NYMEX OIL: US$106.27
-$2.57
April delivery
NYMEX N. Gas: US$2.486
+$0.023 per MMBTU
March delivery

Oilfield NEWS

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SYNTHETIC SPREADS TIGHTEN FOR APRIL

Price discounts for Canadian synthetic crude have narrowed as the market prepares for a planned outage of a major oil sands processing unit at the Syncrude Canada operation in northern Alberta, industry sources said on Thursday. Light synthetic crude for April delivery was discussed in a range between $2 and $5.75 a barrel under benchmark West Texas Intermediate. That compares with massive discounts that deepened to $20 a barrel and beyond for March. Syncrude Canada Ltd is scheduled to take its 100,000 barrel a day Coker 8-3 unit down for scheduled work in the second quarter, which players take to mean April. Market sources said the work is expected to last 45 days. Officials at Syncrude's largest interest owner, Canadian Oil Sands Ltd, were not immediately available to comment on timing or duration of the turnaround. The company had been expected to conduct 30 days of scheduled maintenance on another of its coker units in February, but the work went for a much shorter period than had been expected. Last month, price spreads ballooned following an unexpected outage at BP Plc's Whiting, Indiana, refinery, a major buyer of Canadian crude. That came amid tight pipeline space and surging production. Synthetic differentials tightened somewhat after Canadian Natural Resources Ltd said an outage of its 110,000 bpd Horizon oil sands project would last several weeks longer than expected following an operational hiccup. It is expected to resume production midway to late this month, the company has said. Heavy crude discounts have remained wide. April Western Canada Select heavy blend was quoted at $32.80 a barrel under WTI, compared with $28-$30 under WTI for March business. Discounts remain deep with space apportioned on numerous pipelines to export markets, including the Trans Mountain system to Canada's West Coast and pipelines serving U.S. Midwest and Midcontinent markets.

OIL SANDS PRODUCERS LAUNCH ENVIRONMENTAL ALLIANCE

Canada's oil sands producers have formed a new alliance, Canada's Oil Sands Innovation Alliance (COSIA), focused on accelerating the pace of improving environmental performance in Canada's oil sands. Chief executive officers of 12 companies have signed the alliance's founding charter, committing to COSIA's vision to "enable responsible and sustainable growth of Canada's oil sands while delivering accelerated improvement in environmental performance through collaborative action and innovation." The creation of COSIA as an independent alliance builds on work done over the past several years by both oil sands industry members and research and development organizations. COSIA will take these efforts to a much larger scale and will help the industry address environmental challenges by breaking down barriers in the areas of funding, intellectual property enforcement and human resources that may otherwise impede progress on environmental performance. COSIA's collaborative approach will accelerate the discovery and development of environmental technologies and reduce the time from idea to implementation. "The public's expectation of environmental performance in the oil sands continues to evolve. We want to meet those expectations and we'll work collaboratively to do so, building on previous successes," said John C. Abbott, Executive Vice President, Heavy Oil, Shell Canada Ltd. "Coming together today to sign the charter is a significant and important step for all our companies and marks a pivotal point for our industry." COSIA also today announced Dr. Dan Wicklum as the Chief Executive of the new alliance. Dr. Wicklum has a background in environmental science and was selected following a national search. His scientific qualifications and leadership experience position him well to lead COSIA, a science-based alliance focused on environmental technology and innovation. "I am confident COSIA will greatly accelerate innovation and environmental performance in priority areas that Canadians care most about," said Dr. Wicklum. "Today is just the beginning and I am excited to be part of this new alliance. We understand we have a lot of work to do and we are looking forward to working with our stakeholders and reporting on our progress along the way." COSIA will establish structures and processes through which oil sands producers and other stakeholders can work together for the benefit of the environment. The alliance will identify, develop and apply solutions-oriented innovation around the most pressing oil sands environmental challenges, specifically water, land, greenhouse gases and tailings, and will communicate COSIA's efforts and successes in addressing those challenges. Jean-Michel Gires, President and CEO of Total E&P Canada Ltd., says COSIA creates a new dynamic for the oil sands industry, promoting new approaches for intellectual property management of environmental technology and better working relationships with universities, research agencies, technology providers, regulators and oil sands stakeholders in the communities where industry operates. "COSIA is a reflection of how the oil sands have evolved into a global resource, with companies committing to foster continuous innovation and the development of new environmental solutions. We have seen what can be achieved when we work together and multiply our ideas and efforts. For example, work done by the Oil Sands Leadership Initiative (OSLI) and the Oil Sands Tailings Consortium (OSTC) are already delivering technology that promises to reduce our environmental footprint. We want to build on these previous successes across COSIA's environmental priority areas and accelerate the improvement of our environmental performance," Gires said. N. Murray Edwards, Vice-Chairman of Canadian Natural Resources Limited, says COSIA's collaborative approach is the right one. "For our industry to make strides in innovative technologies concerning environmental performance, we will have to work together to achieve continuous improvement. COSIA is the right organization at the right time and we are very pleased that it is now in place." Companies participating in COSIA will contribute at varying levels to the alliance, based on their own areas of expertise. COSIA will rely on the input of scientists and engineers from within the ranks of the member companies, as well as leading thinkers from government, academia and the wider public. There are currently 12 companies which have signed the COSIA Charter. They are: BP Canada Energy Company, Canadian Natural, Resources Limited, Cenovus Energy Inc., ConocoPhillips Canada Resources Corp. , Devon Canada Corporation, Imperial Oil, Nexen Inc., Shell Canada Energy, Statoil Canada Ltd., Suncor Energy Inc., Teck Resources Limited and Total E&PCanada Ltd. For further information: visit *www.cosia.ca* or contact: Karissa Boley NATIONAL Public Relations kboley@national.ca 403-531-0331.

