveries of the past decade. Amid stringent environmental laws and conjectures, cleaner-burning fuel will be brought into pay in the near future. Oil companies are also trying to expand and consolidate their holdings of natural gas. Furthermore, the intricate U.S. shale provides an ideal platform for honing expertise and proficiency which can then be employed to unbolt comparable formations in the rest of the world. "Many of the companies that weren't first in have done their homework now, and are making their move to try to correct that," said Bob Fryklund, an analyst with IHS-Cambridge Energy Research Associates in Houston.

ARC CLOSES OFFERING

ARC Energy Trust has announced the closing of the previously announced offering of 13 million trust units at a price of $19.40 per trust unit for total gross proceeds of approximately $252 million on a bought deal basis. The syndicate of underwriters was led by RBC Capital Markets and included: CIBC World Markets Inc., BMO Capital Markets, Scotia Capital Inc., TD Securities Inc., FirstEnergy Capital Corp., National Bank Financial Inc., Canaccord Financial Ltd., Peters & Co. Limited, Macquarie Capital Markets Canada Ltd., Raymond James Ltd., Thomas Weisel Partners Canada Inc., and UBS Securities Canada Inc. The Trust intends to use a portion of the net proceeds of this offering to repay bank indebtedness of $180 million that was incurred to fund the purchase of assets in the Ante Creek and other areas of Northern Alberta which was completed on December 21, 2009. The remainder will be initially used to partially repay other outstanding bank indebtedness, thereby freeing up borrowing capacity to fund a portion of the Trust's future capital program.

TRINIDAD EXPANDS US OPERATIONS

Trinidad Drilling Ltd. has announced that it has agreed to resume the construction of six new contracted drilling rigs that were delayed earlier in 2009 due to weak industry conditions. "The addition of six new built-for-purpose style rigs continues our strategic deep-drilling focus and strengthens Trinidad's position as one of the leading unconventional shale drillers in North America," said Lyle Whitmarsh, Trinidad's President and Chief Executive Officer. "Our customer's ongoing commitment shows their satisfaction with our performance to date and their belief in our ability moving forward." Trinidad and its customer have agreed to resume the construction of six new drilling rigs that were put on hold earlier in 2009. The rigs remain under five-year, take-or-pay contracts with the original customer and the terms of the contract are unchanged. The drilling rigs are 18,000 feet triple rigs with 1,500 horsepower AC drawworks and are equipped with Trinidad's in-house, state-of-the-art technology and automation. The rigs will be built at Trinidad's rig manufacturing facility, Victory Rig Equipment, and are expected to be completed by the end of 2010; the first rig's delivery is scheduled for the first quarter of 2010. Trinidad estimates that it will take an additional $60 million to complete the construction on these rigs. The customer has compensated Trinidad for the interest on the initial capital spent on the construction of these rigs while they were on hold. The new rigs are destined for operations in the Haynesville shale in Louisiana, bringing Trinidad's total rig count in the area to 31 and growing the Company's already industry-leading market share in this key shale play. Trinidad's modern, deep-capacity fleet is well suited to unconventional shale drilling and the Company's strong performance in these areas has created a solid reputation as a driller of choice with some of the key shale operators. Including these new rigs, Trinidad will have approximately 45 percent of its fleet operating in the unconventional shale plays. Following the completion of these rigs, Trinidad will have 53 rigs in Canada, 64 rigs in the US, 7 rigs in Mexico and 1 rig in Chile. As in the past, Trinidad's growth continues to be backed by long-term, take-or-pay contracts; including the rigs under construction, the Company has 50 percent of its fleet under long-term, take-or-pay contract with an average term remaining of more than two years.