



# Qwest Investment Management

Henry Hub Spot NG: US\$4.39/mmBtu AECO Gas: C\$3.88/mcf Western Canada Select: C\$72.08/bbl WTI Cushing Spot Crude: US\$94.77/bbl

Sources: www.firstenergy.com (as at close June 29, 2011)

## Key Oil & Natural Gas Headlines at a Glance

June 30, 2011

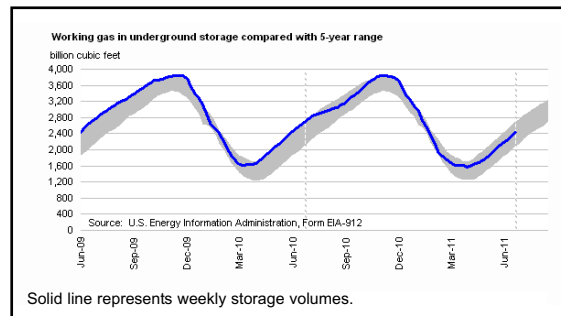
### U.S. NATURAL GAS (for the week ending Friday, June 24 as reported by the U.S. Energy Information Administration June 30, 2011)

**Net Injection/Withdrawal:** The implied net injection from working gas was 78 Bcf as of Friday, June 24.

**Storage:** Working natural gas in storage rose to 2,432 Bcf as of Friday, June 24. The net build of 78 Bcf was slightly higher than the 5-year average build for the week of 77 Bcf and last year's build of 63 Bcf. Stocks are now 243 Bcf below last year's level and 63 Bcf below the 5-year average.

The East and West Regions experienced above average builds for the second straight week. While storage levels in both regions remain well below the 5-year average levels, the East and West builds were 2 and 3 Bcf above average, respectively. Meanwhile, the Producing Region, which has seen mostly larger than average builds in 2011, grew 4 Bcf less than average. Stocks in the region remain 105 Bcf above the 5-year average.

**Temperatures:** Temperatures in the lower 48 States during the week ending June 23 were warmer than normal but cooler than last year. The National Weather Service's degree-day data show that the temperature in the lower 48 States last week averaged 73.7 degrees, 1.7 degrees warmer than normal, and 3.6 degrees warmer than last week. For the first time in seven weeks, the Pacific Region has been warmer than normal. Only the Mountain and West North Central Regions experienced cooler than normal weather. The highest temperatures were in the West South Central Region which averaged 84.6 degrees.



### U.S. CRUDE OIL (for the week ending Friday, June 24, as reported by the U.S. Energy Information Administration June 29, 2011)

**Crude Oil Inventories:** Inventories decreased by 1.4 million from the previous week. At 359.5 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 just under 8.9 million bbls per day last week, down by 271 thousand bbls per day from the previous week. Over the last 4 weeks crude oil imports have averaged 8.8 million bbls per day, 891 thousand bbls per day below the same four-week period last year.

**Motor Gasoline Inventories:** Inventories decreased by 1.4 million from last week and are in the middle of the average range.

**Motor Gasoline Product Supplied:** Over the last 4 weeks, motor gasoline product supplied has averaged about 9.3 million bbls per day, down by 0.3% from the same period last year.

**Distillate Fuel Inventories:** Inventories increased by 0.3 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 close to 3.6 million bbls per day over the last four weeks, down by 4.7% from the same period last year.

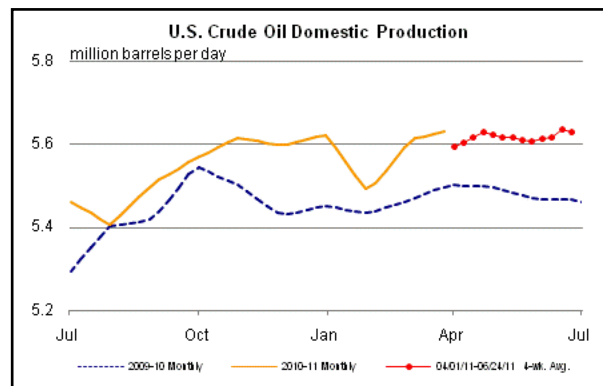
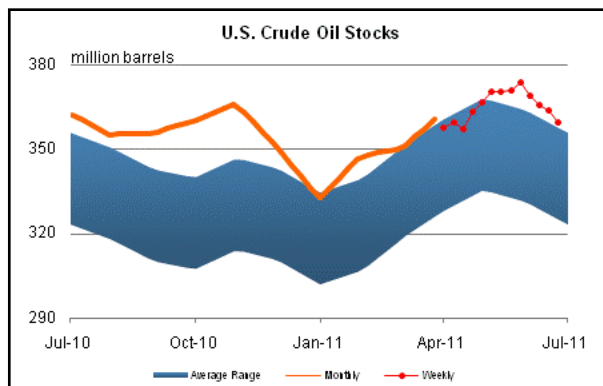
**Total Products Supplied:** Over the last four weeks has averaged 19.0 million bbls per day, down by 1.7% compared to a similar period last year.

