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## CONOCOPHILLIPS WANTS OUT OF WESTERN CANADA

ConocoPhillips (NYSE:COP) is looking to sell some of its assets in Western Canada. The assets that are reportedly going up for sale are conventional natural gas properties in British Columbia, Alberta, and Saskatchewan.

In pursuing such a sale the company would be following the footsteps of peers like EOG Resources Inc., Apache Corporation, and Devon Energy Corp. in walking away from conventional oil and gas production in Canada. However, one thing is clear and that's that none of these companies are looking to entirely exit Canada as all still see a lot of potential in the Canadian energy sector.

According to Bloomberg, ConocoPhillips is looking to sell assets that currently produce about 31,000 barrels of oil equivalent per day, or BOE/d, however, most of the production is natural gas. This still amounts to about 20% of the company's non-oil sands production in the country, so it's a big chunk of the company's conventional production.

However, when we add in oil sands production, it's a much smaller wedge. Just last quarter ConocoPhillips produced 296,000 BOE/d, which was 20,000 BOE/d higher than the fourth quarter of 2013 thanks to increased production from the company's Christian Lake and Foster Creek oil sands assets. In fact, oil sands production alone is expected to more than double from 100,000 BOE/d in 2013 to well over 200,000 BOE/d by 2017 thanks to new projects coming online, including a major expansion of its Surmont project that's coming online later this year. So, clearly this sale isn't a sign that the company is giving up on Canada.

Because unconventional growth assets like the oil sands and shale play are such big growth drivers, we're seeing U.S. energy giants like ConocoPhillips find that they're better off selling low growth assets such as traditional oil and gas wells in Western Canada. They can use the cash received for these assets to help pay for the growth they can get by investing in faster growing unconventionally. That's why we've been seeing a divestiture movement over the past few years as U.S. companies shed these slow growing Canadian assets in favor of faster growing unconventionally.

EOG Resources, for example, sold off virtually all of its Canadian assets late last year for US$410 million in two separate transactions. The natural gas assets didn't offer the company much growth so it took the cash and plans to use it to fund its higher return shale oil assets in the U.S.

Apache, likewise, sold off much of its conventional natural gas assets in Western Canada last year. It received US$374 million, which it used to reinvest in its higher growth areas. Finally, Devon Energy had the biggest divesture of the group. It unloaded $3.1 billion in conventional assets in Canada to Canadian Natural Resources Ltd. Like its peers, the company sold slower growth assets in order to reinvest into its higher growth assets. That deal also helped the company pay down the debt it incurred to secure its position in the fast growing Eagle Ford Shale in Texas.

What's also worth mentioning is that all three held on to growth-focused assets in Canada. EOG Resources and Apache held on to their shale gas assets while Devon Energy is keeping its oil sands operations.

ConocoPhillips, like its other U.S. peers, isn't walking out on Canada all together. Instead, it is joining these companies in walking away from conventional oil and gas production in Western Canada. The reason for the move is simple; those assets didn't offer much, if any growth, so these companies are better off taking the cash from an outright sale and reinvesting it into areas that are really driving meaningful future growth.

ConocoPhillips is joining its American peers in exiting the slower growing energy regions of Canada. However, it's not getting out of Canadian energy altogether as it sees a lot of growth potential in the years ahead.

## INVESTORS TARGET NORTHERN B.C.'S LIQUID ENERGY RICHES

Resource companies pumping millions into Montney region to tap far more than LNG

Low prices might be curbing oil and gas drilling in some parts of the world, including Alberta, but if recent investment decisions are any indication, they have yet to cool the zeal that energy companies like Encana Corp. (TSX:ECA) have for northeastern B.C.'s Montney formation.

In December, the B.C. government generated $38 million in bonus bids for oil and gas leases to energy companies compared with $7.8 million in December 2013.

In total, B.C. generated $330 million from oil and gas leases in 2014, according to the Ministry of Natural Gas Development, and 90% of all drilling activity last year took place in just one of B.C.'s four natural gas plays: the Montney.

