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LOW OIL PRICES SEND CHILLS THROUGH OIL PATCH

Marcus Jundt moved to Williston from Minnesota almost four years ago and has opened four restaurants there since. Food isn't propelling his business, though. It's oil.

"Everything I've done in Williston is a derivative of oil," he says.

That oil has averaged \$96 a barrel over the past four years, fueling more drilling, more hiring, and bigger appetites in North Dakota, Texas, Oklahoma and elsewhere. Now oil has hit a rough patch, plunging to \$80 from \$107 in June on fears of a global glut. Many expect these lower prices are to stick around for a while.

Lower oil prices, while good for the broader U.S. economy, are a threat to what has been a surprising and dramatic surge in oil production in the U.S., and to drilling communities that have come to depend on oil money.

"If the price gets low enough and stays there long enough I'm sure it will affect the number of people and the amount of money that will be spent in the greater community — and I



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have exposure to that," Jundt says. U.S. oil production has gone up by 3.5 million barrels per day, or 70 percent, since 2008. High prices fueled the boom, providing oil companies the profits and investor cash to buy up land, pay for drilling rigs, and develop new technology. Places like Williston,

a once-sleepy farming town, thrived with increased economic activity, well-paying jobs and rising tax revenue.

Prices would have to fall lower, and stay low for a while, to turn the U.S. oil boom into a bust. Wells that are already producing won't be shut off and enormous projects with long-time

horizons will still be built. Many drillers have funded next year's drilling plans by selling oil in the futures market.

Still, a \$20 drop in the price of oil means \$170 million less in revenue every day for the U.S. oil industry.

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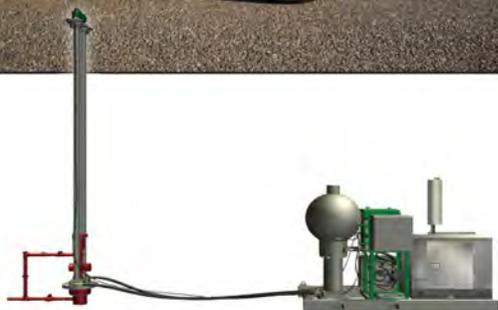
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without hopes for a big reward and oil companies big and small are left with less money to go and drill the next well.

BP, Chevron and Shell told investors last week they would reduce spending on new development because of lower prices.

Mike McDonald, co-owner of Triad Energy, which usually operates 1 or 2 rigs in Oklahoma, says that low prices have stung and now he's not planning to get another rig going after current projects are complete.

Drilling in fields that aren't very prolific will stop because it won't be profitable. For example, drillers in North Dakota's Burke County need \$81 a barrel on average to break even, according to the Department of Mineral Resources, while the price is just \$28 in McKenzie County, the state's top oil producing county.

North Dakota Department of Mineral Resources director Lynn Helms says companies are looking to cut costs on such things as electricity generation and water disposal. He says the average operating cost of a well has risen 36 percent in the past year to \$15,000 a month, mirroring an industry-wide struggle with higher costs.

The analysis firm IHS calculates in a report released Monday that the income that oil and gas companies made on the capital they spent has fallen by half since 2000, even as oil prices increased. "The recent price drop in global crude prices will only add to these financial challenges," said IHS's Daniel Pratt.

For now, boomtowns like Williston are still going strong. Hotels are full, restaurants like Jundt's are packed



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with tired roughnecks and roads are choked with hulking oil field trucks.

But when drillers cut costs, communities will eventually feel it. "I haven't noticed anything yet," says Bert Anderson, mayor of Crosby, a small town just south of the Canadian border where oil is particularly expensive to produce. But if oil stays at current prices, "eventually it will have an impact," he says.

Helms says that the state's next two-year budget may have to be revised because the preliminary budget forecast was based on \$90 a barrel.

On Wall Street, there is considerable disagreement about the duration of lower prices and the potential industry impact. But there's broad agreement that at least the rate of growth in the U.S. will slow.

