NYMEX OIL: US$76.09
-$0.43
November delivery
NYMEX N. Gas: US$3.97
+$0.05 per MMBTU
October delivery

Oilfield NEWS

ESSO

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TUESDAY PRICES

Benchmark crude for October delivery fell $0.43 to $76.10 a barrel on the New York Mercantile Exchange. In other Nymex trading in contracts, heating oil was up 2-cents at $2.12/gal while gasoline rose a 1-cent to $1.95/gal. Natural gas gained 5-cents to $3.97 per 1,000 cubic feet. In London, Brent crude rose 8-cents to $78.65 a barrel on the ICE exchange.

NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was down 11 to 1,650 for the week of September 24, 2010. It is 633 rigs (62.2%) higher than last year. The number of rotary rigs drilling for oil was up 3 at 673. There are 376 more rigs targeting oil than last year. Rigs currently drilling for oil represent 40.8% percent of all drilling activity. Rigs directed toward natural gas were down 15 at 967. The number of rigs currently drilling for gas is 257 greater than last year's level of 710. Year-over-year oil exploration in the US is up 126.6 percent. Gas exploration is up 36.2 percent. The weekly average of crude oil spot prices is 8.1 percent higher than last year and natural gas spot prices are 15.2 percent higher. Canadian rig activity* was down 51 at 282 for the week of September 24, 2010 and is 54 (23.7%) higher than last year's rig count.

NO CHANGE EXPECTED AT NEXT OPEC MEETING

Kuwait doesn't expect OPEC to change its production quotas at its meeting next month, Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said today. “No, I don't expect it to change,” al-Sabah said in response to questions from reporters in New Delhi. The 12-member Organization of Petroleum Exporting Countries is next scheduled to meet on Oct. 14 in Vienna. OPEC in a report this month trimmed the outlook for demand for its members' crude in 2011 as output from outside the group increases. Al-Sabah said he expects the price of oil in the first quarter of next year to range from $75 to $85 a barrel. Compliance among the 11 members subject to quotas is about 52 percent, Al-Sabah said. “OPEC should be more committed to their quotas,” he said. “There are little bits of slippages here and there.” The group announced a record production cut in December 2008 as global demand collapsed. Adherence to the reduction of 4.2 million barrels a day, capping output at 24.845 million, slipped as prices rebounded 78 percent last year.

CHINA AND RUSSIA SIGN ENERGY DEALS

China and Russia signed agreements Monday to boost energy co-operation, while Moscow said it wants to supply its energy-hungry neighbour with all its natural gas needs. No dollar value was given to the agreements signed during a state visit by Russian President Dmitry Medvedev, but they included documents on co-operation in coal, natural gas, nuclear energy and renewable energy. Russian Deputy Prime Minister Igor Sechin told reporters in Beijing that Russia is in talks with Chinese partners on plans to launch natural gas supplies to China starting in 2015, according to the state ITAR-Tass news agency. "Russia is ready to meet China's full demand in gas," Sechin was quoted as saying in the report. Russian state-controlled gas monopoly Gazprom said that under that agreement it will supply China with 30 billion cubic meters of gas annually for 30 years starting in late 2015. The final deal is expected to be signed next summer, Gazprom said. Sechin said that if talks with China on gas supplies went well, Russia could sign commercial contracts by the middle of next year, ITAR-Tass said. Russian news agency Interfax cited Russian Energy Minister Sergei Shmatko as saying that "in my opinion, the main terms of (gas) supplies, apart from the price, have been agreed upon." Russia is the world's biggest energy producer and China is the world's largest energy consumer, overtaking the United States last year. Although Europe remains Russia's largest export market for gas and oil, both Beijing and Moscow have been seeking to diversify their energy sources and markets, despite a long history of mutual suspicion and tensions. Efforts by China and Russia to establish gas ties have been stalled for years, mainly because of disagreement over pricing. While Russia is eager to link gas prices for China to oil prices in the way it does in Europe, China views any European-level prices as too high. Gazprom's statement made no mention of possible routes for the supply, but the company has been long working on the Altai pipeline project, which would link energy-rich Western Siberia with Shanghai. Gazprom said in 2006 that it would build two gas pipelines to China, but these plans have been upset by disagreement over future gas prices. Turkmenistan, however, is enjoying a head start, with China set to become the largest buyer of gas from the central Asian country over the coming years as a pipeline linking the two countries reaches full capacity. Deliveries began earlier this year and are expected to hit 40 billion cubic meters in 2015. Medvedev is on a three-day visit that started Sunday. He met Chinese President Hu Jintao for talks Monday and praised closer ties with China. "I believe that the contact between the two countries is completely in the interest of the Russian and Chinese peoples," Medvedev said in opening remarks. Hu hailed a "new era" in partnership. "Both sides believe that the current strategic partnership between China and Russia stands at a new starting point," the Chinese leader said at the end of talks. Hu and Medvedev also attended a ceremony in Beijing to mark the completion of a 1,000-kilometer crude oil pipeline from eastern Siberia to China, which connects Russian oil fields with Daqing, a major oil production base in northeastern China. In late August, Russia opened its section of the pipeline. The pipeline is part of a deal signed last year in which China will provide a $25 billion US loan to Russia in exchange for 15 million tons of oil annually (300,000 barrels per day) for 20 years. Russia and China fell out bitterly 50 years ago over interpretations of communist ideology. In recent years, their relationship has warmed but they remain divided by culture and a preference in both capitals for acting independently. Both see themselves as rivals to Washington and all three are permanent members of the U.N. Security Council. China and Russia have close ties to Iran and though they supported U.N. sanctions adopted last month against Tehran over its suspected nuclear program, they have objected to stronger measures. China and Russia also signed an agreement on fighting terrorism and separatism.