QUEST EXTENDS STRATEGIC SOLICITATION TIMELINE

Oilsands Quest Inc. is continuing to work to restructure its affairs while under the protection of the Companies' Creditors Arrangement Act (Canada) ("CCAA"), with the assistance of a Monitor appointed by the Alberta Court of Queen's Bench . With the approval and support of the Monitor, Oilsands Quest has extended the deadline for offers under its current Solicitation Process. As well, the Company is working to reopen the sale process for the non-core Eagles Nest asset, following a default on the agreed deposit by the purchaser. Finally, Oilsands Quest has been granted an extension until May 18, 2012 to regain compliance with the listing standards of the NYSE Amex. Oilsands Quest is currently conducting a Court-approved process to solicit offers to acquire, restructure or recapitalize the Company , assisted by its financial advisor, TD Securities Inc. Binding offers under this process were originally due in March 2012. Several confidentiality agreements have now been signed with interested parties. Given the interest in the data room and the time required for potential purchasers to conduct their due diligence, Oilsands Quest is extending the deadline for offers under the process to April 27, 2012. In a development unrelated to the Solicitation Process, Oilsands Quest is working with the Monitor to reopen the sale process for its Eagles Nest asset. As previously announced, FAMA Capital Ltd. had signed a Purchase and Sale Agreement, approved by the Court, to buy the asset for CDN$7.0 million, with a deposit of CDN$400,000 due February 24, 2012. However, FAMAdid not make the deposit and the agreement was terminated. The details of the new sale process are still being finalized. Further to previous disclosure, Oilsands Quest received notice on February 24, 2012 from the staff of the NYSE Amex LLC that the Company remains out of compliance with certain of the Exchange's continued listing standards as set forth in Part 10 of the Exchange's Company Guide. Specifically, the Exchange noted that the Company is not in compliance with Section 1003(a)(iv) of the Company Guide because the Company has sustained losses which are so substantial in relation to the Company's overall operations or its existing financial resources, or its financial condition has become so impaired that it appears questionable, in the opinion of the Exchange, as to whether the Company will be able to continue operations and/or meet its obligations as they mature. The Company was afforded the opportunity to submit a plan of compliance to the Exchange and on February 14, 2012 presented its most recent plan to the Exchange. In its letter of February 24, 2012, the Exchange notified Oilsands Quest that it accepted the Company's plan of compliance and granted the Company an extension until May 18, 2012 to regain compliance with the continued listing standards. The Company will be subject to periodic review by Exchange Staff during the extension period. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the extension period could result in the Company being delisted from the NYSE Amex. Trading in the common shares of Oilsands Quest remains suspended while the NYSE Amex determines whether to resume trading or to delist the Company for failure to meet listing requirements.