Goldman Sachs analysts wrote last week that OPEC countries are unlikely to curtail production to nudge prices higher — which means U.S. drillers will have to do so instead.

Bernstein Research's Bob Brackett estimates one-third of U.S. shale oil production is "uneconomic" at \$80 per barrel. As a result, he says, producers in the U.S. and elsewhere will cut back and the price will quickly recover.

Thomas Driscoll of Barclays believes economics are "robust" in most of the U.S. shale regions at prices between \$75 and \$80 a barrel. While he expects the rate of U.S. production growth to slow, he doesn't think production would stop increasing unless long-term oil prices fall to a range of \$65 to \$75 per barrel.

That's certainly where it would hurt

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for Nelson Wood. His family's ties to oil stretch back to 1938, when his mother started in the business after an oil discovery set off a boom in Illinois.

Since 2001, Wood has grown his company from five to 30 employees, and now has 200 small wells in Illinois. These wells, known as "stripper wells" produce just a few barrels of oil per day. By comparison, a new well in North Dakota might produce 500 barrels per day and a big offshore oil platform might produce 200,000 barrels per day.

For now, Wood has suspended hiring and reduced plans for new wells next year to four from 10. He says his company, Wood Energy of Mt. Vernon, Illinois, is still

profitable overall at \$80 a barrel, but things are starting to get tight.

"\$70 starts to get in a place that we don't want to be," he says.

Some say a small slowdown could have some upside. Local governments in drilling regions are straining to keep up with demand for new services and infrastructure to deal with population increases and the new economic activity. It might even help drillers who have had trouble finding enough workers and equipment.

"A little bit of a slowdown to give everyone a chance to take their breath isn't all a bad thing," says Ben Sheppard, of



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the Permian Basin Association in Midland, Texas. "The industry has been white hot for so long."

\$400 MILLION PLANT EXPANSION COULD SHIFT B.C.'S DOMESTIC LNG TRANSPORTATION MARKET INTO HIGH GEAR

B.C.'s growing transportation market provides gas producers with alternative to Asia

Among the concerns being raised over new provincial regulations for liquefied natural gas development is that other sectors in B.C. might have to shoulder more of the

burden for reducing greenhouse gases so the province can have an LNG industry and still meet its GHG reduction targets.

Perhaps ironically, a growing domestic LNG market might help achieve some of those reductions, as remote communities and the trucking and shipping industries make the switch from diesel to cheaper, cleaner-burning natural gas.

FortisBC and AltaGas Ltd. (TSX:ALA) are planning hundreds of millions of dollars worth of investments in LNG plants over the next couple of years to serve a growing domestic market for LNG.

Last week, FortisBC turned sod on a

\$400 million expansion of its existing LNG plant on Tilbury Island in Delta. The expansion – slated for completion in late 2016 – is being driven by a growing domestic demand for LNG by the trucking and marine industries.

However, there's also the possibility that the expanded plant could supply gas for a U.S. company, WesPac Midstream LLC, which has applied for an export licence. If granted, the company could ship LNG supplied by FortisBC from a marine terminal adjacent to the Tilbury plant to "regional and offshore markets."

There has been a natural gas liquefaction plant and LNG storage tank on Tilbury Island since 1971. FortisBC and its predecessors have used it in the winter as backup, when demand for natural gas spikes. In recent years, however, FortisBC has been developing new customers for LNG, primarily in the transportation sector.

When the expansion is complete, the Tilbury Island storage capacity will double and daily production capacity at its liquefaction facilities (which will be driven by grid power, not gas) will increase to 34,000 gigajoules from 5,000.

FortisBC is providing \$17.5 million worth of incentives designed to help to help trucking fleets in B.C. convert up to 400 trucks to LNG or compressed natural gas.

The incentives would also cover up to five conversions for large ships, including BC Ferries' Spirit of Vancouver and Spirit of British Columbia, which are

scheduled to be converted to run on natural gas by 2018.

