# THE NAVIGATOR

SEPTEMBER 2012
ISSUE 13

THE MONTHLY REPORT FROM WESTSHORE SHIPBROKERS AS


WESTSHORE
SHIPBROKERS AS

## INSIDE THIS ISSUE:

# WESTSHORE ARCTIC INC OPENS!

After the success in establishing Westshore do Brasil in Rio de Janeiro in 2010 we have kept our horizons open in order to further expand our reach within the offshore sphere. The next stop on the timeline of Westshore has fallen on St John's, Newfoundland in order to use our knowledge and contact base to focus on the extensive Arctic regions, the North Atlantic and Greenland. Canada has more than 174 billion barrels of proven crude oil reserves, the largest reserves after Saudi Arabia and Venezuela. Although a large portion of this oil is not offshore the opportunities in the coastal regions are massive and have been far too big for us to pass up on. We believe that gaining local knowledge early will be important in the storm towards expanding the development in the arctic regions. One of the global oil majors had the following to say about their own investment up north. "Statoil has, for a long time, realized that the Arctic holds a significant part of the remaining resources" We agree and have therefore opened Westshore Arctic Incorporated.

Key to our move was finding a local manager with an understanding and network within the offshore industry. In Darrell Cole we have found just that, a native Newfoundlander joining us from the International Ice Center that covers the Grand Banks of Newfoundland and Greenland. His previous experience includes time with Transocean in several global locations, in addition to a decade spent as an offshore communications specialist. We firmly believe that local knowledge is key to developing business within new regions, which is why local personnel on ground is important and is a major reason to our success in Brazil.

We believe that our connection to offshore owners with arctic capable tonnage are a good match for the current trends in the Canadian offshore market, it is our aim to provide operators with a solid source of tonnage from the global market. We also intend to provide in depth market analysis for the region while guiding all players that require our assistance through any hurdles that may exist in doing business in the oil and gas industry in Canada. We also intend to map out the scene ahead in the active areas of Nova Scotia, Newfoundland and Labrador, Greenland, Beaufort Sea and other Arctic regions. This month's inside story provides an overview of the various areas that the Westshore Arctic office will focus on.

Managing Director of Westshore Group Sølve Høyrem said the following about the announcement:

**"Our perception of the market sees the industry moving further north and we believe that Westshore can be an integral part of this development. The combined experience within Westshore and our relationships with offshore vessel owners lead us to believe that we can be successful in establishing a solid foothold in the Arctic regions."**

# GULF OF MEXICO MARKET UP, OWNERS INVOLVED IN THE ARCTIC

Following the moratorium on deep sea exploration in the US Gulf of Mexico close to 50 vessels chose to migrate out of the region according to IHS Petrodata, while only a relatively small number of rig owners did the same. Now that the moratorium has been terminated we see that the demand for vessels has increased tremendously, which has led to a tight market with strong day rates. During the first month after the ending of the moratorium owners chose to reactivate vessels that were cold stacked, while others began mobilizing tonnage from other markets back to the US GoM. In some instances the owners attempted to switch foreign tonnage with US Jones act tonnage on contract in order to reap the solid returns currently available in the Gulf. Hornbeck have just recently announced they will bring four vessels back from Brazil given better returns in their home market and lower costs. In June, one PSV and one AHTS were successfully added to the US GoM market, and in July both Tidewater and Seacor Marine mobilized vessels. Harvey Gulf is considering mobilizing five vessels from the Beemar acquisition currently on charter in Israel, Mozambique and Saudi Arabia back to the US GoM. Tidewater are bringing their 3 300 dwt PSV Leboeuf Tide from Nigeria with expected arrival in the GoM in late August, while Edison Chouest Offshore are expected to mobilize the PSV C–Ranger from Brazil to the US GoM. We can expect that vessels will migrate back home with some having already done so, while other vessels are expected to return to the as their current commitments expire.

