




Qwest Investment Management

Henry Hub Spot NG: US$4.63/mmBtu **AECO Gas:** C$4.09/mcf **Western Canada Select:** C$79.69/bbl **WTI Cushing Spot Crude:** US$100.29/bbl

Sources: www.firstenergy.com (as at close June 1, 2011)

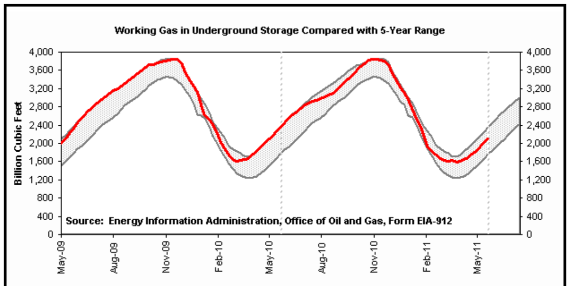
Key Oil & Natural Gas Headlines at a Glance

June 2, 2011

U.S. NATURAL GAS *(for the week ending Friday, May 27 as reported by the U.S.* ***Energy Information Administration*** *June 2, 2011)*

Net Injection/Withdrawal: The implied net injection from working gas was 83 Bcf as of Friday, May 27.

Storage: Working natural gas in storage rose to 2,107 Bcf as of Friday, May 27. The 83 Bcf net build is considerably lower than the 5-year average build for the week of 99 Bcf as well as last year's build of 90 Bcf. This reverses two consecutive weeks of above average builds. Stocks are now 237 Bcf below last year's level and 42 Bcf below the 5-year average.



Solid line represents weekly storage volumes.

Unusually for this year, the Producing Region saw the lowest relative build. The East and West Regions added 6 Bcf (11 percent) and 2 Bcf (13 percent) less than the average for the week, while the Producing Region added 8 Bcf (30 percent) less. However, the overall movement towards greater relative stocks in the Producing Region continues. Working gas stocks in the Producing Region remain 125 Bcf above average for the year. The East and West Regions' stocks are 116 Bcf and 51 Bcf below average.

Temperatures: Temperatures in the lower 48 States during the week ending May 26 were wamer than normal but slightly cooler than last year. The National Weather Service's degree-day data show that the temperature in the lower 48 States last week averaged 66.6 degrees, 2.0 degrees warmer than the 5-year average and 0.9 degrees colder than last year. Every region of the country was warmer than normal with the exception of the Mountain and Pacific Regions in the West. Nationally, heating degree-days were 19 percent less than normal, but cooling degree-days were 29 percent above normal. As the weather continues to warm, cooling degree-days will become more important as natural gas is consumed for electric power.

U.S. CRUDE OIL *(for the week ending Friday, May 27, as reported by the U.S.* ***Energy Information Administration*** *June 1, 2011)*

Crude Oil Inventories: Inventories increased by 2.9 million from the previous week. At 373.8 million barrels, U.S. crude oil inventories are above the upper limit of the average range for this time of year.

Crude Oil Imports: Averaged 9.5 million bbls per day last week, up by 286 thousand bbls per day from the previous week. Over the last 4 weeks crude oil imports have averaged 9.1 million bbls per day, 654 thousand bbls per day below the same four-week period last year.

Motor Gasoline Inventories: Inventories increased by 2.6 million from last week and are in the middle limit of the average range.

Motor Gasoline Product Supplied: Over the last 4 weeks, motor gasoline product supplied has averaged nearly 9.1 million bbls per day, down by 0.5% from the same period last year.

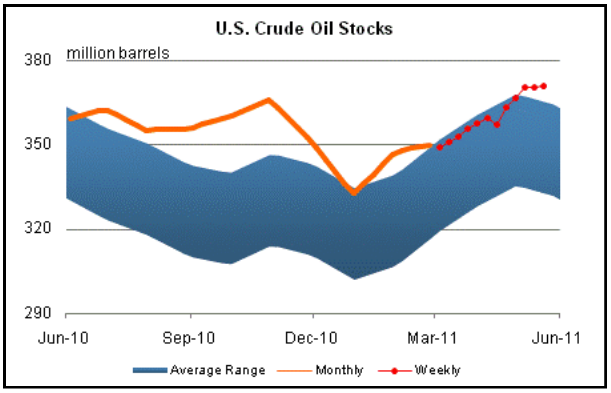
Distillate Fuel Inventories: Inventories decreased by 1.0 million barrels last week and are in the upper limit of the average range for this time of year.

