

SPEAKING NOTES

FRANCOIS GAUTHIER

FOR AN ADDRESS TO THE GREATER CORNER BROOK BOARD OF TRADE

MAY 27, 2008

MAY NOT REFLECT ACTUAL WORDS SPOKEN – CHECK AGAINST DELIVERY

**WESTERN NEWFOUNDLAND  
POTENTIALLY ANOTHER HIBERNIA  
FOR THE PROVINCE**

MEMBERS OF THE BOARD, LADIES AND GENTLEMEN,

MY NAME IS FRANCOIS GAUTHIER. I'D LIKE FIRST TO THANK SHAWN WOODFORD, PRESIDENT OF THE GREATER CORNER BROOK BOARD OF TRADE, FOR INVITING ME TO SPEAK TODAY. IT'S A PLEASURE TO BE HERE.

I'D LIKE TO SPEAK A LITTLE ABOUT OUR COMPANY, NWEST ENERGY, AND A LITTLE ABOUT MY BACKGROUND, BUT MOSTLY I'D LIKE TO TALK ABOUT THE GREAT POTENTIAL WE SEE FOR OIL AND GAS DEVELOPMENT IN THE WEST COAST OF NEWFOUNDLAND.

**I. INTRODUCTION**

NWEST ENERGY IS A JUNIOR OIL AND GAS EXPLORATION COMPANY FOUNDED AND BASED IN ST. JOHN'S. WE ARE A SMALL COMPANY, BUT WE ARE EXPLORING A VAST AREA.

NWEST HOLDS FOUR OFFSHORE EXPLORATION LICENCES OFF THE WEST COAST. THE TOTAL AREA IS JUST SLIGHTLY LARGER THAT PRINCE EDWARD ISLAND. IN FACT IT'S ABOUT 1.2 'PEI'S, WHICH I THINK IS A STANDARD UNIT OF MEASURE IN CANADIAN GEOGRAPHY.

THE PROPERTY STRETCHES FROM LARK HARBOUR OUT ABOUT 40 KILOMETRES OFFSHORE, THEN NORTH JUST PAST DANIEL'S HARBOUR TO BELLBURNS. AT THE FURTHEST, THE PROPERTY IS ABOUT 50 KILOMETRES FROM SHORE AND IT DOES INCLUDE THE BAY OF ISLANDS.

BUT DON'T WORRY, IT DOES NOT INCLUDE THE HUMBER ARM, AND WE'RE NOT ACTIVELY EXPLORING WITHIN THE BAY. OUR BEST TARGETS, AND I'LL GET TO THOSE IN DETAIL IN A MOMENT, ARE ABOUT 25-30 KILOMETRES OFFSHORE, SO YOU WON'T EVEN BE ABLE TO SEE OUR SEISMIC VESSEL FROM SHORE.

YOU MAY HAVE NOTICED THE TITLE OF THIS PRESENTATION IS 'POTENTIALLY ANOTHER HIBERNIA FOR NEWFOUNDLAND'

WHAT I MEAN BY THAT IS WHEN YOU ADD UP THE POTENTIAL PRODUCTION FROM ALL SOURCES ON THE WEST COAST OF NEWFOUNDLAND, YOU GET A CUMULATIVE RESERVE POTENTIAL OF UP TO A BILLION BARRELS OF OIL, ROUGHLY THE SAME AS HIBERNIA – BUT SPREAD OUT OVER SEVERAL SMALLER DEPOSITS.

BUT ANOTHER THING I LIKE TO REMIND PEOPLE WHEN COMPARING WESTERN NEWFOUNDLAND TO HIBERNIA IS THAT EXPLORATIONISTS DRILLED 36 UNSUCCESSFUL WELLS ON THE EAST COAST BEFORE HITTING HIBERNIA. AND WE'RE STILL A YEAR AWAY FROM DRILLING OUR FIRST.

NWEST ENERGY IS IN THE HIGH RISK, HIGH REWARD BUSINESS OF SEARCHING FOR OIL IN A FRONTIER REGION. WESTERN NEWFOUNDLAND IS VERY MUCH A HIGH RISK, FRONTIER REGION. WHAT WE DO, AS GEOLOGISTS, IS MINIMIZE THAT RISK.