Not only has the ended moratorium reopened the US GoM market with numerous drilling campaigns expected. The Western Gap has officially been opened after the U.S. Secretary of State Hillary Clinton and Mexican Foreign Minister Patricia Espinosa reached an agreement February this year. The result can only further increase activity in the region and lead to further requirements in the years to come. On similar note the Mexican president Enrique Pena Nieto has brought a lot of renewed optimism back to the Mexican GoM, with talk of bringing foreign competence into the area and reforms to alter the current system. Although we have heard this before, belief by industry veterans this time around is positive. PEMEX has announced a few tenders this summer and is expected to announce more for large PSV's and several for small/medium PSV's. Seeing an increase in activity in this area is needed in the Mexican offshore industry and will provide more regions for international vessels to compete, although certain vessels will not compete directly it is positive news for the global market.

It is prudent to note that GoM players are also involved in the Arctic, although this is limited to Alaska. We will see an increase in activity over the years to come, with ten wells expected to be drilled this year and next. This is yet another area where increased focus from GoM owners will lead vessels away from internationally competitive regions. So far the current projected drilling program for Shell has led to two major GoM players getting involved. Edison Chouest built the AHTS Aiviq in

collaboration with Shell specifically for this project, while Shell has also contracted the Ice Classed PSV Nanuq with a potential option for C-leader. The other player involved is Harvey Gulf which has brought the Harvey Explorer and Sisuaq to Alaska both of which have had their hulls reinforced with additional steel and had their electronics winterized.

The increased activity levels can only mean less competitive in areas that all international owners bid for, like Brazil and West Africa. We believe that North Sea ship owners will encounter less competition in these areas given the solid market back in the Gulf of Mexico. However it is very likely that the Asian market will pick up some of the slack left by those vessels, as this is a burgeoning market that has already shown its presence in those regions.

**Thanks to Christopher Sørensen for collaborating on this article.**

# 04 AUGUST MARKET RECAP

## AUGUST MARKET RECAP:

There has been a long awaited activity increase with suggestions that this rise would be seen in August, however August has been one of the worst months this year with rates having only seen lower levels this year in January, a notoriously poor month in the offshore market. The summer month of August tends to be a strong month however as the month continued things went from bad to worse only showing a slight rebound towards the end of the month. In total we saw 13 rig moves with another three coming from FPSO moves which brought the number to 16. A large portion of these moves came at the end of the month which explains the rebound in the last few days of the month. The average rate for all anchor handler sizes in the North Sea in August was an abysmal GBP 14,427 more than GBP 20,000 less than the average for the same period last year. Interestingly enough there were only 18 rig moves done in August last year. The explanation is that with a similar number of vessels in the market the number of term vessel was substantially higher. Utilization in the same period last year was 87.3 versus utilization in the low sixties this year. On the bright side BP and Statoil snapped up substantial tonnage at the tail end of the month bringing utilization and rates up.

The PSV market has seen utilization move upwards, however the problem in the market is undoubtedly the number of vessels in the market. The activity levels have increased with 93 fixtures over August however utilization for the month was 74.2%. Relative to last year when there were 67 fixtures in August and a utilization of 91.8%. The average day rate for PSVs of all sizes for the month of August this year was GBP 6,907 which is the lowest of all months so far this year and about GBP 10,000 less than last year at the same period. With the spot market low charterers have fulfilled their needs from the spot where tonnage can be sought cheaply rather than commit on a term basis. However the term rates have obviously eventually followed with rates coming down to GBP 14,000 levels while in the beginning of the year were at levels GBP 17 to 18,000 per day.

