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For submission to the Committee on Labour and the Economy – Quebec

General Consultation

The Energy Sector in Quebec – Context, Issues and Questions

AN ENERGY OPPORTUNITY FOR QUEBEC

by

Corridor Resources Inc.

A Summary of the Brief

In examining its energy future, Quebec should not overlook an important opportunity to drill a major oil and gas prospect within its territorial waters in the Gulf of St. Lawrence. The prospect, known as Old Harry, has the potential to displace much, if not all, of the oil and gas that Quebec currently imports and to contribute greatly to the security and sustainability of Quebec's energy future. The seismic delineating the prospect has already been completed, and several major international companies have expressed an interest in drilling an exploration well on the prospect. Exploration activities at Old Harry would be conducted under stringent and comprehensive regulations, resulting in a very high assurance of a safe and environmentally responsible operation. In fact, a petroleum development at Old Harry would be a net positive for Quebec's environment. A major discovery at Old Harry would result in economic spin-offs from development and production that would be very significant for Quebec's economy, including potentially billions of dollars in production royalties. Yet Old Harry remains undrilled today because the governments of Quebec and Canada, after several years of preliminary discussions, have not as yet taken the actions necessary to permit a 50-day exploration well to be drilled to determine how much oil and gas this giant prospect may contain.

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Introduction

In examining its energy future, Quebec should not overlook an important opportunity to drill a major oil and gas prospect within its territorial waters in the Gulf of St. Lawrence. The prospect, known as Old Harry, has the potential to displace much, if not all, of the oil and gas that Quebec currently imports and to contribute greatly to the security and sustainability of Quebec's energy future. The seismic delineating the prospect has already been completed, and several major international companies have expressed an interest in drilling an exploration well on the prospect. Exploration activities at Old Harry would be conducted under stringent and comprehensive regulations, resulting in a very high assurance of a safe and environmentally responsible operation. In fact, a petroleum development at Old Harry would be a net positive for Quebec's environment (see comments below). A major discovery at Old Harry would result in economic spin-offs from development and production that would be very significant for Quebec's economy, including potentially billions of dollars in production royalties. Yet Old Harry remains undrilled today because the governments of Quebec and Canada, after several years of preliminary discussions, have not as yet taken the actions necessary to permit a 50-day exploration well to be drilled to determine how much oil and gas this giant prospect may contain.

The Gulf of St. Lawrence – Quebec's Oil and Gas Frontier

The Gulf of St. Lawrence contains two large sedimentary basins that have the potential to hold vast quantities of both oil and natural gas (please refer to Figure 1). The northern part of the Gulf contains the Anticosti Basin, where significant shows of oil and gas have already been found in a few wells drilled on Anticosti Island, and where it is expected that discoveries of commercial amounts of oil will be made in the years to come. The offshore part of this basin is many times larger than Anticosti Island and has never been drilled.

The central and southern part of the Gulf contains the younger Magdalen Basin, also with the potential for huge amounts of oil and natural gas in prospects around the myriad of salt structures present within the basin (please refer to Figure 2). The Magdalen basin is comparable in many respects to the prolific southern North Sea, where huge discoveries of natural gas have been made, producing gas and economic benefits for western Europe for more than 30 years. In fact, the southern North Sea basin and the Magdalen Basin were part of a chain of Carboniferous Age 'sister basins' formed prior to separation by continental drift.

The Magdalen Islands and Anticosti Island form part of Quebec, resulting in Quebec containing within its boundaries the lion's share of the area covered by the Gulf of St. Lawrence. More than 80,000 kilometers of marine seismic have been acquired in the Gulf from the 1960's through to the mid 1980's (please refer to Figure 3). This older seismic data led to the identification of the giant Old Harry structure, the largest and most promising prospect known in the entire Gulf of St. Lawrence. The Anticosti and Magdalen basins sit on the doorstep of large and hungry markets for oil and gas in Quebec (please refer to Figure 4) and hold the promise to reduce or potentially eliminate Quebec's dependence on external sources for its fossil fuel supplies.

