

**WTI OIL: US\$104.270**  
**+\$1,340 per barrel**  
**May delivery**  
**NYMEX: N Gas: US\$1.95**  
**-\$0.066 per MMBTU**  
**April delivery**



**NORTH AMERICAN RIG COUNTS**

The U.S. rotary rig count was down 29 at 1,950 for the week of April 13, 2012. It is 178 rigs (10.0%) higher than last year. The number of rotary rigs drilling for oil was down 7 at 1,322. There are 442 more rigs targeting oil than last year. Rigs drilling for oil represent 67.8 percent of all drilling activity. Rigs directed toward natural gas were fell 23 at 624. The number of rigs currently drilling for gas is 261 lower than last year's level of 885. Year-over-year oil exploration in the U.S. is up 50.2 percent. Gas exploration is down 29.5 percent. The weekly average of crude oil spot prices is 5.2 percent lower than last year and natural gas spot prices are 53.3 percent lower. Canadian rig activity is down 23 at 164 for the week of April 13, 2012 and is 3 (1.8%) lower than last year's rig count. The number of rigs drilling for oil fell 20 to 88 and is 7 (8.6%) higher than last year. Gas directed rig count was down 3 at 76 and is 9 (10.6%) lower than a year ago.

**NEXEN CONTINUED PROGRESS ON LONG LAKE ACTION PLAN**

Nexen Inc said Monday that bitumen production from Long Lake's 11 existing well pads averaged 34,500 barrels per day during the first quarter. That's a 10 per cent improvement from the previous quarter, but still a far cry from the 72,000 barrels per day the project is designed to handle. In addition, Nexen recently began injecting steam into a 12th well-pad and aims to start steaming a 13th around mid-year. Those two pads should gradually add 11,000 to 17,000 barrels per day over an 18- to 24-month period. Regulators have also given Nexen the go-ahead to build Pads 14 and 15, which are expected to add 4,000 to 7,000 barrels per day of production, as well as a part of a property just south of Long Lake called Kinosis, which should add 15,000 to 25,000 daily barrels. Long Lake has been beset by a litany of operational glitches since it started up in late 2008. Part of the problem is that land closest to the upgrader was developed first, even though the ore there is of poorer quality than areas further away. Nexen had initially planned to duplicate the first phase of Long Lake in its second phase, but, has instead decided to forego building another upgrader. With regulatory approvals now received, drilling is expected to commence on pads 14, 15 and Kinosis 1A later this year. Steam injection is expected on pads 14 and 15 in the second half of 2013, with Kinosis 1A following by mid-year 2014.

**SEAWAY PIPELINE TO BEGIN OIL SHIPMENTS TO GULF**

Enbridge Inc. and Enterprise Products Partners LP plan to start crude oil shipments on the Seaway pipeline from Cushing, Oklahoma, to the U.S. Gulf Coast on about May 17, according to a filing with regulators. The initial transit time will be about 15 days on the 150,000-barrel-a-day line, said Rick Rainey, a Houston-based spokesman for Enterprise. The line will require about 2.5

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million barrels of oil to fill. The shipping duration will be reduced to about five days after the line's capacity is boosted to about 400,000 barrels early next year, he said. Uncommitted rates will be \$3.82 a barrel for light crude and \$4.32 for heavy crude, according to a proposal subject to approval from the Federal Energy Regulatory Commission. "We are confident that the rates are just and reasonable," said Rainey. "This is designed to give the market a little more guidance on what we are talking about

in terms of rates for committed shippers versus non-committed shippers." A request for market-based rates for uncommitted shippers on the pipeline is still pending, he said. Five-year committed agreements to ship light oil in volumes less than 100,000 barrels a day will cost between \$2.75 and \$3 a barrel. Ten-year agreements for the same grade of oil and the same volume will cost between \$2.50 and \$2.75. The discount for West Texas Intermediate for June delivery compared with Brent narrowed \$2.63 to

\$15.26 a barrel at 1:40 p.m. in New York, according to data compiled by Bloomberg. The rate to ship more than 100,000 barrels a day of light oil will cost \$2 to \$2.25 a barrel and a 10-year commitment is required, the filing showed. Five-year commitments to ship heavy oil on the pipeline will cost \$3.25 to \$3.50 to transport less than 100,000 barrels a day. "The committed shippers rates are slightly below the market expectations of \$3 per barrel," Andy Lipow, president of Lipow Oil Associates LLC in