## TERM FIXTURES

| Date | Vessel | Operator | Scope | Rate (p/d) | Region |
|---|---|---|---|---|---|
| 27.08.2012 | VIKING FIGHTER | ENI Norway | PSV for 88 days + options | RNR | North Sea |
| 27.08.2012 | VIKING ATHENE | ENI Norway | PSV for 88 days + options | RNR | North Sea |
| 15.08.2012 | MAERSK ASSISTER | Reef Subsea | Project work, 1 month + opt | RNR | North Sea |
| 13.08.2012 | BOURBON SAPPHIR.. | ConPhil N | Supply duties, 11 months firm | RNR | North Sea |
| 09.08.2012 | NORTH TRUCK | ConPhil UK | 18 mos firm. | GBP 9500 | North Sea |
| 09.08.2012 | VIKING LADY | Lundin | Support Bredford D., ca 1 month | RNR | North Sea |

## OUTSTANDING TERM REQUIREMENTS

| Date | Operator | Requirement | Scope / Period | Start | Region |
|---|---|---|---|---|---|
| 20.08.2012 | Statoil | PSV | PSV, 3,6 months or 1 year firm + opt. | 15.09.2012 | North Sea |
| 20.08.2012 | Dong Energy | PSV | Supply duties, 2 wells firm | 15.09.2012 | North Sea |
| 13.08.2012 | MOG | PSV | PSV for 12 months firm + 12 months opts | 01.10.2012 | North Sea |
| 08.08.2012 | AGR N | PSV | Supp. T.O Winner, 1 well est 90 days. | 01.05.2013 | North Sea |
| 06.08.2012 | Asco | PSV | PSV for 5 months firm + 4 x 1 week opts | 27.08.2012 | North Sea |
| 03.08.2012 | MLS | PSV | Supporting Transocean Barents. 100-120 days | 10.09.2012 | North Sea |
| 30.07.2012 | Suncor | PSV | PSV for 2 wells firm supporting Wilhunter. Ca 150 days. | 15.08.2012 | North Sea |
| 21.06.2012 | Nexen | PSV | 1 year firm + 1 x 9 months opt. | 01.09.2012 | North Sea |

