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-\$1.10

September delivery

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-\$0.03 per MMBTU

August delivery



# oilfield NEWS

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## NORTH AMERICAN RIG COUNT

The U.S. rotary rig count was up 11 at 1,916 for the week of July 22, 2011. It is 331 rigs (20.9%) higher than last year. The number of rotary rigs drilling for oil increased 8 to 1,026. There are 430 more rigs targeting oil than last year. Rigs drilling for oil represent 53.3% percent of all drilling activity. Rigs directed toward natural gas were up 4 at 889. The number of rigs currently drilling for gas is 93 lower than last year's level of 982. Year-over-year oil exploration in the U.S. is up 72.8 percent. Gas exploration is down 9.5 percent. The weekly average of crude oil spot prices is 26.0 percent higher than last year and natural gas spot prices are 9.5 percent lower. Canadian rig activity is down 18 at 376 for the week of July 22, 2011 and is 27 (7.7%) higher than last year's rig count.

## CRUDE PRICES FALL

Crude oil declined to a one-month low after a gauge of U.S. manufacturing showed growth at the slowest pace in two years, a sign the economic expansion is faltering. Futures dropped for a second day after the Tempe, Arizona-based Institute for Supply Management said its factory index decreased to 50.9 in July from 55.3 in June. Prices climbed earlier when President Barack Obama said congressional leaders approved a deal to raise America's debt ceiling, signaling the country will avoid a default. "The agreement may have helped prevent a crash of the economy in the short term, but there's still a lot to worry about," said Adam Sieminski, chief energy economist at Deutsche Bank AG in Washington. "The economy hardly grew in the first half of the year and the outlook for growth isn't promising." Crude for September delivery fell \$0.52 to \$93.27 a barrel on the New York Mercantile Exchange, the lowest settlement price since June 29. Prices are up 20 percent over the past year. Brent for September settlement gained 7 cents to \$116.81 a barrel on the London-based ICE Futures Europe exchange. The European benchmark contract was at a \$21.92 premium to New York futures, down from a record \$22.63 on July 14, based on closing prices. OPEC crude output rose in July to the highest level since December 2008, led by gains in Saudi Arabia and Angola, according to a Bloomberg News survey. Production increased 245,000 barrels, or 0.8 percent, to average 29.565 million barrels a day.

## CONNACHER SEEKING JOINT VENTURE FOR ALGAR

Connacher Oil and Gas Limited has announced it has engaged Rothschild as its exclusive financial advisor solely for the purpose of assisting the company in establishing a joint venture with a third party to develop its non-producing Great Divide oil sands assets. The initial focus of the joint venture will be to advance the proposed development of an additional 24,000 bbl/d of bitumen productive

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capacity at Connacher's Algar steam-assisted gravity drainage ("SAGD") project on the company's Great Divide oil sands acreage in northeastern Alberta. Connacher submitted an application to regulators for approval of an Environmental Impact Assessment and the Great Divide Expansion Project at Algar in May, 2010 and anticipates approval in late 2011. This would increase the authorized production at Great Divide from 20,000 bbl/d at present to 44,000 bbl/d. The establishment of a joint venture will enable this project to be brought forward in a timely manner, permitting more immediate access to the long life production (over 25 years) of the already identified and evaluated approximately 320 million barrels of probable bitumen reserves owned by Connacher, which volumes supported the aforementioned expansion application. These probable reserves are in addition to Connacher's approximate 180 million barrels of proved reserves already associated with its existing Pod One and Algar projects. These reserve estimates were prepared by GLJ Petroleum Limited, independent petroleum consultants, in their February 2011 report, effective December 31, 2010. Timely and successful negotiation of a joint venture could facilitate ordering of long lead items such as boilers and evaporators by year end 2011. This, in turn, could enable the start-up of construction during the latter part of 2012, with first bitumen production by the end of 2013, assuming the initial expansion is comprised of two sequential 12,000 bbl/d projects as opposed to one 24,000 bbl/d project. It will be recalled that to plan for continued expansion at Algar, Connacher prepared the project site for brownfield expansion, which is anticipated to result in a lower prospective cost structure as a consequence. Connacher anticipates detailed costing of its expansion alternatives will be completed at approximately the same time as it receives regulatory approval and near the latter stages of completing negotiations for the proposed joint venture. The joint venture will represent a unique opportunity for interested parties to align

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themselves with an established operator in the near-term development and production of meaningful volumes of bitumen from the oil sands, as to date most joint ventures in the SAGD space have focused on higher risk, longer-term resources opportunities. Connacher will continue to be the operator of the Great Divide leases and prospectively anticipates retaining a majority interest in the lands and reserves. It is also anticipated that, as estimated by GLJ, timely and sequential development of additional productive potential already identified on the Great Divide lease block will allow for total production potential from the block to exceed 54,000 bbl/d from proved, probable and possible reserves (aggregating 604 million bbl, of which 104 million bbl are possible reserves), with additional upside separately recognized for best estimate contingent resources.

