WTI OIL: US$100.94
+$2.24 per barrel
March delivery
NYMEX: N Gas: US$2.493
+$0.177 per MMBTU
February delivery

Oilfield NEWS

oilfieldnews.ca

Published By *NEWS COMMUNICATIONS* since 1977 Canadian Edition Wednesday January 18, 2012

NORTH AMERICAN RIG COUNTS

The U.S. rotary rig count was down 20 at 1,987 for the week of January 13, 2012. It is 287 rigs (16.9%) higher than last year. The number of rotary rigs drilling for oil was unchanged to 1,191. There are 402 more rigs targeting oil than last year. Rigs drilling for oil represent 59.9% percent of all drilling activity which is the second highest percentage in two decades. Rigs directed toward natural gas were down 20 at 791. The number of rigs currently drilling for gas is 111 lower than last year's level of 902. Year-over-year oil exploration in the U.S. is up 51.0 percent. Gas exploration is down 12.3 percent. The weekly average of crude oil spot prices is 10.8 percent higher than last year and natural gas spot prices are 36.6 percent lower. Canadian rig activity is up 250 at 611 for the week of January 13, 2012 and is 34 (5.9%) lower than last year's rig count.

OIL EDGES UP

Oil prices edged up on Tuesday supported by a weaker dollar and by hopes of steady oil demand growth after China, the world's second-largest oil consumer, posted stronger-than-expected economic growth. U.S. crude was up $2.24 from Friday's closing price to $100.94 a barrel. Analysts and traders said China's 8.9 percent fourth-quarter GDP growth had helped lift commodities and equities. The Chinese growth figure was the weakest in two and a half years but still better than a forecast of 8.7 percent made by economists in a Reuters poll. Investors had been concerned that Europe's debt problems would reduce demand for Chinese goods, forcing China's factories to pare output and reduce energy consumption. But China's implied oil demand climbed to an all-time high of 9.64 million barrels per day in December, up 0.4 percent from a year earlier, and finished 2011 with 6.8 percent growth. The jump was also attributed to upbeat economic data as well as the European Central Bank's massive injection of cash last month, which has left banks awash with money. The positive trend continued in the United States, where the New York Fed's Empire State manufacturing index rose to 13.48 in January, beating expectations.

AFRICA OIL SPUDS OIL WELL IN SOMALIA

Canadian oil and gas exploration company Africa Oil Corp. began drilling an exploratory well in Somalia's semi-autonomous Puntland region on Tuesday, the first to be sunk in the country since civil war erupted two decades ago. While there has been speculation about finding oil in the anarchic Horn of Africa country for decades, it has no proven hydrocarbon reserves. Africa Oil and its partners in the two Puntland licences, Australia's Red Emperor and Range Resources, target prospective resources of over 300 million barrels of recoverable oil. Horn Petroleum, a newly created oil explorer focused on Puntland, is drilling the Shabeel-1 and Shabeel North-1 wells within the Dharoor Valley block. Africa Oil has a 51 percent stake in Horn Petroleum. Dozens of workers buzzed around the site under the gaze of heavily armed Puntland troops. Shabeel-1 was spudded on Tuesday, and drilling operations have also started at Shabeel North-1. The drilling in the Dharoor valley is a milestone in evaluating Somalia's oil potential, Grellman said, adding that the drilling would last 90 days. The Shabeel-1 and Shabeel North-1 prospects are located on a Jurassic aged rift system, which is part of the same system that has proven to be highly productive in Yemen. Africa Oil said last year it planned to drill up to eight wells in blocks it holds interests in across east Africa, including the two in Puntland.

ARCTIC GAS PIPELINE COULD OPEN BY 2020

A pipeline extension of 1,000 kilometres (621 miles) to bring natural gas to European markets from Norway's Arctic waters could be built in eight years at a cost of more than $4 billion, pipeline operator Gassco said on Tuesday. "A potential pipeline from the Barents Sea could be in service in 2020 and should have a relatively large capacity to accommodate potential new volumes and thus lay the foundation for continued growth in the High North as a petroleum province," Gassco said. It said there "seems to be a basis" for such a project and that a 42-inch pipe reaching 1,000 km northward from today's terminus off central Norway would cost about 25 billion crowns ($4.1 billion) and billions more in associated infrastructure. When state-owned Gassco began its study last summer, Foreign Minister Jonas Gahr Store said a Barents pipeline would "strengthen the Norwegian footprint in Europe and prolong our leadership as a predictable supplier of gas." Norway's Statoil and other energy companies that would bear much of the cost have been encouraged by recent petroleum discoveries in the western Barents and a treaty with Russia that opens part of the central Barents for exploration. Petroleum and Energy Minister Ola Borten Moe told newspaper Aftenposten that it would require long-term purchase commitments by European utilities to justify a massive pipeline configuration. Statoil now transports gas by ship from its Snoehvit field in the Barents after super-freezing the gas into liquid form, a technology that allows it to sell gas to the highest bidder worldwide. It is conducting its own study of whether to transport future volumes by pipeline or to expand the land-based liquefaction system.

