

PLAYING OLD HARRY

**WHY HASN'T THE LARGEST KNOWN UNDRILLED
MARINE STRUCTURE IN CANADA BEEN DEVELOPED?**

By Ryan Cleary



Magdalen Islands coastline.

OLD HARRY



is a curious name for a Gulf of St. Lawrence prospect that could contain billions of barrels of oil and trillions of cubic feet of natural gas. One theory — the most obvious — is that the prospect was named after the nearest community, which just so happens to be called Old Harry, a small hamlet on the northern-most island of the archipelago of the Magdalen Islands. Another theory is that the prospect was named after the so-called Old Harry Rocks, sea stacks located off England's south coast that have been a challenge to sailors for generations. The latter may be a more fitting namesake for the Old Harry prospect, considering the obstacles that have stood in the way of its development.

Old Harry is described as “the largest known undrilled marine structure in Canada”, with twice the potential of the Hibernia field off Newfoundland (up to 2-billion barrels of recoverable oil), and three times the potential of the Sable Island

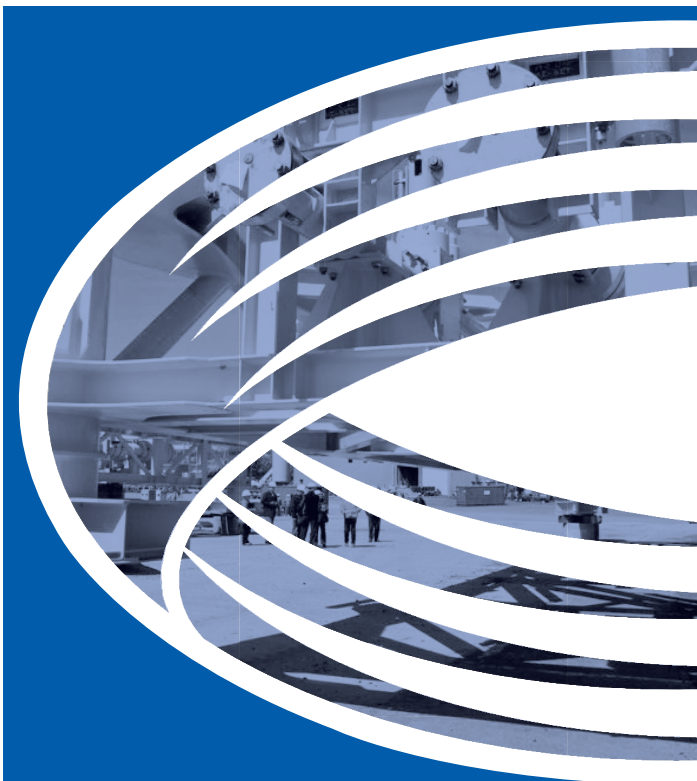
gas field off the coast of Nova Scotia (up to 5-trillion cubic feet of recoverable gas). Despite that enormous potential — first identified by Texaco in the 1970s using seismic — there hasn't been any exploratory drilling on Old Harry, which is the only way to prove the presence of a commercially viable hydrocarbon find.

Still, the clues have been tantalizing. Satellite photos of Old Harry have shown oil seeping from the Earth's crust and into the ocean from at least six locations.

There are two major impediments to development that have been outstanding for more than 30 years.

First, Quebec and Newfoundland and Labrador have yet to agree on an offshore boundary. Located in the Laurentian Channel, Old Harry is about 29 kilometres long and straddles the Quebec-Newfoundland boundary, agreed to by Quebec in 1964, but still disputed by Newfoundland and Labrador.

Considering the chilly relationship between the two provinces as of late over development of the Lower Churchill hydro project in Labrador and the transmission of



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“If we make a significant discovery perhaps that will speed up resolution of the issues holding us up on the Quebec side, we sort of made a decision this past winter that the issues on the Quebec side will unfold in their own time.”

NORM MILLER President & CEO, Corridor Resources

power through Quebec — not to mention a continued bid for redress on the Upper Churchill contract — the chances of reaching an agreement on the Gulf boundary will be a challenge, to say the least.