## PROGRESS CLOSES STRATEGIC PARTNERSHIP WITH PETRONAS

Progress Energy Resources Corp. has announced that it has closed the previously announced transaction to create a strategic partnership with the Malaysian national oil and gas company, PETRONAS, to develop a portion of Progress' Montney shale assets in the Foothills of northeast British Columbia. Under the Transaction, PETRONAS

acquired 50 percent of Progress' working interest in the Altares, Lily and Kahta properties. "Both parties have worked diligently and cooperatively towards the completion of the agreements that form the basis of our strategic partnership," said Michael Culbert, President and Chief Executive Officer of Progress. "We will now move forward on building a strong gas production growth profile from the North Montney Joint Venture assets as well as initiating the feasibility study for the development of an LNG export facility on the west coast of British Columbia." PETRONAS is paying a total consideration of CDN\$1.07 billion of which 25 percent of the total consideration (CDN\$267.5 million) has been paid in cash upon closing and 75 percent of the total consideration will be paid in the form of a capital funding commitment whereby PETRONAS will pay 75 percent of Progress' share of future capital expenditures in the North Montney Joint Venture to a total of CDN\$802.5 million. PETRONAS and Progress have also established an LNG export joint venture (the "LNG Export Joint Venture") which is 80 percent and 20 percent owned, respectively. The LNG Export Joint Venture will launch a feasibility study immediately to evaluate the potential of the LNG export facility on the west coast of British



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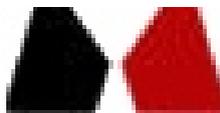
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Columbia. PETRONAS will be leading the development of the LNG export facility, and PETRONAS and Progress will jointly market the LNG utilizing PETRONAS' well-established and extensive network of customers in LNG markets globally. In connection with the LNG Export Joint Venture, at the time of a successful LNG Export investment decision, PETRONAS will provide a standby equity financing commitment of up to \$600 million, for Progress' capital requirements of the North Montney Joint Venture to supply gas for the LNG Export Joint Venture, subject to receipt of all regulatory approvals. PETRONAS is the national oil and gas company of Malaysia. Incorporated in 1974, the company, ranked among the most profitable among the Fortune Global 500 entities, is engaged in the oil, gas and petrochemicals industries with strategic business assets and interests in more than 30 countries. It is

one of the world's leading LNG companies and is fully involved in every value chain of the LNG business, from natural gas production, liquefaction and shipping to regasification and trading.

### **AKITA DRILLING Q2 RESULTS**

Stream Oil & Gas Ltd. has reported its financial and operating results for the quarter ended May 31, 2011. During the quarter, net production increased by 176% to 902 boed compared to 326 boed in the second quarter of 2010. Revenue increased 246% to \$4.5 million from \$1.3 million. The resulting netback increased 78% to \$44.08 boed as compared to \$24.81 boed in 2010. AKITA Drilling Ltd.'s net income for the three months ended June 30, 2011 was \$1,498,000 (\$0.08 per share) on revenue of \$31,651,000 compared to a net loss of \$319,000 (\$0.02 per share) on revenue of \$25,288,000 for the corresponding period in

2010. Funds flow from operations for the quarter ended June 30, 2011 was \$3,239,000 compared to \$5,120,000 in the corresponding quarter in 2010 and included a one-time tax impact of \$2,432,000, related to the repatriation earlier this year of one of the Company's rigs from Alaska into Canada. Net income for the six months ended June 30, 2011 was \$9,450,000 (\$0.52 per share) on revenue of \$89,095,000. Comparative figures for 2010 were net income of \$398,000 (\$0.02 per share) on revenue of \$69,253,000. Funds flow from operations for the January to June period in 2011 was \$16,952,000 compared to \$12,764,000 for the comparative period in 2010. Although the positive impact of the second quarter results was somewhat muted by a late break-up coupled with an unseasonably wet June in many locations, overall market conditions continued to develop in an encouraging manner. This

was evidenced both through increased activity levels and improved day rates compared to the corresponding period last year. During the second quarter, the Company completed construction of its newest pad rig and deployed it into the Wood Buffalo region of north-eastern Alberta where it is drilling for heavy oil under a multi-year contract. As well, AKITA completed the retrofit of the rig redeployed from Alaska in the first quarter of 2011. Wet weather delayed the initial redeployment of this rig into northern Alberta until July. This second rig is also working under a multi-year contract. Demand is now strong for most categories of drilling rigs in Canada. The most notable exception is for rigs having capacities in excess of 5,000 metres, since the demand for this class of rigs is more closely associated with demand for natural gas. Even so, the Company is now starting to see a moderate

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pick-up in demand for these deep capacity rigs under conventional configurations and has also recently signed a contract to convert one of its deep capacity rigs into a pad configuration.