The Case for Drilling Old Harry

Old Harry is one of the largest and most promising petroleum exploration prospects in all of eastern Canada and is located primarily within the Quebec sector of the Gulf of St. Lawrence. The giant prospect has the potential to hold up to 2 billion barrels of recoverable oil (if it is oil bearing) or up to 5 trillion cubic feet of recoverable gas (if it is gas bearing). This means that Old Harry is potentially twice the size of the Hibernia oilfield offshore Newfoundland or three times the size of the Sable natural gas project offshore Nova Scotia. The prospect is the 'poster boy' for exploration in the Gulf of St. Lawrence. It is located in a water depth of 460 meters in the middle of the Laurentian Channel. It straddles the Quebec/Newfoundland boundary established by premiers Lesage and Smallwood in 1964 and agreed to by Quebec, but apparently not by Newfoundland. Approximately two-thirds of the prospect lies within the sector claimed by Quebec, including the most desirable location for an exploration well. It is only in the last 10 to 15 years that the technology and equipment has become available to operate in water depths similar to that present at Old Harry.

A discovery at Old Harry has the potential to produce several hundred thousand barrels of oil per day or between 500 million to 1 billion cubic feet of gas per day. Development of a gas or oil discovery at Old Harry would be a multi-billion dollar project and would have a profoundly positive economic impact on Quebec, including employment, contract services, shipyard construction, pipelines, etc. To emphasize this point, the Canadian Association of Petroleum Producers has recently reported that over time "in excess of \$40 billion has been spent in exploration and development activities in Canada's offshore regions". Most of these expenditures have been made in waters off the east coasts of Nova Scotia and Newfoundland, where petroleum activities are still considered to be in their early stages. It is estimated that government royalties alone over the production life of a project of Old Harry's magnitude could run in the order of \$7 to \$8 billion, exclusive of the tax benefits.

A development at Old Harry would be subject to strict standards regarding safety and environmental considerations. In fact, producing and transporting oil or gas to market by pipeline from developments in the Gulf of St. Lawrence would be strongly positive for Quebec's environment. This is because global statistics clearly demonstrate that only a tiny fraction of oil pollution in the marine environment

comes from the offshore production and pipeline transportation of oil, whereas oil spilled from tankers transporting oil causes the vast majority of oil pollution in the world's oceans. By reducing or eliminating the requirements to import Quebec's fossil fuel energy, such a development would be in line with the Province's drive for sustainable development. And a discovery at Old Harry could lead to follow-up discoveries in the surrounding region.

Approximately \$4 million worth of modern seismic has been acquired by Corridor across the Old Harry structure and the surrounding area in two separate programs, the first in 1998 and the second in 2002 (please refer to Figure 5). No further seismic needs to be done at this time, and the next step is to drill an exploration well to see what Old Harry contains. The processed seismic data show distinct geophysical anomalies that appear to be directly related to a large accumulation of oil and/or natural gas. In addition, six natural oil seeps have been detected by satellite on the ocean surface overlying the flanks of the Old Harry structure.

The BAPE Report on Seismic in the Gulf of St. Lawrence

Following public hearings at various locations in Quebec, the BAPE report on seismic in the Gulf was completed at the end of August, 2004. The report makes three primary recommendations regarding steps that must be taken before additional marine seismic can be acquired in the Quebec sector of the Gulf:

- (1) a review of the literature must be carried out to determine the effects of seismic activity on marine life;
- (2) certain areas where seismic activities could be restricted have to be protected; and
- (3) a legal environmental framework for authorizing seismic projects must be implemented.

Given the political sensitivity surrounding the issues raised in the report, it is conceivable that these objectives may be met only after an extensive period of time. This likely will mean that many years will pass before Quebec can know whether or not the Gulf of St. Lawrence has the potential to contribute significantly to the energy security and economic wealth of Quebec.

