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A MAMMOTH OFFSHORE OIL DISCOVERY TURNS THE TIDE FOR NEWFOUNDLAND'S ENERGY AMBITIONS

There's a new found optimism after back-to-back light crude discoveries

At long last, there's again reason for optimism in Atlantic Canada's offshore oil and gas industry. In late September 2013, Statoil ASA and its 35 per cent joint-venture partner, Husky Energy Inc., announced two back-to-back light crude discoveries in the deepwater Flemish Pass Basin, offshore Newfoundland. The larger of the two discoveries, the Bay du Nord exploration well, confirmed the existence of 300 to 600 million barrels of 34 degree API oil recoverable.

Located some 500 kilometers northeast of St. John's, in 1,100 meters of water – and described as "high impact" by both companies – the Bay du Nord light oil discovery represents Statoil's largest-ever operated discovery outside of Norway. Geir Richardsen, Statoil Canada's vice-president of exploration, says followup plans include acquiring additional 3-D seismic surveys and drilling of exploration and appraisal wells in the largely unexplored Flemish Pass



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Basin. Depending on those results, the Bay du Nord discovery could be producing light crude sometime after 2020. "We rank the Grand Banks and the Flemish Pass Basin very highly," Richardsen says. "Canada is a core area for us; it's an environment where we hope to create good value."

The semi-submersible rig West Aquarius, near St. John's,

Newfoundland, drilled Statoil's Harpoon and Bay du Nord light oil discoveries in 2013

Photograph courtesy of Statoil Asa

Hailed as the largest oil discovery off the coast of Newfoundland and Labrador in 30 years, the Bay du Nord well couldn't have come at a more critical time. The discovery has opened up a new oil and gas

frontier – from the continental slope to the deep water – that could reverse projected production declines and attract new players to several of its largely unexplored deepwater basins. The discovery has re-stoked another, somewhat presumptuous, ambition of the provincial government: to become an oil and gas producer in its own right.

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According to the Canada-Newfoundland and Labrador Offshore Petroleum Board (the C-NLOBP), offshore production in the province is roughly 280,000 barrels of oil per day – or about 40 per cent of Canada's light crude production. During the next decade, however, the maturing Hibernia, Terra Nova and White Rose fields will decline quickly. When Hebron, the fourth commercial energy project in the Jeanne d'Arc Basin, comes on stream in 2017, overall production will jump to approximately 320,000 bpd. After several years of peak oil production at Hebron, however, overall offshore production will resume on its projected decline curve.

Since the late 1990s, Statoil has been active in the area (through its predecessor Norsk Hydro ASA) and the company holds non-operated

interests in the Hibernia and Terra Nova fields, the Hibernia tie-in and Hebron development fields, as well as non-operated interests in exploration licenses in the Jeanne d'Arc and East Orphan basins.

The Bay du Nord oil reservoir – a Jurassic-age sand with high porosity and permeability – lies two kilometers below the seabed. "It's very much a standardized drilling process," says Richardsen, partly because there are no overly high-pressured formations to contend with.

"Bay du Nord could become a giant field if the satellite blocks turn out to also contain light oil," says Michael Enachescu, a professor of geophysics at Memorial University and chief geophysicist with Calgary-based MGM Energy Corp. "Bay du Nord could become the first deepwater



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development in offshore Canada."

The three discoveries in the Flemish Pass Basin are located on separate geological structures, within 10 to 20 kilometers of each other. The Mizzen exploration well, drilled in 2009 by Statoil and its joint-venture partner, Husky, flowed 6,290 bpd of 22 degree API crude, and defined a resource of 100 to 200 million barrels of oil recoverable. The Statoil-operated light oil discovery at Harpoon, drilled in June 2013, will require additional appraisal wells to determine its magnitude.

Comparable in size to the Jeanne d'Arc Basin – which has been tested by 155 exploration and 55 development wells – the Flemish Pass Basin has been explored by just 10 wells to date. The Statoil-operated leases span 8,500 square kilometers, or roughly 75 per cent

of the Flemish Pass Basin. The remainder of the basin is open Crown land, a portion of which will be publicly auctioned in 2014 by the C-NLOBP. In 2004, the C-NLOBP released a Flemish Pass Basin hydrocarbon resource assessment, calculating that it contained 1.7 billion barrels (at 50 per cent probability) with expected field sizes ranging from 44 million to 528 million barrels.