NEB APPROVES NORTHWEST MAINLINE EXPANSION

In a decision issued Tuesday, the National Energy Board announced its approval of the Northwest Mainline Expansion Project (the project) submitted by NOVA Gas Transmission Ltd (NGTL). The project includes the construction and operation of three new natural gas pipeline loops totaling 111.2 kilometres (km) in northeast British Columbia and northwest Alberta. The pipeline loops would be alongside existing rights-of-way (RoW). The $324 million project will link natural gas supplies from the Upper Peace River area to markets in Canada and the United States. The Board accepts NGTL's submission that there is adequate market demand for the gas to be transported by the project. The Board is satisfied with NGTL's efforts in minimizing potential environmental impacts by proposing a RoW that is largely alongside existing RoWs. Should the project be constructed, it would not result in new permanent access roads. The NEB's approval of this project is contingent on conditions that NGTL must meet. The conditions relate to pipeline integrity, the protection of the environment, protection and monitoring of caribou habitat, and matters of public and Aboriginal consultation. The company is required to submit regular updates to the NEB on consultation activities with Aboriginal groups and describe how any concerns were addressed. As well, NGTL must provide the NEB with a plan regarding Aboriginal participation in construction monitoring. The NEB issued Hearing Order GH-2-2011 on 10 June 2011 and held a two-day public hearing in Fort Nelson, British Columbia starting on 29 November2011.

TRANSCANADA GAUGES INTEREST FOR KEYSTONE STORAGE

TransCanada Corporation has launched an open season to obtain binding commitments from interested parties for the Keystone Hardisty Terminal, which will be located at the major crude oil terminal hub in Hardisty, Alberta. The proposed project is an above ground, two million barrel crude oil batch accumulation terminal with tankage and pipeline infrastructure that could be expanded subject to the level of interest received in this open season. The proposed project will provide new infrastructure for Western Canadian producers and access to the Keystone Pipeline System. Following completion of the open season, which closes at 12 p.m. (Mountain) on March 22, 2012 and subject to receipt of sufficient contractual commitments from shippers, TransCanada intends to proceed with the necessary regulatory applications for approvals to construct and operate the terminal. Subject to regulatory approvals, the project is expected to be in-service by early 2015. The Keystone Pipeline System is an operational 3,461 kilometre (2,151 mile) pipeline that is delivering over 500,000 barrels per day of Canadian crude oil to U.S. Midwest markets and Cushing, Oklahoma. Parties are invited to visit http://www.transcanada.com/ or contact oil_pipelines@transcanada.com, Ed Scheibelhut at 403.920.2746 or Anar Velji at 403.920.6929, for more information.

JAPAN IN TALKS TO BUY U.S. LNG

Japanese companies are in talks to buy liquefied natural gas from proposed U.S. export projects, as demand for imported energy surges following the closure of many earthquake-hit nuclear reactors, according to a Bloomberg News report on Thursday. Japan is in discussions with Sempra Energy's Cameron LNG project in Louisiana, Dominion Resources' Cove Point project in Maryland and Freeport LNG in Texas, all of which are awaiting approval to export LNG, the report said, quoting Hisayoshi Ando, director general of natural resources and fuel at the trade ministry. Sempra declined to comment and Freeport and Dominion were not immediately available, though all have in the past said they are in discussions with multiple buyers, some of which are in Asia. Exports from Freeport could begin as early as 2015, pending regulatory approval, with Cove Point and Cameron expected after that. Potentially none of Japan's nuclear reactors will be up and running this summer when electricity demand peaks, trade minister Yukio Endo told parliament on Thursday. A shortfall in domestic power generation since last year's Fukushima earthquake has increased Japan's demand for LNG, which is natural gas cooled to liquid for shipping. Meanwhile, record natural gas supply from shale deposits has swamped the U.S. market, prompting a string of export projects looking to profit from gas prices in Asia that are currently about seven times higher than U.S. prices.

