Qwest Investment Management

Henry Hub Spot NG: US$4.00/mmBtu **AECO Gas:** C$3.78/mcf **Western Canada Select:** C$75.40/bbl **WTI Cushing Spot Crude:** US$88.81/bbl

Sources: www.firstenergy.com (as at close August 31, 2011)

Key Oil & Natural Gas Headlines at a Glance

September 1, 2011

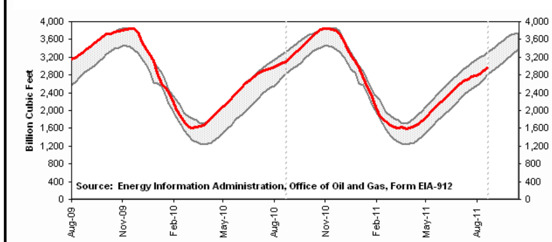
U.S. NATURAL GAS *(for the week ending Friday, August 26 as reported by the U.S.* ***Energy Information Administration*** *September 1, 2011)*

Net Injection/Withdrawal: The implied net injection from working gas was 55 Bcf as of Friday, August 26th.

Storage: Working natural gas in storage rose to 2,961 Bcf as of Friday, August 26th. Following a net injection of 55 Bcf from the previous week, stocks are now 137 Bcf below last year and 60 Bcf less than the 5-year average. The injection was between last year's build of 52 Bcf and the 5-year average injection of 60 Bcf.

The East Region registered its third consecutive week of above average builds. The August 26 deficit of 107 Bcf is still significant, but continued high production could quickly close this gap in the coming weeks if mild weather prevails. Hurricane Irene, while not as devastating as some feared, has knocked out power to thousands in the East Region and will likely increase the next week's stock build by dampening power demand and lowering temperatures.

Working gas in underground storage compared with 5 year range



Solid line represents weekly storage volumes.

Temperatures: Temperatures during the week ending Thursday, August 25, averaged 75.7 degrees, 2.4 degrees warmer than normal, but 0.1 degrees below last year. Temperatures were equal to or above normal in every region of the country. The West South Central Region, including Texas, at 87.6 degrees was both the absolute hottest region and the hottest relative to its normal temperature for the fourth consecutive week. Cooling degree-days were about 23 percent above average for the country as a whole.

U.S. CRUDE OIL *(for the week ending Friday, August 26, as reported by the U.S.* ***Energy Information Administration*** *August 31, 2011)*

Crude Oil Inventories: Inventories increased by 5.3 million from the previous week. At 357.1 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 9.6 million bbls per day last week, up by 799 thousand bbls per day from the previous week. Over the last 4 weeks crude oil imports have averaged 9.2 million bbls per day, 441 thousand bbls per day below the same four-week period last year.

Motor Gasoline Inventories: Inventories decreased by 2.8 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 just under 9.2 million bbls per day, down by 2.1% from the same period last year.

Distillate Fuel Inventories: Inventories increased by 0.4 million barrels last week and are in the upper limit of the average range for this time of year.

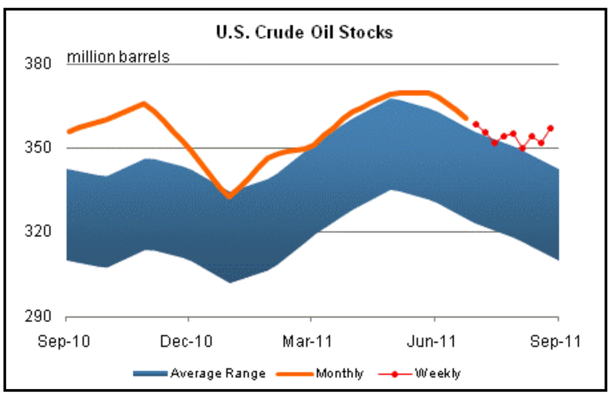
Distillate Fuel Product Supplied: Product supplied has averaged 3.9 million bbls per day over the last four weeks, up by 5.5% from the same period last year.