The Option to Drill Old Harry

Old Harry is the lead oil and gas exploration prospect in the Gulf of St. Lawrence. No more seismic is needed at Old Harry, it is ready to be drilled. If successful, it has the potential to open up a new petroleum exploration, development and production frontier and an industry that would have huge long-term impacts on the economy of Quebec and the surrounding Atlantic Canadian region. Within its own borders, Quebec is sitting on significant answers to some major questions regarding the security of its future supplies of oil and natural gas. A successful well at Old Harry would galvanize interest in quickly and effectively addressing the fears and concerns raised in the BAPE report regarding exploration in the Gulf of St. Lawrence. A 'dry hole' at Old Harry, on the other hand, would greatly diminish interest in petroleum exploration in the Gulf and would relax the imperative to quickly resolve the issues raised in the BAPE report.

In order to permit this potentially 'pivotal' exploration well to be drilled at Old Harry, the Quebec and Federal governments need to take certain actions to grant the licences and approvals required from the two governments for these activities to proceed. These actions include grandfathering of Corridor's Quebec licences into Federal exploration permits before a drilling permit can be authorized.

A brief summary of previous efforts to approve drilling at Old Harry

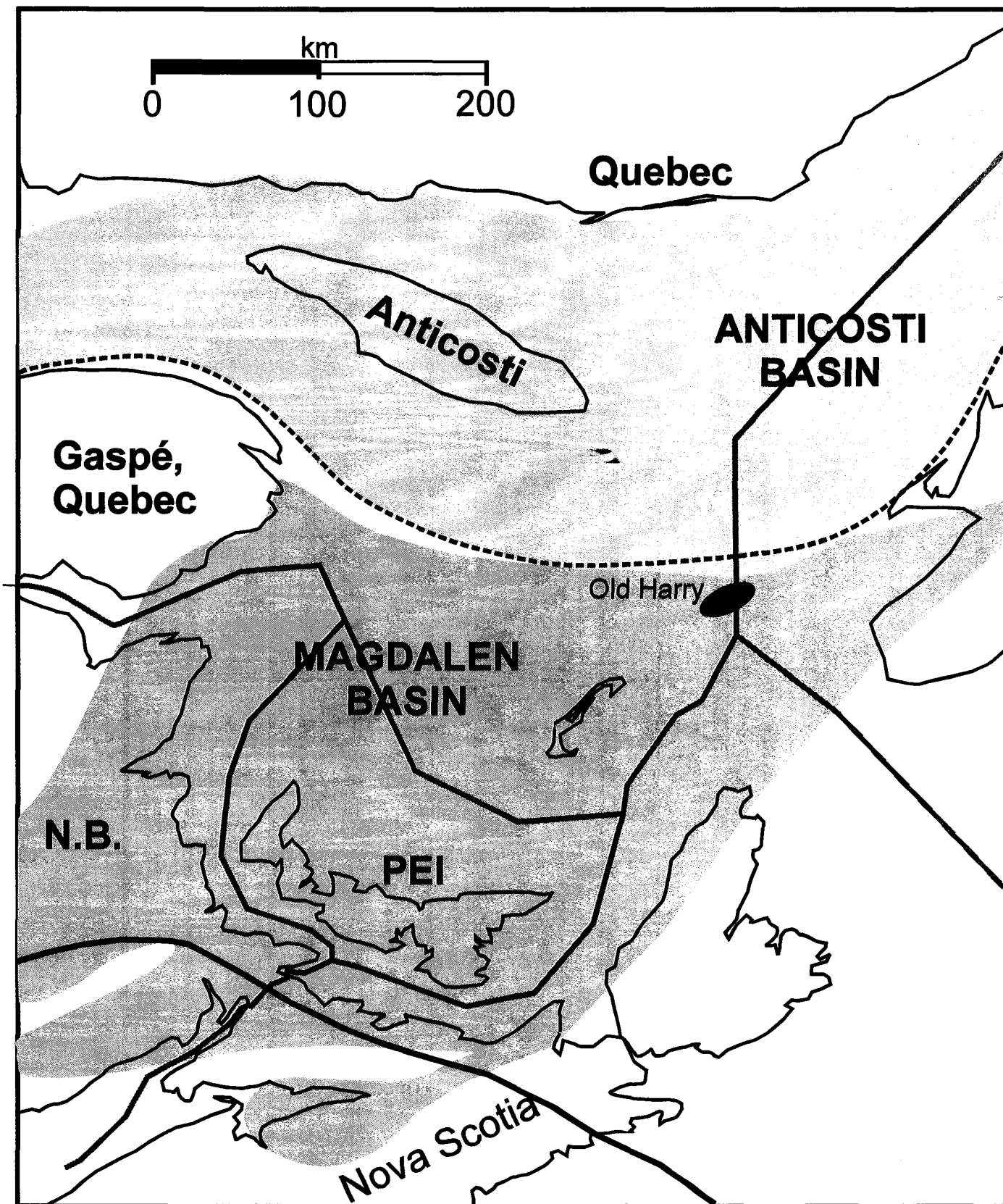
For more than eight years now Corridor has been having discussions with the Quebec and federal governments regarding the permits required for an exploration well to be drilled at Old Harry. Unfortunately, no real progress has been made to date. Corridor acquired Quebec exploration licences across Old Harry in March, 1996. Immediately thereafter, Corridor attempted to obtain Federal permits covering the same licence areas, including a request by Corridor to post these lands for competitive bidding. The Federal government refused Corridor's request, initially contending that there was no industry interest in exploring in the Quebec sector of the Gulf. Corridor then proceeded to sign Confidentiality and Area of Exclusion agreements with a number of international oil and gas companies, some of which are among the largest such companies in the world. Some of these companies did extensive work with Corridor's data and expressed a keen interest in potentially partnering with Corridor to drill the prospect provided the land tenure issues are resolved. Additionally, in 2002 Hydro-Quebec acquired an option to participate in 25% and potentially up to 50% of the Old Harry drilling program once Corridor has chosen an operating partner to drill the well.

