HERALD ENERGY

OIL & GAS • ELECTRICITY
ALTERNATIVE ENERGIES

Energy Prices

PRICES ARE PROVIDED FOR INFORMATION PURPOSES ONLY

Electricity

▼ Power pool	0.143	6.516 Cdn

Continental Gas Prices

▼ NYMEX	0.035	6.924 US
▲ AECO	6.930	0.030 Cdn

World Oil Prices

▼ Edmonton Light	0.51	67.00 Cdn
▼ Bow River Str.	0.48	51.28 Cdn
▼ West Texas Inter	0.47	57.24 US
▼ North Sea Brent	0.74	60.28 US
▼ Dubai	0.63	58.43 US

BUYOUT

Shell stock steady as deadline nears

Little likelihood of spike before offer closes

REUTERS

Shell Canada Ltd. stock hovered below the price of its parent company's $8.7-billion Cdn bid for the minority shareholding Friday, a sign investors saw little chance of a sweeter offer hours before the expiry.

Shell Canada rose eight cents to $44.68 on the Toronto Stock Exchange on a volume of more than one million shares.

Royal Dutch Shell PLC's $45-a-share offer for the 22 per cent of Shell Canada it does not already own expired at 6 p.m. Mountain time.

Some minority shareholders of the Calgary-based company, one of Canada's biggest integrated oil firms and a major oilsands producer, have said they planned to hold out for more cash, arguing the bid undervalues its prospects.

Shell Canada has embarked on an expansion of its Alberta oilsands mining operation that could cost as much as $12.8 billion.

It is also a big player in steam-driven oilsands drilling developments and the proposed Mackenzie Valley natural gas pipeline in the Arctic.

In petroleum products, it runs refineries in Alberta, Ontario and Quebec, which supply its national gas station chain.

Royal Dutch Shell boosted the offer from $40 Cdn a share in January, but that did not impress such institutional investors as **Jarislowsky Fraser** and **I.G. Investment Management**, which said at the time they would not tender.

Some pegged the company's value at more than $50 a share.

It is not known what percentage of the minority stake is held by hedge fund players who bought the stock hoping for a higher bid from the Anglo-Dutch oil major.

One New York hedge fund investor said Friday it is likely many will tender their shares, especially following the big recent drops in global stock markets.

"A couple weeks ago, people were more bold, but I think the choppy markets and the downside have scared the (arbitrageurs)," the investor said.

Last month, Royal Dutch Shell chief executive Jeroen van der Veer said he was prepared to walk away from the bid and pursue other opportunities if less than 50 per cent of the minority shares are tendered.

However, the world's oil majors are finding it more difficult to secure large-scale new reserves, with much of the Middle East off limits and countries such as Venezuela and Russia increasingly hostile to foreign investors.

Shell Canada has generated strong financial and operating results for years, despite escalating operating and development costs, especially in Alberta's oilsands, amid booming industry investment.

DRILLBITS

FROM HERALD NEWS SERVICES

Canadian energy consumption falls

Canadian energy demand fell slightly in 2005, the first time the country's appetite for electricity, oil gas and gasoline has abated in three years, Statistics Canada reported Friday.

The federal agency said declines in consumption in Canada's industrial and residential sectors trimmed energy use by 0.4 per cent to 7,654 petajoules from the 7,681 petajoules consumed in 2004. One petajoule equals roughly the amount of energy required to run the Montreal subway for a year.

The decline in consumption — led by less burning of natural gas, refined petroleum products and coal — came even though the economy continued to grow that year, expanding by 2.9 per cent. Gasoline sales fell for the first time in 14 years to slightly more than 40 million litres.

In Alberta, energy consumption fell 1.1 per cent, to 1,354 petajoules, even as the provincial economy expanded by 4.6 per cent.

Russia on nuclear plant building spree

Government officials said Friday that Russia will build two nuclear reactors annually through 2015 and increase to four a year by 2020 in an effort to sharply increase atomic power generation, news agencies reported.

First deputy prime minister Sergei Ivanov, one of two likely contenders to succeed President Vladimir Putin in next year's election, said Russia should not rely exclusively on dwindling oil, gas and other hydrocarbons.

