

ROCK SOLID

Triangle Petroleum hopes to harvest natural gas from Nova Scotia's Shale rock

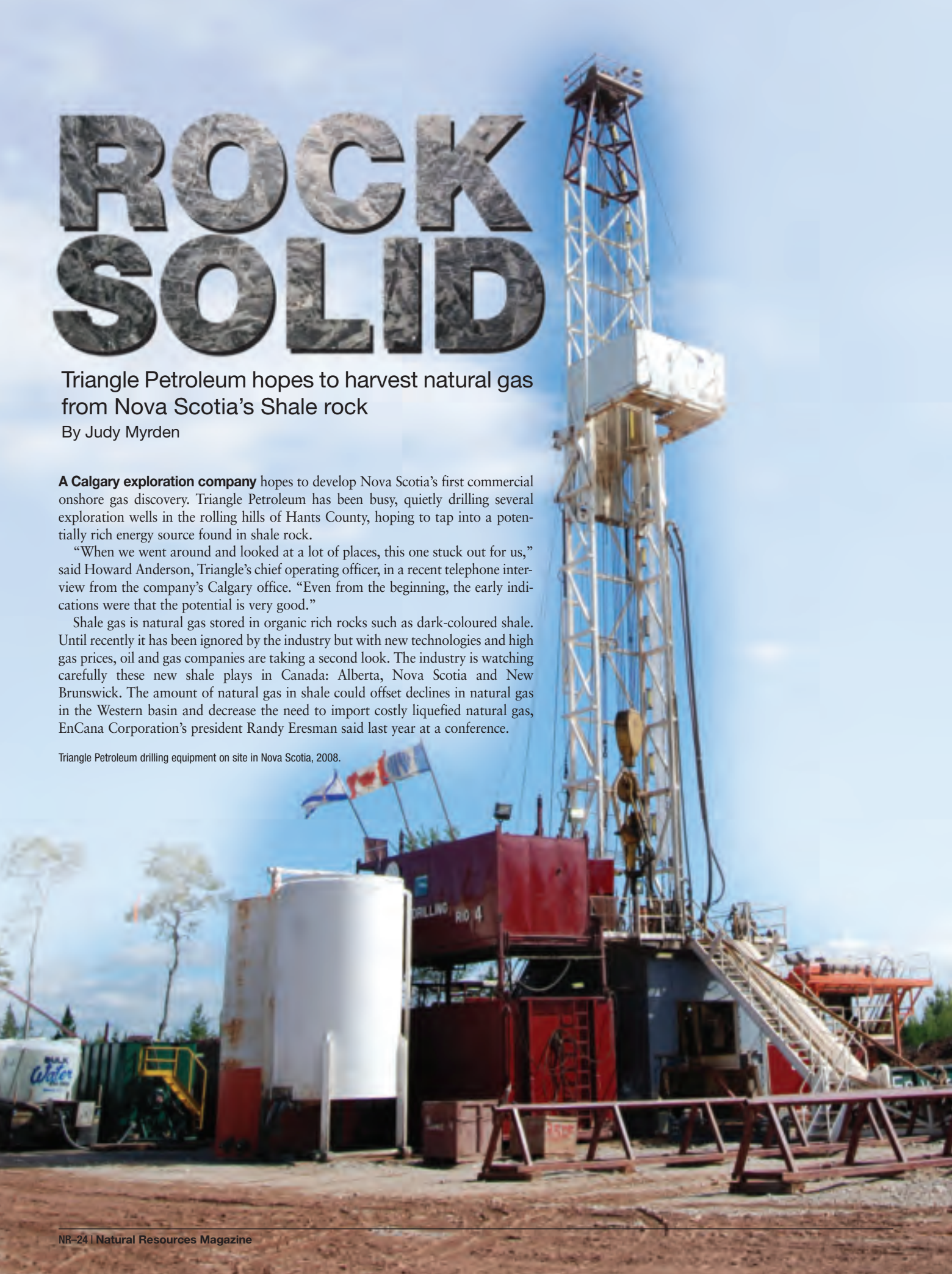
By Judy Myrden

A Calgary exploration company hopes to develop Nova Scotia's first commercial onshore gas discovery. Triangle Petroleum has been busy, quietly drilling several exploration wells in the rolling hills of Hants County, hoping to tap into a potentially rich energy source found in shale rock.

"When we went around and looked at a lot of places, this one stuck out for us," said Howard Anderson, Triangle's chief operating officer, in a recent telephone interview from the company's Calgary office. "Even from the beginning, the early indications were that the potential is very good."

Shale gas is natural gas stored in organic rich rocks such as dark-coloured shale. Until recently it has been ignored by the industry but with new technologies and high gas prices, oil and gas companies are taking a second look. The industry is watching carefully these new shale plays in Canada: Alberta, Nova Scotia and New Brunswick. The amount of natural gas in shale could offset declines in natural gas in the Western basin and decrease the need to import costly liquefied natural gas, EnCana Corporation's president Randy Eresman said last year at a conference.

