

WTI OIL: US\$102.59
+\$2.00
July delivery
NYMEX: N Gas: US\$4.67
+\$0.15 per MMBTU
July delivery



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NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was up 17 at 1,847 for the week of May 27, 2010. It is 312 rigs (20.3%) higher than last year. The number of rotary rigs drilling for oil increased 4 to 958. There are 403 more rigs targeting oil than last year. Rigs drilling for oil represent 51.9% percent of all drilling activity. Rigs directed toward natural gas were up 15 at 881. The number of rigs currently drilling for gas is 86 lower than last year's level of 967. Year-over-year oil exploration in the U.S. is up 72.6 percent. Gas exploration is down 8.9 percent. The weekly average of crude oil spot prices is 40.0 percent higher than last year and natural gas spot prices are 3.8 percent higher. Canadian rig activity is up 36 at 179 for the week of May 27, 2011 and is 12 (6.3%) lower than last year's rig count.

production posted a further decline of 50,000 bpd in May to average 200,000 bpd. Until violence broke out earlier this year, output had been running near 1.6 million bpd. Angolan supply continued to reflect the impact of field maintenance, technical problems and declining output at some of the country's older fields., participants in the survey said. Initial estimates suggest little impact on supply to the market from maintenance work at the Upper Zakum field in the United Arab Emirates. OPEC has not officially changed its output policy since cutting output by a record 4.2 million bpd in December 2008 to 24.84 million bpd for 11 members, all except Iraq. They produced 26.23 million bpd in May, according to the Reuters survey.

OPEC OIL OUTPUT RISES

Opec crude oil output is expected to rise in May as extra oil from Saudi Arabia, Nigeria and Iraq counters a further decline in Libyan supply. Any extra supply from the Organization of the Petroleum Exporting Countries is likely to be welcomed by consumer nations concerned about the impact of oil prices well above \$100 a barrel on economic growth and inflation. Supply from all 12 members of OPEC is expected to average 28.90 million barrels per day (bpd) this month, up from a revised 28.79 million bpd in April, the survey of oil companies, OPEC officials and analysts found. "OPEC is not producing what it was producing in January before Libya went down," said Paul Tossetti, senior energy adviser at PFC Energy. "But the market seems to be fairly well supplied currently. The Libyan crisis has almost shut down output in what used to be Africa's third-largest producer. OPEC in January pumped 29.63 million bpd, the most since December 2008, according to estimates. OPEC meets on June 8 in Vienna to review its output policy, which it has not changed since it agreed to a record cut in production in December 2008 in the aftermath of economic crisis. Since then the target has become obsolete as the economy recovered and Saudi Arabia and others in OPEC unilaterally raised supplies. Most officials in the group say supplies are adequate, although a delegate from one of OPEC's Gulf countries has suggested OPEC could raise its output target in Vienna. In May, Saudi Arabia has boosted supply by 100,000 bpd from an upwardly revised April level, partly due to increase demand from the country's power plants, the survey found. Nigerian supply has risen as Royal Dutch Shell added extra cargoes of Bonny Light crude to export programmes for April and May as production surprised to the upside. Iraqi output, excluded from OPEC output agreements, was slightly higher with exports in the country's south climbing to 1.7 million bpd due to higher production at the Rumaila field which BP Plc and CNPC are developing. Among the countries with lower output, Libya's