## **II. BACKGROUND**

MY BACKGROUND IS WITH VERY LARGE OIL COMPANIES. I'VE WORKED IN ALBERTA, HOUSTON, LONDON AND ALGERIA. FOR MOST OF MY CAREER I WORKED FOR THE LARGEST INDEPENDENT US OIL AND GAS COMPANY, CALLED ANADARKO. AND FOR MOST OF THAT TIME, I WAS EXPLORING AND DEVELOPING OIL FIELDS IN ALGERIA, A LARGE COUNTRY IN NORTH AFRICA. OUR OIL AND GAS DISCOVERIES WERE IN THE SOUTHEASTERN PART OF THE COUNTRY, IN THE SAHARA DESERT, SURROUNDED BY MILES AND MILES OF NOTHING BUT SAND. SOME OF THE SAND DUNES WERE UP TO 500 METERS HIGH.

WHEN I FIRST HEARD ABOUT NWEST ENERGY AND THE OFFSHORE PROPERTY OUT HERE, THE FIRST THING THAT STRUCK ME IS 'WESTERN NEWFOUNDLAND IS JUST LIKE ALGERIA.'

OUR TARGETS IN ALGERIA HAD BEEN LOOKED AT BY OTHER OIL AND GAS COMPANIES LONG BEFORE WE GOT THERE. BUT HAD BEEN NEGLECTED FOR A HOST OF NON-TECHNICAL REASONS. THE GEOLOGY DIDN'T LOOK BAD, BUT OTHER FACTORS DID.

### **III. NWEST OFFSHORE PROPERTY – ATTRIBUTES**

THE SAME THING IS TRUE OF THE NWEST PROPERTY IN WESTERN NEWFOUNDLAND. THE AREA HAS ACTUALLY HAD GREAT POTENTIAL SINCE THE EARLY 1800S AND HAS ATTRACTED MAJOR OIL COMPANIES GOING BACK TO THE 1960S. LET'S LOOK AT SOME OF THOSE POSITIVE INDICATORS:

1. YOU'VE GOT OIL SEEPS UP AND DOWN THE COAST FROM PARSON'S POND TO PORT AUX PORTS.
2. YOU'VE GOT AN EXHUMED OIL FIELD IN PORT AUX CHOIX. THE ANCIENT OIL FIELD IS IN A ROCK FORMATION THAT TRENDS DEEP UNDERGROUND IN THE OFFSHORE AREA WE ARE EXPLORING. WHAT WE SEE AT THE SURFACE IS PRECISELY WHAT WE WANT TO SEE UNDERGROUND – EXCEPT OF COURSE WE DON'T WANT IT TO BE ERODED AND DEPLETED AS THE EXPOSED PORT AUX CHOIX FIELD IS.
3. THE AREA IS PART OF THE SAME ANCIENT BASIN THAT PRODUCED OIL ALL UP AND DOWN THE APPALACHIANS AND YIELDED NATURAL GAS IN LABRADOR.

IN THE AREA THAT REPRESENTS OUR EXPLORATION BLOCKS, GULF OIL ACQUIRED A SMALL AMOUNT OF SEISMIC INFORMATION AND SOME SEA FLOOR SAMPLES IN 1973 – WHEN OIL WAS \$3.40 A BARREL. THE SEISMIC DATA WAS POOR QUALITY, BUT THE SEA FLOOR SAMPLES DID INDICATE BUTANE AND METHANE ANOMALIES – AND THAT'S ANOTHER PETROLEUM INDICATOR.

BUT THEN THROUGH THE 1980S YOU HAD DECLINING OIL PRICES AND STALLED NEGOTIATIONS BETWEEN BIG OIL, CANADA AND THE PROVINCES – AND THAT WAS OVER HIBERNIA, WHERE YOU HAD A MASSIVE, PROVEN DISCOVERY. SO YOU CAN

IMAGINE THE DIFFICULTY OF GENERATING INTEREST IN SMALLER TARGETS IN WESTERN NEWFOUNDLAND.

STILL, THE MAJORS CAME BACK, IN 1991. OIL SPIKED WITH THE GULF WAR STARTING IN LATE 1990 AND TWO COMPANIES ACQUIRED GOOD SEISMIC DATA FROM THE OFFSHORE HERE – MOBIL OIL AND BHP, WHICH IS PRIMARILY AN AUSTRALIAN MINING COMPANY BUT WITH AN INTEREST IN GLOBAL OIL AND GAS EXPLORATION.

BETWEEN THEM THEY ACQUIRED MORE THAN 5,000 KILOMETRES OF 2D SEISMIC DATA – WHICH IS A LOT OF DATA AND NOT SOMETHING YOU DO LIGHTLY. BUT THE OIL PRICE SPIKE WAS EXTREMELY SHORT-LIVED AND THROUGH THE MID-1990S THE PRICE OF OIL REMAINED FLAT. IN THE LATE 1990S IT PLUNGED TO LESS THAN \$10 A BARREL. BHP AND MOBIL LET THEIR LICENCES EXPIRE. ALSO AT THAT TIME, MOBIL WAS ACQUIRED BY EXXON.