Triangle Petroleum drilling equipment on site in Nova Scotia, 2008.



What has the industry and analysts taking a closer look at Triangle in particular is an optimistic report about the resource potential at its Nova Scotia site. Triangle, which was formed three years ago, made a significant shale gas discovery in late 2007 after drilling two deep wells on the Windsor block in Kennetcook, about 70 kilometres north of Halifax.

Ryder Scott, a petroleum consulting firm in Calgary, assessed the property near Kennetcook, and found a potential 69-trillion cubic feet of shale gas. Other shale plays have found recovery to be about 10 per cent, but if 6.9-trillion cubic feet of gas were recovered it would double the size of Nova Scotia's only offshore gas producing project, the ExxonMobil-led Sable development, with an estimated 3.2-trillion cubic feet of recoverable gas. Triangle provided all the available data to Ryder Scott using the company's database of log and core samples from the wells.

Irene Haas, CanAccord Capital analyst, of Houston, Texas visited the Kennetcook site last fall. She says the Ryder Scott report is very significant. "Although this resource assessment only covers 40 per cent of Triangle's land block... we are very encouraged," she wrote last May.



Aerial view of Triangle Petroleum's work site. The Windsor Block property is within 25 miles (40 kilometers) of the Maritimes & Northeast Pipeline which supplies gas to one of the largest markets in North America – the northeastern United States.

This spring, the junior oil and gas company received the green light for its development plan from the Nova Scotia government. "It means we've secured tenure to the land for at least the next 10 years. That's important because it allows us to continue delineation and development work," said Anderson.

The government approved Triangle's plan to continue its search for unconventional gas on almost half a million gross acres in Nova Scotia. The Calgary company must drill seven onshore exploration wells by 2014 at its site, as outlined in the production lease approved

by the government.

To date, Triangle and current partners Zodiac Exploration and Contact Exploration have spent about \$32-million in seismic, drilling and other technical work in the vast tract of land known as the Windsor block.

Triangle was attracted to Nova Scotia's onshore oil and gas play for several reasons: the potential of large quantities of shale gas; close proximity to the Maritimes and Northeast Pipeline which supplies gas to the energy-hungry U.S. northeast; and, favourable royalty rates of 10 per cent.

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Besides Triangle, there are nine other companies exploring onshore Nova Scotia for oil and gas. Ross McLaren, N.S. Energy Department spokesman, said there is a “growing interest” in the province’s onshore oil and gas prospects. “It’s still a frontier area but we are putting more resources from the Department in it,” he said. New technologies, steadily increasing natural gas prices and the Sable pipeline are attracting these companies to Nova Scotia, he said.

Triangle wants to be an “early mover”, to

get in ahead of everyone else and start pumping gas into the pipeline which is about 40-kilometres from its Kennebec site. “We’d like to get in early before the competition does on a large block or large blocks of land that has significant resource potential and are close to infrastructure in a friendly regulatory regime,” Anderson said.

The challenge now is to release the gas from the shale rock, which is as impermeable as concrete, according to Schlumberger Oilfield Services. In the United States, there

has been shale gas production and Triangle hopes to “piggyback” on the successes south of the border, according to Anderson. The Barnett shale in Texas was first drilled in 1981, and currently produces about 3-billion cubic feet of gas per day.

Triangle and its partners hope to drill six more wells to firm up its “sign post” about the gas potential, though raising money in these recessionary times has not been easy for junior exploration companies. “Obviously, if we had a really full bank account right now we would be back out there drilling because finding places to drill in this block isn’t the challenge,” Anderson explained.

To proceed with its development plan, Triangle must sign up a new partner and is in discussion with about 20 companies about becoming a partner in the venture. “We’re looking for a strategic partner,” said Anderson. “We are a small company and we’ve done the best we can by bringing in partners and brought in some capital last summer.”

He said this new, strategic partner could be another oil or gas company or energy firm or gas utility wanting to diversify its portfolio.

As with any exploration it can be a risky proposition and Triangle hit a hurdle in April after analyzing its well results. “We didn’t get any gas to flow out of that well. We think we did everything right. We’ve been back and analyzing the properties of the rock,” said Anderson. “It just didn’t work as well as it is supposed to, it’s because of the confining stress in the rock. The gas is all still there but we weren’t successful in getting it to flow at this well.”

He does believe the company has figured out what went wrong. “It doesn’t deter us from proceeding with the rest of our program,” he added. “We are still very confident the resource potential is still very large.”

“This is part of the risk in exploration. We’re all well aware of that. You still can’t hang a value of the entire basin on the results of a single well or even a half dozen wells. We’re still encouraged,” said Anderson.

Triangle had hoped to be in commercial production by 2010 but that seems unlikely now. Anderson said the company will decide by November whether the shale gas can be successfully pumped out of the ground and into the pipeline for deliveries. Once a decision is made the cycle time for construction and drilling could take almost two years, he said.

“We still believe quite honestly that commercial production is possible and we’ve got some work to completely prove it to ourselves.”



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