NYMEX OIL: US$88.36
-$1.02
January delivery
NYMEX N. Gas: US$4.40
-$0.08 per MMBTU
January delivery

Oilfield NEWS

oilfieldnews.ca

Published By *NEWS COMMUNICATIONS* since 1977 Canadian Edition Wednesday December 8 2010

TUESDAY PRICES

Benchmark crude for January was down $1.02 to $88.36 a barrel on the New York Mercantile Exchange. In other Nymex trading in contracts, heating oil was down 1-cents at $2.46 /gal while gasoline lost 2-cents to $2.32/gal. Natural gas fell 8-cents $4.40 per 1,000 cubic feet. In London, Brent crude was down 38-cents to $91.07 a barrel on the ICE exchange.

NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was up 26 to 1,713 for the week of December 3, 2010. It is 572 rigs (50.1%) higher than last year. The number of rotary rigs drilling for oil was up 18 at 742. There are 359 more rigs targeting oil than last year. Rigs currently drilling for oil represent 43.3% percent of all drilling activity. Rigs directed toward natural gas were up 8 at 961. The number of rigs currently drilling for gas is 213 greater than last year's level of 748. Year-over-year oil exploration in the US is up 93.7 percent. Gas exploration is up 28.5 percent. The weekly average of crude oil spot prices is 11.5 percent higher than last year and natural gas spot prices are 7.0 percent lower. Canadian rig activity was up 34 at 449 for the week of December 3, 2010 and is 85 (23.4%) higher than last year's rig count.

BP CONSIDERS SELLING LOW-MARGIN OIL FIELDS

BP has approached several UK-focused energy companies about a potential sell-off of about $1 billion of its North Sea assets, The Daily Telegraph said on Tuesday. The British newspaper cited companies and bankers as saying the embattled oil and gas firm had approached them on a pre-tender basis regarding a portfolio of non-core fields before any official auction. "We've been having a look at some gas assets, but it's very early on," the Telegraph cited one energy company executive as saying. "It's about seeing whether they'd be a good fit." The Telegraph also said, without citing sources, that oil giant ExxonMobil was also looking to sell $2 billion worth of North Sea assets, as the low-margin fields become less attractive to large companies with high dividend policies.

OPEC TO BOOST SHIPMENTS

OPEC will increase crude loadings by 0.4 percent in the four weeks to Dec. 18, according to tanker-tracker Oil Movements, as winter demand picks up. OPEC will meet on Dec. 11 in Quito, Ecuador, to review quotas. Shipments will rise to 23.56 million barrels a day in the four weeks to Dec. 18 from 23.47 million barrels in the period to Nov. 20, Oil Movements said today in a report. It's the eighth consecutive month-on-month increase, according to the weekly reports. The data exclude Ecuador and Angola. Shipments from Middle Eastern producers, including those from non-OPEC members Oman and Yemen, will rise 0.5 percent to 17.46 million barrels a day from 17.37 million in the four weeks to Dec. 18, data from Oil Movements show. OPEC will probably keep its output quota unchanged at the Dec. 11 gathering, ministers from Angola, Venezuela said today and yesterday. Oil at $80 to $85 a barrel is a "comfortable price," Angola's Minister of Petroleum Jose Maria Botelho de Vasconcelos said. A total of 469.22 million barrels of crude will be on board tankers in the month to Dec. 18, up 2.2 percent on the Nov. 20 figure of 458.92 million barrels, according to Oil Movements. Oil Movements calculates shipments by keeping a tally of tanker-rental agreements. Its figures exclude crude held on board ships used as floating storage.

CHEVRON TO PAY PENALTY IN UTAH LEAK

Chevron Pipe Line C has agreed to pay a $400,000 penalty in a June 2010 Utah oil pipeline leak as federal investigators probe a new spill from the same line this week, a government spokesman said Friday. Officials have no projected restart date for the Rangely, Colorado, to Salt

Lake City line. It has had no effect on Chevron's Salt Lake City refinery or the Rangely field, which are using storage while the line is shut. The June spill of about 800 barrels entered Salt Lake City waterways. The penalty was due to safety violations found during investigation of that earlier spill, a spokeswoman for the U.S Pipeline and Hazardous Material Safety Administration said. PHMSA was investigating the more recent leak of about 100 barrels, which occurred late Wednesday. It stopped short of a nearby creek, but booms were deployed anyway as a precaution during cleanup, a Chevron spokesman said. The spills involved different system failures but were about 500 feet apart, officials said.