BP SPILL FUND WINDING DOWN

The fund BP set up to deal with compensation claims after 2010's Gulf of Mexico oil spill is starting to wind down after paying out around \$4 billion of the \$20 billion set aside by the oil firm. London's the Sunday Telegraph reported that Ken Feinberg, the lawyer in charge of the fund, had processed more than 80 percent of the claims submitted by those who suffered economically following the Deepwater Horizon accident, and so far used just over \$4 billion. "I don't envision a flood of new claims," the paper quotes Feinberg as saying. Eight regional offices had been closed, it added. BP established the fund last June for victims such as fishermen and property owners. In an interview with Reuters in April, Feinberg said the fund was "working as intended", though some local officials and advocacy groups alleged that the money was being distributed slowly and unfairly. BP has estimated that the total cost of capping the well, cleaning up the damage from America's largest-ever offshore oil spill and compensating those affected will be more than \$41 billion, including fines. BP struck a key victory in its battle to share the cost of the Gulf of Mexico oil spill when partner Mitsui & Co agreed on May 20 to pay \$1.1 billion toward the clean-up bill and possibly billions more in fines. Japanese trading house Mitsui's exploration unit MOEX owned 10 percent of the Macondo well but had sought to avoid paying its share of the costs, claiming BP was negligent and MOEX should be exempted from this obligation. The settlement is likely the first of a series of settlements between BP and its partners before the February 2012 trial date set for hundreds of spill-related lawsuits. Byron Stier, a professor of mass tort litigation at Southwestern Law School in Los Angeles, said the MOEX deal could be a precursor to a settlement with Anadarko Petroleum Corp, also a part owner in the ruptured well, but not necessarily with other defendants. "BP is still blaming Transocean, and taking a stance against them," Stier said. "That suggests BP may be more litigation-oriented (with Transocean), rather than see

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The Society of Manufacturing Engineers (SME) connects manufacturing practitioners to each other, to the latest technology and the most up-to-date processes spanning all manufacturing industries and disciplines, including aerospace and defense, medical devices, motor vehicles, motorsports, and oil and gas. A 501(c)3 organization, SME has members in more than 70 countries and is supported by a network of technical communities and chapters worldwide.

them as part of one big happy family." Analysts said the Mitsui settlement had removed some uncertainty over Anadarko's liability. Mitsui's payment covers its contribution toward the cost of capping the well, cleaning up the oil and compensating those affected. Hence, the Japanese company is paying less than a third of its potential liability for these elements. On this basis, Anadarko could be liable for almost \$2.7 billion, toward these elements of the total cost, based on its 25 percent share of the well. That is less than some investors

had expected. Anadarko Chief Executive Jim Hackett said earlier this month he would be prepared to come to the table and settle "under the right circumstances." Anadarko spokesman John Christiansen said on Friday: "We view BP's willingness to reach settlement with MOEX as a positive step." BP said in an e-mailed statement that Anadarko, like MOEX, signed on as a "responsible party" under the Oil Pollution Act. MOEX has now joined BP in blaming the accident principally on Transocean, the company that BP hired to drill the well, under

BP's instruction. BP has sought to extract the full cost of the disaster from the Switzerland-based driller. Transocean's contract with BP indemnifies it against environmental damage but if BP can prove gross negligence or that the Deepwater Horizon drilling rig was unseaworthy, it could overrule this indemnity.

FIRE FORCES WORK STOPPAGE AT KEARL

A forest fire burning out of control has stopped work at Imperial's oilsands site north of Fort McMurray. The southeast portion of the blaze has wrapped around McClelland Lake and has reached within a few kilometres of Imperial Oil's Kearl Oil Sands site, 40 kilometres north of Fort McMurray. Company spokesman Pius Rolheiser said about 3,000 Kearl workers were held back at their Wapasu camp Monday morning because of concerns about air quality. The company made the same move twice last week when air conditions were bad. This is not an evacuation, but there is a temporary suspension of work at the main Kearl site," Rolheiser said.

STORMS CUT POWER TO ENBRIDGE U.S. PIPELINES

Storm-related power outages have shut down a number of Enbridge Inc's oil pipelines in the U.S. Upper Midwest, the company said on Tuesday, exacerbating problems transporting Canadian crude that have pushed oil futures higher. Severe storms cut electricity to three pumping stations along Enbridge's 290,000 barrel a day Line 6B in Michigan on Sunday, causing a ripple effect on a number of connected lines, spokeswoman Gina Jordan said. Line 6B runs to Sarnia, Ontario, from Griffith, Indiana. Crews restored power to one 6B station late on Monday, and the line is now running at reduced rates, Jordan said. The 6B outage forced the company to shut the connected 670,000 bpd Line 6A as supplies filled up storage capacity at Griffith, she said. Flow rates were also reduced on 800,000 bpd Line 4, which runs to Superior, Wisconsin, from Edmonton. There was no damage to Lines 6A or 6B, which suffered high-profile ruptures last year, Jordan said. Line 17, which runs to Toledo, Ohio, from Stockbridge, Michigan, was also down as a result of the 6B outage. The company expected that Line 6A, would be back up later on Tuesday.