In 2003, former federal Energy Minister Herb Dhaliwal indicated his support for grandfathering Corridor's existing Quebec licences provided there was agreement between Quebec and Newfoundland on the location of their offshore border in the Gulf. To date Newfoundland and Quebec have been unwilling or unable to resolve this border issue, and there does not appear to be sufficient initiative on the respective provinces' parts to resolve the issue anytime within the foreseeable future. Newfoundland's focus is on their existing petroleum successes and future prospects off their east coast and not on their comparatively small portion of Old Harry. Hence Newfoundland's apparent lack of interest in helping to resolve the Old Harry issues. Quebec, on the other hand, has the option to proceed on its own to strike a deal with the federal government on joint administration and to grandfather the existing Quebec offshore licences. This will permit the critically important Old Harry well to be approved and drilled. Once approved, the well will take less than two months to be drilled and tested.

Environmental Considerations

All of the safety and environmental regulations governing drilling offshore Newfoundland and Nova Scotia will be applied to ensure that drilling operations at Old Harry are conducted safely and in an environmentally responsible manner. It should be noted that more than 300 exploration wells have been drilled to date off the east coasts of Newfoundland and Nova Scotia without any significant or lasting negative environmental consequences. The Old Harry exploration well will be located in an area that is a relative desert in terms of fishing and marine life considerations (compared to other more sensitive areas of the Gulf). Prior to receiving approval to drill the well, a strategic environmental assessment (including public input) will be undertaken for the Old Harry region, followed by a site specific survey and environmental assessment. It is expected that these activities can be completed in 2005 and drilling undertaken in 2006 at an estimated cost of \$30 million.