MEXICO PRODUCTION SEEN STAGNANT UNTIL 2026

Mexico's oil production is seen stagnating at around 2.8 million barrels per day (bpd) over the next 14 years unless the state oil company Pemex significantly boosts investment, the energy ministry said in a report on Wednesday. The world's No. 7 oil producer currently produces 2.55 million bpd of oil. The ministry said in a best-case scenario, investments in production and exploration would jump 21 percent and the country could reach 3.35 million bpd by 2026. Mexico has managed to stabilize a dramatic decline in production at its largest aging fields but has struggled to replace lost output with new discoveries. The energy ministry said to reach the base-line goal of increasing production to a level of around 2.8 million bpd from now until 2026 will require 292.333 billion pesos ($22.86 billion) annually, which would include drilling in deep water off the Gulf of Mexico. But to reach the higher production goal of above 3 million bpd Pemex would need to spend 353.933 billion pesos on improved technology and more exploration. Oil production is key for Mexico's finances since the government relies on oil resources to fund around a third of the budget.

NORWAY RAISES 2012 OIL INVESTMENT FORECASTS

Oil and gas firms will invest a record 186 billion crowns ($33.47 billion) in Norway this year, its statistics agency said on Thursday, as high oil prices encouraged energy firms to develop fields and upgrade ageing installations at existing ones. The Nordic country is the world's eighth-largest oil exporter and the second-largest for gas. All its oil and gas output takes place at offshore platforms, with some processing activities taking place onland. Oil production has been on the decline since 2001 but oil prospects have been revived by several big discoveries in the North Sea and the Arctic. "Many new projects approved by the government in 2011 will have far greater investments this year than last year," said the agency, which had predicted 2012 investments to reach 184.6 billion crowns in December 2011. The new 2012 record represented a 27-percent jump on 2011 investments, now estimated at 146.3 billion crowns. Investments in the Norwegian oil and gas sector are expected to peak at 185 billion crowns ($32.21 billion) in 2014, according to figures released by the Norwegian oil industry lobby (OLF) in November. Investments are then expected to fall in 2015 and 2016, the OLF has said, although its estimates did not include the investments for a giant North Sea find, Johan Sverdrup, that was the largest offshore discovery made in 2011 and could be the third-largest ever made off Norway. It is as yet unclear when precisely those investments will be made.

US DECEMBER OIL DEMAND DOWN ALMOST 5 PER CENT

U.S. oil demand in December was 231,000 barrels per day more than previously estimated, but still down 984,000 bpd from a year earlier, the Energy Information Administration said on Wednesday. U.S. oil demand in December was revised up by 1.25 percent to 18.738 million bpd from EIA's earlier estimate of 18.507 million bpd. Demand was down 4.99 percent from the 19.722 million bpd posted for the month last year. ilsands

SANCTIONS ALREADY DISRUPT IRAN OIL FLOW

Western sanctions have already disrupted Iran's oil flows as U.S. and European companies refuse to insure deliveries, according to a U.S. report required by the law signed by President Barack Obama late last year. "There is emerging evidence that some shipments of Iranian crude oil under existing contracts are being curtailed due to the unwillingness of U.S. and EU insurance providers to cover them," said the Energy Information Administration report on Wednesday. The survey, which mainly looks at data about global oil markets over the last 60 days, said markets have become increasingly tight in the last two months could worsen if Iran shuts in oil. The report could help the Obama Administration decide waivers could be applied to some of Iran's biggest customers, including China, Japan and India. The sanctions aim to choke Iran's nuclear program by cutting revenues from its oil industry. Iran maintains the program is for peaceful purposes and denies it is trying to build nuclear weapons.

