Qwest Investment Management

Key Oil & Natural Gas Headlines at a Glance

THIS WEEK'S HEADLINES & QUOTES — **JANUARY 20 - JANUARY 26, 2012**

Western Canada Select: C$78.06/bbl / WTI Spot Crude: US$99.13/bbl

Sources: www.firstenergy.com (as at close January 26, 2012)

US CRUDE OIL

(for the week ending Friday, January 20, 2012 as reported by the U.S. ***Energy Information Administration*** *January 25, 2012)*

Crude Oil Inventories
Inventories increased by 3.6 million from the previous week. At 334.8 million barrels, U.S. crude oil inventories are in the upper limit of the average range for this time of year.

Crude Oil Imports
Averaged about 8.9 million bbls per day last week, up by 588 thousand bbls per day from the previous week. Over the last 4 weeks crude oil imports have averaged 9.0 million bbls per day, 81 thousand bbls per day above the same four-week period last year.

Motor Gasoline Inventories
Inventories decreased by 0.4 million from last week and are in the upper limit of the average range.

Motor Gasoline Product Supplied
Over the last 4 weeks, motor gasoline product supplied has averaged 8.2 million bbls per day, down by 6.4% from the same period last year.

Distillate Fuel Inventories
Inventories decreased by 2.5 million bbls last week and are in the middle of the average range for this time of year.

Distillate Fuel Product Supplied
Product supplied has averaged nearly 3.6 million bbls per day over the last four weeks, down by 2.0% from the same period last year.

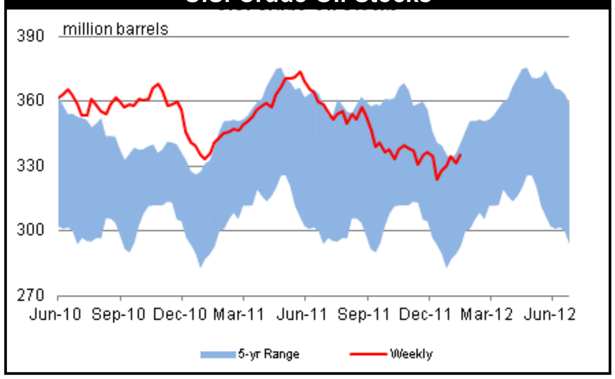
Total Products Supplied
Over the last four weeks have averaged about 18.2 million bbls per day, down by 4.2% compared to a similar period last year.

Refineries
Operated at 82.2% of their operable capacity last week.

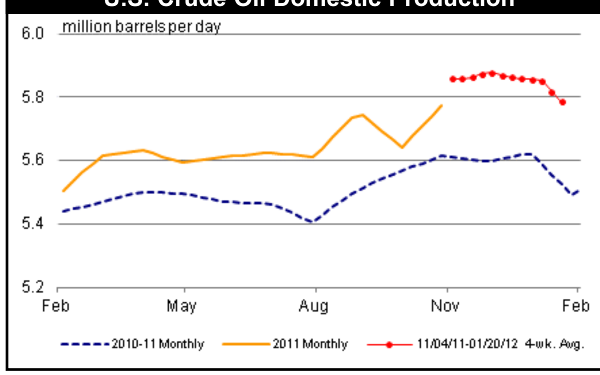
West Texas Intermediate Crude Oil Price
WTI was $98.15 per barrel on Friday, January 20, $0.54 less than last week's price but $9.93 above a year ago.

Retail Gasoline Price
The national average retail regular gasoline price decreased to $3.38 per gallon on January 23rd, $0.01 per gallon less than last week and $0.28 above a year ago.

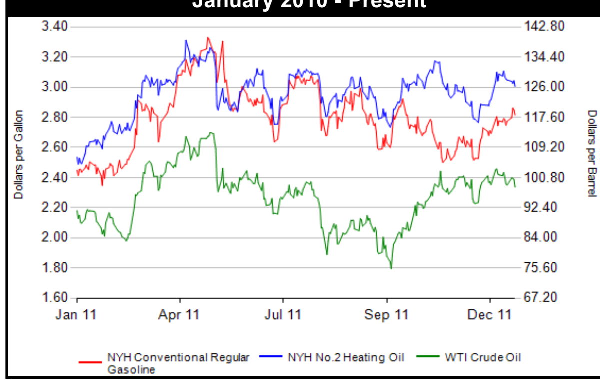
U.S. Crude Oil Stocks



U.S. Crude Oil Domestic Production



Daily Crude Oil & Petroleum Product Spot Prices
January 2010 - Present



AECO Gas: C$2.43/mcf / Henry Hub Spot Natural Gas: US$2.61/mmBtu

Sources: www.firstenergy.com (as at close January 26, 2012)

US NATURAL GAS

(*for the week ending Friday, January 20, as reported by the U.S.* ***Energy Information Administration*** *January 26, 2012)*

Net Injection / Withdrawal

The implied net withdrawal from working gas was 192 Bcf as of Friday, January 20th.