KEYSTONE SHUTS DOWN ON DISCOVERY OF NEW LEAK

TransCanada Corp cannot yet say when it will restart its 591,000 barrel per day Keystone oil pipeline as its second spill in less than a month pushed oil prices higher, while other lines carrying Canadian oil to the United States were also closed. The company said on Tuesday the line was shut on Sunday after a half-inch fitting failed at its Severance pumping station in Kansas. The fitting leaked less than 10 barrels (420 gallons) of oil, said company spokesman Terry Cunha, down from an earlier estimate of a 40-barrel spill. "It's all contained within our pumping station," he said. "It's all been cleaned up and the fitting's been replaced, and we hope to have the system up and running as soon as possible." Keystone which runs from Hardisty, Alberta, to



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Cushing, Oklahoma, is a key feed for the Cushing oil storage hub, the pricing point for the New York Mercantile Exchange's benchmark crude contract. U.S. crude prices CLC1 rallied on news of the outage, rising at one stage by almost \$3 a barrel to a high of \$103.39 on Tuesday. The spills come at an inopportune time for TransCanada, which is seeking approval of a \$7 billion expansion of Keystone. The Keystone XL project would add a line from Hardisty, Alberta, to Steele City, Nebraska, and an extension from Cushing to Nederland, Texas, to take Canadian crude oil to the Gulf Coast refining hub. The extension has been bitterly opposed by some state and federal legislators, as well as environmental groups concerned about greenhouse gas emissions from expanded oil sands production. There are also concerns about the threat of oil spills in sensitive areas along the route. Opponents will likely use the weekend spill to further bolster their case against the line. The U.S. State Department is expected to rule on whether to approve the line by year end.

HUSKY LOOKS AT LISTING IN HONG KONG

Husky Energy Inc said on Monday it is exploring a potential secondary listing of its shares on the Hong Kong Stock Exchange. The announcement confirms reports out of Asia that Canada's No. 3 oil producer and refiner, controlled by billionaire Li Ka-shing, had applied to list in Hong Kong. Husky said it intends to maintain its primary listing on the Toronto Stock Exchange. "The Potential Secondary Listing of Husky's shares on the HKSE is under consideration as we believe it

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could potentially enhance investors' awareness of the company and its growth opportunities," Chief Executive Asim Ghosh said in a release. There is no certainty or assurance that approval from the HKSE and relevant authorities will be granted for the potential secondary listing, said Husky. The company said no final decision has been made by its board on whether to proceed with a secondary listing.

OILSANDS QUEST RECEIVES EXTENDS AXE LAKE PERMITS

Oilsands Quest Inc. has received approval to extend the two Saskatchewan Oil Shale Permits that include the Axe Lake Discovery, PS00208 and PS00210, until May 31, 2012. As part of its development plans, Oilsands Quest is seeking to have the Axe Lake permits converted to a 15-year lease. The permits are currently held under the Oil Shale Regulations, 1964. Oilsands Quest has requested that the

Saskatchewan Minister of Energy and Resources convert permits PS00208 and PS00210 to licenses under the terms of the Petroleum and Natural Gas Regulations, 1969. Following the conversion of the permits to licenses, the Company would request that the area comprising the Axe Lake Discovery then be converted to a lease. The outcome of these discussions is not certain. Consistent with the Company's previously disclosed plans, OQI has also relinquished the balance of its permits in Saskatchewan to the Crown. The Company does not view the lands to the south of the Axe Lake area as prospective, either due to the presence of interbedded water in the reservoirs that would not allow for commercial development or lack of bitumen in the southern portion of the Saskatchewan lands. Relinquishing these lands has no impact on the Company's current resource estimates or development plans.