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SIGNIFICANT DEVELOPMENTS IN CANADIAN ENERGY



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APRIL 2010

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OIL SANDS NEWS

1 Canadian Natural Resources reported production at an average of 86,995 bpd of synthetic crude at its Horizon oil sands mine during the first quarter of 2010. The company expects April totals to be at an average of between 99,000 and 102,000 bpd, following March's production average of 103,850 bpd.

1 Japan Canada Oil Sands Limited, a unit of Japan Petroleum Exploration, recently submitted applications to the Alberta government to expand its demonstration scale steam-assisted gravity drainage (SAGD) project at Hangingstone into a full scale commercial operation. This expansion would increase production from its current average of 7,000 bpd of bitumen to a projected

25,000 to 35,000 bpd. The company has not made a final decision to build the project at full scale.

1 OPTI Canada reported that bitumen production is on the rise at the Long Lake oil sands, up from its first quarter average of 18,700 bpd. In March, the company produced an average of 22,000 bpd. OPTI expects that each of its available wells will be on production over the next few months.

1 Cenovus is speeding up the development of its Christina Lake project's fourth phase by six months, and the following stage by a full year. Christina Lake output is expected to rise from 18,000 bpd of bitumen to approximately 58,000 bpd next year. In combination with Cenovus' Foster Creek project, which currently produces more than 100,000 bpd, consultants have estimated that peak bitumen output from Cenovus could range between 445,000 and 840,000 bpd. The company's estimate of bitumen economic contingent resources, at the end of 2009, resulted in a best estimate of 5.4 bbbl of bitumen.

1 Sunshine Oilsands has made regulatory applications with respect to the development of a SAGD project at its West Eils property. The company expects the project to produce at a rate of 10,000 bpd of bitumen by 2011.

1 Second Wave Petroleum recently stated that it has drilled, completed and tied in six horizontal wells and two vertical wells in its Judy Creek Pekisko play. The company noted that this has increased its overall production to approximately 1,800 boepd. The company plans to drill 15 to 20 horizontal delineation wells during the second half of this year.

1 Connacher recently finished construction of its second SAGD oil sands operation at Great Divide, in an attempt to ramp up bitumen production to 10,000 bpd by the second half of 2011. Connacher anticipates eventual production of 34,000 bpd of bitumen as a result of this expansion.

EAST COAST NEWS

2 A fourth major oil project is currently being developed offshore Newfoundland in the Jean d'Arc basin. Of the producing projects, two of the three are undertaking major expansions, and other Newfoundland basins are experiencing drilling of exploration wells.

3 The Deep Panuke production facilities offshore Nova Scotia are expected to be completed this year, with the approximately \$800 million project expected to be onstream in the first half of next year. Work is also progressing at Goldboro, Nova Scotia, on the installation of 3 km of onshore pipeline to connect to the Maritimes & Northeast Pipeline system.

4 Shale gas activity in New Brunswick and Nova Scotia is quickly increasing with the recent entry of larger players, including Southwestern Energy last month. Drilling is expected to begin in June on New Brunswick land farmed out to Apache Canada by Corridor Resources. Corridor issued a report last year with an estimate of discovered shale gas resources in the study area of 67.3 tcf gross and 59.1 tcf of Corridor working interest. The Frederick Brook shale in the Apache farm-out land is estimated to be 1.1 km thick.

5 Canadian Imperial Venture expects to commence drilling in western Newfoundland at its Green Point oil-shale play by mid-year. The company completed the scientific and technical work for the proposed drilling program in Port-au-Port Bay during the first quarter of 2010, with its partners in the play, Shoal Energy and McLaren Resources.

WEST COAST NEWS

6 Nexen reported that it recently completed an 8-well drilling project in the Horn River basin. Nexen anticipates that the project will produce by year-end at levels up to 50 mmcfpd of natural gas.

6 Progress Energy drilled 13 wells in the Gold Creek-Wapiti area during the first quarter of 2010. The company employed a new technique, called "SlikPro fracture stimulation", to economically produce gas in the Nikanassin zone. Progress has also expanded its production in the Montney area from 5 mmcfpd to approximately 30 mmcfpd of natural gas, this expansion attributed largely to increased drilling. Progress has approximately 100 bcf equivalent of proved-plus-probable reserves in the region, and currently produces approximately 43,000 boepd.

6 Apache remains active in the Horn River basin, drilling 4 horizontal wells in 2010. The company has also drilled 3 wells in the Dilly area in order to continue leases. In late April, Apache completed a large fracture

stimulation project on its 16-well 70-K pad, which led to approximately 25 mmcfpd of natural gas production. The company stated that all 16 wells should be on production by July.

6 EOG Resources recently increased its estimates of its Horn River reserves, based on results from the company's 2009 drilling program. EOG increased its estimated natural gas resources to 9 tcf, up from previously estimated 6 tcf. The company's proved reserves in the Horn River basin at the end of 2009 were 850 bcf.

CANADIAN ARCTIC NEWS

7 BP reported that it completed the most northerly 3-D seismic program ever conducted, with the largest array of towed marine streamers deployed in the High Arctic. The company obtained approximately 1,600 km² of 3-D data. BP currently has 2.39 million acres of significant discovery and exploration licences in the Beaufort Sea.

7 Imperial Oil requested an advance ruling from the National Energy Board (NEB) on the company's approach to same-season relief well capability in the Beaufort Sea. The company distinguished drilling in the Beaufort and drilling in the Gulf of Mexico, based on differences in drilling conditions and the timeframe available for a relief well to be drilled. Other producers active in the region, including Chevron, BP, ConocoPhillips, and MGM Energy, have also requested the ability to participate in the NEB hearing.

ALTERNATIVE ENERGY NEWS

Ontario recently offered contracts for 184 large projects with capacity of approximately 2.5 GW under its Feed-in Tariff (FiT) program enacted last year, calling the projects "part of the largest green energy investment of its kind in Canadian history." Under the FiT program, power producers are guaranteed above-market rates for renewable energy, along with the security of long-term contracts. The winning projects included 76 ground-mounted solar photovoltaic (PV) projects, with Recurrent Energy of California winning 144.5 MW of projects.

Nova Scotia Power and NewPage Port Hawkesbury have reached an agreement for a biomass co-generation plant to supply 3% of the province's electricity. The \$200 million, 60 MW project is subject to regulatory approval from the Nova Scotia Utility and Review Board. Commercial operation of the project is expected to begin late in 2012.

ON THE HORIZON

Talisman Energy plans to sell non-core assets in Canada in five separate transactions, which should bring in about \$1.9 billion for the company. Talisman stated, "Although these are excellent assets with a great future, they can't effectively compete for capital within our emerging strategic asset mix. These sales are value accretive and will help us focus on, finance and build our growing, low-cost North American shale gas business."

The Alberta government announced it is investing \$25 million in Carbon Management Canada (CMC) to help develop technology to reduce carbon emissions from Canada's fossil fuel energy sector. CMC stated that it will look at reducing emissions from steam production and coal-fired power generation, but it is really geared towards "looking out of the box".

ABBREVIATIONS

In this newsletter, all dollar amounts are Canadian dollars unless otherwise stated. We have also used the following abbreviations: **bpd** - barrels per day; **mmcfpd** - million cubic feet per day; **bcf** - billion cubic feet per day; **tcf** - trillion cubic feet; **bbbl** - barrel; **mbbl** - thousand barrels; **mmbbl** - million barrels; **bbbl** - billion barrels; **boe** - barrels of oil equivalent; **MW** - megawatts; **kV** - kilovolt; **km** - kilometre.

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