"Together these vehicles will reduce greenhouse gas emissions to the equivalent of 8,000 passenger cars off our roads each year," said John Walker, executive vice-president of western Canadian operations for Fortis Inc. (TSX:FTS), FortisBC's parent company.

About 200 semi-trucks in B.C. have been converted to LNG.

Wheeler Transport is one of four trucking companies in B.C. to convert their trucks from diesel to LNG. It converted 10 of its trucks to LNG earlier this year. FortisBC covered 70% of the cost of the conversions. LNG is not just cleaner than diesel, it's also cheaper, so the company expects it will save money in the long run.

"We're saving approximately \$2,500 to \$3,000 per month per tractor," said Wheeler Transport vice-president Tony Spring.

Vedder Transport Ltd., Arrow Transportation Systems Inc., and Denwill Enterprises Inc. have also converted their fleets to LNG.

LNG produced by FortisBC also holds promise in remote communities that still get their electricity from diesel-powered generators. FortisBC trucks LNG as far as Inuvik, which now generates 25% of its power from LNG.

It's not just the marine and trucking sectors that are moving to LNG. So are heavy industries, like mining and the oil and gas sectors.

AltaGas is getting in on the ground floor with plans to spend up to \$250 million on a number of small liquefaction plants in Northern B.C. to supply LNG for the machines and vehicles used by heavy industry.

"It's very cost-effective for our customers, as well as reducing CO2 emissions," AltaGas CEO David Cornhill told Business in Vancouver.

The first LNG plant will be built in Dawson Creek, at a cost of \$20 million to \$30 million.

"We can see a build-out up to a

quarter billion dollars," Cornhill said.

Matt Horne, associate regional director for the Pembina Institute, doesn't think the increased use of LNG domestically will significantly counter emissions from an LNG export sector.

"Switching to LNG does have some carbon benefit in the near to medium term," Horne said, although he added that the reductions from switching to LNG were already counted on in the province's Climate Action Plan.

"In a lot of these applications,

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the economic case can be very strong. The environmental case is probably a wash." •

BURNABY MOUNTAIN KINDER MORGAN PIPELINE PROTESTER CHAINS HIMSELF UNDER SUV

Proposed Trans Mountain pipeline expansion would bore through municipal conservation area

A teenage protester chained himself under a Kinder Morgan worker's vehicle on B.C.'s Burnaby Mountain Wednesday, at a demonstration against the controversial proposed Trans Mountain pipeline expansion.

George Khossi, 18, crawled under a survey crew's SUV, wrapped himself around the front tire and refused to leave.

Meanwhile, angry protesters stopped crews from conducting pipeline survey work at a nearby proposed bore hole, confronting a Trans Mountain survey crew, yelling "go back to Texas."

Stephen Collis, a spokesperson for the protesters who call themselves the Caretakers, said they plan to hunker down.

"We're currently occupying the space that they have identified that they need to work in. Since we're on public land, we have every right to be here," he said.

"They can't really work in a space that's filled with dozens of people. That's the intention."

The pipeline expansion would

almost triple the capacity of the existing pipeline between Alberta and the B.C. coast to about 900,000 barrels of crude a day.

But protests like the one on Wednesday may force the company to reassess how it will finish the work needed for a National Energy Board decision on the proposed expansion.

Indeed, workers left the site in another vehicle, and one man was seen carrying several signs under his arm that read "No Entry Until Further Notice" and "Field Testing Area Under Order of the National Energy Board."

Greg Toth, senior director for Kinder Morgan's Trans Mountain expansion project, said all survey work on the mountain was stopped Wednesday, although other crews were still working around Burnaby.

He said he wasn't yet sure if the company would ask for an injunction preventing protests.

"We have to reassess, based on today's activities," said Toth. "It's quite a vocal protest. Our priority is the safety of our crews and the general public. So we'll retrench and look at what options are available."