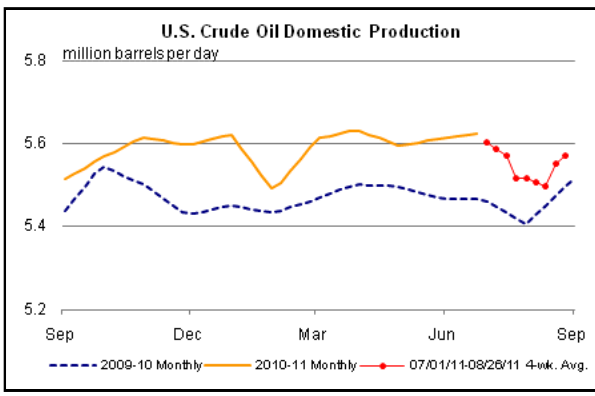
Total Products Supplied: Over the last four weeks has averaged 19.6 million bbls per day, up by 1.0% compared to a similar period last year.

Refineries: Operated at 89.2% of their operable capacity last week.

World Crude Oil Price: The average world crude oil price on Friday, August 26th was not available.

WTI Crude Oil Price: WTI was $85.37 per barrel on Friday, August 26th, $3.04 more than last week's price and $10.20 above a year ago.





Oil & Natural Gas Headlines (August 26 - September 1)

- **Norway Oil And Gas Investments Seen At Record High 2012** - *The Wall Street Journal (September 1)* - Norwegian oil and gas spending is expected to reach a new high next year, **Statistics Norway** said Thursday, as it increased previous investment forecasts for 2011 and 2012. The agency said total investments in oil and gas activities this year are estimated at NOK151.7 billion($28.3 billion).

- **Ukraine, Shell Sign Shale Gas Exploration Deal** - *Rigzone (September 1)* - Ukraine Thursday awarded its first shale gas exploration contract to the Anglo-Dutch giant **Shell** in a deal worth up to $800 million, Ukraine's state gas exploration company said. "In case of successful exploration work and the start of intense project development, Shell's total investment under the agreement may come to $800 million," **Ukrgazvydobuvannya** said in a statement issued after the signing. Ukraine is widely believed to be one of Europe's largest holders of the new energy resource, with estimated reserves up to 1.5 trillion cubic meters, according to industry analysts.

- **Shell's $17.5 Billion Iraqi Gas Deal Finally Gets Ready for Lift-Off** - *International Oil Daily (August 31)* - Iraq's **High Energy Committee** has given the go-ahead to a $17.5 billion gas deal between Baghdad, **Royal Dutch Shell** and **Mitsubishi**, with a final nod expected from the cabinet in September.

- **Exxon, Rosneft to invest $3.2 billion in Arctic, Black Sea** - *Reuters (August 30)* - U.S. oil company **ExxonMobil** and Russia's **Rosneft** signed a deal on Tuesday to develop oil and gas reserves in the Russian Arctic, opening up one of the last unconquered drilling frontiers to the global industry leader. "New horizons are opening up. One of the world's leading companies, Exxon, is starting to work on Russia's strategic shelf and deepwater continental shelf," Russian Prime Minister, **Vladimir Putin** said. Under the deal, Exxon and Rosneft will invest $3.2 billion in developing East Prinovozemelsky Blocks 1, 2, and 3 in the Arctic Kara Sea and the Tuapse licensing block in the Black Sea.

- **Sinopec to Strengthen Investments in Upstream Assets** - *Rigzone (August 29)* - **China Petroleum & Chemical Corp**., or **Sinopec**, said Monday that it plans to strengthen investments in upstream oil and gas assets and unconventional resources over the next 5-10 years to further diversify its operations. Chairman **Fu Chengyu** also said the company will accelerate the development of unconventional gas production, including shale gas and tight gas.