Encana is one of a handful of companies pouring money into the region. Just before Christmas, it announced plans to spend $600 million to $700 million in 2015 drilling there for oil, gas and natural gas liquids.

In March 2014, Petronas subsidiary Progress Energy Canada Ltd. spent $1.5 billion acquiring 127,000 acres of land and producing wells in the Montney from Talisman Energy Inc. (TSX:TLM).

In December, Painted Pony Petroleum Ltd. (TSX:PPY) announced plans to spend close to $300 million in 2015 drilling in the Montney. Shell Canada, meanwhile, has proposed a new facility south of Fort St. John that would process natural gas liquids from northeastern B.C. gas wells.

The Montney is a massive shale gas formation straddling the B.C.-Alberta border. It's one of four major unconventional gas plays in northern B.C. but is considered the richest because of its abundance of "wet" gas (natural gas liquids).

"We believe it's one of the best overall energy resource plays in North America," Encana spokesman Doug McIntyre said.

Companies like Encana are drawn to the Montney because of the huge demand for natural gas condensate in Alberta, where it's used to dilute oilsands bitumen.

"The Montney is really the granddad of the unconventional resource plays, and B.C. has such a big part of it," said Dan Allan, executive vice-president of the Canadian Society for Unconventional Resources. "The fact that there is a liquids-rich component makes it very valuable today."

The "dry" gas that energy companies are finding in the Montney will have greater value, should liquefied natural gas (LNG) plants be built. As Allan pointed out, at least one of the big players in the Montney is directly motivated by the prospect of a new LNG sector in B.C.

Malaysia's Petronas spent $6 billion to acquire Progress Energy, which was almost exclusively focused in the Montney, to feed its proposed Pacific NorthWest LNG plant in Prince Rupert.

"They made that investment because of the potential of LNG," Allan said. "So if LNG was not on the horizon, would Petronas have acquired Progress Energy? Probably not."

But the dry gas that would feed LNG plants can be found in other basins in B.C. And yet most of the drilling has been in the Montney.

It's the abundant "wet" gas (butane, propane, condensate and oil) there that gives that region such a high value proposition.

"It's not just LNG," said Brad Hayes, president of the petroleum consulting firm Petrel Robertson Consulting Ltd. "LNG is an important component, but the liquids, and the oil, are also important."

"If you get natural gas liquids in the gas that you produce, it's worth a lot more money," said Carlos Salas, vice-president of oil and gas for Geoscience BC.

Encana's production guidance for the Montney is 19,000 to 20,000 barrels per day of oil and natural gas liquids, about a quarter of which would be oil. It would also produce 580 million to 620 million cubic feet of dry gas per day.

At US$73.68 per barrel, condensate was selling for roughly the same price per barrel as West Texas Intermediate oil in November 2014. Condensate generally trades at a slight premium to West Texas Intermediate, which last week was in the US$51 per-barrel range.

The benchmark Henry Hub price for dry gas, meanwhile, was US$3.07 per million British thermal units at the end of December. On an energy-adjusted basis, the premium for condensate over dry gas is about 400%.

One of the driving factors behind the drilling boom in the Montney, apart from the sheer volume of the formation, is that its geology is well understood, Hayes said.

In 2013, the National Energy Board released a survey that estimated the Montney's reserves at:

•One billion barrels of oil;

•14.5 billion barrels of natural gas liquids; and

•12.7 trillion cubic metres of dry gas.

While the Montney stretches for an equal distance on either side of the B.C.-Alberta border, the B.C. side has been drawing the lion's share of investment of late.

While B.C. enjoyed a good year for gas lease sales in 2014, Allan said Alberta's was "dismal."

"What does that tell you? It tells you that the B.C. Montney is attracting capital, yet some of the oil plays in Alberta are not quite as exciting to a lot of companies."

Even in a liquids-rich formation like the Montney, not every well that's fractured will bring up liquids.

