NYMEX OIL: US$89.93
+$1.11
February delivery
NYMEX N. Gas: US$4.08
-+$0.03 per MMBTU
January delivery

Oilfield NEWS

oilfieldnews.ca

Published By *NEWS COMMUNICATIONS* since 1977 | Canadian Edition | Wednesday December 22 2010

TUESDAY PRICES

Benchmark crude for February was up $1.11 to USD$89.93 a barrel on the New York Mercantile Exchange. In other Nymex trading in contracts, heating oil was up 2-cents at $2.51 /gal while gasoline rose 2-cents to $2.39/gal. Natural gas gained 2-cents $4.08 per 1,000 cubic feet. In London, Brent crude was up 346-cents to $93.20 a barrel on the ICE exchange.

NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was down 14 to 1,709 for the week of December 17, 2010. It is 516 rigs (48.4%) higher than last year. The number of rotary rigs drilling for oil was down 7 at 756. There are 347 more rigs targeting oil than last year. Rigs currently drilling for oil represent 44.3% percent of all drilling activity. Rigs directed toward natural gas were down 7 at 941. The number of rigs currently drilling for gas is 168 greater than last year's level of 773. Year-over-year oil exploration in the US is up 94.1 percent. Gas exploration is up 25.2 percent. The weekly average of crude oil spot prices is 23.7 percent higher than last year and natural gas spot prices are 12.7 percent lower. Canadian rig activity was up 18 at 500 for the week of December 17, 2010 and is 132 higher than last year.

TALISMAN ANNOUNCES STRATEGIC PARTNERSHIP WITH SASOL

Talisman Energy Inc.has announced it has reached agreement to create a strategic partnership with Sasol Limited to develop the Farrell Creek assets in Talisman's Montney shale play in northeastern British Columbia. Talisman will sell a 50% working interest in its Farrell Creek assets to Sasol for a total consideration of C$ 1,050 million. "This is a strategic move towards unlocking some of the value of our Montney assets for us and our new partner, consistent with the strategy of de-risking and developing Talisman's very large shale opportunities in the region," said John A. Manzoni, President & CEO of Talisman. "We believe this transaction reflects the quality and potential of our broader Montney position. We are delighted to have Sasol as a partner. They are a world-class company and their expertise will enable us to jointly explore the option of a GTL facility in western Canada." This transaction allows Talisman to develop the Farrell Creek area and unlock some of the value of the estimated 44 tcfe of net contingent resource held across its Montney shale play. Farrell Creek represents approximately 22% (9.6 tcfe) of Talisman's resource potential in the play and about 27% (51,000 net acres) of the company's 190,000 net Tier 1 acres of land in the Montney. Sasol will pay 25% of the consideration (approximately $260 million) in cash at closing and carry 75% of Talisman's future capital commitments in the Farrell Creek area to a total of approximately $790 million. "The acquisition of this high quality natural gas asset will accelerate our upstream growth while also advancing Sasol's already strong GTL value proposition," said Sasol chief executive, Pat Davies. "In partnering with a credible international shale gas operator such as Talisman, we reap the dual benefit of leveraging their experience, as we grow our own shale gas expertise," Davies said. The play has been largely de-risked and production at Farrell Creek is expected to exit this year at between 40-60 mmcfe/d. Talisman's processing facilities at Farrell Creek have been expanded to 120 mmcf/d and the company has secured over 500 mmcf/d of egress capacity from the region. As part of the agreement, the partners have agreed to conduct a feasibility study around the economic viability of a facility in western Canada to convert natural gas to liquid fuels, using Sasol's commercial Gas to Liquids (GTL) technology. This could provide a strategic alternative to traditional North American pipeline or LNG marketing. The outlook for GTL could be very positive if North American natural gas prices continue to decouple from oil prices. The GTL process produces premium, clean liquids fuels. Sasol will acquire a 50% working interest in all Talisman lands, existing wells and processing facilities in the Farrell Creek region. Talisman and Sasol will each own 50% of the Farrell Creek assets, with Talisman as operator of the partnership. Talisman and Sasol have also agreed to collaborate on certain other western Canadian natural gas opportunities. Closing is expected in the first half of 2011. Sasol is one of two companies with commercial GTL technology, with operating GTL projects in South Africa and Qatar, a project under construction in Nigeria and proposed developments in a number of countries around the world. Sasol is looking at expanding its proprietary GTL technology in new markets. Sasol is listed on the Johannesburg and New York Stock Exchanges, with a market capitalization of approximately US$ 30 billion. The company is also active in exploration and development across Africa and Asia.

