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## RCMP LAYS CHARGES AGAINST SNC-LAVALIN

The RCMP has laid fraud and corruption charges against engineering company SNC-Lavalin and two of its subsidiaries over dealings in Libya.

Police allege that between 2001 and 2011 SNC-Lavalin paid nearly \$47.7 million to public officials in Libya to influence government decisions. It also charged the company, its construction division and its SNC-Lavalin International subsidiary of defrauding various Libyan organizations of about \$129.8 million.

Three individuals — two former SNC executives and one of their lawyers — were previously charged by the RCMP part of the investigation that began in 2011.

In a statement, the Montreal-based company said that it will plead not guilty.

SNC-Lavalin employs about 45,000 employees around the world, including 16,650 in Canada, in oil and gas, mining, water, infrastructure and power sector projects.

"The charges stem from the same alleged activities of former employees from over three years ago in Libya,

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which are publicly known, and that the company has co-operated on with authorities since then," said chief executive Robert Card. SNC-Lavalin (TSX:SNC) said the charges do not affect its ability to bid or work on any public or private contracts.

If convicted, SNC-Lavalin could be banned from bidding on government contracts for 10 years under Ottawa's

so-called integrity framework. The code's regulations deal with companies convicted of crimes in Canada or abroad and the ban extends to subsidiaries and sister companies of convicted companies.

Three Canadian companies have been convicted since 2013 under the Corruption of Foreign Public Officials Act.

Calgary-based oil and gas company Griffiths Energy International was fined \$10.35 million in 2013 for bribing a diplomat's wife to secure oil rights in Chad. Niko Resources of Calgary was fined \$9.5 million in 2011 for bribing a Bangladesh cabinet minister for natural gas drilling rights. Hydro-Keen Group of Red Deer was fined \$25,000 in 2005 for bribing a U.S. immigration



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officer at the Calgary airport to get workers into the United States.

In October, Card said that the company could be forced to close or sell its operations if it faced criminal charges. A company vice-president later clarified that it would consider all options in deciding what is best for shareholders.

SNC-Lavalin's reputation has been tarnished in recent years by charges against former employees in Libya, Algeria, Bangladesh, and in relation to a \$1.3 billion Montreal hospital contract.

Several ex-officials, including former CEO Pierre Duhaime and construction vice-president Riadh Ben Aissa, face fraud charges in Canada involving \$22.5 million in payments related to the hospital contract.

Ben Aissa was charged in Canada after he was extradited from Switzerland where Swiss authorities had sentenced him to the 29 months he'd served in jail on fraud-related charges relating to SNC-Lavalin's business in Libya. They also ordered him to repay millions of dollars to the company.

Ben Aissa acknowledged in court that he bribed Saadi Gadhafi, son of Libya's late dictator, Moammar Gadhafi, so SNC could win contracts. Ben Aissa also admitted to pocketing commissions.

SNC-Lavalin had a presence in Libya for decades with annual revenues peaking at more than \$400 million. Work included the Great Man-Made River project, a plan to pump water from deep desert wells to the populated cities along the

northern coast. It also built an airport in Benghazi and a jail in Tripoli.

In 2011, the company removed all new contracts in Libya and nearly \$900 million of older work from its backlog due to the civil war.

The World Bank suspended SNC-Lavalin in 2013 from bidding on projects it finances for a decade over allegations of bribery involving a bridge contract in Bangladesh and a project in Cambodia.

On the Toronto Stock Exchange, SNC-Lavalin's shares lost \$2.93 or 6.7 per cent at \$40.78 in afternoon trading.

### ATCO LANDS \$127M DEAL FOR WHEATSTONE LNG PROJECT

This additional work is ATCO's fourth major contract supporting liquefied natural gas projects in Australia

ATCO Structures & Logistics Pty. Ltd. will design, manufacture and install 435 modular buildings under its current agreement with Bechtel on the Chevron-operated Wheatstone project in Western Australia.