BULGARIA ANCELS CHEVRON SHALE GAS PERMIT

The Bulgarian government, preparing a full ban on shale gas drilling due to environmental concerns, on Tuesday cancelled a exploration permit for the unconventional energy source that it granted to U.S. energy major Chevron in June. The government decided Chevron can still prospect for oil and gas in northeastern Bulgaria but only by using conventional drilling techniques and not hydraulic fracturing, which involves injecting water mixed with sand and chemicals at high pressure into shale formations. "The idea is that they can still have the right to test for oil and gas, but without using the controversial technology hydraulic fracturing," Economy and Energy Minister Traicho Traikov told reporters after a cabinet meeting. Traikov said Chevron had not been informed and talks with the company were pending. The decision comes a day before the parliament debates a total ban on hydraulic fracturing, or fracking, in the Balkan country and its Black Sea territorial waters - a proposal drafted by the ruling GERB party which is expected to be passed. The government in June granted a 5-year permit to Chevron to prospect for shale gas at the 4,400-square-km Novi Pazar field for which initial estimates, based on similar rock formations, showed potential reserves of between 300 billion and 1 trillion cubic metres of shale gas. It hoped to reduce the country's almost complete dependence on gas imports from Russia's Gazprom. In Bulgaria there have been widespread calls for a moratorium on shale gas exploration over concerns it may poison underground waters and trigger earthquakes. The impact of shale gas exploration, which has revolutionized the U.S. natural gas industry, has been under scrutiny globally. France banned fracking in July, while Britain suspended the deep-excavation practice near Blackpool after minor tremors in the spring.

GIANT N.SEA OIL FIND MAY CONTAIN LESS THAN THOUGHT

A giant oil discovery in the North Sea that had renewed optimism for a mature oil region is smaller than first thought, and the area's oil production will continue declining for years to come, new figures showed on Monday. Last year Norway's Statoil and Swedish minnow Lundin Petroleum jointly discovered Aldous/Avaldsnes, a field that had been expected to hold between 1.7 billion and 3.3 billion barrels and was the biggest offshore discovery made anywhere in the world in 2011. At 3.3 billion barrels, the field would be the third-largest ever discovery made off Norway, the world's eighth-largest oil exporter and the second-largest for gas. On Monday, however, Lundin said the section of the field it operates, Avaldsnes, is likely to yield less oil than previously thought, without giving precise figures. "The impact of this well on the southern extent of the Avaldsnes discovery is currently being evaluated and will most likely reduce current resource estimates for this area," the firm said. Separately, the overall size of Aldous/Avaldsnes was estimated at 1.8 billion barrels by the Norwegian Petroleum Directorate, the state agency tasked with managing the country's petroleum resources, placing it at the lower end of the range. The NPD termed its preliminary estimate, its first since the discovery was announced, as "conservative" and said it would conduct more studies to narrow the numbers by the end of the year. If the 1.8 billion barrel estimate is confirmed, the find would be the sixth-biggest oil discovery ever made off Norway.

OIL INDIA IN TALKS FOR U.S. SHALE GAS ASSETS

India's state-run explorer Oil India is in talks with U.S.-based companies, including ConocoPhillips, to buy stake in shale gas assets in the U.S. Oil India head of finance T.K. Ananth Kumar said on Monday that "We are in talks with some of the US-based companies and ConocoPhillips is one of them". Ananth Kumar said his company is looking for a minority stake of between 20-30 percent in U.S. shale acreage with an investment of about $200 million. Oil India is looking for acreage near Eagle Ford (Texas), the Mint newspaper reported on Monday, quoting the company's chairman N.M. Borah. Indian companies, including Reliance Industries Ltd. and GAIL (India) Ltd., have bought shale gas assets in the U.S. as local gas supplies lag demand. India aims to launch its shale gas exploration policy this year.

PEMBINA PIPELINE CORP TO ACQUIRE PROVIDENT

Pembina Pipeline and Provident Energy Ltd. have announced they have entered into an agreement for Pembina to acquire all of the issued and outstanding common shares of Provident by way of a plan of arrangement to create an integrated company that will be a leading player in the North American energy infrastructure sector. Under the terms of the Arrangement Agreement, Provident shareholders will receive 0.425 of a Pembina share for each Provident share held. Based on the January 13, 2012 TSX closing share price of Pembina of $27.90, the Provident Exchange Ratio represents a premium of 24.7% to Provident's closing TSX share price on January 13, 2012 of $9.51. Based on the 20-day weighted average TSX share price of Pembina of $29.11, the Provident