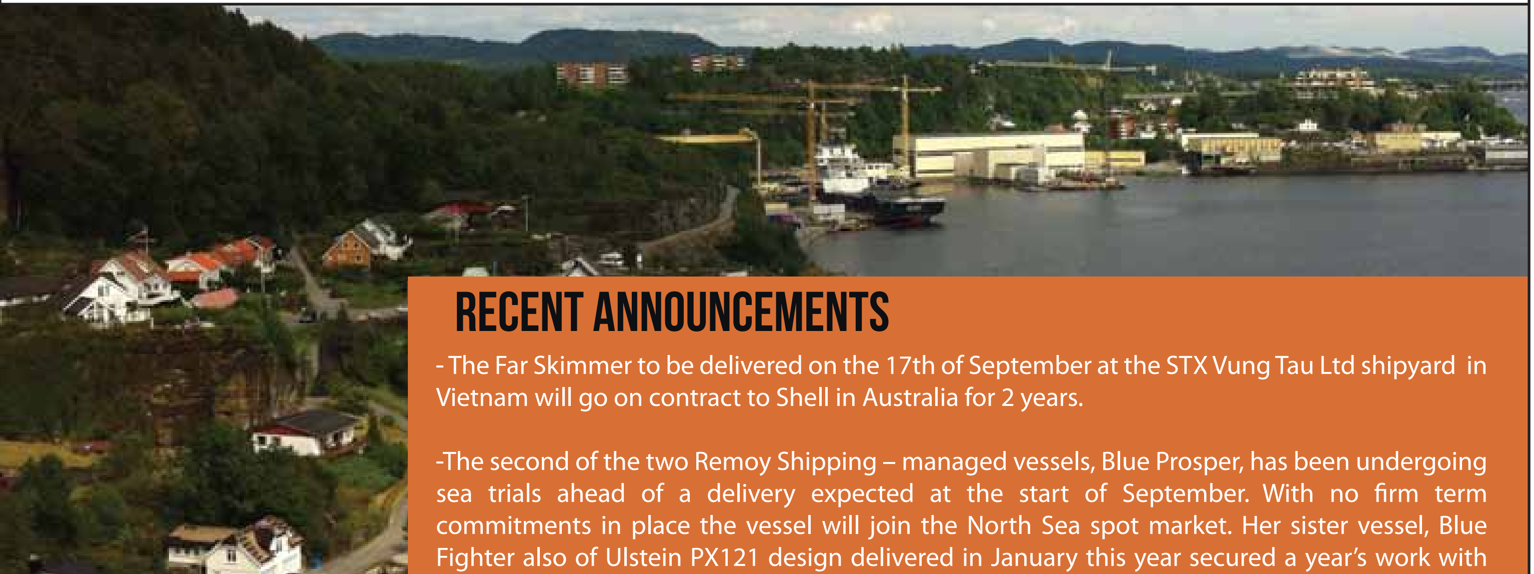
## AVERAGE MONTHLY STATISTICS

| | Average Monthly Rates (GBP) | | |
|---|---|---|---|
| *Vessel Type* | aug.12 | *jul.12* | *aug.11* |
| *AHTS* | | | |
| > 18,000 | 13 350 | 26 104 | 40 160 |
| 15,000 to 18,000 | 15 876 | 19 324 | 31 538 |
| *PSV* | | | |
| > 800 m² | 7 273 | 11 863 | 19 431 |
| < 799 m² | 6 092 | 8 458 | 13 798 |

| | aug.12 | jul.12 | aug.11 | jul.11 |
|---|---|---|---|---|
| # of spot supply fixtures | 93 | 70 | 67 | 61 |
| # of rig moves | 16 | 23 | 18 | 18 |

| Average Utilization (%) | aug.12 | jul.12 | aug.11 | jul.11 |
|---|---|---|---|---|
| *AHTS* | 60.5% | 74.9 | 87.3 | 80.0 |
| *PSV* | 74.2% | 81.0 | 91.8 | 92.0 |

# 05 NEWBUILDING NEWS



## RECENT ANNOUNCEMENTS

- The Far Skimmer to be delivered on the 17th of September at the STX Vung Tau Ltd shipyard in Vietnam will go on contract to Shell in Australia for 2 years.

-The second of the two Remoy Shipping – managed vessels, Blue Prosper, has been undergoing sea trials ahead of a delivery expected at the start of September. With no firm term commitments in place the vessel will join the North Sea spot market. Her sister vessel, Blue Fighter also of Ulstein PX121 design delivered in January this year secured a year's work with Apache in the North Sea during the spate of term fixtures that happened in the first quarter. These two vessels were speculatively built by the yard with a commercial management agreement in place with Remoy Shipping.

-STX are currently building three large PSVs of 4,700 dwt on what is essentially a speculative basis with the yard itself as owner and commercial management yet to be decided. The order for the three vessels was originally placed back in August 2010 with the first vessel expected to deliver next month and the next two in the first and third quarters of 2013. Tentatively named STX Leader, STX Megatrend and STX Neo, discussions regarding who will manage the vessels are ongoing, however there are suggestions that OSM will manage the vessels.

-Eidesvik took delivery of its new STX PSV 08CD design Viking Fighter this month. The new vessel quickly secured its first spot job before news of a medium-term commitment with ENI Norge for 88 days firm together with Viking Athene came out. Eidesvik has one further vessel nearing completion, the VS 489 LNG Viking Princess which is due from yard in October this year.

-The design and engineering arm of the Havila Group, Havyard, announced this month the signing of a contract for a Havyards 832 CD vessel by an undisclosed foreign owner. The hull will be constructed at JSC Shipyard Zaliv in Ukraine and final outfit at 'another shipyard'. The non disclosure of the contracting party is thought to be as a consequence of issues over financing. The ship is set to deliver in the second quarter of 2014.

-Arctech Helsinki Shipyard, a joint-venture that is owned 50/50 by STX Finland and United Shipbuilding Corporation, is building two identical icebreaking supply vessels for Russia's largest shipping group Sovcomflot (SCF Group).The vessels will used to supply Exxon Neftegas Limited's platform in Arkutun-Dagi oil and gas field in Sakhalin area, off the Far East coast of Russia.