The geology needs to be just right to "cook" hydrocarbons into oil or natural gas liquids. If a reserve is too deep, it will have cooked the hydrocarbons into vapour (dry gas).

Geoscience BC is participating in a natural gas liquids fairway mapping exercise in partnership with resource companies and the University of British Columbia to identify those potential sweet spots where liquids are most likely to be located in the Montney and in the other northern B.C. gas basins: the Liard, Horn River and Cordova Embayment.

"This is not just specific to the Montney," Salas said, "but we're looking at all the other source rocks that haven't been chased in the past."

## LNG DREAMS DOWNPLAYED AS GOVERNMENT PREACHES PATIENCE

Finance Minister Mike de Jong will unveil budget at the B.C. Legislature on Tuesday

B.C. Finance Minister Mike de Jong is set to unveil the budget on Tuesday — his third since taking over the job in 2012 — and the expectations for excitement are low. De Jong has called this a budget focused on “discipline and prudence,” while also being a framework forpaying down the debt.

“In every other jurisdiction in the country the news is growing deficit, growing debt,” de Jong said. “Here in British Columbia we probably have the only balanced budget, the only surplus. I take that as a compliment because it has become the standard here in BC.”

What British Columbians will carefully be watching is when the province’s big bet on liquefied natural gas (LNG) — the premier’s hope is for tens of thousands of new jobs — will pay off.

If the throne speech was any indication of what is coming next, which it often is, the government is downplaying LNG. In February 2012, Premier Christy Clark raved about the industry’s potential, promising thousands of new jobs and $20 billion in investments.

But the price of LNG on the global market is dropping, something de Jong is expected to downplay on Tuesday.

“I have never been under any illusions that this would happen on a precise time line and one set by me or any other political leader,” de Jong said. “I still believe LNG is poised because that is what proponents tell us”

De Jong may be patient, but patience from voters could be wearing thin. Questions are being asked about when the payoff will come to an industry that was a huge part of the Liberal’s re-election strategy.

It’s unclear whether Tuesday’s budget will bring any answers to those questions, said Michael Prince, University of Victoria political scientist.

“The government is maybe a year shy of putting a test to their hopes and dreams,” Prince said. “It doesn’t need to be too heavy in this budget. But the government does need to send a message the province is open for business. The province is using fanciful rhetoric over being debt free and that goal looks more realistic not in 2020, but 2035.”

The instinct heading into Tuesday’s budget is: What’s in it for me? That’s a question the B.C. Liberals are going to have a hard time answering this time around. Prince, like most observers, expects this budget to be more full of “self satisfied messaging” rather than tax breaks or new programs.

One possibility is a change to social assistance for single mothers on welfare who are also receiving child support.

The current model is complicated, but basically for every dollar a single mother gets from child support, she gets a dollar less from social assistance. The new policy expected in Tuesday’s budget will change that, allowing mothers in this situation to keep both support payments and social assistance.

“There was no mention in the throne speech of this,” said Prince. “The government is still arm-wrestling about how it will be paid for and how much the mom should get to keep.”

What’s the bottom line? Don’t expect any of the big ticket items found in a pre-election budget, and don’t hold your breath for any firm answers on the much predicted, yet-to-be-delivered LNG boom.

## CANADA IMPOSES SANCTIONS ON RUSSIAN OIL FIRM ROSNEFT, ROSTEC CEO

Canada is imposing sanctions against top Russian oil firm NK Rosneft OAO and the head of conglomerate Rostec, among others, in response to the actions of Russian-backed militants in Ukraine, Ottawa said on Tuesday.

In all, Canada - which said it was acting in coordination with the European Union and the United States - imposed sanctions against 37 Russian and

Ukrainian individuals as well as 17 Russian and Ukrainian entities.

Prime Minister Stephen Harper, who has taken a hard line in public against President Vladimir Putin over what he calls blatant Russian interference in Ukraine, said Canada was ready to take more steps if needed.

This comes after the country had for many months resisted pressure to slap any punitive measures on either Rosneft or Rostec, which both have Canadian business interests. Canadian officials have previously said the goal of any measures was to sanction Russia rather than penalizing Canadian companies.