THE WEST COAST OFFSHORE IS STILL JUST AS GOOD A PROSPECT AS IT WAS IN THE LATE 90S, WHEN IT FIRST ATTRACTED THE ATTENTION OF THE MAJOR OIL COMPANIES. IN FACT, YOU COULD SAY IT IS NOW BETTER – BECAUSE WE’VE RE-EVALUATED THE COMBINED DATA. THE 2D SEISMIC DATA SHOWED SOME PROMISING TARGETS. BUT THE UPSIDE WAS NOT SO GOOD WHEN OIL WAS \$9 A BARREL.

AT NWEST, WE ACQUIRED THE SEISMIC DATA FROM BHP AND MOBIL, PLUS DATA FROM THE EARLY 1970S, AND PUT IT ALL TOGETHER FOR THE FIRST TIME. WE HAD THIS DATA EVALUATED BY SPROULE ASSOCIATES OF CALGARY, AN OIL AND GAS CONSULTING FIRM THAT SPECIALIZES IN GEOLOGICAL STUDY AND RESERVOIR EVALUATION.

#### **IV. POTENTIAL**

WE WERE VERY PLEASED WITH THE RESULTS – AND THAT’S WHY WE ARE HERE TODAY. SPROULE IDENTIFIED MORE THAN 150 POTENTIAL LEADS. NARROWING IT DOWN, THEY LOOKED AT THE TOP 11 STRUCTURES AND ESTIMATED A TOTAL *UNDISCOVERED* POTENTIAL OF 3.8 BILLION BARRELS OIL IN PLACE, WHICH IS A LITTLE MORE THAN THE TOTAL OIL IN PLACE AT HIBERNIA.

NOW, IT IS IMPORTANT TO STRESS THAT THIS IS UNDISCOVERED. SO FAR ALL WE HAVE ARE THEORIES ABOUT POTENTIAL OIL IN PLACE. I HAPPEN TO THINK THEY ARE VERY GOOD THEORIES, BUT UNTIL YOU DRILL A WELL – SEVERAL WELLS IN FACT – IT IS IMPOSSIBLE TO SAY WHAT THE RESOURCE COULD LOOK LIKE. THE OIL COULD HAVE SEEPED OUT OF THE RESERVOIRS MILLIONS OF YEARS AGO. IT COULD BE SO SPREAD OUT OR FRACTURED THAT IT IS NOT ECONOMICALLY FEASIBLE TO RECOVER IT. ANY NUMBER OF THINGS COULD PUT THOSE NUMBERS IN DOUBT.

## **V. MANAGING RISK**

WHICH IS WHY GEOLOGISTS DO THEIR DARNEDEST TO MINIMIZE RISK. AND THAT'S WHAT NWEST IS DOING.

FIRST, WE PICKED A REGION WITH HUGE POTENTIAL, BUT THAT WAS ABANDONED FOR NON-TECHNICAL REASONS. WESTERN NEWFOUNDLAND TO A "T".

THEN WE REVIEWED ALL EXISTING SEISMIC DATA, USING THE BEST INDUSTRY EXPERTS.

WE NARROWED 155 LEADS DOWN TO 11 TARGETS – AND WE HAVE CHOSEN TARGETS THAT ARE STACKED VERTICALLY, SO WE'LL BE ABLE TO DRILL THREE DIFFERENT POTENTIAL TRAPS IN DIFFERENT LAYERS OF ROCK WITH ONE WELL. AGAIN, MINIMIZING RISK IN A HIGH RISK VENTURE.

OUR NEXT STEP IS NOT TO DRILL, BUT TO CONDUCT MORE DETAILED, 3D SEISMIC DATA ACQUISITION. THIS WE WILL DO IN AUGUST AND SEPTEMBER, WHEN THERE IS MINIMUM OVERLAP WITH THE FISHERY, YET IT'S STILL WITHIN OUR WEATHER WINDOW. 3D SEISMIC IS FAR MORE DETAILED – AND MORE EXPENSIVE – THAN 2D SEISMIC. 2D GIVES YOU THE TOOLS TO MODEL WHAT A SLICE OF ROCK LOOKS LIKE UNDER THE SURFACE. 3D ALLOWS YOU TO MODEL A WHOLE CUBE OF ROCK, SO IT'S A FAR BETTER TOOL FOR GEOLOGISTS.