Exchange Ratio represents a premium of 26.2% to Provident's 20-day weighted average TSX share price of $9.80. The proposed transaction is expected to immediately increase Pembina's cash flow per share, increase its dividends per share and reduce its dividend payout ratio. After completion of the proposed transaction the combined assets and employees will operate under the Pembina name and will be led by a combination of Pembina's and Provident's executive team. Under the Arrangement Agreement, Pembina will also assume all of the rights and obligations of Provident relating to: (i) the 5.75% convertible unsecured subordinated debentures of Provident maturing December 31, 2017, and (ii) the 5.75% convertible unsecured subordinated debentures of Provident maturing December 31, 2018 (collectively, the "Provident Debentures"). The conversion price of each class of Provident Debentures will be adjusted pursuant to the terms of the trust indenture governing the Provident Debentures based on the Provident Exchange Ratio. Following closing of the transaction, Pembina intends to make an offer for the Provident Debentures at 100 percent of their principal values plus accrued and unpaid interest. The repurchase offer will be made within 30 days of closing of the proposed transaction. Should a holder of the Provident Debentures elect not to accept the repurchase offer, the debentures will mature as originally set out in their respective indentures. Holders who convert their Provident Debentures following completion of the Arrangement will receive common shares of Pembina. In addition, Provident will immediately suspend its premium dividend reinvestment plan and dividend reinvestment plan. Based on the Provident Exchange Ratio and Pembina's share price quoted above, the combined company will have a market capitalization of $7.9 billion and total enterprise value of $10 billion, making it one of the largest publicly traded energy infrastructure companies in Canada.

QATAR AMBASSADOR WELCOMED TO NEW BRUNSWICK BRUNSWICK.

On Thursday, January 12, Ambassador Salem Mubarak Al-Shafi met with Premier David Alward during his first official visit to the Province of New Brunswick. His Excellency Ambassador Al-Shafi was accompanied in a private meeting with the Premier with representatives from Irving Oil, Repsol Energy Canada, Canaport LNG and Embassy of Qatar. His Excellency Al-Shafi is the first Ambassador from Qatar to Canada. New Brunswick was his first official Provincial visit since receiving his credentials in March of 2011. Repsol Energy Canada, along with its Canaport LNG partner Irving Oil, hosted the Ambassador's visit during the scheduled arrival of the Qatar Q-max Al-Ghuwairiya to the Canaport LNG facility. "The relationship between Qatar and Canada is very important as LNG supplies from Qatar have now accounted for 42% of the LNG provided to Repsol at the Canaport LNG Facility and help to ensure secure energy supplies for the Maritimes Canada region," Phil Ribbeck, President of Repsol Energy Canada Ltd., informed the Premier and later the New Brunswick Ministers of Energy, Finance and Environment. Mr. Ribbeck further stated that "besides being the first LNG receiving and regasification facility in Canada and first facility on the east coast of North America to receive a Q-Max vessel, Canaport LNG recorded another first as it hosted the Qatar Ambassador's first visit to New Brunswick. We are extremely pleased the Ambassador chose Canaport LNG and New Brunswick as his first official venture outside of Ontario." "I am here to express the interests of the State of Qatar to expand our relationship with the Province in the fields of energy, education and culture," said His Excellency, Ambassador Salem Mubarak Al-Shafi. "The relationship with Qatar is an important one for our terminal," said Adolfo Azcarraga, Canaport LNG's General Manager. "Ambassador Al-Shafi was able to see first-hand the connection between Canada and Qatar through Canaport LNG and we were very pleased to have had the opportunity to host him." The Ambassador arrived on January 11 and during his visit he met with local officials and Provincial officials establishing relationships which should bode well for New Brunswick. He will also be visiting UNB, the Irving refinery and touring Saint John and Fredericton.

BELLATRIX EXCEEDS EXIT GUIDANCE

Bellatrix Exploration Ltd. has announced that average production in the month of December 2011 (based on field estimates) averaged 16,000 barrels of oil equivalent per day (boe/d) and that it has recently layered in additional commodity fixed price contracts for 2012. During the month of December, field production averaged 16,000 boe/d which exceeded Bellatrix's 2011 exit rate guidance of 15,000 boe/d. This represents an increase of 52% over the Company's month of December 2010 average production rate of 10,500 boe/d. Bellatrix exited 2011 with production volumes weighted 40% to crude oil, condensate and liquids and 60% to natural gas. Q4 2011 production is estimated to have averaged approximately 14,000 boe/d and 2011 annual production is expected to average approximately 11,900 boe/d. This reflects a 40% increase over Q4 2010 average sales volumes of 10,002 boe/d and over 2010 average annual sales volumes of 8,519 boe/d respectively. During the fourth quarter 2011, Bellatrix drilled 12 gross wells (7.64 net). The Company successfully drilled 8 gross (6.68 net) Cardium light oil horizontal wells and 3 gross (0.95 net) Notikewin condensate rich horizontal natural gas wells in the West Central area of Alberta and participated in 1 gross (0.007 net) dry hole that was drilled in a non-operated oil unit. Two gross (1.33 net) Cardium light oil wells and two gross (0.45 net) condensate rich natural gas wells that were drilled in Q4 2011 will be tied in during Q1 2012. Q4 2011 net cash capital expenditures are estimated at approximately $45 million. The first quarter of 2012 drilling program is currently underway with four rigs that commenced drilling in early January 2012. An initial capital budget of $180 million has been set for fiscal 2012. Based on the timing of proposed expenditures, downtime for anticipated plant turnarounds, resolution of infrastructure constraints and normal production declines, execution of the 2012 budget is anticipated to provide 2012 average daily production of approximately 16,500 boe/d to 17,000 boe/d and an exit rate of approximately 18,000 boe/d to 18,500 boe/d.