**Refineries:** Operated at 88.1% of their operable capacity last week.

**World Crude Oil Price:** The average world crude oil price on June 24th was \$107.87 per barrel, \$5.68 less than last week's price but \$32.78 above a year ago.

#### WTI Crude Oil Price:

WTI was \$90.89 per barrel on June 24th, \$2.13 less than last week's price but \$12.44 above a year ago.



## Oil & Natural Gas Headlines (June 24 - June 30)



- ◆ **IEA Says Oil Release A Stop Gap Solution** - *Reuters (June 30)* - The **IEA's** release of oil stocks was a temporary measure to fill a supply gap before extra Saudi Arabian production emerged, its executive director said Tuesday. "We are simply saying we will just fill the gap before **OPEC** or Saudi is going to produce supplies for the market," **Nobuo Tanaka** told reporters. "We are just filling the gap -- we can't continue forever." Last week's release of oil from strategic stocks in the West, co-ordinated by the **International Energy Agency**, has sparked a sharp response from OPEC, still smarting after its June meeting that ended in disarray.
- ◆ **OPEC Top Official Urges IEA To Halt Oil Release** - *Reuters (June 29)* - The **IEA** order to release emergency oil stocks should be halted immediately, **OPEC's** Secretary General said on Monday at the end of co-operation talks with the **European Union**. Years of producer-consumer harmony have come under threat after the **International Energy Agency** last week ordered the release of 60 million bbls of oil following the collapse of an OPEC meeting early in the month without a deal. "I hope this practice will be stopped and stopped immediately," Secretary General **Abdullah al-Badri** told a news conference in Vienna following EU-OPEC dialogue. "We don't see a good reason to release this quantity and I hope the IEA will refrain from using this practice. Even if the IEA made this action, it has to remain extraordinary and limited in time, this is very important, and should not undermine the co-operation between the EU and OPEC and should not disrupt the market mechanisms."
- ◆ **China Aims To Find 6.5 Billion Tonnes Of Oil Reserves In Five Years** - *Reuters (June 29)* - China aims to discover 6.5 billion tonnes of proven domestic geological oil reserves in the coming five years, **China Land and Resources News**, a newspaper run by the **Ministry of Land and Resources**, has reported. The projection assumes the discovery of an average of 1.3 billion tonnes of proven geological oil deposits per year, slightly higher than discoveries in each of the past several years. China reported finding 1.15 billion tonnes of proven geological oil reserves in 2010 and 1.12 billion tonnes in 2009. Actual recoverable reserves under current economic and technological conditions are much lower. The world's largest energy user also targeted discovery of 3.5 trillion cubic metres of natural gas reserves and 300 billion tonnes of coal from 2011 to 2015, according to a report posted on an industry website ([www.china5e.com](http://www.china5e.com)).
- ◆ **UK: Europe's LNG Leader** - *World Gas Intelligence (June 29)* - The UK has replaced Spain as Europe's largest LNG importer, and the world's third-largest after Japan and South Korea. French bank **Societe Generale** declared as much in its LNG Special this week, and **WGI** data show that the UK lead is roughly 20%, lending credence to SocGen's forecast that the UK will retain the top European position for the full year.