Storage

Working natural gas in storage fell to 3,098 Bcf as of Friday, January 20. This represents an implied net withdrawal of 192 Bcf. This is the largest implied net withdrawal of this year's heating season and is 11 percent greater than the 5-year average implied net withdrawal of 173 Bcf. Inventories in all three regions posted declines, with the East region contributing the most to this week's implied net withdrawal, with a decrease of 122 Bcf (a 7 percent decline from the previous week).

Despite the strong implied net withdrawal, stocks were 547 Bcf higher than the 5-year average level of 2,551Bcf, and 531 Bcf higher than last year at this time. Inventories in the Producing Region continue to stand out at 284 Bcf (33.9 percent) above the 5-year average of 837 Bcf. Stocks in the East and West Regions were above their 5-year averages by 202 Bcf (14.8 percent) and 61 Bcf (17.7 percent), respectively.

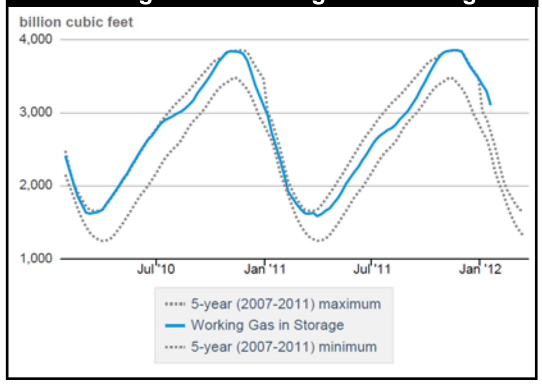
Prices

Natural gas prices began the report week on a decline, with most points across the country experiencing double digit decreases Thursday and Friday, likely due to high storage levels and relatively mild temperatures across most of the country. The Henry Hub price fell 26 cents by Friday, dropping from $2.49 per MMBTU last Wednesday to $2.23 per MMBtu on Friday, with similar declines seen at most trading points across the country. On Monday, the trend reversed and remained on an upswing for the remainder of the report week. Tuesday saw price increases at virtually every trading point across the country, most of which continued into Wednesday, with most points ending the week slightly above last Wednesday's closing prices. The Henry Hub price gained 38 cents between last Friday and yesterday to end the week at $2.61 per MMBtu, up 12 cents overall for the report week.

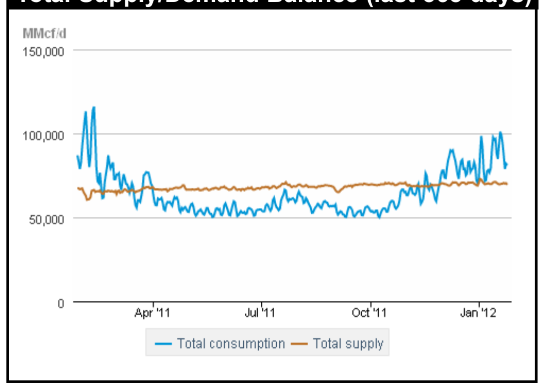
Temperatures

Temperatures during the week ending January 19 were 1.1 degrees warmer than the 30-year normal temperature and 1.0 degrees warmer than the same period last year. During the week, temperatures were a few degrees warmer than normal in most Census Divisions, with the exception of the South Atlantic and the Pacific Divisions, where temperatures were 0.4 and 1.7 degrees cooler than normal, respectively. Heating degree-days nationwide were down 4.0 percent from normal and 3.1 percent from last year.

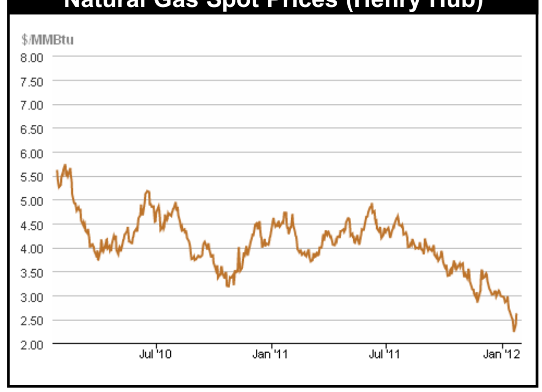
Working Gas in Underground Storage



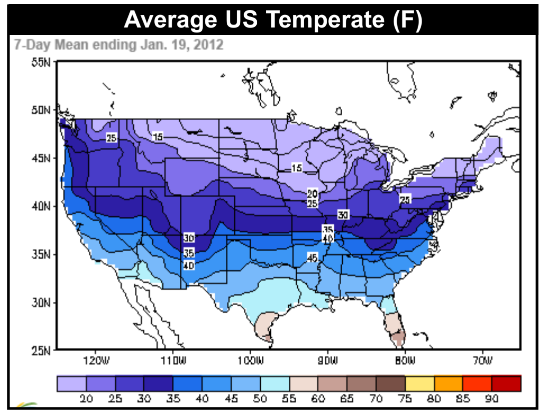
Total Supply/Demand Balance (last 365 days)