"The collective sanctions imposed to date by Canada and its partners are putting real economic pressure on the Putin regime and its collaborators," Harper said in a statement issued late on Tuesday.

"The cost to Russia will continue to rise if it persists in its escalation of the conflict and refuses to allow a peaceful resolution."

Among those targeted by the latest round of measures are Rosneft - Russia's largest oil producer - and Sergei Chemezov, a Putin ally who is chief executive of state-owned Rostec, which encompasses weapons, cars and metals.

Rosneft owns some 30 percent of a Canadian oil field, while Rostec has an aircraft assembly joint venture lined up with Bombardier Inc.

The Canadian firm announced last year that the venture would be delayed as a result of the earlier rounds of sanctions applied against Russian firms and individuals.

## CANADA LOOKING AT LNG TAX BREAKS IN FEDERAL BUDGET

Such incentives could help companies move forward with stalled developments in Canada, even as they cut spending around the world in response to plummeting oil prices.

More than a dozen LNG terminals have been proposed in Canada, mostly in the West Coast province of British Columbia. Backed by energy giants like Malaysia's Petronas, Royal Dutch Shell and Chevron Corp, the projects would ship cheaper North American gas to Asian markets.

But backers have long complained that development costs for these projects are high and margins are thin. There are no Canadian LNG export plants in operation now.

To help speed development, the Canadian Association of Petroleum Producers (CAPP) wants Ottawa to reclassify LNG export plants as manufacturing assets.

Under their current classification, LNG facilities in Canada can write off 8% of their total capital investment each year.

A government memo said that if finance officials accepted the industry proposal, LNG export plants could write off 30 to 50% of their capital investment per year.

Manufacturing assets have benefited from the 50% capital cost allowance rate since 2007, which allows companies involved in manufacturing and processing to write off capital investments within two or three years.

The memo, obtained by Reuters under Canada's Access to Information Act, was prepared for the top bureaucrat at the federal natural resources department ahead of a meeting with industry representatives last October.

"We understand the need for clarity on the fiscal environment for LNG facilities to support final investment decisions," said the memo prepared by the natural resource department's energy sector.

"We have examined CAPP's proposal ... and continue our discussions with the department of finance on the matter."

The department, headed by Finance Minister Joe Oliver, compiles and delivers the budget, making major decisions in conjunction with the Prime Minister's Office.

The next federal budget is due in April at the earliest and neither the natural resources nor the finance department would comment on any specific budget proposals or discussions.

If implemented, the measure could make the government forgo hundreds of millions of dollars of tax revenue at a time when slumping oil prices are already eating into government receipts.

CAPP estimates that in return, the proposal would spur growth, adding about C$3 billion (RM8.6 billion) over 20 years to Canada's gross domestic product. It did not immediately respond to a request for comment.

To be sure, the government rejected the industry's requests for tax breaks for LNG plants in the last two federal budgets and it is not clear whether Ottawa will grant the incentives this time.

Still, Canada's right-leaning Conservative government has deep political roots in the oil and gas-rich west of the country and regularly stresses the importance of the energy industry.

It is also uncertain whether this tax incentive would be enough to spur energy companies to break ground on such projects given volatile markets.

Canadian energy regulators have approved export licenses for 10 LNG projects in British Columbia and are reviewing further 10 applications for proposed terminals on Canada's west and east coasts, but no final investment decisions have been made.

Reg Plummer, a senior economist who retired from the natural resources ministry last year, said the proposal would cost the federal treasury a lot of money while offering investors a benefit of less than 1% on their rate of return. He also said officials may consider how this fits in with Canada's international commitment to phase out fossil fuel subsidies.

"Finance (department officials) would be looking hard at that because these are serious bucks we're talking about," Plummer said. "It's sort of helping out (companies) a little bit with some risk, but it's not going to be a make or break for them."