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Houston, said by phone. Ten-year commitments to ship the same volume of heavy oil on the line are \$3 to \$3.25 a barrel. The price to ship more than 100,000 barrels a day of heavy oil is \$2.35 to \$2.75 a barrel with a 10-year agreement. Enbridge and Enterprise received enough shipper commitments to increase the capacity of the Seaway pipeline by mid-2014, according to a statement issued March 27. The companies will add 450,000 barrels a day to the pipeline, boosting the system's capacity to 850,000.

### ONEOK PARTNERS TO BUILD 1,300-MILE PIPELINE

Tulsa-based natural gas transporter ONEOK Partners LP announced Monday that it plans to enter the crude oil business by building a 1,300-mile pipeline from the Northern Great Plains to the Cushing hub in central Oklahoma. The Bakken Crude Express Pipeline project, scheduled for

completion by 2015, will cost \$1.5 billion to \$1.8 billion, ONEOK said. The line will deliver light, sweet crude from the Willison Basin wells to Cushing, one of the nation's largest oil storage hubs. "As producers continue to aggressively develop crude oil from wells in the Bakken Shale, more crude-oil pipeline takeaway capacity will be required," Terry K. Spencer, ONEOK Partners president, said in a statement. The pipeline will parallel more than 80 percent of ONEOK Partners' existing and planned natural gas liquids systems, including the Overland Pass NGL pipeline. The Crude Express also will connect into the liquids-rich Niobrara Shale in Colorado before heading to Cushing. The Bakken Shale, a geologic formation that lies beneath portions of North Dakota and Montana, is one of the nation's fastest-growing domestic oil plays. Some estimates put daily production at approximately 500,000 barrels in the past year. ONEOK Partners is



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the second Tulsa-based pipeline company to jump into the crude oil terminal and transport sector in recent years. Magellan Midstream Partners LP, formerly focused solely on refined petroleum products and ammonia, bought crude oil tankage and pipeline assets in Cushing from BP two years ago while also converting the former Longhorn Pipeline to carry crude to refineries in Texas.

### STERLING 2011 FINANCIAL RESULTS

Calgary based Sterling Resources Ltd. with exploration and development assets in the United Kingdom, Romania, France and the Netherlands, has announced operating and financial results for the year ended December 31, 2011. Unless otherwise noted all figures contained in this release are denominated in Canadian dollars. The net loss for the year ended December 31, 2011 was \$53.8 million (\$0.27 per common share - basic and diluted) compared to a net loss of \$22.1 million (\$0.15 per share basic and diluted) for the year

ended December 31, 2010. This increased loss year over year can be attributed to a number of factors. Dry hole costs were \$9.7 million, relating to Sterling's 57 percent share of the unsuccessful Grian exploration well, compared to dry hole costs of \$6.5 million incurred during 2010 for the unsuccessful Airidh and Macanta exploration wells. The Kirkleatham onshore UK asset had problems with water production and was impaired by \$2.9 million. There was a bad debt expense of \$6.8 million which represents an overdue receivable from a co-venturer on the unsuccessful Grian well drilled in the UK North Sea during the first quarter of 2011. Pre-licence and other exploration costs of \$13.2 million were \$4.3 million higher than those incurred in 2010, with most of the additional costs associated with the start-up of operations in the Netherlands. Employee expenses of \$9.0 million were \$4.2 million higher than those incurred during 2010.