The protests follow an announcement Tuesday by the City of Burnaby, in which it said that it plans to appeal a National Energy Board decision granting the energy giant access to the municipal conservation area.

Burnaby and Kinder Morgan have been locked in battle over the \$5.4-billion pipeline expansion, with both sides filing duelling legal actions in court and applications with the National Energy Board.

But the energy board ruled last week that Burnaby can't stop the company's activities because the geotechnical work is needed by the board, so it can make recommendations to the federal government about whether the project should proceed.

The board's order forbids the City of Burnaby from undertaking any bylaw enforcement. It also says Kinder Morgan must give the city written notice of work 48 hours in advance and must remediate any damage.

Stumps and branches of trees that were recently cut down by

workers hired by Kinder Morgan are seen in the Burnaby Mountain Conservation Area, in Burnaby, B.C., on Wednesday September 10, 2014. (Darryl Dyck/Canadian Press)

It is the first time the National Energy Board has ever issued an order to a municipality.

Toth said the National Energy Board and the Federal Court have given the company every right to do work needed to support the decision-making process.

He said it's ironic that crews haven't

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been allowed on Burnaby Mountain, considering the company and city residents have determined the route is the least disruptive option.

"It's really in response to strong feedback from the local residents and the general public in the area for the alternative routing, which would have been through the streets," he said.

In July 2007, a geyser of oil from the existing Kinder Morgan pipeline impacted 100 homes in Burnaby's Westridge neighbourhood after a road work crew accidentally ruptured the line, spilling 250,000 litres. The cleanup cost about \$15 million.

SHAWN ATLEO APPOINTED TO LEAD NEW ROUND OF TALKS WITH B.C. FIRST NATIONS

Former head of the Assembly of First Nations heads new Shqwi qwai for Indigenous Dialogue

Former Assembly of First Nations national chief Shawn Atleo has been named to head B.C.'s first Shqwi qwal for Indigenous Dialogue.

The announcement was made by B.C. Premier Christy Clark on Thursday at Vancouver Island University in Nanaimo, where the new office will be based.

Shqwi qwal means speaker in the Hulqumim language, and as its head Atleo will be expected to facilitate dialogue between B.C.'s First Nations, government and industry.

"The Shqwi qwal will develop and support dialogue sessions on education and other topics that will help foster understanding and partnerships between indigenous peoples and the broader public, private, and corporate sectors," said a statement released by the premier's office.

"Recognition and understanding are fundamental to moving forward in the spirit of mutual respect, reconciliation and sharing," said Atleo in the statement.

"Through dialogue, we can together create new paths respective of our history that connect systems and support process innovation for social and economic benefits for First Nations, for British Columbia, and for Canada."

The appointment comes at a time when First Nations have considerable power to derail several high-profile energy projects in B.C., including the Northern Gateway pipeline.

It also follows the first-ever cabinet meeting with B.C.'s First Nations leaders that was held in September, and a recent Supreme Court ruling upholding First Nations land titles.

"We want to be true partners with aboriginal people and that will only be possible by listening to each other," said Aboriginal Relations and Reconciliation Minister John Rustad.

"This new position builds on our recent meeting with First Nations leaders as we support new approaches to reconciliation and improvements for aboriginal people and First Nations communities."

The Shqwi qwal office will be housed within the university's new Centre for Pre-Confederation Treaties and Reconciliation, which is led by former chief of the Snuneymuxw First Nation Doug White.

Atleo was elected twice as head of the Assembly of First Nations in 2009 and 2012. Before that he served two terms as the regional chief of the B.C. AFN.

He also holds a master's of education in adult learning and global change from the University of Technology in Sydney, Australia,

and is the first indigenous person to hold the position of university chancellor in British Columbia.