VERESEN Q4 RESULTS

Veresen Inc. has announced its 2011 fourth quarter and year-end results. Financial highlights for the fourth quarter and year ended December 31, 2011 include: Net income attributable to Common Shares of $14.8 million for the fourth quarter or $0.09 per Common Share and $53.9 million or $0.33 per Common Share for the year. Excluding the effect of unrealized mark-to-market hedging losses, net income attributable to Common Shares was $18.3 million or $0.11 per Common Share for the fourth quarter and $70.2 million or $0.43 per Common Share for the year. Distributable cash of $53.2 million or $0.32 per Common Share for the fourth quarter and $193.0 million or $1.18 per Common Share for the year. Cash from operating activities of $55.5 million for the fourth quarter and $269.1 million for the year. Earnings from Veresen's pipeline business, comprised of Alliance and AEGS, decreased by $1.5 million and $4.6 million, respectively, primarily due to the ongoing reduction in equity returns on Alliance's declining investment base and, in respect of the 12 month results, the effect of the stronger Canadian dollar.. Corporate costs for the three and 12 months ended December 31, 2011 decreased by $7.0 million and $7.4 million, respectively, compared to the same periods last year. The decrease reflects lower foreign exchange losses and reduced spending on project development, partially offset by higher general and administrative costs associated with Veresen's growth intiatives. Tax expense increased by $4.0 million and $13.1 million for the three and 12 months ended December 31, 2011 as a result of Veresen's conversion from a flow-through limited partnership structure to a taxable corporation at the start of the year, and from higher relative earnings from Veresen's midstream business.

TRANSOCEAN FACING HUGE U.S. TAX BILL

Transocean Ltd may face another $473 million in potential U.S. back taxes, according to its annual regulatory filing, in which it revealed that a judge partly cleared the company in a similar tax dispute dating back eight years. Transocean, owner of the world's largest offshore oil rig fleet, said the latest assessment received this month for 2008 and 2009 related to accounting between subsidiaries, for both engineering services performed between them and transfer pricing for rig charters. "If the authorities were to continue to pursue these positions with respect to subsequent years and were successful in such assertions, our effective tax rate on worldwide earnings with respect to years following 2009 could increase substantially," said Transocean, which booked an overall 2011 income tax expense of $395 million. The $473 million of proposed adjustments exclude interest, but the company said in the filing released this week that it believed its tax returns were correct and planned to defend against the claims. The company declined to comment further on Wednesday. Problems with transfer pricing, generally, have grown with globalization of the world economy. The issue involves how to tax the earnings of foreign affiliates that transfer goods and services between themselves. By setting internal transfer prices higher or lower than market value, foreign affiliates can shift profits from high-tax countries to low-tax countries, reducing the parent company's overall tax burden. This is an especially important issue for rig contractors, since most their assets are not fixed in one place. Following President Barack Obama's 2008 election, Transocean moved to Switzerland from the Cayman Islands to secure a low-tax domicile. Noble Corp made the same shift soon after, and Ensco Plc then went to Britain in a move that Rowan Cos Inc said on Tuesday it would mimic. In Norway last year, authorities indicted two Transocean-owned companies and some advisers over suspicions of tax fraud, alleging underpaid taxes of up to $1.8 billion. The company has also faced other U.S. tax disputes in the past, including claims related to transfer pricing in 2004, though Transocean said a U.S. tax judge ruled in its favor on Jan. 12 in that case and the adjustments were withdrawn. The U.S. tax authorities also withdrew previously proposed adjustments for 2005, apart from about $50 million related to rig charter transfer pricing between its subsidiaries. The company is still fighting a 2010 U.S. tax assessment of $278 million for 2006 and 2007 involving accounting between units, $295 million related to capital gains adjustments for 2006 to 2009 and a total of $248 million more for witholding taxes and penalties. Transocean had enjoyed a good start to last week after reporting better-than-expected results and booking a lower-than-expected $1 billion charge related to the 2010 Gulf of Mexico disaster that destroyed one of its rigs.