"The key to successful exploration is the presence of source rocks, and I believe that these basins are on the 'Jurassic Superhighway' that extends from Nova Scotia to the Grand Banks and the Flemish Pass, and across the Atlantic to the Irish Sea and the Porcupine Basin," Enachescu says. The former Husky geophysicist, who has 30 years of experience in offshore Newfoundland exploration, adds that

these discoveries "shine a new light on the potential of the Southeast Orphan and the Carson basins."

The Statoil discoveries are fueling new optimism in the Atlantic province for oil and gas activity and, consequently, growing the ambitions of the provincial government. Derrick Dalley, the minister of natural resources for Newfoundland and Labrador, says the discovery "proves there is oil in our province's deepwater basins, and it will encourage increased offshore exploration activity."

In 2007, as part of a provincial energy strategy, the government of Newfoundland and Labrador created an arm's-length Crown corporation called Nalcor Energy. Nalcor is involved in hydroelectricity, energy marketing and the construction of offshore energy infrastructure. The company also holds and manages the province's equity "back-in" for offshore commercial energy projects.

In the mid-2000s, then-premier Danny Williams negotiated for a larger share of the offshore resource pie. He established the historic

right, for the former "have not" province, to acquire up to a 10 per cent equity position in oil and gas projects requiring Development Plan Approvals by the federal and provincial governments. Under the terms of the equity ownership agreement, Nalcor pays a share of exploration and pre-development based on costs incurred by the joint-venture parties, then contributes its share of subsequent development and operational costs as needed.

"We're modeling ourselves after Statoil, says Jim Keating, vice-

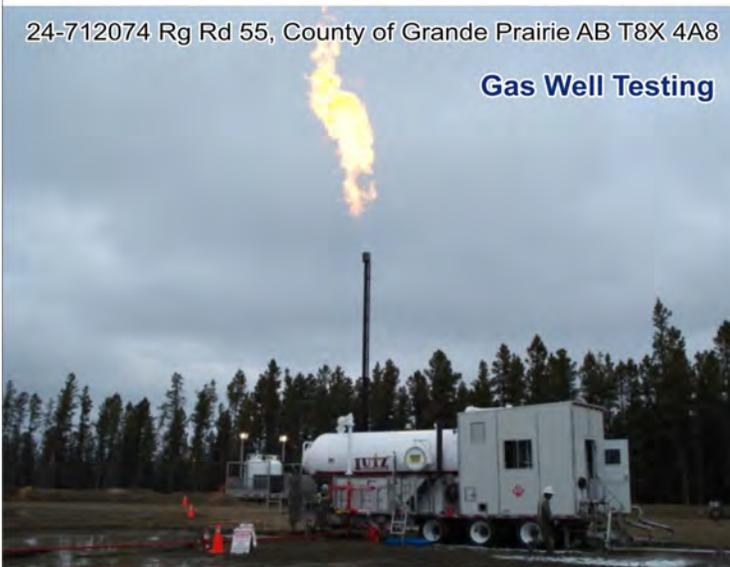
president of Nalcor's oil and gas division. Statoil began in 1972 as Norway's arm's-length state oil company. Since then, it has evolved from exploring the Norwegian continental shelf (where it still produces two-thirds of its daily production) to a global exploration and production company that operates in more than 30 countries around the world. In 2001, Statoil was partially privatized and publicly listed, though the Norwegian state still owns a 67 per cent interest, which is managed by its Ministry of Petroleum and Energy.



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Today, Nalcor produces between 3,000 to 4,000 bpd from its 10 per cent equity stake in the Hibernia South Extension and its five per cent equity stake in the White Rose Growth Project, which includes the North Amethyst Field, the West White Rose Field and the South White Rose Extension. Nalcor has also acquired a 4.9 per cent working interest in Hebron. Second in size to the giant Hibernia field, Hebron was discovered in 1980 and contains 400 million to 700 million barrels of 18 to 25 degree API oil recoverable.

When the Hibernia South Extension and Hebron fields both start producing, Keating estimates Nalcor's production will increase to between 10,000 and 14,000 bpd. He claims Nalcor could be cash flow positive by 2016, enabling it to fund current and future oil and gas investments in onshore and offshore fields.