Natural Gas Spot Prices (Henry Hub)



Average US Temperate (F)



Oil & Natural Gas Headlines (January 20 - January 26)

- **Brent Crude 2012 Price Forecast Rises to $107 on Iran Tensions** - *Reuters (January 26)* - Tensions between Iran and the West have pushed up expectations for the average price of oil in 2012 to over $107 a barrel, a **Reuters** poll found on Thursday. **Brent** crude futures will average $107.30 per barrel this year, according to the average of 36 analysts and consultants polled by Reuters. That is up $2.10 from December's forecast of $105.20 per barrel. Brent traded at just over $110 a barrel on Thursday. It averaged a record $110.91 last year. The poll found that U.S. light crude oil would average $99.10 per barrel, up $2.10 from $97.00 in December's poll. U.S. crude has averaged $100.55 per barrel so far this year.

- **China's Oil Demand Reaches Records Despite Slowing Growth** - *Rigzone (January 26)* - China's apparent oil demand in December rose 0.7 percent year on year to 41.02 million metric ton (mt), or an average 9.69 million barrels per day (bpd), a **Platts** analysis of recent statistics released by the Chinese government showed. "But even with that relatively slow rate of growth at the end of the year, the actual demand for December was the highest daily rate the country's oil demand has ever reached," said **Calvin Lee**, Platts Senior Writer for China.

- **Asia to Boost West African Crude Imports on Cheaper Brent, China Demand** - *Bloomberg (January 25)* - Asian refineries will boost their imports of West African crude oil for loading in February to the highest in at least seven months amid cheaper Atlantic Basin grades and rising demand in China. Shipments totaling 62.4 million barrels, or 2.15 million barrels a day, will be exported from Angola, Nigeria, the Republic of Congo, the Democratic Republic of Congo, Equatorial Guinea and Gabon, according to a survey of six traders and an analysis of loading programs obtained by **Bloomberg News**. That's 18 percent more than the revised 1.83 million barrels a day scheduled for this month.

- **LNG Shipping Rates to Stay High as Market Remains Tight** - *World Gas Intelligence (January 25)* - Severe tightness in the global LNG shipping market is unlikely to ease this year, with charter rates likely to stay at their current lofty levels -- or even surge higher.

- **2011 Bumper Year for European Upstream M&A** - *Energy Intelligence Finance (January 25)* - M&A activity in Europe's upstream sector reached record highs in 2011 thanks to a flurry of dealmaking in the North Sea in the last six months of the year. And the stage is set for further deals in 2012, with around $5 billion in assets now on the block.

- **2011 Transaction Activity Rises, But Deal Value Declines** - *Rigzone (January 24)* - The number of mergers and acquisitions (M&A) within the upstream oil and gas sector in 2011 finished slightly higher than in 2010, but the reported total transaction value was down substantially due to market uncertainty. The number of transactions within the global oil and gas industry rose by more than 5 percent from 2010, but the average deal value was down by 7 percent due to the absence of mega-deals, according to a recent report by **Ernst & Young**. More than 1,322 deals for the upstream, midstream and downstream oil and gas sectors were announced last year, up from the 1,258 transactions reported in 2010. However, the aggregate value of oil and gas transactions totaled $317 billion in 2011, down 7 percent from $341 billion in 2010. The year 2010 saw 76 oil and gas transactions valued at more than $1 billion; in 2011, this number declined to 71

- **Chinese Oil Demand Rises 5.4% in 2011** - *Energy Intelligence (January 24)* - China ended 2011 on a high note with apparent oil demand rebounding in December to a new record-high of 9.866 million barrels per day, according to **Energy Intelligence** calculations.

- **U.S. Reliance on Energy Imports in Decline through 2035** - *Rigzone (January 23)* - Increased production of oil, natural gas and renewable energy improvements in energy efficiency will reduce U.S. dependency on imported energy resources, the U.S. **Energy Information Administration** (**EIA**) reported today. Continued development of tight oil in the onshore U.S. and exploration and production in the U.S. Gulf of Mexico will push domestic crude oil production in the Reference case to 6.7 million bopd in 2020, a level not seen since 1994. Even with a projected decline after 2020, U.S. crude oil production remains above 6.1 million bopd through 2035. "With modest economic growth, increased efficiency, growing domestic production and continued adoption of nonpetroleum liquids, net petroleum imports make up a smaller share of total liquids consumption," EIA noted.