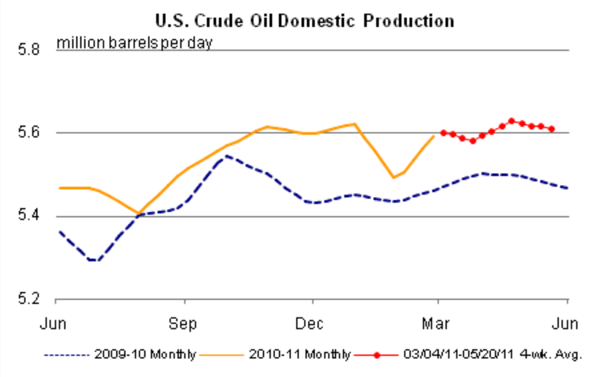
Distillate Fuel Product Supplied: Product supplied has averaged 3.8 million bbls per day over the last four weeks, down by 5.0% from the same period last year.

Total Products Supplied: Over the last four weeks has averaged 18.7 million bbls per day, down by 5.0% compared to a similar period last year.

Refineries: Operated at 86% of their operable capacity last week.

World Crude Oil Price: The average world crude oil price on May 27th was $108.48 per barrel, $0.16 more than last week's price and $40.57 above a year ago.





Oil & Natural Gas Headlines (May 27 - June 2)

- **OPEC Mulls Oil Supply Boost to Calm Prices** - *Reuters (June 2)* - **OPEC** is considering raising crude oil supply next week for the first time since 2007 in a move that could weaken $100-a-barrel oil prices and lessen the drag of high energy costs on global economic growth. The **Organization of the Petroleum Exporting Countries**, which pumps more than a third of the world's oil, may raise supply targets by as much as 1.5 million barrels per day (bpd) when ministers meet in Vienna on June 8, a delegate said Thursday. "There is a need for an increase to replace the loss from Libya," the delegate said. "Oil prices are too high. … $100 oil is scaring people." The most likely outcome of the meeting would be for a rise of 1 million bpd, the delegate added. "That would be calming for prices," the delegate said.

- **China Set for More Gas-Fired Power** - *World Gas Intelligence (June 2)* - This summer's much-discussed power shortage is China has sharply highlighted the importance of diversifying fuel sources in the country's coal-heavy generation sector. Partly as a result, natural gas could join hydropower and nuclear in seeing significant short-term growth in this vital sector.

- **Severe Drought Exacerbates Electricity Shortages in China** - *International Oil Daily (May 27)* - Mounting electricity shortages across China are likely to push up diesel demand in the energy-hungry Asian giant this summer, further swelling overall oil demand growth.

- **Natural Gas: The Turnaround Kid in Waiting** - *Globe and Mail (May 31)* - For years, natural gas has been unloved and undervalued, a commodity whose price has faltered so badly that even some of it its biggest producers have written off the possibility of a comeback for nearly a decade. But now, a growing number of observers say evidence is mounting that gas prices are nearing a turning point, and that the stage is being set for a revival as soon as the next few months. The sudden optimism is driven by several factors. In the near term, forecasts of a hot summer are suggesting that demand for natural gas could surge for air conditioning. In the longer term, a recent U.S. initial approval for exports of liquefied natural gas has created expectations that demand from foreign markets, where gas is priced much higher, could help drive up domestic prices. And in the medium term, those who analyze North American natural gas drilling suggest that the current gas glut may disappear as companies shift their focus to oil – and to drilling less-productive gas wells that, thanks to lucrative liquid byproducts, bring far better returns. Take these issues together, and some now say gas may have reached its bottom.