- **U.S. Crude Oil Imports Up In June From May** - *Reuters (August 31)* - U.S. crude oil imports rose in June from the previous month, but were down from a year ago, the **Energy Information Administration** said on Tuesday. U.S. crude imports averaged 9.247 million bbls per day in June, up 259,000 bbls a day from May for their second straight monthly increase. Crude imports were down 680,000 bbls per day from the previous year. U.S. oil demand in June oil declined 1.33 per cent from a year ago, which was less than expected. Canada remained America's biggest foreign oil supplier during June, with exports at 2.085 million bbls per day

- **Rosneft, Exxon Announce $3.2 Billion Exploration Deal** - *The Wall Street Journal (August 30)* - **Exxon Mobil Corp**. and Russia's **OAO Rosneft** announced a $3.2 billion deal joint exploration deal for the Arctic's Kara Sea. In addition to giving Exxon access to Russia's Arctic shelf, the deal will allow Rosneft to participate in projects in Texas and the Gulf of Mexico. The $3.2 billion figure is for exploration in the Kara and Black seas, which the companies said are among the most promising and least explored offshore areas globally, with high potential for liquids and gas. Exxon and Rosneft in January said they had reached an exploration deal for the Black Sea.

- **U.S. Natural Gas Rig Count Falls By Two To 898-Baker Hughes** - *Reuters (August 29)* - The number of rigs drilling for natural gas in the United States fell by two last week to 898, the first drop in four weeks, data from oil services firm **Baker Hughes** showed on Friday. The gas-directed rig count, which had gained in five of six previous weeks, fell from near a six-month high the prior week. The count is down 9.5 per cent from its 2010 peak of 992 in August, its highest since February 2009, when 1,018 rigs were drilling for gas. Horizontal rigs -- the type most often used to extract oil or gas from shale -- climbed two to a record high 1,140. It was the third straight weekly record and the sixth gain in the horizontal count in the last seven weeks.

- **Gas Demand For Oilsands To Almost Triple By 2020** - *Nickle's Daily Oil Bulletin (September 1)* - **Ziff Energy Group** expects natural gas consumption in the Alberta oilsands will grow to about three bcf a day in 2020 from about 1.1 bcf a day currently, says vice-president **Bill Gwozd**. Gwozd said Ziff gas analyst **Julia Sagidova** analyzed more than 60 existing, under-construction, approved and proposed oilsands developments. Ziff Energy used this information to forecast growth in gas demand by major oilsands operators through this decade. "Gas demand for the oilsands sector will account for four per cent of the total North America gas demand in 2020," Sagidova said in a press release. That would be up from an estimate of roughly 1.5 per cent of North America's average gas demand today. Gwozd expects bitumen output from the province's oilsands regions will reach between 3.5 million and four million bbls a day by 2020, up from 1.4 million to 1.5 million bbls a day now.

- **Amid Oilsands Growth, a Boom for Natural Gas** - *The Globe and Mail (August 31)* - The rapid growth of Canada's oil sands is expected to dramatically increase its consumption of natural gas over the coming decade, a prospect that stands to help Alberta's gas industry but raise the country's emissions. A new estimate by **Ziff Energy Group**, a Calgary-based energy advisory, predicts that oil sands gas consumption will rise to three billion cubic feet (bcf) a day, up from 1.1 bcf today. The rise will be propelled by a major expansion of the oil sands, which is expected to at least double its output between now and 2020 amid a deluge of spending that will see a substantial increase in Canada's importance as a world oil producer. But that rise also carries importance at home. In particular, the oil sands could provide an important boost for Alberta's natural gas industry.

- **First Half 2011 M&A Value Down 62% From 2010** - *Nickle's Daily Oil Bulletin (August 31)* - The total enterprise value of Canadian oil industry mergers and acquisitions activity ("M&A") in the first six months of 2011 was approximately $7.4 billion, down 62% from the $19.5 billion recorded in the first half of 2010. The lower M&A value in the first six months of 2011 was caused by a drop in the number of large transactions (valued at over $5 million) in the first half of 2011 which fell 33% to 62 from 92 during the same period a year ago. Of the 62 large deals in the first half of this year, two were valued at over $1 billion, the same number as in the first six months of 2010.

