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analyst BY KEN CHERNIN

Go west, young man

Oil and gas exploration is risky business anywhere, yet Newfoundland is experiencing a mini-boom. Here's why

In a time when oil and gas companies across the globe have drastically reduced their exploration budgets due to lower energy prices, western Newfoundland is in the midst of its most exciting exploration programs since hydrocarbons were first discovered in the region. Two separate programs, consisting of an aggregate of six deep onshore wells, are likely to be completed on Newfoundland's west coast in the next 12 months. Activity is taking place in two basins, the Bay St. George sub-basin (part of the Maritimes Basin) and the Anticosti basin.

Bay St. George: three wells

The first program is headed by St. John's-based Vulcan Minerals Inc. (TSXV-VUL) and its joint venture partner, Investcan Energy, in Bay St. George. The first two wells have yielded two natural gas discoveries (one is subject to successful fracture stimulation). Vulcan is contemplating the location of the third well; it could be drilled on the northern sections of its permits, which are believed to be more oil prone. The current program is funded by Investcan for up to \$15 million in exploration expenditures in exchange for a 50% working interest in the property.

Although Newfoundland isn't connected to the North American natural gas markets, there's potential for electrical generation if these discoveries prove to be significant. Newfoundland has an abundance of electricity, thanks to its vast river systems, but the province still depends on the oil-generated facility in Holyrood for between 15% and 25% of its electricity annually. Natural gas generation would not only reduce the province's carbon footprint but also virtually eliminate its dependence on imports to generate its power.

Parson's Pond: three wells

Ask most Newfoundlanders where to find oil, and they'll probably point you

in the direction of Parson's Pond in western Newfoundland. The story goes that oil was first discovered there in 1812 by a man with the last name of Parsons who believed the oil from surface seeps cured his rheumatism. The first exploration well was drilled in the area in 1867. From 1867 until 1974, about 60 onshore wells were drilled in Parson's Pond and the neighbouring areas of St. Paul's Inlet, Shoal Point, Deer Lake, and Bay St. George. Records indicate that hydrocarbons were present in about half of these wells. Although none were commercial discoveries, most of the wells drilled were less than 700 metres, which is far shallower relative to the sediment thickness of more than 3,000 metres. In addition, well locations were also largely based on surface oil seeps because, at that time, there was no such thing as geophysical surveys.

The well locations for the upcoming exploration program are based on 2-D seismic maps and will target the deeper sections (*in situ* platform rocks). While there have been no commercial hydrocarbon discoveries in the Parson's Pond area, it is believed that oil encountered in historic wells were seeps or leaks from a much deeper target or structure called an anticline. This structure has never been penetrated by a drill bit, and according to an independent resource report by Sproule and Associates, the Parson's Pond permits have the potential to contain 284 million barrels of resource in place. However, there's no way to know if the structures are hydrocarbon charged until they're drilled.

Aside from being a potentially prolific play, as well as a historic event, the upcoming program is significant for a different reason: the province's Crown-owned Nalcor Energy is leading the charge with a 67% gross working interest and is the operator of the three permits.

In 2007 Nalcor was created to man-

age the province's energy assets; it holds and manages oil and gas interests in the offshore Hebron oilfield and the White Rose Extension Project. So what brings Nalcor from having working interest in world-class offshore oil projects to drilling onshore exploration wells?

The Government of Newfoundland and Labrador wants its west coast constituents to enjoy the benefits of hydrocarbon production like its constituents on the east coast do. It begs the question: How does the Government of Newfoundland and Labrador attract capital to a virtual frontier area with limited infrastructure, in a market where producing exploration and development companies operating in producing basins are trad-

able. For example, the adjacent offshore permits held by NWest Energy (TSXV-NWN) has the potential to contain 3.8 billion barrels of resource in place, according to a Sproule Associates report based on the interpretation of 5,000 kilometres of 2-D seismic maps for the top 11 leads.

Oil and gas exploration is a risky business in any environment, and the risk is augmented in western Newfoundland. However, the area's appeal is supported by a stable business-friendly government and a competitive royalty regime. Today the onshore and offshore petroleum leases and licences in western Newfoundland are held exclusively by the following juniors: Vulcan Minerals Inc. (TSXV-VUL); NWest Energy Inc. (TSXV-NWN);

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Ryan Duffy's, which was propane before, has seen an improvement in cost over propane, and has enjoyed the seamless supply of gas, never being worried about a delayed delivery for any reason that may occur with a product that relies on trucks for supply."

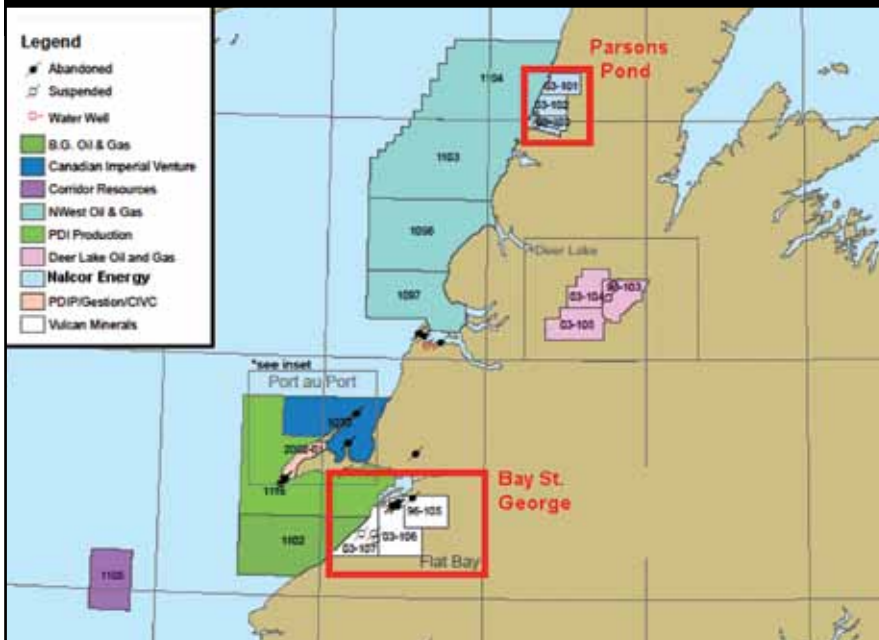
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ing at low valuations? The answer: by proving the area has commercial quantities of hydrocarbons, which requires the drilling and discovery of significant quantities of oil and natural gas.

Nalcor is already looking past Parson's Pond. During an oil and gas symposium in Steady Brook, N.L., in September of 2009, Nalcor president Ed Martin said that the Parson's Pond drilling program was, in part, aimed at providing data for future offshore exploration activities. "The upside potential is not only commercial success in the Parson's Pond onshore, but the chance for large fields in the iceberg-free shallow waters of the near offshore," said Martin at the time. The potential resources off the coast of the Parson's Pond permits are consider-

able. Canadian Imperial Ventures (TSXV-CQV); Enegi Oil Plc. (LSE-ENEG); Deer Lake Oil and Gas (private); Shoal Point Energy (private); B.G. Capital (private); Leprechaun Resources Ltd. (private); and Corridor Resources Inc. (TSX-CDH). If success continues in the current and upcoming exploration program, we could see some bigger fish in western Newfoundland. 🐟

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