

**Providing coverage of Alaska and northern Canada's oil and gas industry
August 2011**

Vol. 16, No. 32

Week of August 07, 2011

Central Mac buzz grows

ConocoPhillips says it is focused more on liquids; speculation on Husky oil find

Gary Park

For Petroleum News

ConocoPhillips has done more than anyone so far to explain its interest in July's blockbuster land sale in the Central Mackenzie Valley of the Northwest Territories that attracted successful bids from four industry majors, all of them anchor-field gas owners in the Mackenzie Gas Project.

But the spotlight is squarely fixed on Husky Energy, which laid out C\$376 million for two parcels totaling about 533,600 acres — by far the bulk of the C\$534 million in winning bids, which lends weight to those who think Husky may have struck pay dirt and gained the attention of the industry majors in the process.

Clayton Reasor, vice president, corporate and investor relations, told a second-quarter conference call that ConocoPhillips is targeting a Canol shale play.

“The unconventional that we are going after will be more from a liquids perspective than from a gas perspective,” he said.

ConocoPhillips made a work commitment of C\$66.7 million for a parcel of about 216,000 acres adjacent to Husky's sales-leading bids of C\$188 million each for two parcels of about 216,800 acres each.

Husky said it is attracted by the prospective nature of the land, which is 50 miles from the existing Enbridge pipeline which transports 34,900 barrels per day of light oil from Norman Wells to Zama in northwest Alberta.

Asked by an analyst why Husky paid twice as much on a per-acre basis as other bidders for similar properties, Husky Chief Operating Officer Rob Peabody said his company has actively explored the Central Mackenzie Valley for more than a decade and has been involved in two discoveries.

Husky's existing exploration leases in the region include a significant discovery license for the 2004 Summit Creek B-44 natural gas and light oil discovery well drilled into two Devonian-age reservoirs. It also operates a lease over Tulita District Land Corp. freehold parcels. The Summit Creek well operated by Husky tested at 20 million cubic feet per day of gas and 6,300 bpd of oil.

In 2007, Husky, with a 75 percent stake, and International Frontier Resources, with 25 percent, bid C\$4.89 million in work expenditures to secure a license farther south.

In 2004 (with a 29.48 percent working interest), Husky was part of a joint venture with Northrock Resources (32.5 percent interest) which bid work commitments of C\$24.8 million for a 224,000-acre parcel about 55 miles south of Norman Wells. Other partners were EOG Resources Canada 26.4 percent, Pacific Roderia Energy, 6.62 percent and International Frontier, 5 percent.

In 2008, Husky, as operator with a 75 percent working interest, drilled the Dahadinni B-20 well to a total depth of almost 8,000 feet, logged and abandoned the well as a dry hole. The Northern Oil and Gas Directorate reported that the parcel was surrendered in 2010.

Complement existing portfolio

Peabody said Husky believes the new properties complement existing portfolio in the Central Mackenzie Valley, while its spending commitment is what it will cost to "assess the lease and hopefully move forward."

Imperial Oil (69.6 percent owned by ExxonMobil) and ExxonMobil's wholly owned Canadian subsidiary made a combined commitment of C\$43 million, divided equally between two parcels totaling 444,000 acres.

Imperial offered no further insight in its second-quarter earnings report beyond noting that the licenses are in the Summit Creek area, while Shell Canada has not commented on the thinking behind its combined bids of C\$43.4 million for three parcels totaling 498,000 acres.

The latest spending spree on leases, coming amid an uncertain outlook for the Mackenzie Gas Project, has stirred speculation that Husky may have made a substantial oil find in the Central Mackenzie Valley close to Imperial's 1920 Norman Wells discovery estimated to have held 630 million barrels of original oil in place, but which is now operating well short of its 45,000 bpd capacity.

Henry Sykes, president of MGM Energy, which partnered with 6362 NWT Ltd.

to make made work commitments of C\$5 million for three Central Mackenzie Valley licenses totaling 254,000 gross acres, and Pat Boswell, chief executive officer of International Frontier, are among those who think the target is narrowing to a liquids-rich shale play.

Boswell ruefully conceded to Petroleum News that his company had lost out to the “big boys” in the bidding and said it will now have to review its next moves in the region.

He said that “sooner or later somebody is going to find another Norman Wells” in the area.

Petroleum News - Phone: 1-907 522-9469 - Fax: 1-907 522-9583
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