"The need to diversify our energy balance is obvious," Ivanov was quoted saying by Itar-Tass, Interfax and RIA Novosti news agencies.

Russia has 31 reactors at 10 nuclear power plants, accounting for about 17 per cent of its electricity generation. Putin has called for raising the share of nuclear-generated power to at least 25 per cent by 2030.

Ivanov said Russia will launch two 1,000-megawatt nuclear reactors a year under a program for which the government has allocated the equivalent of $30 billion Cdn through 2015.

Merger boosts Savanna's profits

Oilfield services firm **Savanna Energy Services Corp.** reported Friday a fourth-quarter profit of $19.8 million, up 51 per cent from a year-before $13.1 million, as sales revenue doubled during the period.

The profit amounted to 34 cents per diluted share, compared with a year-before 44 cents per share.

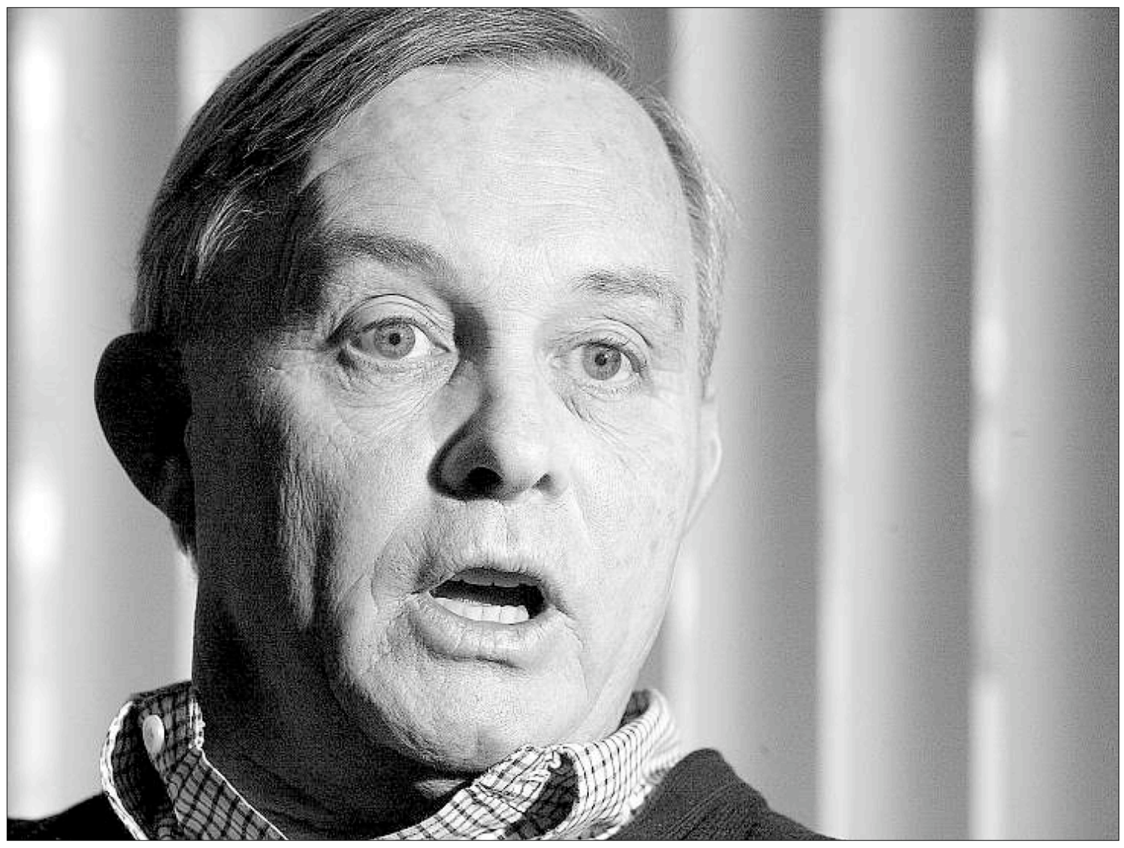
The per share decrease came as a result of a significant reduction in activity at Savanna's wireline division, which was sold subsequent to year end and reported as discontinued operations and an increase in outstanding stock after Savanna issued 27.9 million shares to complete its purchase of **Western Lakota**.