Less than 50 days of drilling are required to evaluate this giant prospect. While no single prospect can condemn an area for future exploration, a major discovery at Old Harry would certainly open up huge new horizons for Quebec regarding economic benefits and energy security. **Can Quebec afford not to drill Old Harry? It is a matter of will on the parts of both the Quebec and Federal governments to grant the required permits to allow this project to proceed.**



Gulf of Saint Lawrence Sedimentary Basins

Figure 1

Distribution of Salt Diapirs Within Quebec Offshore Waters: Potential Hydrocarbon Bearing Structures

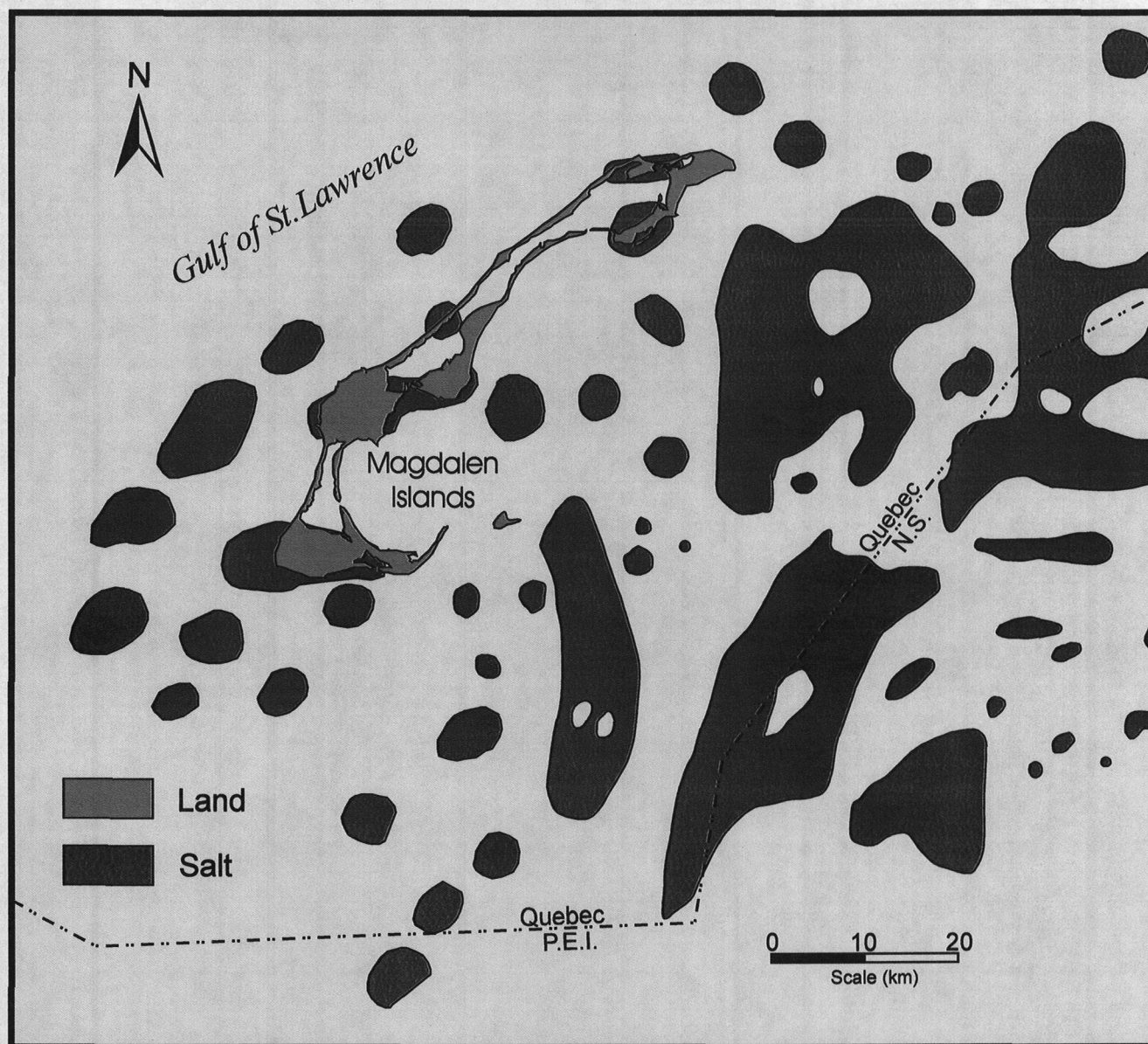


Figure 2

Existing Seismic Reflection Data in the
Gulf of St. Lawrence (to 1990)