Independent of its equity purchases, Nalcor has undertaken an ambitious geological assessment of the province's offshore hydrocarbon resources, including a regional

rock physics study, a seabed core analysis study and the satellite imaging of hydrocarbon seeps emanating from the sea floor.

According to Keating, 85 per cent of Newfoundland and Labrador's historical seismic data base is more than 15 years old; acquired with old technology, he said, this legacy 2-D seismic data would hardly attract new oil and gas investment to the province. During the past three years, Nalcor invested \$15 million for a 20 per cent stake in 47,000 kilometers of new 2-D

multi-client seismic data acquired by TGS-NOPEC Geophysical Company ASA,, a Norwegian seismic company that specializes in imaging frontier regions.

Working with TGS, Nalcor assisted in planning the 2-D seismic surveys, often locating them over active sea floor petroleum seeps. According to Keating, 75 per cent of the new 2-D multi-client seismic data is situated in the new oil and gas frontier: the continental slope and the deepwater. The multi-client seismic surveys are all available, for licensing, by



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industry. Nalcor's investment is reaping some reward. The new 2-D seismic data revealed the existence of several new deepwater Tertiary-age geological basins offshore Labrador - Chidley, Henley and Holton - and extended the Hawke Basin. A small revelation in a region that has yet to be uncovered in full.

CANADA, U.S. SAFETY AGENCIES URGE FAST ACTION ON OIL-BY-RAIL CARS

North American regulators should phase out the type of rail car involved in last July's deadly Lac-Megantic crash "sooner rather than later," Canadian investigators said on Thursday, urging the United States and Canada to impose tougher standards swiftly.

Canada's Transportation Safety Board (TSB) and the U.S. National Transportation Safety Board (NTSB) issued three recommendations each, adding pressure on regulators to improve safety on the tracks after a series of oil-by-rail accidents in recent months.

Neither the TSB nor the NTSB has the power to impose regulations, which only the U.S. and Canadian governments can put in place.

"A long and gradual phase-out of older cars simply isn't good enough," TSB Chairwoman Wendy Tadros said at an Ottawa news conference. "The period in which that phase-out happens is something we're going to leave to regulators, but we're saying this should be

happening sooner rather than later."

Government officials in both countries said on Thursday they viewed the recommendations as a matter of urgency.

The oil that exploded in the Lac-Megantic, Quebec derailment, which caused an explosion and fire that killed 47 people, was carried in DOT-111 tanker cars that pre-dated tougher new safety standards for that type of cars that were introduced in October 2011.

While DOT-111 cars built since 2011 comply with new requirements, tens of thousands of older ones remain in service, and shipping oil by rail has grown exponentially as the industry discovers and extracts crude deposits in areas such as the Bakken region of North Dakota, where pipelines are scarce.

"The large-scale shipment of crude oil by rail simply didn't exist 10 years ago, and our safety regulations need to catch up with this new reality," said NTSB Chairwoman Deborah Hersman. "While this energy boom is good for business, the people and the environment along rail corridors must be protected from harm."

ALREADY UNDER DISCUSSION

Canadian Transport Minister Lisa Raitt and U.S. Transportation Secretary Anthony Foxx have already held discussions about new safety standards for the DOT-111 cars.

In 2012, the NTSB recommended that the DOT-111 cars be retrofitted or phased out. Raitt said earlier this month that new standards would be introduced fairly soon, and North

Dakota Senator John Hoeven said Foxx had promised tougher standards "in weeks, not months."

North Dakota Governor Jack Dalrymple told Reuters this week the new standards were needed immediately.

Last month, a 106-car BNSF Railway Co. train carrying crude oil eastward crashed into a derailed grain train near Dalrymple's hometown of Casselton, North Dakota.

In early November, two dozen cars on a 90-car oil train derailed in rural

Alabama, erupting into flames that took several days to fully extinguish.

Canada's TSB said on Thursday that investigators had found that the older DOT-111 cars in the Lac-Megantic crash experienced significant ruptures even at slower speeds, based on their analysis of the cars at the rear of the train that suffered tank shell and head damage.

The U.S. NTSB recommended on Thursday that regulators require expanded route planning for shipping dangerous materials to avoid populated and other sensitive areas.