PRECISION DRILLING ANNOUNCES 2011 CAPITAL EXPENDITURES

Precision Drilling Corporation has announced that planned capital expenditures for 2011 are $405 million. This includes $119 million for sustaining and infrastructure expenditures and is based upon currently anticipated activity levels for 2011. Additionally, $171 million is slated for expansion capital and includes the cost to complete the remaining five of the nine new rigs previously announced and an anticipated five additional new rig builds for 2011. The total capital expenditures also include the cost to upgrade eight to twelve rigs in 2011 and to purchase long lead time items for the Corporation's inventory at an anticipated cost of $115 million. These long lead time items include, for example, top drives, masts and engines, that can be used for North American or international new build opportunities. Precision expects that the $405 million will be split $353 million in the Contract Drilling segment and $52 million in the Production and Completion segment. Kevin Neveu, President and Chief Executive Officer, stated, "With the completion of our recent financing, Precision is well positioned to focus on the growth of the Corporation. The balance sheet is strong and we have the liquidity and flexibility to seize market opportunities. Whether these opportunities are in North America or are international, Precision will continue to deliver to our customers the high value, high performance services we are known for. Precision has recently entered into a term contract for one of the 2011 new rig builds for work in the United States and is in negotiations for three more of the new rigs. We continue to have customers interested in our upgraded rigs, and I anticipate term contracts for these rigs prior to the completion of the upgrade work. Precision will, however, continue to be disciplined in our capital expenditures by not completing new rig builds unless they are secured by term contracts that provide acceptable financial returns."

EAGLE EXERCISES OVER-ALLOTMENT OPTION

Eagle Energy Trust (TSX:"EGL.UN") has announced that the underwriters of Eagle's recent initial public offering of 15,000,000 units of the Trust, have provided notice of the exercise of the over-allotment option to purchase an additional 1,000,000 Units at a price of $10.00 per Unit. This issuance is made pursuant to the terms of the over-allotment option granted to the underwriters in connection with Eagle's initial public offering, which closed on November 24, 2010. Eagle will receive proceeds from the sale of these additional Units of $9,400,000, after payment of commissions to the syndicate. The closing of this tranche of the over-allotment option exercise is expected to occur on December 9, 2010. The over-allotment is being made through a syndicate of underwriters led by Scotia Capital Inc. and including BMO Nesbitt Burns Inc., CIBC World Markets Inc., TD Securities Inc., National Bank Financial Inc., Dundee Securities Corporation, Canaccord Genuity Corp., FirstEnergy Capital Corp., GMP Securities L.P., HSBC Securities (Canada) Inc. and Raymond James Ltd. Under the terms of the over-allotment option, the underwriters have the right to acquire an additional 950,000 Units at a price of $10.00 per Unit, exercisable until December 24, 2010. Eagle is a newly formed energy trust created to provide investors with a publicly traded, oil and natural gas focused, distribution producing investment, with favourable tax treatment relative to taxable Canadian corporations. Eagle intends to qualify as a "mutual fund trust" and not be a "SIFT trust", each as defined in the Income Tax Act (Canada) provided that the Trust complies at all times with the investment restrictions as set forth in the final prospectus, which preclude the Trust from investing in any entity other than a "portfolio investment entity", holding any "non-portfolio property" (each as defined in the Tax Act), or carrying on business in Canada. The strategy of the Trust is to acquire and exploit conventional long-life hydrocarbon reserves, in certain established on-shore production basins in the U.S, including initially, the Salt Flat Interest. The Trust will indirectly own, through Eagle Energy Commercial Trust and Eagle Energy Acquisitions LP , predominantly producing properties with development and exploitation potential. The Trust intends to make monthly distributions of a portion of its available cash to unitholders and use the remainder of its available cash to reinvest in the CT and the Partnership to fund growth through additional acquisitions and capital expenditures.

OILSANDS QUEST UPDATE

Oilsands Quest Inc. has filed its Form 10-Q Quarterly Report for the quarter ended October 31, 2010 with the United States