POLL SHOWS CANADIANS EVENLY SPLIT ON OILSANDS

Canadians seem to be evenly split on the issue of oilsands development in Alberta, according to a new Ipsos Reid poll. Just over half, 51 per cent, of those surveyed agreed with the statement that "while there are some risks to the environment with this development, the need for energy in Canada outweighs those risks." Meanwhile, 49 per cent of Canadians agree with the sentiment that "while there is a need for energy in Canada, it does not outweigh the environmental risks with this development." The controversial issue has polarized the nation, though not along East-West lines as some might have predicted. Residents of Atlantic Canada (64 per cent), Alberta (62 per cent) and Ontario (58 per cent) are most likely to agree that the need for energy outweighs the environmental risks. Residents of Quebec (71 per cent) and Saskatchewan and Manitoba (both 60 per cent) are more likely to think that the environmental risks associated with oilsands development outweigh the need for energy. British Columbia residents are most divided on the matter, with 52 per cent believing that the need for energy is more important than the risks oilsands development poses to the environment and 48 per cent supporting the opposite view. A majority of Canadians (70 per cent) have seen, read or heard something about oilsands development, for example, through news coverage, but 30 per cent say they have not. However, nearly one quarter (22 per cent) of Canadians who have heard about oilsands development either don't know or don't care enough to determine whether or not it's a good thing or a bad thing. When combined with the proportion who haven't heard about the development, this amounts to about four in 10 (42 per cent) Canadians who are either in the dark or indifferent about the project.

PEAK TO CONVERT

Peak Energy Services Trust has announced its intention to convert to a growth-oriented corporation pursuant to a plan of arrangement under the Business Corporations Act (Alberta). Peak will be seeking approval from unitholders at a special meeting of unitholders and expects to complete the Conversion by January 1, 2011. On October 31, 2006, the Department of Finance announced the Specified Investment Flow-Through Trust ("SIFT") income and distribution tax, which effectively eliminated the benefits of Peak's income trust structure by introducing additional income taxes to be imposed on income trusts (generally) for taxation years commencing January 1, 2011. In order to qualify under legislation for a tax-deferred conversion, Peak must convert to a corporation before the end of 2013. Having considered these legislative changes, the current challenging economic and industry environment as well as the opportunities arising in such environment to execute on Peak's strategic plan, Peak believes that it is in its best interests to proceed with the Conversion at this time. Furthermore: - the Conversion is important to broadening the scope of potential investors in Peak; - access to capital markets for income trusts may become more limited in 2011; - the Conversion removes the restriction on non-resident ownership imposed on income trusts; - the Conversion is expected to be a tax deferred event for unitholders of Peak resident in Canada; - the Conversion also removes the growth limitations imposed by the SIFT legislation; - the Arrangement provides for an effective and efficient method of converting from a SIFT to a corporation; and - the Conversion will lead to a simplified and more efficient corporate structure that will reduce overhead and administrative costs. The proposed Conversion will be completed in compliance with the exchange method provided for under the Income Tax Act (Canada). The Conversion requires a Meeting whereby Peak will be seeking the approval of Peak's unitholders, as well as customary court and regulatory approvals. Materials will be mailed to Peak unitholders in due course in connection with the Meeting. Further details about the timing and mechanics of the Conversion will be communicated as they become available.