#### **U.S. DEPENDENCE ON IMPORTS IS FALLING**

The United States was so dependent on foreign oil that by 2008 it imported two-thirds of what the country's refineries needed to produce enough gasoline, diesel and the other petroleum products to meet the country's needs. But recently the federal Energy Information Administration reported that in 2010 imports had fallen far more than many realized — to 49 percent of the country's needs. Part of the big drop resulted from the federal agency's using a different measurement — net petroleum imports — widely viewed as a more accurate way to judge overall dependence on foreign petroleum. The figure counts imports of crude oil and of refined petroleum products such as gasoline and diesel, but it also subtracts exports of U.S. petroleum products, which have been growing. The country recently stopped being a net importer of petroleum products for the first time since at least 1973, as the country's refiners sold more gasoline and other end products to other countries. A second factor is simply lower demand for petroleum products, in large part a result of the sour economy, but also helped by more efficient cars. And on the supply side, U.S. oil production, after languishing for years, is on the upswing. One example is North Dakota. Perhaps within a year the state is expected to supply more oil for domestic use than the 1.1 million barrels a day that Saudi Arabia now exports to the United States. In

addition, biofuels, mainly ethanol, are meeting more fuel needs. And natural gas liquids, a byproduct of natural gas that can be used to replace some petroleum products, are surging. Put them all together, and the United States has cut its dependence on imports substantially — with further declines possible if the trends continue. "It's a silent revolution," said Lehi German, publisher of the newsletter Fundamental Petroleum Trends. "This is a big deal." The size of the shift has been somewhat hidden by the different numbers that have been used to describe the country's dependence on foreign oil. One measure looks solely at the percentage of imported oil used by refineries. T. Boone Pickens, who backs a plan to use more natural gas, likes to use that gauge, which topped 66 percent in 2008 and dropped below 62 percent in 2010. Critics of that standard say it overstates U.S. dependence on imports because it ignores other fuels being produced in America, and it ignores how much of that oil is re-exported as refined products. But the net imports standards reflect those extra supplies and growing exports. Taking everything into account, the country's net petroleum imports peaked at 60.3 percent in 2005 and dropped to 49.3 percent in 2010. "It's a more comprehensive picture," said James Williams, an analyst for WTRG Economics. That picture has been changing dramatically for several reasons. Biofuels, which are now almost entirely corn-based ethanol, have already displaced about 5 percent of gasoline supplies and are being counted on to do more. A federal mandate would triple production from 2010 levels to 36 billion gallons a year in 2022. Most of the extra supply is to come from ethanol made



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with wood, grass and other cellulose. Although meeting the 2022 target is unlikely, just shooting for it will mean more ethanol is available, and used. Estimates of natural gas reserves in shale formations continue to grow, and more of it could be used as a transportation fuel if more vehicles are built or equipped to run on propane or liquefied natural gas. Such a transition could take years to make much difference, but other natural gas liquids are already a factor. Those liquids are a byproduct of processing natural gas for use to heat homes, and they can be used for petrochemicals and for some transportation fuel. One of them, butane, can be added to gasoline. Another is propane, which is used for heating and for a small but growing amount of transportation fuel. All of those uses reduce the amount of petroleum products needed, and together they really add up. The Energy Information Administration in a report released in June said the United States produced 5.5 million barrels per day of oil in 2010. But there was an additional 4.2 million daily barrels of nonpetroleum fuels produced, including ethanol and natural gas liquids. U.S. oil production is starting to grow. One new source is oil locked in shale formations, including in the Bakken field in North Dakota and Eagle Ford in Texas. The fields combined could eventually produce 2.5 million barrels a day, nearly half of total U.S. production in 2010. Those new supplies also should go further, thanks to tighter fuel economy standards. For model years 2012 through 2016 they could save 1.8 billion barrels of oil over the life of the program. Also, some demographic changes are holding down the number of vehicles per household, also helping to reduce

consumption. The results of these shifts in supply and demand are already showing up in the need for less imported crude, and there has been an even bigger drop in imported petroleum products, including chemicals and transportation fuels, which in 2006 amounted to about 4 million barrels per day. Those since have dropped by a million barrels per day while U.S. exports of petroleum products including diesel have grown. In April the United States exported more petroleum products than it received. Joanne Shore, an analyst for the Energy Information Administration, said those exports have prevented some U.S. refineries from being idled. Gasoline is still being imported, including from Europe, but more diesel is being exported to those countries since they have a bigger demand for the fuel. "We have a symbiotic relationship with Europe," she said. No one is saying that the United States will be able to avoid importing petroleum. But there is a chance to replay what Jay Hakes, author of "A Declaration of Energy Independence," describes as a forgotten victory. In 1977, the United States imported enough oil to meet 47 percent of demand. Five years later the country needed only enough to meet 28 percent of demand, in part because of better automotive fuel economy standards, rising Alaskan oil production and cuts in the amount of fuel oil used to generate electricity. It remains to be seen whether such a steep reduction can happen again, but current trends provide a promising start. Shore, of the Energy Information Administration, said each of the different ways to measure imports had a place, but they were all pointing down. "They are all directionally saying the same thing," she said.

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