NWEST HAS CONTRACTED GEOPHYSICAL SERVICES INC OR GSI FOR THE SEISMIC PROGRAM. GSI IS A CANADIAN COMPANY, WITH A CANADIAN-REGISTERED VESSEL READY TO SAIL FOR US. THE GSI ADMIRAL IS 90 METRES LONG, WITH FOUR TOWLINES THAT STRETCH OUT THOUSANDS OF METRES FROM THE STERN. SO IT IS A MAJOR OPERATION, WITH A THOROUGH ENVIRONMENTAL REVIEW PROCESS. WE ARE EVALUATING ANY POTENTIAL INTERACTION WITH ALL MARINE SPECIES AND

FISHERMEN IN OUR SEISMIC AREA. WE ARE CURRENTLY IN THE FINAL STAGES OF THAT REVIEW AND IN FACT HAVE BEEN INFORMED BY THE CNLOPB THAT THEY WILL HAVE COMMENTS FOR US AT THE END OF THIS WEEK.

ONLY WHEN THE 3D SEISMIC IS THOROUGHLY EVALUATED WILL WE SIT DOWN AND CHOOSE OUR DRILLING TARGETS. SO WE'VE GOT ABSOLUTELY THE BEST OPPORTUNITY TO FIND AN ECONOMICALLY VIABLE OIL RESOURCE. WE'RE LOOKING FOR TARGETS WITH 300 MILLION TO 500 MILLION BARRELS OF OIL IN PLACE. SHOULD WE BE SUCCESSFUL, SUCH A FIELD COULD PRODUCE UP TO 50,000 BARRELS PER DAY.

## **VI. ANOTHER HIBERNIA**

HIBERNIA PRODUCES 135,000 BARRELS A DAY AND PEAKED AT 200,000. BUT IF WE HIT A 50,000 BARREL PER DAY TARGET, THERE IS EVERY POSSIBILITY OF A COUPLE 20,000 BARREL PER DAY FIELDS OUT THERE IN THE OFFSHORE AND STILL THE POTENTIAL OF TENS OF THOUSANDS OF BARRELS PER DAY FROM POTENTIAL ONSHORE DISCOVERIES. SO WE COULD THEORETICALLY BE LOOKING AT 100,000 BARRELS A DAY AT SOME POINT IN THE FUTURE.

THE REASON THIS WOULD PUT THE WEST COAST IN THE SAME CATEGORY AS HIBERNIA IS THE PRICE OF OIL TODAY. WHEN HIBERNIA WAS PRODUCING 200,000 BARRELS PER DAY – IN 2003, 2004 – OIL WAS \$30-\$50 A BARREL. TODAY OF COURSE OIL IS OVER \$130, SO WE'RE LOOKING AT TWICE THE ECONOMIC IMPACT PER BARREL.

ALSO, THE OIL INDUSTRY ON THE WEST COAST WOULD LOOK A LOT DIFFERENT FROM THE ONE ON THE EAST COAST.

THE SCALE OF EACH PROJECT WILL BE MUCH SMALLER, SO THERE WILL BE MORE OPPORTUNITIES FOR LOCAL BUSINESSES TO STEP UP AND SUPPLY THE INDUSTRY. DEPENDING ON WHERE THE FIELDS ARE, THERE'S THE POSSIBILITY OF A SUBSEA TIEBACK TO AN ONSHORE FACILITY, SO INSTEAD OF A MASSIVE FPSO BUILT IN KOREA, YOU'D BE LOOKING AT A FACILITY BUILT ON LAND.

BECAUSE THE WEST COAST PLAY INVOLVES CLOSER, SMALLER SCALE PROJECTS, YOU'LL HAVE SHORTER LEAD TIME BETWEEN DISCOVERY AND DEVELOPMENT.

## **VII. CHALLENGES AHEAD**

BUT LET'S BE REALISTIC. THERE ARE STILL SEVERAL CHALLENGES AND UNKNOWNNS AHEAD.

