

# THE BUSINESS POST

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## Welcome move

*Vulcan Minerals president sees merit in Nalcor's move into Western Newfoundland*

As the president of a junior oil company that is frequently raising money and then sinking it into the ground in the hope of striking oil, Pat Laracy pretty much lives the capitalist ethos.

But the president of Vulcan Minerals has no problem with the Government of Newfoundland and Labrador's sudden involvement in the industry.

"It's an interesting development and bit of a surprise, I guess," Laracy admitted of Crown Corporation Nalcor's \$14 million investment in a three well drilling program at Parson's Pond.

Laracy argued the deal has to be viewed in perspective.

The majority interest holder in the project, Leprechaun Resources of Calgary, was facing a hard time raising capital for a drilling program because of the tough market for speculative financing.

Laracy doesn't spell it out, but with Leprechaun's rights to the land package set to expire within months, the project was at risk of not happening. Nalcor's decision to sign on as an equity holder and to take on most of the financial risk rescued it.

"Almost everybody in Newfoundland and Labrador knows that there's oil in Parson's Pond," Laracy said. "It's been known for a long time, but the area really needs a few deep wells, a well that would be 2,500 to 3,500 metres deep. All the historical work was very shallow. They didn't get down deep enough to test what we know now are the more interesting rocks based on the seismic data that was acquired over the years. So the situation in Parsons Pond is that you've got drill ready targets and you had Leprechaun Resources that held the majority interest and they've been attempting to finance this project through either cash or partners for some time."

Laracy said Vulcan is happy that Leprechaun found a partner with the "substance and credibility" of Nalcor. Vulcan

holds an average interest of 12 per cent in the Parsons Pond project, with the exact percentage varying with each of the parcels involved.

"We are willing to finance and pay our way," Laracy added. "The fact that it's Nalcor Energy (means) it's a local based company, notwithstanding it's a Crown Corporation, so they're going to be committed to the project for those reasons. I guess it's a bit of a departure from their experience thus far, because as everyone knows they've been involved in the development end of the offshore. This is exploration and obviously it has a different type of risk and a different level of risk, but coincident with that there is also a different level of reward. We're used to that because that's the business that we are in. For Nalcor to be doing that, from our perspective we're quite happy, because I think if they didn't do this, this Parson's Pond project was at risk of not getting done anytime soon."

Laracy admitted that most people probably expect nothing to come from drilling any of the wells. But that's the way exploration works, he explained.

"The only way you're going to have a successful one is if you get the unsuccessful ones behind you," Laracy said. "So you have to drill numerous wells sometimes before you make a discovery. We've done our share of shallow drilling and we don't have a commercial discovery yet, but you know what? We're going to keep at it until we do. So we're committed to the Parson's Pond project."

Parson's Pond is actually a secondary project for Vulcan at the moment. It's priority is the Robinson's # 1 well, a wildcat that it's drilling with partner Investcan in Bay St. George. Vulcan is the operator on that project and holds the largest interest. The plan is to go deep, to some 3,600 metres. Laracy expects the project to last until

mid-September.

However, Laracy is paying some attention to Parson's Pond.

"It will be an interesting fall and winter," he allowed. "Exactly how things are going to unfold, I guess, are yet to be determined."

Laracy said Parson's Pond has great potential. One estimate reckoned the area could contain as much as 280 million barrels of oil. But there's no guarantee that amount, or any commercial amount, of oil is trapped there.

"These projects are going to have a lot of benefit eventually," Laracy argued. "As soon as you demonstrate commercial production, you'll have an industry grow up around this and it's going to be an industry that will have an impact in the rural part of Newfoundland, there's no doubt about it, and you don't have to be a multinational like Schlumberger to get a piece of it. The local guy with a water truck, the local welder, the local heavy equipment operator, all these guys are going to have an opportunity to get a piece of the action."

"You know something, even if you drill those holes and don't have a commercial success, from an explorer's perspective you generate a lot of information, which is very valuable for those who come after you. Exploration builds upon knowledge and the more knowledge you have, the higher your chance of success. So a three well drilling program at Parson's Pond is going to generate a tremendous amount of scientific information and knowledge which, regardless of a commercial discovery, is going to help future companies and probably result in having a discovery sooner as opposed to later. Because we know it's going to happen, but it could be 20 or 25 or 30 years unless somebody drills the holes."