- **U.S. Gas Rig Count Climbed 15 To 881** - *Reuters (May 30)* - The number of rigs drilling for natural gas in the United States climbed 15 last week to 881, its first gain in three weeks, data from oil services firm **Baker Hughes** showed Friday. Horizontal rigs -- the type most often used to extract oil or gas from shale -- rose for the fifth time in six weeks, jumping 16 to a record high of 1,054.

- **Above-Normal Hurricane Season Predicted** - *Rigzone (May 27)* - Though hurricane predictions vary depending on the source, four forecasts for the 2011 hurricane season, which runs from June 1 through November 30, agree that there will be an above normal number of hurricanes in the Atlantic this year. According to an April 2011 report from **Colorado State University**, there will be 16 named storms, with nine hurricanes, of which five will be major (Category 3-5). However, **AccuWeather**.com meteorologist **Paul Pastelok** believes that there will be 15 named tropical storms this season, with eight hurricanes, three of which will be major.

- **Record Land Sale In Alberta Raises $843 Million** - *Nickle's Daily Oil Bulletin (June 2)* - Alberta established a new record for bonus revenue at a single land sale on Wednesday, taking in a massive $843 million in bonus bids, surpassing the $651.4 million paid at the Feb. 8, 2006 sale that was driven by a play for carbonates near Fort McMurray. A total of 273,621 hectares exchanged hands this week at an average price of $3,081 per hectare. With this massive pay day, the government's land auction revenue for the year has now swelled to $1.8 billion on just over two million hectares at an average of $882.48. To the same point last year, $782.6 million had filled the provincial treasury on 1.3 million hectares at an average of $579.87 per hectare. With 14 sales still scheduled this year, the province could set a new calendar year record for bonus bids. In 2010, the province attracted revenue of $2.4 billion second only to the 2006 tally when Alberta received $3.43 billion thanks to heavy spending for oilsands acreage.

- **Drilling Activity Expected to Rise in Western Canada** - *Calgary Herald (June 2)* - Drilling activity is up and expected to continue to rise, according to reports Wednesday from the third-largest drilling contractor in Canada and an industry group. **Trinidad Drilling Ltd**. followed in the footsteps of other Calgary-based service companies in reporting multi-year record high levels of activity in the first quarter. "To date, 2011 has exceeded our expectations," said president and chief executive **Lyle Whitmarsh**. "Our outlook for 2011 is very promising as strengthening industry conditions are expected to continue and lead to further improvements in day rates, activity levels and future growth possibilities for Trinidad."

- **CAODC Revised Forecast Calls For 13,128 Wells This Year** - *Nickle's Daily Oil Bulletin (June 1)* - Based on the high level of winter drilling activity in the first quarter, the **Canadian Association of Oilwell Drilling Contractors** (**CAODC**) has boosted its forecast activity for Western Canada this year. In a revised forecast released this morning, the association estimates that 13,128 wells will be drilled this year, up from its October 2010 forecast of 11,811 wells. CAODC is projecting that 433 rigs on average out of a fleet of 802 will be active for a utilization rate of 54 per cent. The forecast anticipates 154,314 operating days for the year. Over the last three quarters of 2011, CAODC expects a 24 per cent jump in activity, mainly on the oil side.

- **Oilsands Operating Costs Up 5.8 Per Cent Over Past Year, Says CERI Report** - *Nickle's Daily Oil Bulletin (May 31)* - While capital costs for constructing oilsands projects have declined over the past year, operating costs have risen, says the **Canadian Energy**

Research Institute (**CERI**) in a new report. In the report, Canadian Oil Sands Supply Costs and Development Projects (2010-2044), CERI estimates that capital costs have declined by 3.6 per cent but operating costs have risen by 5.8 per cent, reflecting higher crude oil prices. CERI's supply cost model has assumed a three year construction period for oilsands projects with construction beginning this year. Over the construction period (2011-2014), construction and operating costs are expected to rise by 19 per cent. Between the end of 2010 and 2044, construction cost is forecast to rise by 51 per cent with an average annual cost inflation rate of 1.1 per cent. The supply costs calculated in the report are presented as supply costs at the field, in addition to WTI equivalent supply costs which take into account transportation costs for either synthetic crude oil or blended bitumen, in addition to an assumed light-heavy differential.