1. DON'T HAVE ECONOMICALLY RECOVERABLE OIL YET – WE MAY NEVER, BUT I BELIEVE WE WILL.
2. IT IS STILL A RELATIVELY EXPENSIVE PLACE TO EXPLORE -- COMPARED TO BC AND SASKATCHEWAN, FOR EXAMPLE,
3. WESTERN NEWFOUNDLAND IS NOT EVEN ON THE RADAR SCREEN OF MANY MAJORS AND FINANCIERS -- BUT WE AIM TO CHANGE THAT.
4. WHERE WE ARE ON THE RADAR SCREN, WE MAY BE SEEN AS A REGION WHERE, HISTORICALLY, EXPECTATIONS HAVE EXCEEDED RESULTS, (EVEN THOUGH WE ARE STILL IN THE EARLY STAGES OF SERIOUS EXPLORATION).
5. FACT OF LIFE, THAT WHAT ONE PLAYER DOE OUT HERE AFFECTS ALL PLAYERS—EVEN THOUGH OUR PROJECTS MAY BE VERY DIFFERENT. SO PART OF MY JOB IS TO ENSURE WE PROVIDE REALISTIC EXPECTATIONS.
6. THERE'S A GLOBAL SHORTAGE OF RIGS -- THOUGH WE ARE BETTER OFF THAN DEEPWATER, AND APPROXIMATELY 100 NEW RIGS ARE UNDER CONSTRUCTION, TO BE DELIVERED BY 2010. (SOURCE: DOUGLAS WESTWOOD)
7. THE WEST COAST IS CURRENTLY OVERSHADOWED BY ORPHAN BASIN. YES, IT IS HUGELY EXPENSIVE, DEEPWATER, FAR FROM SHORE AND TECHNICALLY CHALLENGING, BUT IT OFFERS GIGANTIC PAYOFF FOR THE REALLY BIG GAMBLERS – THE MAJOR OIL COMPANIES.

I CAN TELL YOU WE DON'T EXPECT TO HIT THE MOTHER LODE WITH ONE WELL. BUT WE DO PLAN TO FIND THE VERY BEST TARGETS AND TO DRILL THEM METHODICALLY, BASED ON THE BEST AVAILABLE DATA AND INTERPRETATION. WE WILL DO

EVERYTHING WE CAN, IN A PRUDENT MANNER, TO INCREASE OUR CHANCES OF SUCCESS – OR REDUCE RISK, WHICH IS MY JOB.

### **VIII. MAKING IT HAPPEN**

I TRULY BELIEVE THERE IS THE POTENTIAL HERE FOR THE WEST COAST OF NEWFOUNDLAND TO ADD THE ECONOMIC IMPACT OF ANOTHER HIBERNIA.

WHAT ARE THE ODDS OF THAT POTENTIAL BECOMING REALITY? WE DON'T KNOW YET. BUT WE AIM TO FIND OUT.

WITHOUT JUNIOR EXPLORATION COMPANIES, SUPPORT FROM FINANCIAL MARKETS AND REGULATORS, AND A LOT OF HARD WORK, WE'LL NEVER KNOW.

I THINK IT IS A RISK WORTH TAKING, AN INVESTMENT WORTH MAKING.

HOW DO WE GET THERE? WE DO OUR HOMEWORK.

WE EXPLORE. DO THE SCIENCE. WE ACQUIRE THE SEISMIC. WE INVEST. WE RAISE MONEY. EXPLORE SOME MORE. WE INTERPRET THE DATA. WE DRILL WELLS 3 KILOMETRES UNDER THE OCEAN FLOOR

IT'S TOUGH GOING. NOT FOR THE FAINT OF HEART. EAST COAST EXPLORERS DRILLED MORE THAN 35 WELLS BEFORE THEY DISCOVERED HIBERNIA. SIXTEEN WELLS WERE DRILLED BEFORE COOK INLET WAS DISCOVERED IN ALASKA.

BUT WE HAVE SEVERAL ADVANTAGES ON THE WEST COAST OF NEWFOUNDLAND:

- TARGETS ARE CLOSE TO SHORE, JUST 15-25 KILOMETRES
- WATER DEPTHS ARE RELATIVELY SHALLOW
- TARGET DEPTHS ARE ABOUT 3500 METRES, WHICH IS STANDARD DEPTH FROM A TECHNOLOGY POINT OF VIEW
- WE HAVE GOOD ONSHORE AND OFFSHORE GEOLOGICAL DATA TO LOOK AT
- NO ICEBERGS
- NO CIVIL WARS GOING ON AND GOOD INFRASTRUCTURE – THOUGH THE POTHLES MIGHT COUNT AGAINST US

- WE'VE GOT A HIGH OIL PRICE, AND GOOD FORECASTS FOR THE PRICE OF OIL

THE WORLD IS FULL OF OIL AND GAS EXPLORATION TARGETS. WHAT WE LOOK FOR ARE THE NEGLECTED, THE OVERLOOKED, THE PROJECTS THAT ARE JUST BENEATH THE RADAR BUT HAVE HUGE POTENTIAL. AND IN THIS REGARD, WESTERN NEWFOUNDLAND IS AS GOOD AS ANY IN THE WORLD.

THANK-YOU.