CROCOTTA TO SELL ASSETS TO TRIPLE 8

Canadian oil and natural gas company Crocotta Energy Inc has agreed to sell certain assets in the West Central Alberta region to Triple 8 Energy Ltd for about C$30 million. The company, which had a net debt of C$54.97 million at the end of the second quarter, expects to cut its debt to C$27 million after the sale of the assets are completed. The daily production at the assets being sold in Pembina, Niton and Chip Lake was about 530 barrels of oil equivalent in July. Crocotta Energy estimated daily production of 2,000 boe after the deal. It had reported 2,448 boe per day in its second quarter. Triple 8, a junior oil and gas company, is going to buy the assets for C$28 million in cash and drilling credits and warrants with estimated value of C$2.0 million. It would fund the cash portion of the deal through a bought deal financing with a syndicate of underwriters co-led by GMP Securities LP and Canaccord Genuity Corp. Crocotta Energy's shares, which have gained about 20 percent since it swung to a profit in the fourth quarter of 2009, rose 3 percent to C$1.70 Tuesday on the Toronto Stock Exchange. Triple 8 shares closed at 90 Canadian cents Monday on the Toronto Venture Exchange.

SOUTHERN PACIFIC TO ACQUIRE NORTH PEACE

Southern Pacific Resource Corp. and North Peace Energy Corp. have announced that they have entered into an agreement whereby Southern Pacific will acquire all of the issued and outstanding shares of North Peace. The Transaction is expected to be completed by way of Plan of Arrangement and has been unanimously approved and recommended by the Board of Directors of both Southern Pacific and North Peace. The Transaction is anticipated to close in late November 2010. To finance the acquisition, Southern Pacific expects to issue approximately 14.1 million shares to the North Peace shareholders, which represents approximately 4.4% of Southern Pacific's current basic shares outstanding. The highlights of North Peace's assets include: - 135 sections of 100% working interest in the Peace River oil sands area. - 2.1 billion barrels of discovered resource based on 27 delineation wells and over 360 legacy well bores. - 105 million barrels of 'Best Estimate' contingent resource. - 1,000 barrel per day ("bbl/d") Red Earth CSS Pilot Project, constructed at a cost of $16 million in 2009 and operational. - Potential growth plans for at least a 10,000 bbl/d thermal project based on current contingent resources. Byron Lutes, President and CEO of Southern Pacific, commented: "The North Peace acquisition provides the Company with another thermal project with the potential to become commercial in a relatively short period of time. North Peace's Red Earth Cyclic Steam Stimulation ("CSS") Pilot Project is constructed and operational. The project has produced high quality bitumen at acceptable steam-oil ratios. Our technical team has reviewed the property in detail and believes some alternate operating strategies with relatively low capital cost have the potential to improve well productivity and prove commerciality of the project." North Peace engaged Sproule & Associates Limited to prepare an evaluation of its bitumen resources at its Red Earth Project as of December 31, 2009. Sproule estimated the volume of discovered bitumen resource on the project as 2.1 billion barrels and the contingent 'best estimate' bitumen resource on the project as 105 million barrels. "We believe we have the right thermal recovery expertise to unlock the value of this asset," Mr. Lutes said. "This acquisition provides Southern Pacific the opportunity to bring another project to cash flow." Southern Pacific plans to invest approximately $2.5 million into the Red Earth project over the next nine months to demonstrate commerciality of the Red Earth CSS Pilot Project. Upon success, Southern Pacific has plans within Phase 1 of development to use the existing facilities and fill the plant on a stabilized basis to its licensed capacity of 1,000 bbl/d of production. Phase 2, the larger potential prize, is located about 1.5 miles southeast of the existing pilot project. This is where Southern Pacific believes there is enough bitumen resource already delineated with existing well control to support at least a 10,000 bbl/d commercial facility.

SURE ANNOUNCES OILWELL TESTS RESULTS

Sure Energy Inc. has reported the test results of its recent horizontal well in the Queensdale area of Saskatchewan. The Alida formation flowed 1,164 barrels of 37 API oil over a 42.5 hour test. Final restricted flow rate was 500 BOPD on a 0.875 inch choke with an average flowing pressure of 230 psi and an 11% water cut. The Company anticipates the well to be on production in early October, initially at a restricted rate of 150 BOPD and subject to possible further restrictions due to pipeline curtailment from the recent shut-in of Enbridge's oil pipelines. The well is 100% owned by the Company and will qualify for the Saskatchewan Government's Horizontal Oil Well Royalty Incentive Rate of 2.5% for the first 37,740 barrels of oil produced. The Company has a minimum of two 100% direct offset locations to this well and owns five sections of 100% working interest lands in the Queensdale Area.