Revenue for the three months ended Dec. 31 increased to $93.9 million from a year-earlier $46 million.

A large portion of the increase in Savanna's revenue was due to the August 2006 merger with Western Lakota, the company said in a release.

For 2006, Savanna said it earned $54.6 million, $1.39 per share, up 72 per cent from $31.7 million, $1.10 per share, in 2005. Full-year revenue of $247.1 million was up 86 per cent from $132.8 million in 2005.

PROFILE



Calgary Herald Archive

International Frontier Resources president Pat Boswell says the company is prepared to wait it out for its massive Summit Creek oil and gas discovery to be linked to the Mackenzie Valley pipeline and for payday to arrive.

Underexplored Arctic has a hold on Frontier

Its future depends on a pipeline

SHAUN POLCZER
CALGARY HERALD

Calgary-based **International Frontier Resources Ltd.** is an overnight success story 10 years in the making.

The tiny junior explorer grabbed headlines in the winter of 2004 with the Summit Creek oil and gas discovery in the central Mackenzie Valley, the first in the area since Norman Wells was found in 1919.

The B-44 discovery well flowed some 20 million cubic feet (mmcf) per day of natural gas and 6,000 barrels per day of oil and liquids, also making it one of the biggest onshore wells ever drilled in North America.

Last spring, the company again found itself in the spotlight after the Stewart D-57 became the first discovery in Cretaceous-aged rocks north of the 60th parallel.

IFR is unique among smaller energy players because it has attracted giants like **Husky Energy Inc.**, **British Gas** and Texas-based **EOG Resources** to farm in on its Far North prospects.

Pat Boswell, IFR's president and CEO, is an industry veteran with more than 30 years staking claims as a land man in Western Canada.

It is the vision and persistence of its leader that has allowed IFR to weather more than a decade of ups and downs pursuing its Arctic dream.

Even with a string of discoveries under its belt, it could be another half-decade before IFR starts realizing profits from those successes, after a pipeline is built to bring it to market.

But Boswell remains undeterred.

In the interim it has opened a new front in the North Sea, one of the hottest drilling basins for Canadian companies in the international arena.

Boswell recently took some time to talk about the company's progress and its plans for the future.

Q&A

Q: What's your background and how did IFR come into existence?

A: I've been in the business for about 30 years now. I started as a land man with a company called **Hardy Oil and Gas Canada**, which was a London stock exchange-based company. We sold that about 10 years ago and decided at the time that the Northwest Territories was underexplored and that it was a good place to put together an asset base.

Q: How did you get into the North Sea?

A: Because of the seasonal nature of our exploration in the N.W.T., which is really between the months of December to March, we decided to look for a second area of focus and we went to the North Sea in June of 2005.

Since that time we've put together five prospects over there, of which we're going to drill three exploration wells in 2007 and probably two more in 2008.

Q: Why the North Sea over other areas of the world with greater exploration potential?

A: Basically because of the expertise of our technical group in the U.K., it's their own backyard.

We see the North Sea where the Canadian basin was 10 years ago, where the majors started to depart and we're seeing that in the North Sea right now.

In fact, the North Sea is interesting because some of the most aggressive exploration companies are Canadian — **Oilexco**, **Bow Valley**, **Nexen**, **Talisman** — the whole group.

Q: What are some of the challenges for a smaller company operating abroad?

A: The biggest challenge over there is rig availability. There are basically 35 offshore rigs and five to six hundred wells the DTI (U.K. Department of Trade and Industry) forecasts have to be drilled over the next few years.

As a result of that, the cost base has gone up significantly. Day rates on rigs over there are currently$350,000 US a day versus $150,000 when we first got into the North Sea.

Q: How do you get around that?

A: We've partnered up with Oilexco and they have a rig. We're going to drill a prospect called Laurel Valley in March and it is wildcat drilling for a large reserve base prospect.

We're very fortunate because those companies have very strong technical groups, too, and wherever you have wildcat exploration you want to make sure you have as many technical eyes reviewing the prospects as you can. We try to add value through our expertise.

Q: What does exploration the North Sea and the Far North have in common?