CANADA STOCKS-TSX DECLINES AS CHINA DATA SPURS ENERGY-SECTOR WEAKNESS

TSX down 68.25 points, 0.47 percent, at 14,545.07

* Seven of the 10 main index sectors decline

* Energy shares lead fall

Canada's main stock index dropped



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on Monday as sluggish economic data from China and a fall in the oil price weighed on shares of energy producers.

Figures showed that growth in the Chinese services sector slumped to a nine-month low in October, highlighting concerns of a slowdown in the world's second-biggest economy.

Further, the U.S. dollar has been surging since the Bank of Japan unveiled fresh stimulus measures late last week, and that has put pressure on commodity prices such as oil and bullion.

The Toronto stock market's energy sector, which has lost nearly a quarter of its value since the middle of June, had the biggest negative influence on the benchmark index.

"Sentiment is weak. I don't think the energy sector will come roaring back anytime soon," said Ian Nakamoto, director of research at MacDougall, MacDougall & MacTier.

Continuing weakness in the energy group could have repercussions for the broader Canadian economy, he said.

However, he noted that valuations in the group have been looking attractive and investors could take advantage of the lower prices if they are looking at a longer-term strategy.

The Toronto Stock Exchange's S&P/TSX composite index was down 68.25 points, 0.47 percent, at 14,545.07.

Seven of the 10 main sectors on the index were in the red.

Among energy shares, Canadian Natural Resources Ltd dropped 1.8 percent to C\$38.63, and Suncor Energy Inc declined 1 percent to C\$39.63.

Financials, the index's most heavily weighted sector, was down 0.4 percent. Bank of Nova Scotia shed 0.5 percent to C\$68.67, and Toronto-Dominion Bank fell 0.3 percent to C\$55.29. (41=\$1.13 Canadian)

CANADIAN OIL SANDS ANNOUNCES THIRD QUARTER RESULTS AND SUBSTANTIAL COMPLETION OF THE MILDRED LAKE MINE TRAIN REPLACEMENT

"We have achieved substantial completion on construction of the \$3.9 billion Mildred Lake Mine Train Replacement, on time and under budget, and are now in the commissioning and start-up phase," said Ryan Kubik, President and Chief Executive Officer. "This signals that Syncrude's major capital projects are winding down and the associated financing risk is coming out of the business."

Mr. Kubik adds: "After many years of engineering and construction,

we are looking forward to the successful integration of the new Mildred Lake Train asset and its industry-leading technology into Syncrude's operation."

- Cash flow from operations for the quarter was \$302 million (\$0.62 per Share) compared with \$340 million (\$0.70 per Share) in the same quarter of 2013 as a result of lower realized selling prices and higher operating expenses partially offset by higher sales volumes.

- Net income of \$87 million (\$0.18 per Share) was recorded for the quarter compared with \$246 million (\$0.51 per Share) in the third quarter of 2013. The decrease in net income was primarily a result of foreign exchange losses in 2014 as opposed to foreign exchange gains in 2013, as well as lower sales, net of crude oil purchases and transportation expense.

- Sales volumes for the quarter averaged 87,787 barrels per day, compared with 84,250 barrels per day in the comparative 2013 quarter.

- Operating expenses were \$385 million in the third quarter of

2014 compared with \$357 million the same quarter of 2013. The increase in third quarter operating expenses over the comparative quarter was due mainly to higher natural gas prices and additional maintenance associated with outages on sulphur processing units. On a per barrel basis, operating expenses in the third quarter of 2014 were \$47.73 compared with \$46.15 during the same period of 2013, reflecting the higher overall operating expenses, partially offset by higher sales volumes.

- The Mildred Lake Mine Train Replacement project reached an estimated 99 per cent completion and is on schedule to be in service by the end of this year.

- The Centrifuge Tailings Management project reached an estimated 90 per cent completion and is on schedule to be in service during the first half of 2015.

- COS declared a quarterly dividend of \$0.35 per Share, payable on November 28, 2014 to shareholders of record on November 21, 2014.

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