- ◆ **IEA's Move Meant to Shock Market** - *Reuters (June 28)* - A high level of emergency stocks enabled industrialized nations to divert their purpose to support a fragile economic recovery rather than to handle severe oil supply disruptions, a diplomatic source said. Consuming nations agreed last week to release oil from emergency stockpiles for only the third time in history. The news took oil markets by storm, knocking about 6 per cent off international benchmark **Brent** crude and providing some relief for a fragile world economy. "Our analysis, which was convergent between us and the Americans, was that the traditional tools were not sufficient and that we needed to create a surprise effect in the markets," the European diplomatic source added.
- ◆ **IEA's Oil Release To Have Less Impact Than In Past, Analysts Say** - *Reuters (June 28)* - The tapping of emergency oil reserves by the **International Energy Agency** for the third time in history will not have the same negative impact on prices as it has in the past due to surging Chinese demand and supply outages in Libya. "It will have some transient impact, but in the big picture this is a little political thing and it will be a little hiccup in the market and then it will be gone," said **John Vautrain**, director at **Purvin & Gertz** energy consultants.
- ◆ **Global Gas Oversupply Could Vanish By Next Year** - *Reuters (June 24)* - Surplus global gas supplies could disappear as early as winter 2012 as a combination of factors including supply cuts due to Middle East turmoil and increasing demand from quake-hit Japan. "The global oversupply of gas, which was previously forecast to end in 2015, will now likely end in 2013 and possibly as early as 2012. This oversupply is most manifest in Europe, which has become the market of last resort for LNG supply," **Noel Tomnay, Wood Mackenzie's** head of global gas, said. Japan, the world's largest importer of liquefied natural gas, has seen the demand for the fuel jump after the earthquake earlier this year crippled several of its nuclear reactors and forced some of its coal-fired plants to shut. The increase in Japanese demand has reduced LNG supply to Europe by over 12 billion cubic metres or 8.8 million tonnes of LNG in 2011, according to Wood Mackenzie. Japan's demand for the super-cooled fuel is expected to continue growing. Analysts expect demand will rise by about eight to 10 million tonnes this year from 70 million tonnes in 2010.
- ◆ **OPEC, IEA Clash Over Oil Reserves Weapon** - *Reuters (June 24)* - Consumer watchdog the **International Energy Agency's** emergency oil release is a desperate measure that threatens to undo two decades of cooperation with **OPEC** and could fail to calm prices. Thursday's announcement of a 60 million-bbl release from emergency stocks -- only the third in the **IEA's** 37-year history -- came after consumer nations unsuccessfully applied pressure on the **Organization of the Petroleum Exporting Countries** to increase its output at a meeting this month. As far as OPEC delegates were concerned, there was no justification for any action from the IEA. "The oil price hasn't shot up to \$150. There is no reason to do this. The market is not short of supply. Kuwait and Saudi Arabia have been raising production, but there have not been many buyers. OPEC has yet to issue an official statement, but speaking at **Reuters Global Climate and Energy Summit** last week, OPEC Secretary General **Abdullah al-Badri** accused the IEA of being unprofessional. "Strategic reserves should be kept for their purpose and not used as a weapon against OPEC," Badri told **Reuters**.