- **Alberta Makes Concessions To Oil-Sands Producers In Parks Plan** - Rigzone (August 30) - A final version of the Alberta government's land conservation plan for the oil-sands region released Monday made some concessions to oil companies after the original plan threatened to cancel parts of several oil-sands leases in order to preserve them for caribou habitat. "What we think this plan achieves is a balance between the environment, development and the community aspect of living and working in Alberta," **Sustainable Resource Development** Minister **Mel Knight** said during a press conference. Knight said there may still be parts of some oil-sands leases cancelled, but that the effect would be "very, very little," and the plan "is going to be quite satisfactory to most operators in the area."

- **How Big is the Duvernay? Start at a Million Acres** - *Calgary Herald (August 29)* - “Astonishing” is the word **FirstEnergy Capital** uses in a report to describe the impact the Duvernay shale play has had on recent sales of **Alberta Crown** land drilling rights. It’s all based on educated guessing and some published reports but FirstEnergy figures the total sold since a gigantic land sale in December 2009 has hit one million acres (or 400,000 hectares for the metrically inclined). The price is even more interesting. At roughly $2.3 billion spent, the average acre of Duvernay-prospective land has cost $2,300 and a hectare has commanded $5,750. “It’s still early in this play and despite uninspiring well deliverabilities with no wells we can see producing above two million cubic feet per day (gross, raw) thus far in the public domain, we are encouraged observing very high liquids yields of 75 to 100 barrels per million cubic feet, coupled with the view that completion techniques will only get better in time,” it concludes.

- **Canadian Companies See Growth Opportunities In Marcellus Shale Play** - *Nickle's Daily Oil Bulletin (August 29)* - With an increasing number of wells being drilled and recoverable resources rising, the Marcellus shale gas play in the northeastern United States is drawing attention from both Canadian producers and service providers that are viewing it as a solid source for growth in production and revenue. In its latest assessment, the **U.S. Geological Survey** reported that the Marcellus shale contains about 84 tcf of undiscovered technically recoverable natural gas and 3.4 billion bbls of undiscovered technically recoverable natural gas liquids. But development of the Marcellus, while promising, has carried with it several challenges on the environmental front with horizontal drilling and multistage fracturing being the lightning rod of criticism from opponents of its development. Despite these hurdles, several Canadian companies, both producers and service and supply firms, remain bullish on the Marcellus.

- **Two-Thirds Of Rigs At Work Across Basin** - *Nickle's Daily Oil Bulletin (August 26)* - Canada's drilling rig utilization stood at 66 per cent this week, with 536 rigs at work across Western Canada. It's the highest rig utilization rate since the week of March 15, when 74 per cent of the fleet was active. After a prolonged spring breakup, many producers are in catch-up mode. In Alberta, 357 rigs were at work, up 19 from last week. And while the active rig count declined in British Columbia and Saskatchewan from the previous week, it's the seventh straight week that more than 100 rigs have been active in Saskatchewan.

- **Energy Activity Ramping Up** - *Calgary Herald (August 26)* - Stellar land sales and a jump in drilling activity this year bode well for industry, but oilpatch observers and communities dependent on oil and gas activity have tempered their optimism. Heated competition for drilling rights in oil and natural gas liquids plays pulled up the province's year-todate take to a record $2.68 billion Wednesday, with an unnamed company bidding an unprecedented $124 million for a single parcel. Drilling activity in Western Canada also has continued in an upward trend this year, clocking 64 per cent utilization of available rigs at the end of last week, compared to 49 per cent a year ago, according to **FirstEnergy Capital Corp**.

- **U.S. State Department Sees Limited Environmental Impact From Keystone XL Oilsands Pipeline** - *Reuters (August 26)* - The U.S. **State Department** said on Friday a proposed $7 billion Canada-to-Texas pipeline would not likely boost the amount of crude produced from Alberta's oilsands, suggesting it would have limited impact on the environment. "The conclusion was that even without pipelines the oil is going to develop and this is going to get to different refineries that are demanding it," a State Department official said about its environmental review of the **Keystone XL** project released on Friday. The review brings the department a step closer to a final decision on the controversial pipeline that could come as soon as the end of the year.

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