The additional work is valued at an estimated CAN\$127.4 million (AUD\$130 million) and will start in March 2015 with an expected completion in late 2015.

This additional work is the fourth major contract supporting liquefied natural gas projects in Australia, spanning both the resource-rich east and west coasts.

"ATCO is pleased to continue its work with Bechtel and Chevron on one of Australia's largest resource projects and to support the creation

of jobs in the communities where we operate," said George Lidgett, president, ATCO Structures & Logistics. "Our investment in manufacturing in Western Australia has provided us with the flexibility to meet the varied requirements of partners in the state, as well as more broadly in the region, by utilizing a well-established local supply chain, ensuring the best quality and reliable product at a competitive price."

ATCO undertakes off-site construction and on-site installation simultaneously, using a coordinated just-in-time methodology. In 2013, the company opened the largest

customized modular manufacturing facility in Australia with capacity to produce more than 250 modules per month, incorporating a high level of automation across all its manufacturing processes.

ATCO Structures & Logistics is part of the ATCO Group of Companies, a Calgary-based global company with more than 9,000 employees and assets of approximately \$18 billion

### TRINIDAD DRILLING TO CUT STAFF BY 20% IN RESPONSE TO LOW OIL PRICES

Calgary Company says executives

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took a 10% pay reduction. Trinidad Drilling Ltd., a Calgary-based driller, plans to cut its workforce by 20 per cent and reduce pay seven per cent across the company in response to lower oil prices.

Executive salaries will be reduced by 10 per cent, the company said in a statement yesterday.

Trinidad, which operates drilling and barge-drilling rigs in Canada, the U.S. and Mexico, said it has some cash in hand for the year because of reducing capital costs in 2014.

Its anticipated capital spending for 2015 has been reduced from \$350 million to \$175 million.

"We feel that a prudent approach to the coming year is important and have chosen to lower our capital expenditure level from 2014," CEO Lyle Whitmarsh said in a news release.

"We have postponed some rig upgrades until demand increases and have worked with our customers to meet our commitments while also conserving cash generated from our operations."

The Canadian Association of Oilwell Drilling Contractors estimated last month that 23,000 oilfield jobs will be lost this year.

Trinidad said staff in the Calgary head office, field administrators and at manufacturing and regional office locations in Nisku, near Edmonton, and in Houston will be reduced by 20 per cent.

The company has suspended rig upgrades in Alberta and is laying off rig workers as contracts expire. The

few new rigs now under construction are being built in Houston.

Weak oil and gas prices and lower customer demand have led to a pullback in activity levels across North America, the company noted in its statement to shareholders.

Companies in Canada and the U.S. have been cutting capital spending and trimming staff.

U.S. drillers have idled 519 rigs in the past 10 weeks, a 33 per cent reduction, according to data from Baker Hughes Inc. In Canada, only 41 per cent of rigs were operating, down from 71 per cent last year, according to the CAODC. Trinidad estimated 55 per cent of its rigs were still in operation, primarily because of long-term contracts.

Trinidad said it plans to "review conditions" throughout the year to determine whether it should resume drilling activity.

### CANADA MULLS OIL-TRAIN SAFETY TAX, WANTS RAIL INDUSTRY ACCOUNTABLE FOR EVERY DISASTER CLEANUP

Canada will be introducing legislation calling for the creation of a disaster relief fund, where funds will come from taxes to be imposed on all oil producers.

Canada wanted railways and shippers to hold more of the accountability for every disaster cleanup, following the July 2013 Lac-Mégantic derailment accident of a crude-carrying train in Quebec

that claimed 47 people and wiped out the town's identity. Although the now-bankrupt Montreal, Maine & Atlantic Railway had insurance of C\$25 million (\$20 million), the costs of the cleanup and reconstruction went way over the figure, forcing federal and provincial governments to pick up the rest of the tab.