-Arctech Helsinki Shipyard shipyard in Finland says it will complete the Arctic offshore supply vessel Vitus Bering several months in advance of its planned delivery date. The vessel will be delivered on 18 December. Initially, the vessel was to be delivered in April 2013.

-GulfMark Offshore ordered a pair of PSVs at BAE Systems in the US. The Jones Act-compliant vessels will cost $48m a piece and are due for delivery in 2014 and 2015. The contract with the yard in Mobile, Alabama includes options to construct another two. Their newbuilding program also includes two PSVs on order at Thoma-Sea in the US at a cost of around $72m in total.

## NEWBUILD DELIVERIES

### NEXT SIX MONTHS

**September 2012**
Island Contender (UT 776 CDG)
Far Skimmer (Havyard 832 L)

**October 2012**
Viking Princess (VS 489 LNG)
Vestland Mira (Havyard 832 L)
STX Leader (STX PSV 09 CD)
Far Solitaire (UT 754 WP)

**November 2012**
Olympic Taurus (MT 6015)

**December 2012**
Havila Charisma (Havyard 833 L)
Rem Leader (VS 499 LNG)
Vestland Cetus (VS 485 MK III)

**January 2013**
Vestland Insula (VS 485 MK III)

**February 2013**
Far Sitella (STX PSV 08 CD)
Blue TBN (PX 121)

**Delivered Recently**
Blue Prosper (PX 121)

# 06 DRILLING & PRODUCTION

## STATOIL'S ARCTIC VISION

Statoil used the stage at this year's ONS conference to outline some of its plans for drilling in the Arctic region in the hope of tapping what it believes to be 20-25% of the world's undiscovered oil and gas reserves. Firstly a drilling campaign in the Norwegian Barents Sea will be kicked off before the end of the year with exploration wells in the Skrugard area. A following four wells will be drilled in the area before summer 2013 when attention will be turned to the Hoop prospect. This includes the Atlantis and Apollo fields, which will be the most northernmost wells drilled in Norway. The drilling will be carried out by West Hercules.

Statoil also plans to triple its Arctic research budget with one of the main objectives being to crack the problem of dynamically positioning rigs in ice conditions. 'So far, no robust solution exists for dynamic positioning in ice,' VP of technology, projects and drilling Margarethe Ovrum said. She also went on to say that an in-house design for an Arctic rig is under way as was further acquisition and development of seismic data in ice conditions.

## NEW ACCOMMODATION SEMI ORDERED

Swedish accommodation company Floatel International has placed an order for a fourth accommodation semi at Keppel FELS all to be outfitted for deepwater, harsh weather and Norwegian regulation. The unit is expected to hit the water in early 2015. The first of the four units, Floatel Superior has delivered and working for Statoil at Oseberg while the third, Floatel Victory, will deliver in Q4 2013 and will be located West of Shetland at BP's Clair Ridge development.
No firm contract was announced for the USD 315m order and will take the estimated number of accommodation semis working in the North Sea to 22 by year end 2014.

## GEITUNGEN LINKED TO JOHAN SVERDRUP

Lundin has announced the results of its fifth probe into the Johan Sverdrup field with CEO Ashley Heppenstall declaring the extent of the structure and model to be of excellent quality. The recent well was drilled by semi submersible Transocean Arctic with the main objective being to determine depth to top reservoir, reservoir quality and thickness, and oil water contact in the north eastern part of the field. Partners in the discovery are aiming to commence production in 2018 following a preliminary timetable set out in May this year. The development concept will be decided upon in Q4 2013.

Moreover Statoil's work at the Geitungen discovery has resulted in a probable link to the giant Johan Sverdrup field with estimations of the find being between 140 million and 270 million barrels of recoverable oil equivalent. Statoil owns 40% of Geitungen, while Norwegian state-owned company Petoro holds 30%, Det Norske Oljeselskap holds 20% and Lundin Petroleum holds 10%.