BP SET TO SELL CANADIAN NGL BUSINESS

British oil company BP has announced it is planning to sell its natural gas liquids business in Canada to manage various financial impacts of the Gulf of Mexico oil spill. The assets include pipelines and processing facilities that strip out crude-like liquids from gas. The asset sale is part of the company's move to raise up to $30bn by the end of 2011 to pay for the compensation and clean-up costs of the oil spill. BP Canada spokeswoman Melanie Ostopowich declined to comment on the potential proceeds from the sale, but the pipeline and plant assets could fetch more than $2 billion. Last week, the company entered into an agreement to sell almost all of its exploration and production assets in Pakistan to United Energy Group for $775m. Over the summer, BP sold its Canadian natural gas assets to Apache Corp. for US$3.25-billion. The sale was part of a $7-billion package that also included assets in the United States and Egypt. Shortly after, Talisman Energy Inc. and its Colombian partner, Ecopetrol, said they would buy BP's Colombian oil and gas exploration assets for US$1.9 billion.

WATER MONITORING TO CHANGE

A group of independent experts will provide detailed action items on how to best set up, operate, and govern a world-class environmental monitoring, evaluation, and reporting system for Alberta's oil sands. The terms of reference that will guide that work is now complete and publicly available. "These efforts will lead to a new, robust world-recognized monitoring system that will give assurances the oil sands are being developed under the closest of scrutiny and oversight," said Environment Minister Rob Renner. "The system must meet the environmental challenges we face today, be adaptable enough to respond quickly to change, and anticipate and monitor areas where future cumulative environmental impacts may occur." A transparent monitoring system with easily accessible and credible data is essential as Alberta continues to transition to a cumulative effects system of environmental management, noted Renner. The experts will also provide detailed actions on how the environmental system can be expanded to all media in the oil sands region - air, land, water and bio-diversity - and also how the system can extend throughout the entire province. In addition, the group will give direction for provincial action required to address and implement recommendations that arise from the provincial data review committee currently underway, as well as the federal oil sands advisory panel. "We are developing a good foundation of information to inform our work. What's needed now is an in-depth action plan and that 's what I expect this panel will deliver," said Renner. The panel will draw representation from a broad range of professionals including those in scientific, academic, health and epidemiology, economics and other fields. The independent experts are to be in place by January 2011 and will report back to the Minister of Environment by June 2011. As the first region in Alberta to move towards this new system, the oil sands region will serve as a pilot for the rest of the province. Renner said the province might need to upgrade equipment and add more staff on the ground. Industry would be expected to cover most of the extra costs. Janet Annesley, vice-president of communications with the Canadian Association of Petroleum Producers, said she was pleased with the government's announcement. There is no specific information on what costs the industry would have to bear, but Annesley said if companies had to pay more, it would have to go towards what she termed a credible monitoring process, using qualified experts and based on science. Water is currently monitored by a joint oilsands industry-provincial government group known as the Regional Aquatic Monitoring Program (RAMP). However, that system has been strongly criticized by environmentalists and some scientists Last week, some of Canada's top scientists said that Alberta's oilsands don't deserve all the bad press they've been getting, but the governments that regulate them do. In a report to be released Wednesday, a seven-member panel from the Royal Society of Canada says there's "no credible evidence" that contaminants from the oilsands are boosting cancer levels in downstream communities. The panel said water monitoring of the oilsands is of a lower standard than that used for forestry and the data from the program isn't made public. Not enough is known about groundwater movement in northern Alberta, says the summary, especially as the industry moves from open-pit to underground mining. The report also scolds Ottawa for failing to enforce federal legislation over the oilsands. "Despite many clear areas of valid federal interest, the profile of relevant federal agencies has been low."