Transport Minister Lisa Raitt said on Friday crude shippers will be required to pay 1.65 Canadian dollars (\$1.32) per metric tonne of crude oil carried. The government will also be imposing a mandatory

minimum insurance coverage levels, depending on the type and volume of carried crude. For companies carrying over 1.5 million metric tonnes of crude per year, the minimum required insurance C\$1 billion.

An unidentified spokesman for the Canadian Association of Petroleum Producers told Canadian Press the new levy is equivalent to 25 cents per barrel of oil shipped through the rails. A report by Reuters said the Railway Association of Canada said the proposed legislation should also include those who ship dangerous

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substances such as chlorine, which if spilled pose severe threats to the community and the environment.

All levies will then help towards the establishment of a new C\$250 million (US\$200 million) compensation fund. Raitt said the measures are "an assurance that what needs to be done will be done when it comes to safe transportation." She added the levies target "to ensure there are sufficient funds available to compensate the victims of accidents, and pay for any clean up required."

The proposed legislation, titled "An Act to amend the Canada Transportation Act and the Railway Safety Act," also dictates that rail safety inspectors from Transport Canada should step up inspections. They will be given the authority to order rail companies to act once potential safety concerns are discovered. The proposed measure could also require rail companies to share operational safety information with municipalities.

Data from the Canadian Association of Petroleum Producers, cited by the Canadian Press, said the rail industry expects to ship 700,000 barrels of Western Canadian oil daily by 2016. "Rail companies will be concerned about the amount of extra regulation that we may be putting in place today, but for the safety of Canadians and protecting communities it is the right way to go," Raitt told reporters on Friday. The Quebec government alone said \$200 million to date have been spent for the cleanup and ongoing decontamination effort following the Lac-Mégantic derailment accident.

It expects to spend up to C\$409 million. The federal government has contributed C\$155 million so far.

### CANADA OFFERS TAX BREAKS FOR LNG

Nation's energy regulator, NEB, says LNG facing economic headwinds.

The Canadian government is offering tax breaks to encourage the development of an emerging liquefied natural gas industry, the prime minister said.

Capital spending through 2024 may be eligible for a 30 percent tax relief on equipment and a 10 percent break on facilities that would be used in the nation's LNG industry. Canadian Prime Minister Stephen Harper announced the measure was meant to create the right conditions for the nation's LNG sector to be competitive on a global scale.

"Through our ambitious trade agenda, we are opening new markets for Canadian businesses and developing the infrastructure to transport Canadian products to new markets, which is essential for Canada's future prosperity and security," he said in a statement Thursday.

Harper has tried to diversify an export economy that relies almost exclusively on the United States as its destination for oil and natural gas. A March free-trade deal with South Korea, which included LNG arrangements, was Canada's first with an Asian power.

South Korea is the second-largest importer of liquefied natural gas in

the world. For Harper, who made the tax announcement alongside western Canadian leaders, LNG shipments from the western coast are central for diversification.

A report from Canada's National Energy Board said conventional natural gas exports have declined in part in response to the growing production of gas from shale deposits in the United States. NEB said it's received more than 20 LNG export licenses since 2014, though export terminals have yet to break ground.

Malaysian oil and Gas Company

Petronas announced in December it was delaying an LNG project on the western Canadian coast because of cost concerns. The NEB said that, because of costs and demand dynamics, only the most competitive LNG projects will succeed.

"LNG contracts are typically indexed to crude oil prices, so any sustained decline in crude oil prices will likely dampen investment in new LNG liquefaction terminals," it added.



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## CANADA'S BIG SIX FACING HEADWINDS AHEAD OF FIRST-QUARTER REPORTS

As Canada's Big Banks roll out first-quarter results this week, they will face a skeptical audience that is concerned about the impact of low interest rates, weak oil prices and a slowing domestic economy.

The good news: Expectations are down, giving banks an opportunity for clearing a low bar.