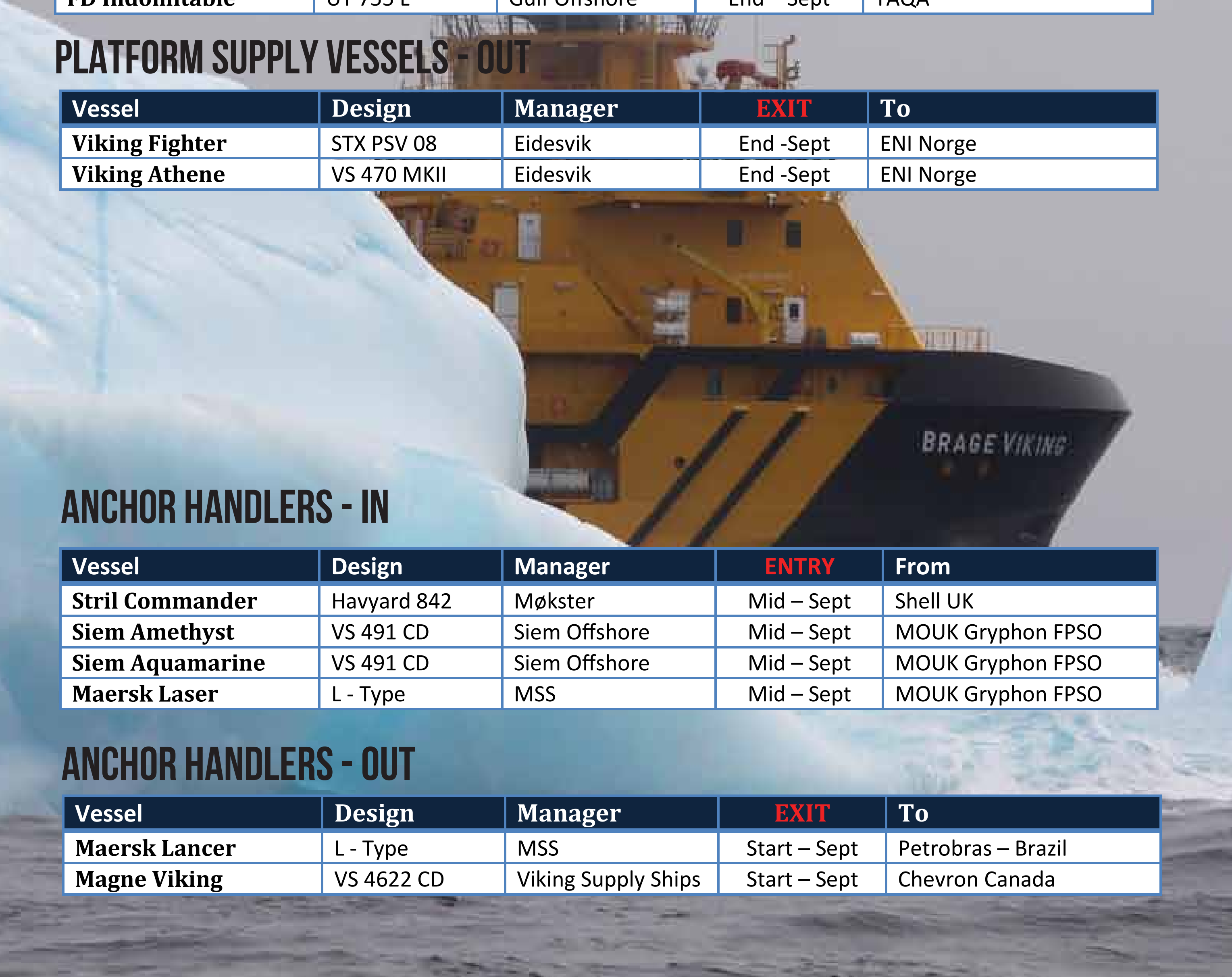
# 07 IN AND OUT

## PLATFORM SUPPLY VESSELS - IN

| Vessel | Design | Manager | ENTRY | From |
|---|---|---|---|---|
| **Bourbon Front** | PX 105 | Bourbon | Start – Sept | Allseas |
| **Havila Clipper** | Havyard 832 CD | Havila | Start – Sept | Statoil |
| **Blue Prosper** | PX 121 | Blue Ship Invest | Start - Sept | Newbuild |
| **Rem Supporter** | STX 06 CD | Rem | Mid – Sept | ADTI |
| **Island Contender** | UT 776 CDG | Island Offshore | End – Sept | Newbuild |
| **Edda Sprint** | SK 60 | Østensjø | End – Sept | Statoil |
| **Edda Freya** | SK 60 | Østensjø | End – Sept | Maersk Oil |
| **Far Server** | Havyard 832 CD | Farstad | End – Sept | Nexen |
| **SBS Typhoon** | VS 470 MKII | Viking Supply | End – Sept | RWE-Dea |
| **Power Express** | Own Design | Vroon | End – Sept | Petersons |
| **FD Invincible** | UT 755 L | Gulf Offshore | End – Sept | Tullow Oil (Ghana) |
| **ER Georgina** | UT 776 CD | ER Offshore | End – Sept | MOUK |
| **FD Indomitable** | UT 755 L | Gulf Offshore | End – Sept | TAQA |

## PLATFORM SUPPLY VESSELS - OUT

| Vessel | Design | Manager | EXIT | To |
|---|---|---|---|---|
| **Viking Fighter** | STX PSV 08 | Eidesvik | End -Sept | ENI Norge |
| **Viking Athene** | VS 470 MKII | Eidesvik | End -Sept | ENI Norge |




## ANCHOR HANDLERS - IN

| Vessel | Design | Manager | ENTRY | From |
|---|---|---|---|---|
| **Stril Commander** | Havyard 842 | Møkster | Mid – Sept | Shell UK |
| **Siem Amethyst** | VS 491 CD | Siem Offshore | Mid – Sept | MOUK Gryphon FPSO |
| **Siem Aquamarine** | VS 491 CD | Siem Offshore | Mid – Sept | MOUK Gryphon FPSO |
| **Maersk Laser** | L - Type | MSS | Mid – Sept | MOUK Gryphon FPSO |

## ANCHOR HANDLERS - OUT

| Vessel | Design | Manager | EXIT | To |
|---|---|---|---|---|