DOVER WEST DRAINAGE TEST APPROVED

The ERCB has approved Athabasca's application for its two-well TAGD winter test at Dover West. The company plans to drill two horizontal wells, with a vertical spacing of between eight and 10 metres, into the Leduc carbonate reef to perform initial testing of TAGD, using conductive heating to confirm if this reservoir can deliver commercial production at temperatures considerably lower than those required for SAGD. The reservoir will be gently heated before production is started from the lower well. In addition to the TAGD test, Athabasca plans to conduct a one-well steam injection test this winter, also in the Leduc carbonate, which will provide important information about reservoir characteristics. Athabasca has a 100% ownership of these Dover West projects. The company's Dover West area contains Cretaceous age oil sands with approximately 2.0 billion barrels of contingent resource (best estimate) in addition to approximately 2.7 billion barrels of contingent resources (best estimate) in the Devonian age Leduc carbonate formation. Athabasca has set a target to become one of the leading in situ bitumen producers. To achieve this ambitious goal, Athabasca's board of directors approved a 2011 annual capital budget of $302 million (net) to execute its exploration and development program including: purchasing certain long lead items for the Hangingstone project, TAGD and SAGD testing of the Dover West carbonates, drilling up to 140 wells, acquiring up to 60 square kilometres of 3D seismic and acquiring up to 130 kilometres of 2D seismic. It also expects to hire 100 new employees during the next 15 months to expand its technical and operating capabilities. Athabasca recently acquired strategic infrastructure - gas supply pipelines, roads, an airstrip, work camp and other necessities - in the Dover and Dover West areas. This will enable the company to more efficiently move drilling, testing and seismic equipment onto key locations and to perform the upcoming winter tests at Dover West.

IVANHOE ANNOUNCES MAJOR NG DISCOVERY IN CHINA

David Dyck, President and Chief Operating Officer of Ivanhoe Energy Inc Robert Friedland, Co-Chairman of Ivanhoe Energy's China-focused subsidiary, Sunwing Energy Ltd., and Gerry Moench, President of Sunwing, have announced a significant gas discovery at Sunwing's Yixin-2 well in Southwest China. Gas from the well flowed at rates of up to 13 million cubic feet per day, and averaged 9 to 10 million cubic feet per day during the initial 24-hour test period. Gas is flowing from the Xu-4 Formation, a well established gas-producing formation in the region. "We're very pleased with these initial flow rates," Mr. Dyck said. "The rates recorded from the Xu-4 Formation demonstrate the discovery's strong potential and are incentive for Sunwing to continue with further development of the Xu-4 formation, and other structures in the Zitong Block." Following initial flow and pressure tests, the well has now been shut-in for pressure build-up. Sunwing's 659,840-acre (1,031-square-mile) Zitong Block is in the Sichuan Province; the oldest and one of the most productive gas-producing regions in China. Sinopec and PetroChina have made significant gas discoveries from the Xu-2, Xu-4 and Permian formations in adjacent blocks. "It has taken over ten years of perseverance and the application of industry-leading experience and know-how to reach this point," said Mr. Friedland. "Demand for natural gas in China is continuing to out-pace supply and now Sunwing Energy is in an excellent position to help supply this burgeoning market on very favourable commercial terms through an established collection and distribution system." Technical teams from Sunwing and PetroChina are working to develop a strategy to evaluate the Yixin structure, as well as the potential for further discoveries elsewhere on the Zitong Block. Sunwing is the operator of the Zitong exploration block in Sichuan and holds a 90% Contractor Interest in a Petroleum Contract with PetroChina Company Limited. Mitsubishi Gas Chemical Company of Japan holds the remaining 10% Contractor Interest. Shares of the Calgary, Alberta-based company have gained about 67 percent of their value since touching a year-low in August. They were trading up at C$3.07 Tuesday morning on the Toronto Stock Exchange.

EAGLE ENERGY TRUST CLOSES OVER-ALLOTMENT OPTION

Pursuant to the November 24, 2010 initial public offering of 15,000,000 units of Eagle Energy Trust, Eagle is pleased to report the closing of the final tranche of the over-allotment option whereby an additional 950,000 Units were issued at a price of $10.00 per Unit. After payment of commissions to the syndicate, proceeds to Eagle were $8,930,000. The over-allotment was made through a syndicate of underwriters led by Scotia Capital Inc. and included 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. The full amount of the over-allotment option has now been exercised, with the syndicate having purchased an aggregate of 1,950,000 additional Units at a price of $10.00 per Unit, for proceeds to Eagle, after payment of commissions to the syndicate, of $18,330,000. With the closing of this final tranche of the over-allotment option, Eagle has 18,011,581 Units outstanding.