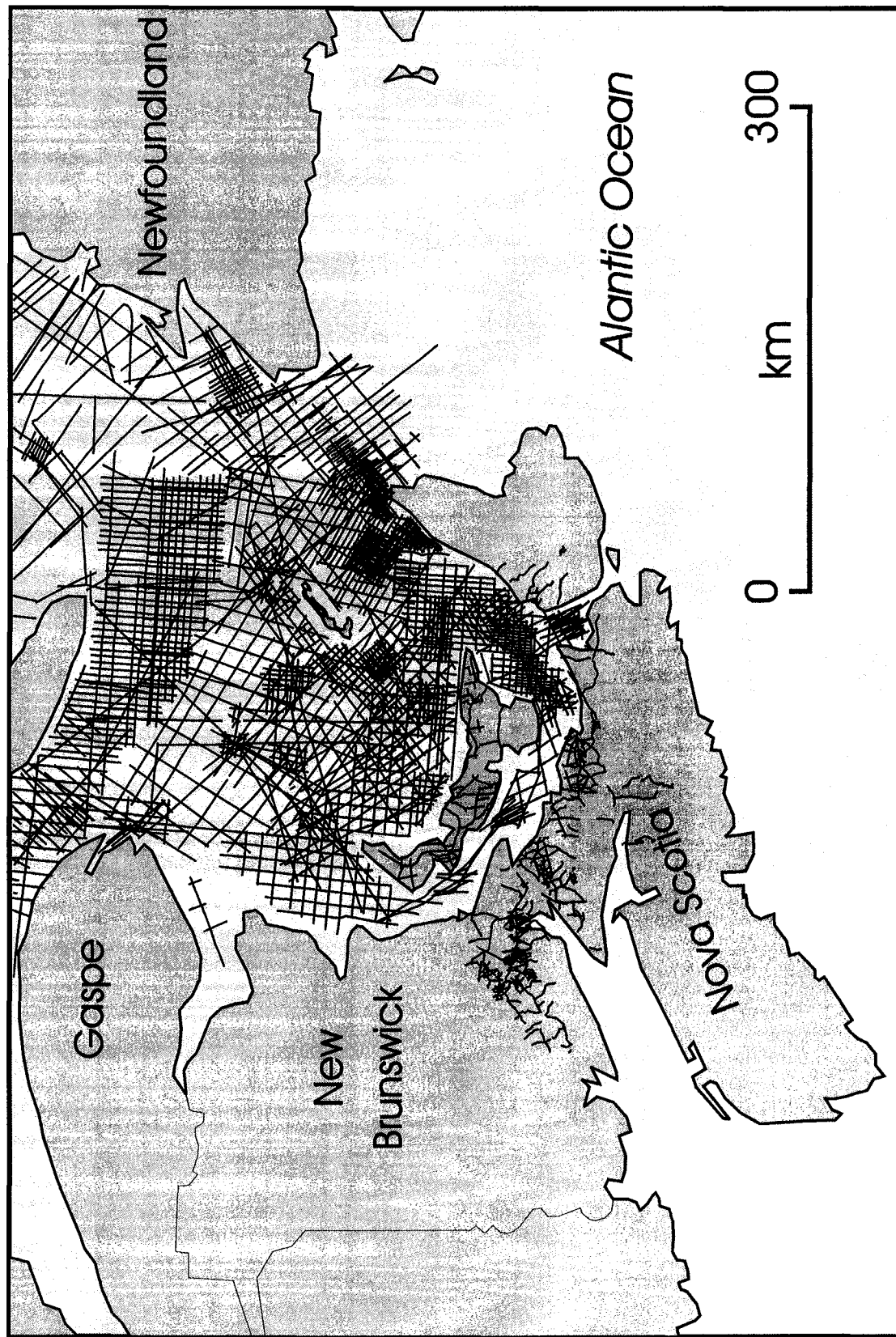


Figure 3

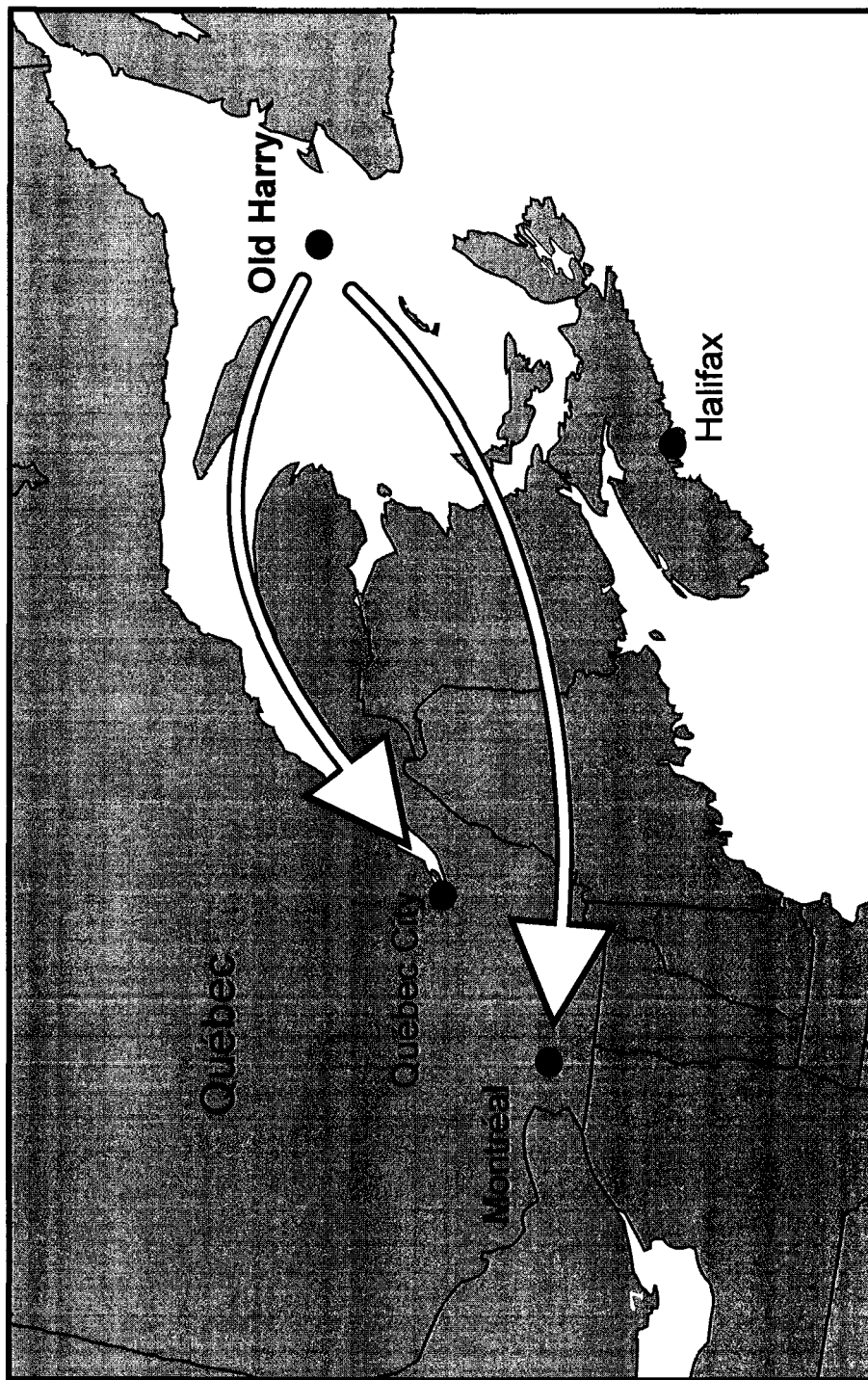