- **Gas Prices Could Rise With Exports** - *The Wall Street Journal (January 20)* - Increased exports of U.S. natural gas could drive up domestic gas prices as much as 54% in 2018, federal officials said Thursday, in a projection that could complicate efforts by more than a half-dozen companies hoping to spend billions of dollars on new export terminals. The estimate by the **Energy Information Administration**, which compared gas-price projections in given years with and without higher exports, appeared to bolster assertions by U.S. manufacturers that they could face stiffer prices for natural gas and lose a competitive edge over companies abroad. "Higher levels of exports would certainly impact the manufacturing recovery that has been revitalized in the U.S.," said **George Biltz**, **Dow Chemical Co**.'s vice president for energy and climate change. "Exporting too much natural gas simply exports well-paying U.S. jobs."

- **Alberta Wednesday Land Sale Generates $82.9 Million** - *Nickle's Daily Oil Bulletin (January 26)* - Alberta brought in a combined $146.34 million at its two land sales in January after bagging a solid $82.9 million at its second sale of the month on Wednesday. A total of 278,871 hectares exchanged hands in the opening month of 2012 at an average of $524.74. While the number of hectares sold declined to 278,871 from the 491,309 disposed after two sales in 2011, the per-hectare price rose from $441.31 last year. The provincial government's Jan. 25 sale auctioned off 121,808 hectares at an average price of $680.59. "There were some fairly substantial bids across a large area of west-central Alberta," noted **Brad Hayes**, president of **Petrel Robertson Consulting Ltd**. Several parcels, most three sections or smaller, attracted bids of up to $4,937 per hectare for deeper rights. The primary target for these was likely Duvernay as companies continue to consolidate positions along the most prospective fairway, he said.

- **Operators Drill More Than 20 Million Metres Of Development Hole In 2011** - *Nickle's Daily Oil Bulletin (January 26)* - Operators rig released 12,877 wells across Canada last year, up 6.4 per cent from 12,103 wells drilled in 2010. The final well count for 2011 was the third lowest since 2001, as the shift by industry to drilling longer horizontal wells firmly took hold during the year. The average depth/length per well was a record 1,857 metres, up about 10 per cent over 2010's average of 1,686 metres. With the longer-depth wells, the total metres drilled by industry were up significantly year-over-year. Overall, industry drilled 3.47 million more metres last year compared to 2010 (23.91 million metres drilled in 2011 versus 20.44 million metres in 2010).

- **Oilsands Firms Ranked Among Most Sustainable** - *Calgary Herald (January 25)* - Despite talk of Canada's "dirty oil," in a report ranking the world's 100 most sustainable big companies, four of the six Canadian entries have some kind of connection to the oilsands. In the eighth annual edition of this report from Toronto-based **Corporate Knights Magazine**, a publication promoting "clean capitalism," the top-ranked Canadian firm is **Suncor Energy Inc**., at No. 48. It is one of the world's biggest producers of oilsands material. The next highest-ranked Canadian firm is **Enbridge Inc**., at No. 71, the company behind a controversial plan to build the Northern Gateway pipeline for sending oilsands product from near Edmonton to northwestern British Columbia so it can be shipped overseas. At No. 76 is **Encana Corp**. It is currently focused on natural gas production but was an oilsands miner until 2009, when that part of its company was spun off to create **Cenovus Energy Inc**. **Nexen Inc**., another oilsands producer, comes in at No. 89.

- **Shell Targets Offshore Nova Scotia** - *The Wall Street Journal (January 20)* - **Royal Dutch Shell PLC** said Fiday it will spend nearly $1 billion on deep-water oil exploration off the coast of Nova Scotia. Shell bid 970 million Canadian dollars for four offshore parcels more than 125 miles from Nova Scotia's coast. The amount represents how much Shell intends to spend exploring for oil in the area over six years.

- **First B.C. Land Sale Of 2012 Draws Over $32 Million** - *Nickle's Daily Oil Bulletin (January 20)* - British Columbia's first land sale of 2012 attracted a total of $32.15 million in bonus bids this week, a much better start to the year when compared to 2011 when the province's land sale fortunes plunged from recent highs. A total of 24,212 hectares exchanged hands in northeast B.C. at an average of $1,327.69. In contrast, the first sale of 2011 was considerably weaker, drawing just $7.89 million on 21,069 hectares at an average of $374.93. Last year was a weaker auction year for the province as it collected $222.68 million in bonus bids on 191,529 hectares at an average of $1,162.66.

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