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Cash balances gave rise to foreign exchange losses of \$6.6 million, primarily due to the impact of a weakening US dollar versus the UK pound on translation of US dollar cash balances. In 2010, foreign exchange gains of \$2.6 million occurred as a result of the US dollar strengthening against the UK pound. Net general and administrative expense decreased during 2011 to \$3.1 million from \$3.9 million in 2010, due to increased recoveries from third parties and greater amounts capitalized to assets. As a requirement of the Breagh loan facility, monthly cash-settled put options to hedge 40 percent of the forecast P90 gas production for a 24 month period commencing October 1, 2012 were put in place. Half of the put options were purchased for an upfront cash premium, and the other half on a deferred premium basis. The Company has recognized the initial upfront premium paid for the put options as a derivative financial asset and, the deferred premium put options as a derivative financial liability, both of which are then revalued to a fair value at period ends, with any gain or loss recorded through the income statement in the same period in which it arises. At year-end 2011 the Company has recognized an unrealized loss of \$2.5 million on these derivative financial instruments. Cash and cash equivalents were \$50.0 million at December 31, 2011 compared to \$142.6 million at year-end 2010. Restricted cash of \$5.5 million at December 31, 2011 (\$1.0 million as at December 31, 2010) was cash held in escrow relating to the final costs of drilling programs on Cladhan and in the Netherlands. In previous quarterly financial results in 2011, an extra £10 million (\$15.8 million) was included as restricted cash in current assets which is now held under non-current assets. This relates to part of the minimum group cash requirement which under the terms of the Company's credit facility is held in a separate account. Net working capital of \$36.0 million at December 31, 2011 has decreased substantially from the year-end 2010 level of \$138.4 million due to the increase in operational activity at Breagh, drilling campaigns at Cladhan and Grian and the movement of £10 million (\$15.8 million) of cash from current to non-current assets as referred to above. During 2011 the Company transferred the Breagh asset following receipt of development approval, and the Kirkleatham asset following commencement of production, into development oil and gas properties. Breagh



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additions in 2011 totaled \$124.3 million. No cost was recorded for development properties in 2010. Inclusion of corporate and other properties of \$1.1 million gave a total balance for property, plant and equipment costs of \$170.8 million (2010, \$0.6 million) and after accumulated depreciation and depletion the total net book value of property, plant and equipment was \$167.3 million (2010, \$0.2 million). Exploration and evaluation activity related costs during 2011 totalled approximately \$53.5 million compared to \$56.0 million during 2010. During 2011, \$27.0 million was invested in the Cladhan drilling campaign, \$6.6 million on the East Breagh well, \$9.7 million on the Grian well, \$7.0 million in the Netherlands and \$3.2 million in other areas. As at December 31, 2011, the Company had an estimated UK tax loss carry forward of approximately \$328 million and other capital allowances of \$42.1 million available to shield future taxable income in Canada, Romania and other international jurisdictions. These losses are not subject to expiry. In addition, the Company has approximately \$30.5 million of Canadian and other international non-capital allowances which are subject to expiry over the next 20 years. "In spite of a challenging

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business environment during 2011, the Company continued to progress towards the establishment of future cash flow through field development, with a core strategy of creating value through acquisition of exploration acreage and successful appraisal operations," stated Mike Azancot, Sterling's President and CEO. "Volatile markets, changes in UK fiscal terms, challenging geological results from some appraisal drilling, and slow progress in moving forward in Romania have not deterred us from the pursuit of our business model which remains sound and an asset base that is strong," added Mr. Azancot.

### WHITE HOUSE THREATENS TO VETO BILL ON KEYSTONE

The White House on Tuesday said President Obama would veto legislation before the U.S. House of Representatives that sought to force approval of the stalled Keystone XL oil pipeline as part of a new 90-day extension of federal transportation funding. President Barack Obama earlier this year put a hold on TransCanada's \$7 billion project, designed to bring crude oil from Canada and North Dakota to Texas refineries, because he said it needed further environmental review in Nebraska. Last month Obama threw his

support behind building the southern leg of the pipeline that would run from the Cushing, Oklahoma storage hub to Texas. Republicans have argued the full Keystone XL project would create jobs and bring more oil to the United States at a time of surging gasoline prices, and have criticized President Obama's decision leading up to the November presidential elections. The House is expected to vote on the transportation funding bill as early as Wednesday. The Senate would have to agree to the funding extension and the Keystone plan before the measure could reach Obama's desk. "I think the House will bring it back and the objective is to get to conference with it," said Senator John Hoeven from North Dakota, who led a fight in the Senate fight to approve the pipeline last month. Republicans tried to attach approval for the pipeline to the Senate's two-year highway funding bill. The bid failed on a vote of 56-42, four short of the 60 needed to pass in the Democratic-controlled chamber. Eleven Democrats voted with the Republicans. Because a majority of senators voted in favor of the provision, Hoeven said he is optimistic the Keystone measure would survive joint House-Senate conference negotiations.