## CANADIAN HOME SALES SINK FROM SAGGING OIL PRICES

Home sales declined in 60 per cent of Canadian markets, led by oil-impacted Calgary and Edmonton.

Canadian home sales continued to cool in January, thanks largely to slumping sales in oil-impacted Alberta and Saskatchewan, according to figures for the start of the year released by the Canadian Real Estate Association Tuesday.

Home sales were down 3.1 per cent across the country in January over last December as sales declined in 60 per cent of Canadian markets, led by Calgary and Edmonton.

If those two cities were removed from the calculations, national sales would have been up 1.9 per cent, year over year, said CREA.

The national average sales price climbed in January by its smallest margin since April 2013 – just 3.1 per cent year over year – bringing the average transaction price last month to $401,143, said CREA.

That would be a far more modest $312,280 nationally – a year-over-year decline of three-tenths of one per cent – if still-strong home sales in Toronto and Vancouver were taken out of the equation, the national association for the country's more than 100,000 realtors noted.

How plunging oil prices could impact real estate across Canada

The MLS Home Price Index – an indicator that is considered a better gauge of average prices because it removes home sales at the extreme ends of the spectrum – was up 5.17 per cent in January over a year ago.

Despite a surge in new listings in Calgary and a significant slump in sales, that city still reported the biggest price gains across the country, 7.76 per cent in January, year over year. But those gains have been slowing since last year and prices could even decline through 2015 as the impact of low oil prices and job losses undermines consumer confidence and pushes the province closer to a recession.

The GTA saw prices gains of 7.47 per cent in January over a year earlier, followed by Greater Vancouver at 5.53 per cent, according to CREA figures.

Across the country, two-storey single family homes saw the biggest price gains, up 6.57 per cent. Townhouse prices were up 5 per cent and bungalows saw gains of 4.61 per cent, says CREA.

Condo apartments were well behind the pack, with average sales prices up 3.11 per cent.

## HUSKY ENERGY TRIMS CAPITAL SPENDING BY $400M

Lower oil prices has Calgary Company looking for savings from contractors

Husky Energy is the latest company in the Canadian oil patch to report it is trimming 2015 spending in the face of lower oil prices.

Huskey now says it's reducing this year's capital budget by as much as $400 million to $3 billion to $3.1 billion. The previous 2015 plan called for $3.4 billion in spending.

The Calgary-based company says it's also seeking $400 million to $600 million of operational cost savings, mostly from its suppliers and contractors.

It did not say whether it would cut its workforce.

Husky expects production to begin this year or next on the Sunrise oil sands project in Alberta in Alberta, but has deferred a decision on expanding the White Rose offshore operation off Newfoundland's coast. Production for the year is anticipated to remain at about 325,000 to 355,000 barrels of oil equivalent per day

It reported a $603-million loss in the fourth quarter, mostly because of asset write downs and inventory reductions. Excluding write downs, Husky's net earnings for the quarter was $147 million.

CEO Asim Ghosh said he is positioning the company for beyond the downturn in oil prices.

"By the end of 2016, about half of our total production will be from low sustaining capital projects," he said.

Crude oil has dropped to about $50 US a barrel in the first quarter of 2015 from a peak of $107 US a barrel last year.

Companies across Canada and the U.S. have been announcing cuts to their capital spending and workforces, but the glut of oil that caused the price drop continues.

## CN TRAIN CARRYING CRUDE OIL DERAILS NEAR GOGAMA

A massive clean-up effort is underway on the CN Rail mainline between Gogama and Foleyet after a freight train derailed around midnight Saturday. There is no firm indication yet how many days this will take and the fire that broke out continues to burn. The first news of the train wreck was reported by this newspaper early Sunday.

The 100-car train, which was hauling tank cars of crude oil from Alberta, waseastbound late Saturday when several tank cars back from the locomotives jumped the tracks, according to what witnesses told Transportation Safety Board (TSB) investigators. One or more tank cars were seen to be on fire. The crew brought the train to a stop and detached the locomotives, pulling away from the fire scene, the TSB reported

There were no injuries. It is believed the fire spread to a total of seven tank cars. In all 29 tank cars went off the rails said CN spokesman Patrick Waldron, adding that the remaining 71 cars were removed to a safe distance away from the fire.