"Most years, having faith in the banks' capacity to pull the levers necessary to generate good earnings growth is precisely the right approach," said Mario Mendonca, an analyst at TD Securities, in a recent note. "This year [2015] does not feel like one of those years."

The stock market is reflecting this sentiment. Bank stocks have lagged Canada's benchmark index in a big way since the start of the year, marking their worst relative underperformance since the financial crisis in 2008.

After hitting a record high in September, the S&P/TSX commercial bank index fell as much as 15 per cent by the end of January.

The banks have recovered some lost ground in February, but are still trailing the benchmark S&P/TSX composite index by nearly 8 percentage points – offering a rare setback for names that gush cash and reward shareholders with hefty dividends.

What explains the setback? The short answer is that earnings

growth is expected to slow. Robert Sedran, an analyst at CIBC World Markets, estimates that earnings in the first quarter – usually a strong one for the banks – will rise just 3 per cent from the first quarter of last year. That's down from 5.5-per-cent earnings growth in the fourth quarter, year-over-year.

Other analysts are making similar forecasts, based on the idea that the banks are facing a number of headwinds right now.

Crude oil prices, which have tumbled more than 50 per cent since the summer, get part of the blame. Although the banks' direct exposure to the Canadian energy sector is small from a loan perspective, the downturn is weighing on investment banking activities as struggling energy firms shy away from initial public offerings and acquisitions.

Sumit Malhotra, an analyst at Bank of Nova Scotia, estimates that domestic underwriting fees for the Big Six banks fell about 40 per cent in the first quarter.

"This clearly has a negative impact on earnings power in the wholesale segment" – or services provided to large, institutional clients – "an important point to consider given that wholesale was the strongest business line for the sector in 2014," Mr. Malhotra said in a note.

If falling oil prices will likely hog a lot of the discussion surrounding bank earnings, falling interest rates will also grab some attention.

The Bank of Canada cut its key rate by a quarter of a percentage point in

January over deep concerns about the health of the overall economy. The move has driven down borrowing costs for consumers, but it has also flattened the yield curve – meaning that the difference between long- and short-term rates has narrowed.

Since banks make money by borrowing at short-term rates and lending at long-term rates, the flatter yield curve erodes their profitability. This probably won't be felt much in the first-quarter numbers, but could affect the way the banks see the rest of the year unfolding.

"While the quarter will certainly set the tone and expectations for 2015, we anticipate that the market will likely choose to look beyond the numbers and focus on the banks' commentary and outlook for the year," said John Aiken, an analyst at Barclays Capital, in a note.

He thinks interest rates and their impact on the banks' margins will be a "flashpoint" over the next few quarters. He also recommends paying attention to how the banks see low oil prices affecting economic growth, the

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housing market and loan growth. Observers aren't particularly upbeat about what they'll hear. But that's not such a bad thing for stock prices if the banks manage to beat the low expectations.

"We believe the balances of probabilities are tilted slightly in favour of the banks actually delivering better-than-expected results early in 2015," Mr. Mendonca said.

### CANADIAN OIL DELUGE SHOWS NO SIGNS OF SLOWING

The deluge of Canadian oil that's adding to a global glut and driving prices lower is showing few signs of slowing.

Even with crude down 52 percent since June, output will grow 3.5 percent this year from the world's fifth-biggest producer. The Canadian dollar is near a six-year low and materials cost less, helping oil sands producers cut costs and keep pumping. Oil would have to stay between \$30 and \$35 a barrel for at least six months, down from about \$50 now, before wells shut, according to the Canadian Energy Research Institute.

Surging North American production has contributed to a global glut, pushing U.S. supply to the highest in three decades. OPEC opted in November to maintain output to hold on to market share. Oil sands supply is growing even as the number of rigs drilling for oil in the U.S. has fallen to the lowest in almost four years. RBC Dominion Securities

estimates that oil companies have cut \$86 billion from spending plans.