SECOND WAVE Q3 UPDATE

Second Wave Petroleum Inc. has announced that it has successfully tested is first Gilwood/Beaverhill Lake exploration well in Judy Creek and provide a general operations update: Highlights: - Second Wave's 100% working interest 03-14-063-09W5 Gilwood well tested at combined final flow rate of approximately 590 barrels of oil equivalent per day consisting of 40% condensate and natural gas liquids (NGLs) and 60% natural gas. No stimulation was required to achieve this test rate. - Second Wave's initiated its Pekisko horizontal drilling program on the SW block of its Judy Creek land base with the first three wells of its anticipated drilling program drilled, cased and awaiting completion. - The Company received regulatory approval to water flood its Pekisko pool in the NE block of its Judy Creek land base with the water injection project scheduled to start in Q4, 2010. - Drilled, completed and commenced production of its first 100% working interest horizontal Ellerslie light oil well in Judy Creek with initial rates exceeding 225 boe/d (60% oil). - Second Wave is exiting the third quarter with production at approximately 1,900 boe/d and continues to forecast year-end 2010 exit rates of 2,800 boe/d. Despite positive drilling results, average production rates for the third quarter are expected to be relatively flat in comparison with the second quarter due to wet weather-delays on operational and capital activities. In the third quarter Second Wave drilled, cased and completed its first Gilwood/Beaverhill Lake exploration well in Judy Creek at its 100% working interest 03-14-063-09W5 location. The Gilwood formation, which resides below the Beaverhill Lake formation, was completed and flow tested in August 2010 for a period of 27 hours before it was shut in. Final production rates from the Gilwood formation during the test period were 2.8 million cubic feet per day (mmcf/d) of liquids rich natural gas and 130 barrels per day (bbl/d) of 65o API condensate for a total combined rate of approximately 590 boe/d (40% condensate and NGLs). The Company elected not to fracture stimulate the well as flowing well head pressures increased throughout the test period. Based on these initial results, liquid recoveries from the Gilwood gas are expected to exceed 50 bbl/mmcf, providing the expectation of higher netback gas production. The Company is proceeding to tie in the 03-14 well to its existing Judy Creek facilities and expects to commence production in the fourth quarter of 2010. In addition to the Gilwood completion in the 03-14 well, and as part of its planned evaluation of the Beaverhill Lake formation, Second Wave obtained and analyzed an open hole core in the 3-14 well bore. Core analysis indicated that the Beaverhill Lake had an aggregate of four meters of hydrocarbon pay with an average porosity of approximately six percent. Second Wave delayed further testing of the Beaverhill Lake formation due to the success of the deeper Gilwood flow test. The Company is currently planning to drill an additional vertical well in the first half of 2011 to further delineate and evaluate both the Gilwood and Beaverhill Lake formations on its Judy Creek exploration lands. Second Wave initiated its horizontal Pekisko drilling program on the SW portion of its Judy Creek land block with its first three horizontal wells cased and awaiting completion. The Company anticipates drilling, completing and bringing on production a total of six or seven Pekisko horizontal oil wells from its Judy Creek SW block in the fourth quarter of 2010. Second Wave is currently building pipeline infrastructure to its SW land block and expects to complete the first phase of this pipeline in mid-October at which time it expects the first three Pekisko horizontal oil wells in the SW block will commence production. Thereafter Second Wave anticipates bringing on a new Pekisko horizontal oil well approximately every two to three weeks until the end of the first quarter of 2011. Based on well performance from the completion of its first three long leg Pekisko horizontals using multi-stage acid fracturing techniques, Second Wave is planning to continue to use this technique on all future Pekisko wells in the area. Results from these first three completed wells have met expectations with average rates per well exceeding 130 boe/d (65% oil) after 60 days of production. In the third quarter Second Wave engaged a third party to complete an advanced rock properties study on the Pekisko core extracted from its 08-31-063-09W5 vertical well. The objective of the study was to determine the technical feasibility of a water flood in the Judy Creek Pekisko formation by completing a micro water flood on selected core intervals. Results from this preliminary study indicated that 47% of the original oil in place within these selected core intervals was recovered by flooding the core with water. Second Wave believes that this recovery value is optimistic for the pool as a whole; however, the results imply that there is technical and economic merit in proceeding with a water flood pilot on its Judy Creek Pekisko pool. Accordingly, Second Wave has sought and obtained regulatory approval to initiate a water flood pilot in the Pekisko formation in its NE Judy Creek land block. The Company is scheduled to initiate water injection in the fourth quarter of 2010 and expects to obtain results in 2011.