Figure 4

Proximity of Gulf of St. Lawrence
to Major Gas and Oil Markets
in Québec

Map of the Old Harry Prospect with Seismic Control

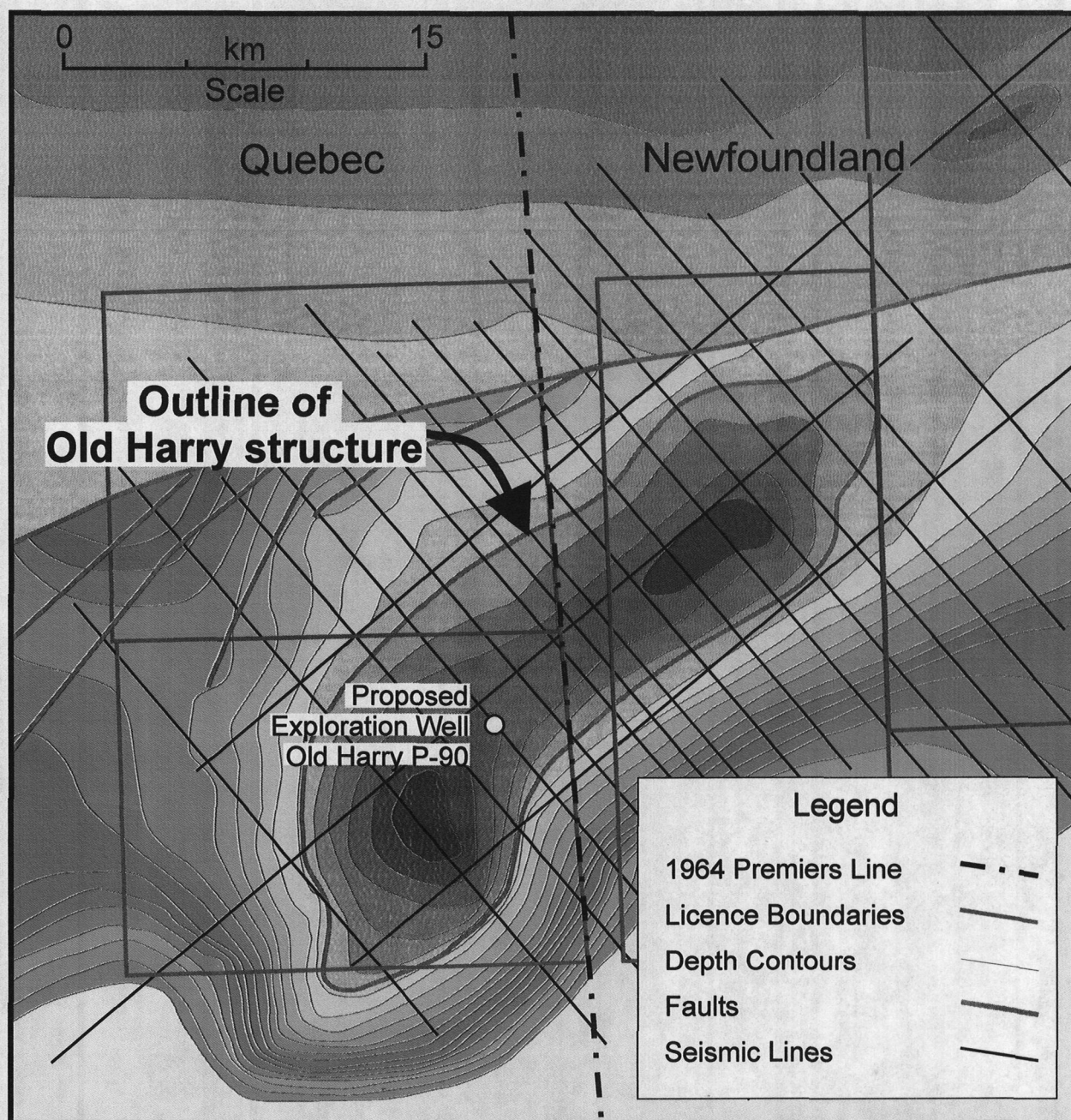


Figure 5