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It also recommended auditing shippers and rail carriers to ensure they properly classify hazardous materials and have adequate safety plans.

Thirdly, it recommended U.S. authorities develop an audit program to ensure rail carriers are able to respond properly to worst-case scenario accidents in which a train spills its entire oil cargo.

The Canadian agency made similar recommendations for route-planning and safety as well as for having emergency response plans along these routes.

Raitt she said in a statement she has instructed her officials to review the recommendations on an urgent basis.

"We have continuously demonstrated our commitment to safety by implementing every one of the Transportation Safety Board's recommendations arising from the investigation at Lac-Megantic," she said.

At the U.S. Conference of Mayors in Washington, Foxx did not specifically comment on the new recommendations, but said there was no "magic bullet" to improve the safety of shipping oil by rail.

"We don't think this is a situation where one type of action is going to solve this problem," Foxx said. "We've got a prevention focus, we've got a mitigation focus, we've got an emergency response focus."

Later, the U.S. Department of Transportation said in a statement that safety was its top priority and that it was already

acting on the recommendations.

"We agree that a comprehensive, all-of-the-above approach is needed to ensure the safe transport of crude oil. DOT has already begun taking actions on these recommendations and other additional steps..." it said. "We intend to take additional steps in the coming days and weeks."

NEARLY 4,000 RESIDENTS WITHOUT GAS FOLLOWING MANITOBA PIPELINE EXPLOSION

Nearly 4,000 residents across southern Manitoba are still without natural gas, one day after a pipeline exploded near the community of Otterburne, Man.

Manitoba Hydro said in a statement Sunday that nine communities in the area would be without natural gas for up to 72 hours as emergency crews worked to repair the damaged pipeline.

The explosion, which occurred early Saturday morning, sent flames shooting into the air and led to the evacuation of five homes. There were no injuries or damage to homes and property in the area.

The rupture of the TransCanada pipeline has also affected customers in the United States, with residents in North Dakota, Wisconsin and Minnesota being asked to conserve their gas supply.

Manitoba Hydro said it did not have an estimate on how long the interruptions would last.

The outages come as Environment

Canada issues a blizzard warning for much of southern Manitoba, with blowing snow and frigid temperatures making things worse for residents without heat. The weather agency says temperatures in the region could feel as cold as -39C with the wind chill on Sunday.

Officials in the town of Niverville, one of the communities affected by the gas outage, say they have opened two warming centres for families and residents looking to stay warm and have requested additional cots and blankets from the province.

Some communities have also received mobile gas-supply services to help heat local centres, but other mobile services have been stuck at the Saskatchewan-Manitoba border due to treacherous weather conditions.

Another of the affected communities, the rural municipality of Hanover, declared a state of local emergency Sunday as a result of the gas shutoff.

The massive fire had continued to burn throughout Saturday as crews worked to slowly bleed off the line and burn any remaining natural gas. But TransCanada spokesperson Davis Sheremata said the fire had been extinguished by Sunday afternoon.

Officials from the National Energy Board and the Transportation Safety Board visited the site of the explosion on Sunday and are inspecting the pipe.

The cause of the fire has not been determined and officials say there is currently no cost estimate on the damage.

TRANSCANADA SHUTS DOWN PIPELINE AFTER EARLY MORNING BLAST

TransCanada has shut down a section of its Canadian Mainline natural gas pipeline system in Manitoba following an explosion early Saturday morning.

The blast, which sent a fireball into the sky, happened just after midnight local time Saturday in Otterburne, which is about 50 km south of Winnipeg

"We are in the process of venting natural gas from the system to eliminate the fuel source for the fire at a valve site approximately 25 km south of Winnipeg," Grady Semmens, a spokesman for the Calgary-based company, wrote in an email.

Semmens added that the fire is "steadily decreasing in size and is being closely monitored by TransCanada staff with support from local emergency response crews. There are no reported injuries at this time and our response efforts are proceeding safely. We will continue to take steps to protect the safety of the public and our employees."

Five homes in the area have been evacuated as a precaution, he said.

TransCanada says the cause of the fire is unknown and investigations can not begin until the fire has been put out.

Earlier this week, TransCanada began shipping crude oil through the southern part of its controversial Keystone XL pipeline.



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