Securities and Exchange Commission on December 6, 2010. The full document is available online at www.sec.gov and www.sedar.com; the Management's Discussion and Analysis (MD&A) is presented below. Commenting on the quarter and current operations, Oilsands Quest Acting Chief Executive Officer Brian MacNeill said, While the strategic alternatives process is active and proceeding as expected, we are continuing to advance our oil sands prospects toward development. We are optimistic that our upcoming winter drilling program at Wallace Creek will confirm the potential for a second commercial oil sands project. We are striving to add value to the more than three billion barrels of discovered bitumen resources that Oilsands Quest has in the ground, in an environment where market interest in oil sands assets remains strong. The following discussion addresses material changes in our results of operations and capital resources and uses for the three and six months ended October 31, 2010, compared to the three and six months ended October 31, 2009, and our financial condition and liquidity since April 30, 2010. It is presumed that readers have read or have access to our 2010 Annual Report on Form 10-K/A, which includes disclosure regarding critical accounting policies and estimates as part of Management's Discussion and Analysis of Financial Condition and Results of Operation. Overview Three Months Ended October 31, 2010: On August 17, 2010, we announced that we had initiated a process to explore strategic alternatives for enhancing shareholder value. The process will be overseen by a Special Committee of the Board of Directors to consider all alternatives to increase shareholder value, including financing opportunities, asset divestitures, joint ventures and/or a corporate sale, merger or other business combination. We retained TD Securities Inc. as a financial advisor to assist us with this process. We completed laboratory testing of the glacial till. The results of the testing indicate that the glacial till has the characteristics required to act as a steam containment cap for an in-situ SAGD operation. We announced changes to the management team on September 2, 2010. Brian MacNeill was appointed Acting CEO to oversee the operations during the review of the strategic alternatives, T. Murray Wilson assumed a new role as Executive Deputy Chairman to advise the Special Committee and Sue MacKenzie resigned as the Chief Operating Officer. We announced our intention to dispose of our non-core assets, the Eagles Nest oil sands lease and Pasquia Hills oil shale permits. We completed a re-abandonment program of 18 coreholes. 14 of the core holes were successfully re-abandoned. The re-abandonment of the 4 core holes that we were not able to re-abandon occurred early in the program; they will be converted to observation holes. At the end of October 2010, we announced a public offering and on November 5, 2010, we completed a financing for 20.8 million common shares at a price of $0.45 per share and 7.1 million common shares on a flow-through basis at a price of $0.50 per share for total gross proceeds of approximately $12.9 million USD. Six Months Ended October 31, 2010. We completed a non-brokered private financing for 10.5 million flow-through shares at $1.00 CDN ($0.995 USD) and 9.2 million common shares at $0.85 per share for gross proceeds of $18.6 million CDN ($18.1 million USD). We filed an application to the Saskatchewan Ministry of Environment (SME) for the approval of a 30,000 BPD commercial project at Axe Lake. We were granted a one year extension, to May 31, 2011, of our oil sands permits in northwest Saskatchewan. We announced an updated independent third party resource estimate for our properties. We completed the engineering design to modify the existing facilities for the SAGD pilot and the procurement of materials with certain long lead times for the facilities and horizontal wells. We drilled four additional delineation wells in the Axe Lake area in order to meet minimum commitments for certain permit retention as well as increase resource understanding. We provided an update of our progress at the TD Newcrest Unconventional Oil Forum held in Calgary on July 14, 2010. We announced the cancellation of the sale of our non-core assets at Pasquia Hills to Canshale Corp. We announced our intention to dispose of our non-core assets, the Eagles Nest oil sands lease and Pasquia Hills oil shale permits. We received approval from the SMER for a steam-assisted gravity drainage (SAGD) pilot at Axe Lake's Test Site 1. During the six months ended October 31, 2010, we focused on developing our plans for drilling 11 new core holes in the Wallace Creek area in January and February of 2011. This drilling program is a follow up to our successful drilling program of early 2010 and we expect to increase our resource base and qualify additional lands on this permit for a potential conversion to a lease. We are planning to drill these core holes as part of a combined drilling program with an operator from an adjacent oil sands property. By combining our operations in the area, we expect to realize significant operating efficiencies and secure the rigs and services required to complete the program. We filed for and received approval for the second of three one-year extensions of our Saskatchewan oil sands permits. We may seek and be granted an additional one year extension of each permit if the Company continues to meet its obligations under the terms of the permits and the *Oil and Gas Conservation Regulations, 1985*. We also relinquished our two northernmost land permits in Saskatchewan (permits 213 and 215) as we focus our exploration and development opportunities to include only those lands that recent exploration activity has demonstrated to be prospective. The relinquishment of these permits did not impact our resource estimates or development plans. Please see below under the section titled \Outlook. for a more detailed description of the Company's land strategy.

COPL SIGNS FARM-IN AGREEMENT

Canadian Overseas Petroleum Limited, has signed a farm-in agreement with Faroe Petroleum plc for Blocks 206/5a and 206/10a, License P.1161, which include the Freya discovery and the Fulla exploration prospect. Under the terms of the agreement, COPL will pay 60% of the costs to drill an exploration well in the Fulla prospect to earn a 50% equity interest in both blocks. The well is expected to be drilled in 2011. Blocks 206/5a and 206/10a are located approximately 10 kilometers northeast of the Clair field which has recently been producing between 30,000 to 49,000 barrels of oil per day. Both Fulla and Freya appear to have similar seismic and geological characteristics to the Clair field. The farm-in represents partial satisfaction of the first Release Condition for the Company's recently closed $130 million offering of subscription receipts. The completion to the farm-in is dependent upon the total satisfaction of the first Release Condition of escrowed funds, certain conditions precedent and regulatory approvals.