On Monday, during the supper hour, Waldron said the fire was still burning.

"CN responders this afternoon (Monday) have removed additional derailed cars from the right of way, allowing workers to get closer to the core of the derailment, where a fire is still burning," said Waldron.

"Ongoing air monitoring is showing that there are no safety issues for the crews working in the isolated, densely wooded area. CN's environmental team continues to work closely with the Ontario Ministry of Environment to clean up product that has spilled in the derailment area on the frozen, snow covered surface," he continued.

"Mitigation and restoration plans continue to be developed and implemented. As we have since the derailment occurred, CN teams continue to work in close collaboration with key stakeholders, including Transport Canada, the TSB and theOntario Ministry of Environment, as crews work to extinguish the fire, remove all the rail cars, repair the track, conduct a full investigation into the incident and move forward with a comprehensive environmental clean-up," he added.

TSB spokesman Chris Krepski said on Monday that with seven of the 29 cars that derailed being on fire, it created the possibility that some crude oil was spilled.

"It is quite possible some product was released but we cannot confirm how much. The other 22 cars we cannot confirm whether or not there were any leaks from those," he said.

Transport Canada lists petroleum crude oil as a Guide-128 Flammable Liquid, that may cause pollution when diluted in water or from water run-off from fire suppression. It's not known how effective the fire suppression effort is at the derailment scene.

According to Transport Canada, a crude oil fire should be fought from a distance using unmanned

| 17-Feb-15 | | | | |
|---|---|---|---|---|
| | Active | Down | Total | % Active |
| | | Western Canada | | |
| AB | 217 | 324 | 541 | 40% |
| SK | 48 | 90 | 138 | 35% |
| BC | 52 | 26 | 78 | 67% |
| MB | 6 | 10 | 16 | 38% |
| **WC Total** | **323** | **450** | **773** | **42%** |
| | | **Eastern Canada** | | |
| QC | 1 | - | 1 | 100% |
| **Canada** | **324** | **450** | **774** | **42%** |

hose devices. “If this is impossible withdraw from the area and let the fire burn,” said the Transport Canada emergency response guide book. “Always stay away from tanks engulfed in fire,” the book continued.

The book also said whenever crude oil is burning in a rail tank car, the fire should be isolated by 800 metres in all directions.

In the meantime, there is no word on how the derailment might have happened. CN spokesman Waldron said at this point, there is not enough information to suggest a possible cause of the wreck.

“The cause of derailment remains the focus of a full investigation, but the train was visually inspected four times and passed over a wayside safety detector approximately 20 miles before the derailment with no issues identified,” Waldron said Sunday afternoon.

“The track was last inspected visually Saturday morning, and with rail flaw detector and geometry test car within the last week,” Waldron added.

With the CN mainline being shutdown, VIA rail issued a news release Sunday saying that the rail passenger service on VIA Rail trains No. 1 and No. 2, the eastbound and westbound Canadian, running between Toronto and Winnipeg, are cancelled for the time being (as of deadline on Monday evening). Service between Winnipeg and Vancouver is not affected, said Via.

VIA Rail will provide alternate transportation to customers already en route or scheduled to board the train today, for those passengers travelling between Toronto and Winnipeg, in both directions, the company said.

VIA said it is communicating with customers who have reservations to try to find alternate travel arrangements, since the train serves so many small communities that are otherwise inaccessible. Customers wishing to cancel or change their date of travel may do so at no additional charge by calling 1-888-VIA-RAIL (1-888-842-7245) or 1-800-268-9503 (hearing impaired).

An update will be issued once it is known when regular service will resume, said VIA.

This part of Northern Ontario has endured extremely cold weather the past week, with temperatures regularly in the minus-40 range. The temperature at midnight Saturday was minus-34 with a windchill effect of minus-45.