"We are above the price where existing projects" get shut down, Robert Johnston, chief of risk consultants Eurasia Group, said in Calgary Feb. 4. "Even projects that are under construction will continue."

Western Canadian Select, the heavy crude that serves as the benchmark for oil sands, traded at \$37.66 a barrel Thursday, according to data compiled by Bloomberg. It was \$13.50 below West Texas Intermediate, the U.S. benchmark.

Canada exported 2.93 million barrels a day in the third quarter, 97 percent to the U.S., National Energy Board data show. Canadian production will rise to 3.89 million barrels a day this year, according to the board. Conventional crude and condensate will drop 3 percent, while output of oil sands and upgraded synthetic crude will grow 8.3 percent.

Oil sands companies extract bitumen, a thick hydrocarbon, either by shoveling it from mines or injecting steam into the ground to melt it and then pumping it out. While production from forests of Northern Alberta started in the 1930s, output didn't ramp up until the late 1960s and 1970s after companies including Suncor Energy Inc. and Syncrude Canada Ltd started operation.

Break-even costs have fallen 18 percent from a year ago and range between \$25 a barrel for producers who use steam and \$40 for the mining operations, according to Bank of Montreal estimates. This compares with \$10 to \$25 estimated by the

Paris-based International Energy Agency for conventional Middle East and North African producers.

WTI added 4 cents to \$51.20 a barrel in electronic trading on the New York Mercantile Exchange at 12:07 p.m. London time. The U.S. benchmark will drop to \$39, Jeff Currie, Goldman Sachs Group Inc.'s New York-based head of commodities research, said Thursday in an interview on Bloomberg Television.

Some Canadian output from smaller producers who have to borrow money may be at risk, Juan Osuna, IHS Energy Inc.'s senior director for North American oil, said by e-mail Feb. 10. Oil sands explorer Laricina Energy Ltd. said last month it was in default.

The Alberta oil sands growth parallels the Gulf of Mexico, another region where producers have invested for the long term. Offshore rigs will rise 30 percent this year compared with 2014, according to data from Wood Mackenzie, an industry consultant.

Canadian Oil Sands Ltd., the main owner of the Syncrude Canada mining project, expects to spend C\$40.19 (\$32.16) a barrel this year producing synthetic crude from oil sands, down from a previous forecast of C\$45.69. Production is forecast to rise 8.9 percent this year.

Suncor, which cut oil sands operating costs 6.5 percent in the fourth quarter from a year earlier, is proceeding with its Fort Hills project, scheduled to begin production in 2017 and ramp up toward 180,000 barrels a day. This comes after Suncor said it will cut 1,000 jobs and lower its 2015 capital budget by about 13 percent.

Imperial Oil Ltd. said Feb. 2 it will examine costs and capital investments even as it plans to double output from its C\$20 billion Kearl oil-sands project in Alberta and boost production from the Nabiye facility this year.

While starting an oil sands project now wouldn't be economical, companies will push ahead with those under construction and projects already operating will continue, Jackie Forrest, vice president of Calgary-based ARC Financial Corp., said in a Jan. 29 e-mail.

While it can take years for a new oil sands operation to ramp up to full production, a total of 423,000 barrels a day of new capacity is under construction and scheduled to be in operation this year, up from 116,000 barrels added last year, according to data published in Alberta's winter 2015 Oil Sands Industry Quarterly update.

Most of the oil sands companies are "global players" and "they can afford to operate at a loss within the oil sands area," Dinara Millington, a vice president at CERI, said by phone yesterday.

Oil sands miners would have to spend billions of dollars on reclamation of tailing ponds if they shut, she said. "It's not as simple as turning off a truck or shutting in a well."

### CUT COSTS OR FACE 'DEATH SPIRAL,' CNRL WARNS OIL SANDS

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delivered a stern warning to the oil sands industry, telling a room full of Fort McMurray business people that they need to start cutting costs or the industry will fall into a "death spiral."