- **March Crude Imports From Canada Over 2 Million b/d for Fourth Straight Month** - *Energy Intelligence Briefing (May 31)* - US crude imports from Canada in March remained near record levels as refineries rely on heavy Canadian crudes that are priced at steep discounts to benchmark light grades.

- **China Targeting Tens of Billions in Alberta Oilsands Investment** - *Calgary Herald (May 30)* - Alberta government and business leaders who sat down with Chinese energy executives this week were told tens of billions of dollars in new oilpatch investment will flow in the coming years — if export capacity issues in Canada are improved. Finance Minister **Lloyd Snelgrove** said Sunday that senior officials from Chinese state-owned oil firms anticipate future investment will dwarf — potentially tripling — what they have already spent in Canada's energy sector in recent years. In the past 18 months alone, Chinese oil companies have pumped more than $13 billion into developing crude oil and natural gas prospects in Western Canada.

- **IROC Service Rigs Had 78 Per Cent Utilization In First Quarter** - *Nickle's Daily Oil Bulletin (May 30)* - **IROC Energy Services Corp**. says rig utilization in its **Eagle Well Servicing** division, measured with the company's internal methodology, was 78 per cent for the first quarter of 2011, with 25,391 rig hours being recorded and 36 service rigs in service. Subsequent to the end of the first quarter, in May, **IROC** has placed one additional rig into service for a total operational service rig fleet of 37 rigs. In addition, five new service rigs are being built with delivery expected in the third and fourth quarters of 2011. The trend toward increased oil related activity continues to provide benefit for the company's Eagle Well rig division. Current activity levels are estimated to be in excess of 75 per cent levered to oil, with completion, workover and abandonment activity all providing continued strong demand for services in the foreseeable future, IROC said.

- **Shell Eyes LNG Terminal in B.C.** - *Post Media News (May 30)* - **Shell Canada** says it is investigating the potential for a new liquid natural gas terminal to be located on the B.C. coast. The company "is interested in, and currently exploring LNG opportunities along the B.C. coast," **Stephen Doolan**, of Shell's media relations department. "We are early in the evaluation process so do not have specific details but are pursuing opportunities," he said. "Natural gas is a key area of growth for Shell. In terms of LNG, we will continue to invest in our global leadership position as demand continues to grow." Shell has a long-standing partnership with **Korea Gas**, the world's biggest buyer of liquid natural gas and it has significant holdings in both Alberta and B.C. natural gas reserves.

- **May Rig Counts Lower Than Last Year** - *Nickle's Daily Oil Bulletin (May 27)* - Wet ground conditions following a long and snowy winter has delayed a drilling recovery from spring break-up with May activity showing the first month in 2011 with fewer rigs at work than last year. For the past two weeks, the active drilling rig count has ranged from 165 to 183, down between 25 and 30 from the same period in 2010. For almost all of this year, the rig count has been much higher than last year. For the first five months of 2011, the rig count remains 23 per cent higher with 429 units at work compared to 350 active rigs over the January-May period last year. Rig fleet utilization, based on weekly surveys, stands at 54 per cent so far this year, 10 percentage points above the first five months of 2010, and the highest since 2006.

- **B.C. May Land Sale Raises $16.3 Million** - *Nickle's Daily Oil Bulletin (May 27)* -The British Columbia government received $16.3 million in bonus bids at its May land sale held this week, the highest at a single auction so far this year, but revenue continues trailing last year's pace by a large margin. A total of 13,132 hectares exchanged hands at an average price of $1,237 per hectare. The May 2010 sale produced $76.6 million in bonus bids for 45,671 hectares at an average price of $1,677. Year-to-date, $44.6 million has rolled into government coffers on 58,917 hectares at an average of $756.99. To the same point last year, the province had taken in $204.9 million in bonus bids on 111,201 hectares at an average of $1,842.