Second, Quebec and Ottawa have yet to agree to a joint management and revenue sharing agreement, similar to the Atlantic Accords that the federal government struck separately with Nova Scotia and Newfoundland and Labrador in the 1980s. Drilling cannot take place on the

Quebec portion of Old Harry until that Province signs an Accord with the Government of Canada.

There are other obstacles as well, not the least of which are the environmental concerns stemming from the ongoing Gulf of Mexico oil spill — the biggest in U.S. history.

Norm Miller, president and CEO of Halifax-based Corridor Resources, a junior resource company that holds the drilling rights to much of Old Harry, acknowledges the challenges, but says his

primary focus is finding a major partner with an oil rig to drill an exploration well on the Newfoundland portion of the prospect. The earliest that could happen is 2011.

“We have a valid exploration license on the Newfoundland side (which expires in 2013) and if we make a significant discovery perhaps that will speed up resolution of the issues holding us up on the Quebec side,” Miller said. “We sort of made a decision this past winter that the issues on the Quebec side will unfold in their own time.”

As for the remainder of 2010, Corridor Resources plans to conduct a site survey on the Newfoundland side of the Old Harry structure in preparation for drilling the exploration well.

The most desirable location for an exploration well is Quebec’s sector of Old Harry, which Corridor Resources has held the license to since 1996, but Miller said his company has to go where there are no obstacles.

Still, there is encouraging news.

This spring the Quebec government authorized proceeding with environmental studies covering the Quebec sector of the



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Gulf. "This represents a good opportunity and a lot of money for Quebec, especially at a time where we are trying to limit our dependence on oil imports," said Nathalie Normandeau, Quebec's Natural Resources minister, in an interview with Canwest News Service.

Indeed, in a November 2009 speech to the CIM Petroleum Society, Miller said \$15-billion departs Quebec every year to import oil "without the economic benefits of the development of that oil."

Old Harry's potentially rosy economics aside, that doesn't change the fact that relations between Quebec and Newfoundland and Labrador are testy.

The Parti Québécois expressed fears earlier this spring that by drilling a well on the Newfoundland sector of Old Harry, Corridor Resources will siphon Quebec's resources through Newfoundland and end up leaving the province short of billions of dollars in royalties. "We don't want Old Harry to become payback for Churchill Falls," PQ critic Alexandre Cloutier said at the time.

A master's research paper prepared for Memorial University this past May examined the factors impeding the development

of Old Harry. Sean Kelly, author of the paper, says that the industry has not evolved because of the level of uncertainty around things like the resource itself, environmental impacts, the management and regulatory regime, royalties, and the offshore boundary. He states that, "The problem that we see in the Gulf is a real catch 22. Industry will not invest without regulatory certainty, and governments are reluctant to create regulatory certainty without a significant discovery."

The paper, which is dated prior to the blowout in the Gulf of Mexico, found that the lack of a Canada-Quebec joint management and revenue sharing agreement is a major impediment to industry development. If management issues were resolved through an Accord like the Atlantic Accords, then the lack of a boundary agreement would not preclude exploration and development from taking place in some parts of the Gulf.

Even though the Atlantic Accords were signed in the mid-1980s, the offshore boundary between Nova Scotia and Newfoundland and Labrador was not settled until 2002, when an arbitration panel appointed by the federal Natural

Resources minister under the Atlantic Accords Implementation Act was established to resolve the matter.

This past spring the Quebec legislature passed an all-party motion by a vote of 101 to one to support a Canada-Quebec offshore Accord. In fact, industry sources indicate that the federal and Quebec governments have already initiated preparatory Accord talks.

The public, however, has never been more sensitive to oil and gas exploration in light of the oil spill in the Gulf of Mexico, described as the biggest environmental disaster in U.S. history. The Deepwater Horizon rig exploded and sank April 20th, killing 11 workers and threatening the Gulf Coast from Louisiana to Florida. The leak may not be plugged until August.

Still, Miller, who plans to retire from Corridor Resources on Oct. 1, doesn't think Old Harry should be measured by the same yard stick as the BP catastrophe. He said the ultra-deep well in the Gulf is about three times deeper than the Old Harry prospect. "Thousands of wells have been drilled at the depths we're looking at," he said. "And drilled safely." | **NRM**



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