

Oh Canada!

Significant Developments in Canadian Energy



DECEMBER 2011

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Oil Sands News

1 Athabasca Oil Sands Corporation ("AOSC") received regulatory approval from both the Energy Resources Conservation Board (ERCB) and Alberta Environment & Water for phase one of its MacKay River steam-assisted gravity drainage (SAGD) oil sands project. SNC-Lavalin has been awarded the engineering and procurement services contract for the 35,000 bpd of bitumen facility, construction of which is slated to begin in the third quarter of 2012, with first production expected in 2014. Following the exercise by AOSC of its option to divest its entire 40% interest, the project is now 100% owned by Cretaceous Oilsands Holdings Limited, a subsidiary of PetroChina.

1 Cenovus has filed an application with the ERCB for its Pelican Lake Grand Rapids project. The 180,000 bpd facility will employ SAGD, and may involve co-injection of light hydrocarbons or solvent-aided processes, where economically

feasible. Cenovus expects to receive regulatory approval in the first quarter of 2014, with construction of the three phases of the project to commence in 2014 (Phase A), 2017 (Phase B), and 2020 (Phase C), respectively. The company projects first steam injection to commence for Phase A in 2017, Phase B in 2021 and Phase C in 2024. The project is predicted to consist of up to 3,700 well pairs from as many as 200 well pads over its projected 40 year life.

1 Imperial's board of directors has approved an \$8.9 billion expansion phase for the company's Kearl oil sands project. The initial phase of the project, sanctioned in 2009, is expected to come on production late in 2012, with the 110,000 bpd expansion phase slated to come online late in 2015, which together with future debottlenecking operations will bring the total production from the facility up to 345,000 bpd of bitumen. The company reported that this expansion phase at Kearl represents an important step toward its goal of doubling production to approximately 600,000 bpd by 2020.

East Coast News

2 NWest Energy, a Canadian based resource company, was granted approval from the Canada-Newfoundland and Labrador Offshore Petroleum Board to consolidate the company's four exploration licences located offshore western Newfoundland. The consolidation will permit NWest Energy to focus its resources on the near shore development of the Green Point oil shale unconventional resource and will allow for testing of the unconventional resource by drilling from onshore locations. Although further work is required to confirm the potential for commercially viable resource recovery and exploration of the Green Point unconventional resource is still in its early stages, the Green Point shale has been proven as an oil source rock in the region. According to the AJM Petroleum Consultants' recent report, the undiscovered petroleum initially-in-place resource was estimated at 18.8 bbbbls.

West Coast News

3 Enbridge has acquired a 71% interest in the first two phases of the Cabin Gas Plant Development, which will process 800 mmcfpd of natural gas and involve a total investment by Enbridge of roughly \$1.1 billion. Horn River producers have already fully taken up 100% of the capacity of both Phases 1 and 2. Construction of the 400 mmcfpd Phase 1 is already underway, and the company anticipates that the plant will be in service in the third quarter of this year. Phase 2 has received regulatory approval and will provide an additional 400 mmcfpd when it comes into service, which is expected to be in the third quarter of 2014.

3 Quicksilver has entered into a midstream partnership with Kohlberg Kravis Roberts & Co. LP (KKR) for the construction and operation of natural gas gathering, transportation and processing infrastructure to serve British Columbia and the Northwest Territories. KKR invested \$125 million into the project for a 50% stake, and Quicksilver, as operator, will contribute its existing 32km 20-inch gathering line and compression facilities and associated 10 year gas delivery contracts. Quicksilver will also dedicate current and future production from its Horn River plays to the project. The partnership agreement establishes an area of mutual interest (AMI) over 30 million potential acres in the Horn River, Liard and Cordova basins, which AMI includes third-party transportation and processing infrastructure and agreements.

Canadian Arctic News

4 The NEB published a report entitled "The Past is Always Present – Review of Offshore Drilling in the Canadian Arctic, Preparing for the Future." The report highlights its key findings during an 18 month review of Arctic safety and environmental offshore drilling requirements, and was undertaken in response to the oil spill in the Gulf of Mexico. After holding more than 40 meetings in 11 communities with northern residents, companies and environmentalists, the NEB concluded that a ban on offshore drilling in the Beaufort was not necessary due to the adequate

tools available to protect the Arctic environment and its people. The NEB also concluded that it would maintain the current same-season relief rule, which requires companies seeking to obtain a drilling permit to demonstrate that they would be able to complete a relief well and cap a blowout in the same season, if necessary. The NEB also expressed, however, that it will allow companies to depart from the rule by demonstrating alternative means that “meet or exceed the intended outcome of the policy.” The report was published as a companion document to the filing requirement for Arctic offshore drilling on December 15, 2011. More information about the report can be found on the NEB website at:

<http://www.neb-one.gc.ca/clf-nsi/rthnb/pplctnsbfrthnb/rctcfffshdrllngrvw/fnlrprt2011/fnlrprt2011-eng.html>

Alternative Energy

3 Finaverna, a wind energy development company, and the McLeod Lake Indian Band have executed a memorandum of understanding (MOU) for the development of two wind energy projects in the Peace Region of British Columbia. The Tumbler Ridge and Wildmare Wind Energy projects will total 124 MW of wind capacity for the region. The MOU sets out the processes and sharing of benefits for future wind projects and facilitates conversations between the partners for the proposed 117 MW Meikle and 60 MW Bullmoose projects in the same region.

The year 2011 marked a banner year for wind installations in Canada. With more than double the installations from 2010, wind installations in Canada totalled 1.4GW, placing the country ninth globally in terms of total installed capacity according to the Canadian Wind Energy Association. It is estimated that developers of wind energy spent close to \$3.5 billion installing turbines in 2011 and it is expected that more than 6GW of wind capacity has been contracted for the next 5 years.

On the Horizon

- 1** Total announced that it has received an Order in Council from the federal government for its Joslyn North oil sands mine project, which represents the final stage of the regulatory approval process. Total is operator of the project, and holds a 38.25% stake, along with its joint venture partners, Suncor (36.75%), Occidental Petroleum Corporation (15%) and Inpex Corporation (10%). Initial production is expected to commence in 2018 at approximately 100,000 bpd of bitumen, with the potential to expand to 200,000 bpd. The \$9 billion project will be the fifth oil sands mine in Alberta’s Athabasca oil sands, and will increase the approved mineable area in the province by approximately 7%.
- 5** Enbridge Bakken Pipeline Limited Partnership received National Energy Board (NEB) approval for its Bakken Pipeline Project. The \$180 million project involves the construction and operation of a new 123km 16-inch pipeline running between Steelman, Saskatchewan and the Enbridge Pipelines mainline in Cromer, Manitoba, along with the acquisition and operation of the existing 34km Enbridge Westspur Line EX-02. Enbridge Bakken has already received firm commitments from shippers for nearly 70% of the pipeline’s notional 148,500 bpd of oil capacity, which capacity is readily expandable to 345,000 bpd. Construction of the pipeline is scheduled to commence in the third quarter of 2012, and the pipeline is expected to be online in early 2013.

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; bcfpd - billion cubic feet per day; tcf - trillion cubic feet; bbl - barrel; mbbl - thousand barrels; mmbbl - million barrels; bbbbl - billion barrels; boe - barrels of oil equivalent; MW - megawatts; kV - kilovolt; km - kilometer; KW - kilowatts; KWh -

kilowatt hours; cm³d - cubic meters per day; GJ - gigajoule.

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