The "made in Fort McMurray cost" of doing business has risen too quickly and must end, Steve Laut of Canadian Natural Resources Ltd. told members of the local Chamber of Commerce.

Mr. Laut said oil sands producers were making three times the profit in 2004 when a barrel of oil cost about \$40 (U.S.) than it did when the price hit close to \$100 in 2013.

He said rising costs from suppliers, and not world oil prices, were the reason that CNRL and others could no longer produce the profits it once did.

Mr. Laut expects oil to eventually settle in the \$60 to \$75 range but insisted that the oil sands can only avoid collapse if the people in the room – contractors and service industry representatives – begin cutting costs.

The price of oil has dropped 50 per cent, but Mr. Laut said his company is not looking for the equivalent cost cuts from its suppliers.

His own company and other oil sands producers will have to be more efficient and develop new technologies that lower production costs.

The drop in oil prices is an "opportunity" for every part of the industry to cut costs and eliminate

inefficiencies that were allowed to creep in when business was booming.

Mr. Laut also said municipal taxes have become the fastest rising cost for CNRL, and that they must drop – a pointed message to the local government. And he urged the Alberta and federal governments to make the regulatory environment more "effective."

Mr. Laut said the American fracking industry has become the oil sands' biggest competitor by developing new technologies to bring down extraction costs. If nothing is done to bring down oil sands costs, he said, the industry could be doomed.

But he added that the oil sands are a more durable and long-term investment, and that by seizing the moment and lowering costs, it could get back to a healthy return on investment.

Reaction to Mr. Laut's speech was muted. Many in attendance said they knew cuts would be coming, and appreciated the bluntness of the message.

### KINDER MORGAN DEFENDS REDACTED PIPELINE EMERGENCY SPILL RESPONSE PLAN FOR B.C.

Security is at stake, insists Trans Mountain president, as firm seeks approval to triple pipeline capacity

Kinder Morgan will not release the full emergency response plan

for its proposed Trans Mountain pipeline expansion into B.C., claiming any such disclosure would compromise its security.

Trans Mountain president Ian Anderson defended the company's decision to only provide a heavily redacted version of the spill response plan on Friday.

"Where you've got a critical valve or a critical access point...that we rely upon for security, we believe it is not something that should be published publicly," Anderson said.

But in Washington State— where a proposed pipeline would cross through to Puget Sound— Kinder Morgan has provided a more comprehensive plan.

NDP environment critic Spencer Chandra-Herbert questions why the company is keeping information from British Columbians.

"For Kinder Morgan to think

they can provide information in Washington state... but not have to provide it here shows they're playing us for dummies," he said.

The company is seeking approval from the NEB to nearly triple the capacity of the existing pipeline. The \$5.4 billion project would twin the existing pipeline that runs from Edmonton to Burnaby, B.C.

The National Energy Board (NEB) ruled in favour of Kinder Morgan's redacted plan in January.

"In this instance, the board is satisfied that sufficient information has been filed from the existing EMP [Emergency Management Plan] documents to meet the board's requirements at this stage in the process," the decision read.

At the time, Premier Christy Clark said Kinder Morgan hadn't met the five conditions set out by the province, and until that happened, it wouldn't be going ahead with the project.

24-Feb-15				
	Active	Down	Total	% Active
<b>Western Canada</b>				
AB	198	341	539	37%
SK	49	90	139	35%
BC	52	26	78	67%
MB	9	8	17	53%
<b>WC Total</b>	<b>308</b>	<b>465</b>	<b>773</b>	<b>40%</b>
<b>Eastern Canada</b>				
QC	-	1	1	0%
<b>Canada</b>	<b>308</b>	<b>466</b>	<b>774</b>	<b>40%</b>



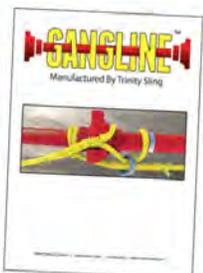
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