- ◆ **U.S. Gas Exports to Mexico Could Grow in 2012** - *Rigzone Staff (June 27)* - Exports of U.S. natural gas into Mexico are expected to average 1.3 Bcf/d, a 450 MMcf/d increase from 2010, and the tightening of Mexican supply/demand balances should lead to further U.S.

export growth in 2012, **Barclays Capital** reported last week. Exports to Mexico grew sharply in the beginning of the past decade before stabilizing in the 850 MMcf/d range from 5001-2010; however, first quarter 2011 exports averaged the highest in the past 10 years. U.S. gas exports to Mexico represent a relatively small part of U.S. gas balance, or one percent in 2010, and have not attracted much attention, but the exported BTUs are starting to add up, and more important, several factors suggest this trend could continue in the next few years. Barclays expects U.S. flows to Mexico to increase by another 200 MMcf/d in 2012, to an average of 1.5 Bcf/d.

- ◆ **Long-Term Outlook for Gas Remains Bullish - *Rigzone (June 24)*** - Despite the shift by producers towards oil-focused drilling away from natural gas, the long-term outlook for U.S. natural gas demand remains bullish as U.S. nuclear power and coal plants are retired and gas-fired electricity use rises over the next few years, said **Pearce Hammond**, director of institutional research at **Simmons & Co. International**, at **Platts'** sixth annual Oil & Gas Shale Developer conference in Houston this week. The anticipated retirement of nuclear power plants could potentially add 1 Bcf/d of gas demand by 2020, and the expected retirement through 2020 of 50-60 gigawatts of U.S. coal generation assets could add 4 Bcf/d of additional U.S. gas demand. LNG exports from the U.S. could add an additional 2 Bcf/d of U.S. gas demand, Hammond said. Increased future use of natural gas vehicles in the U.S. could also create additional 1 Bcf/d of demand for U.S. gas, and gradual growth in industrial demand could add another 2 Bcf/d.
- ◆ **North Dakota Booms into Energy-Rich Era - *Rigzone (June 24)*** - Vast grain and sunflower fields still wave over the North Dakota landscape, but underneath the ground churn the state's newest economic mainstay: Enormous quantities of oil and natural gas. Due to rich petro-resources, some believe that North Dakota is on the way to surpassing even Alaska to become the second largest oil and gas producing state in the nation after Texas. And it's happening fast. North Dakota is already the nation's fourth largest oil and gas producing state; California is third. Exploitation of the Bakken and Three Forks oil shale formations and adjacent Sanish area are sparking a big boom in petro-production in this Great Plains state.



- ◆ **Alberta Coffers \$49.73 Million Richer After June 29 Land Sale - *Nickle's Daily Oil Bulletin (June 30)*** - A petroleum and natural gas lease in the Sawn Lake area was the top selling parcel overall and on a per hectare basis in Wednesday's Alberta Crown land sale which brought in a total of \$49.73 million for the 87,500 hectares on offer.
- ◆ **Canada Losing Millions A Day By Having One Oil Customer - *Nickle's Daily Oil Bulletin (June 28)*** - Canada is missing out on millions of dollars a day by not trading its oil and natural gas on the global market, a recent economic conference in Calgary heard. North American oil is trading at a big discount relative to global prices, said **Peter Tertzakian**, chief energy economist and managing director for **ARC Financial Corp.** "Canada needs to get in the game even quicker than Canada thinks it needs to get in the game," said Tertzakian. Historically Canada's oil has traded at a premium to par with Brent oil and in the last year has been declining so that the "haircut" Canada's industry is realizing now is about \$20 a bbl, he said. That discount, multiplied by the 2.5 million bbls a day Canada exports to the United States, equals \$50 million in lost revenue.
- ◆ **Producers Expanding Viking Production - *Nickle's Daily Oil Bulletin (June 28)*** - As they have in the fringe areas around the Pembina Cardium, new drilling and completion technologies are opening production in some of the more challenging regions of the much more widespread Viking formation in Alberta and Saskatchewan. Over the first five months of 2011, producers licensed 561 new wells with the Viking formation as the total depth zone, up from 191 over the same period last year. This year's total includes 426 in Saskatchewan (up from 143 to the end of May last year) and 135 in Alberta (up from 48 last year).
- ◆ **Most Oil Companies Optimistic - *Nickle's Daily Oil Bulletin (June 24)*** - Seventy-five per cent of oil and gas companies are more optimistic about their companies' prospects in 2011, but rising inflationary pressures could hamper plans for growth, according to **Ernst & Young's** Capital Confidence Barometer. "With political unrest in the Middle East putting pressure on companies to develop energy sources in new regions, and economic growth amplifying global demand, it's no surprise that the vast majority of oil and gas companies are on the prowl for new growth opportunities," said **Kevan Holroyd**, executive director in **Ernst & Young's Oil & Gas Transaction Advisory Services** group. Of the 83 per cent of global oil and gas companies pursuing growth, 46 per cent are actively looking to grow through mergers and acquisitions this year, up 15 per cent from 2010, while 37 per cent remain focused on growing their company organically by adding projects and properties. "Here in Canada, companies are in a prime position to capitalize on growth opportunities given our stable financial, regulatory and political environment," said Holroyd. "This combined with our proximity to the U.S. market and our track record for attracting foreign investment from Asia has created an environment that's ripe for robust transaction activity."
- ◆ **B.C. Licences Dominate This Week's Sale - *Nickle's Daily Oil Bulletin (June 24)*** - This week's petroleum and natural gas sale in British Columbia resulted in \$21.7 million in bonus bids, bringing the calendar year total to over \$66.37 million from six land sales at an average price of \$815 on 81,404 hectares sold.

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**For more information on the oil & gas industry please visit our website at: [www.qwestfunds.com](http://www.qwestfunds.com)**

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