| **Maersk Lancer** | L - Type | MSS | Start – Sept | Petrobras – Brazil |
| **Magne Viking** | VS 4622 CD | Viking Supply Ships | Start – Sept | Chevron Canada |

# 08 MARKET FORECAST

# THE TRUE COST OF NORWEGIAN OIL & GAS EXPLORATION

Norwegians are used to the ubiquitous commentary from foreign visitors on how expensive their country is. But from an economical stand point, compared to other European counterparts Norway has thrived as a nation regardless of how eye-watering the price of a pint may be in Oslo centre. Now recent hydrocarbon finds in the Norwegian sector have been encouraging, but it does not take away from the fact that production is declining which inevitably means revenues are too. Adding salt to this wound is the fact that costs, both direct and indirect, are worsening the situation for Norway to the extent that industry experts have begun to questions whether the level of regulation in some areas is acting as a hindrance to the overall objective of profitable oil and gas exploration.

For many offshore workers landing a slot on a Norwegian rig is the Holy Grail, a cushy two week on, four week off rotation awaits. A few miles south in the UK sector you would be hard pushed to get anything better than two on, two off, two on, four off. As one might expect the cost of having crew on such a rotation is not insignificant. Rig operations are 40% more expensive on the Norwegian Continental Shelf than on the neighbouring U.K. shelf, and this is mainly due to personnel costs which are staggeringly $50,000 to $75,000 more per day on a Norwegian rig than in the U.K. A panel of industry experts met this month in Oslo to discuss the issue, it was estimated that up to 1 trillion NOK could be saved in changes to regulation allowing greater potential for hydrocarbon recovery.