A: Our technical consultants in the North Sea also have a very strong background in the N.W.T. They did regional studies of the entire area about 10 years ago and sold those non-exclusive reports to all the majors in Calgary.

That was about the time the moratorium was removed — there had been a 20-year moratorium on exploring up there — and that was really the background of a lot of companies' understanding of the geology of the N.W.T., which in our view we see as an extension of the western Canadian basin.

Q: Why the Arctic?

A: It's an interesting area, it's underexplored. On average there is one well for every 425 square kilometres in the N.W.T. versus one well for every 2.5 square kilometres in Alberta. Right now we're in the early days; you explore for large structural plays that you can see on seismic and with the advent of new technology we're able to image these structures a lot clearer.

We have about eight structural leads in the N.W.T. We will be drilling the Haywood structure next winter and what we're hoping is that it's the anchor field that will allow us to start putting plans together for a pipeline. It's a large structure, with a prospective resource in the 500 billion cubic feet range.

Q: What about a pipeline? Is it a sticking point?

A: Well Summit Creek is a very liquids-rich gas reservoir, but the remaining prospects we have out there are dependent on a central Mackenzie Valley pipeline, as are the prospects in the Colville Hills.

My view is that the federal government has to step in and settle land claims with the natives. Once that happens, I think you'll see this move forward.

The second option is if the group in the Central Mackenzie can prove up enough resource, it could build a pipeline from the Alberta border to the Central Mack.

So it would be a two-stage pipeline, first up to Norman Wells and then on to the Delta.

I see that having merit, but first we have to see some more exploratory drilling up there to prove up the resource base.

We need that gas from the N.W.T. for southern markets and certainly for the Alberta oilsands.

Q: Is there still an exploration culture in Calgary?

A: No, but there's going to have to be.

The model in Calgary was always to put together an exploration team that was good, you built your company to two or three thousand barrels a day and sold it to a royalty trust.

Now that that model appears to be leaving, I think these companies that are getting up to three to five thousand barrels a day are going to have to become explorers.

I see the return of the mid-size intermediate producing 20,000 to 30,000 barrels through the drill bit.

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BP may lose Kovykta licence

Gazprom seen as likely heir to gas field

THE ASSOCIATED PRESS

A subsidiary of **BP Amoco PLC**'s joint venture will likely lose its licence for a giant natural gas field in Siberia, Russia's natural resources minister said Friday.

Yuri Trutnev said **Rusia Petroleum** clearly will not meet a government demand to increase production at the Kovykta field by the end of May, the RIA Novosti, ITAR-Tass and Interfax news agencies reported.

Rusia Petroleum is a subsidiary of BP's joint venture, **TNK-BP**. BP has said there is insufficient local appetite for natural gas.

Prosecutors and environmental agencies have said TNK-BP risks having its licence revoked for underproduction at the Kovykta field.

Trutnev said if the company is stripped of the licence, Kovykta will be put to auction — and foreign companies would not be allowed to bid, according to RIA Novosti.

"It would be auctioned as a strategic asset, and foreign capital won't be allowed to take part," he said.

The Russian state gas monopoly, **OAO Gazprom**, is widely expected to take a controlling stake in Kovykta.

TNK-BP has not been given permission from Gazprom to export gas from Kovykta. Analysts expect that to happen only after Gazprom gains control of the field since Gazprom is the only company in Russia legally allowed to export gas.

The growing pressure on BP was in step with President Vladimir Putin's unwritten policy of keeping big, strategic energy reserves under state control.

Intense regulatory pressure on **Royal Dutch Shell PLC**'s Sakhalin-2 project earlier led to the company to sell a controlling stake to Gazprom.

Ethylene demand on rise: Exxon

ExxonMobil Corp., the second-largest U.S. chemical-maker, said demand for ethylene and other ingredients used to make plastics will outpace global economic growth and may soak up gains in production.

Demand from makers of plastics used in garbage bags, foam packaging and plumbing pipe will rise three percentage points faster than the economy, said Michael J. Dolan, Exxon's chemical unit president. That should be enough to absorb rising output from three or four new ethylene plants a year, he said.

Ethylene, a bellwether for the chemical industry, is made from oil and natural gas. It is used in plastics for a wide variety of consumer goods.