Offshore activity is at an all-time high in Norway, with record investments in oil and gas, according to the Norwegian Petroleum Directorate. Licensees are planning to spend NOK96.3 billion on the drilling of production and exploration wells in 2013, according to Norway's statistics agency.

Yet much of the extra investment will be absorbed by higher costs. "We see that the cost to drill a production well has doubled [from 2000 to 2010], and this seems to be continuing," said Mr. Reiten, a former energy minister. Norwegian classified rigs are few and far between when you look at the global fleet. And this scarcity is adding to the costs both in terms of rig owners being able to command high premiums for drilling slots and the cost of converting a rig to meet standards which can amount to USD 100 million. The panel meeting in Oslo suggested that a 30% cut in rig costs could result in a saving of NOK 500 billion over time.

Oil companies investing in the Norwegian sector have begun to call for change too. At the ONS conference in Stavanger this week Lundin CEO said “The cost structure in the Norwegian North Sea is extremely high, and that does put at some point Norway in a disadvantaged position. They’ve got to acknowledge the issue, and they’ve got to get the balance right between regulation and cost.” Lundin is the high profile partner to Statoil in the Johan Sveredrup find.

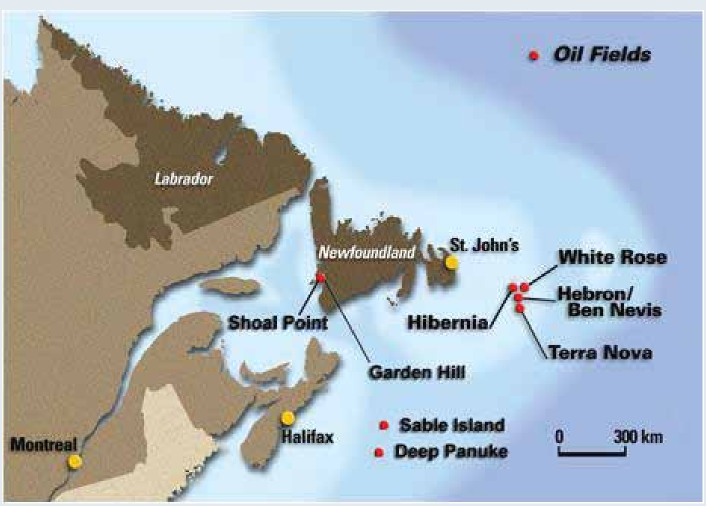
Changing the rotation of offshore workers to more closely match their British counterparts was also suggested but this was met with heavy criticism from unions eager to make the argument that this could compromise safe working conditions. "The death risk is four times higher in the U.K. sector than on the Norwegian shelf," said second deputy leader at the Norwegian offshore union Safe, Roy Erling Furre. "A harmonization between Norway and the U.K. worries me, especially in the wake of Deepwater Horizon."

Gro Braekken, director general of the Norwegian Oil Industry Association, said the report serves as a warning to the country's energy sector."These conditions have been known for a long time and studied by several earlier inquiries," she said in a statement. "If we're going to make progress, it's important that the measures identified by this report are taken seriously and implemented."The findings of the panel are expected to be heard at a public hearing.

# FROM NEWFOUNDLAND TO ALASKA
# WHY ARE WE OPENING WESTSHORE ARCTIC?

In all spheres of business we hear about that illusive white whale, the market that is gearing up to be the next big thing. For the time being the Brazilian coasts have taken that role in the offshore sphere and we don't expect that to change in the near term given the massive potential that exists there. The Arctic market is slightly different although it is estimated that about 20 to 25% of the undiscovered resources exist in this area, however one must include the Norwegian and Russian areas in that figure. The technology and equipment needed for these areas is extensive and makes the approach to the region very different. Right now the most interesting region in the equation is Greenland, which also plays an instrumental role in the North Sea dynamics.

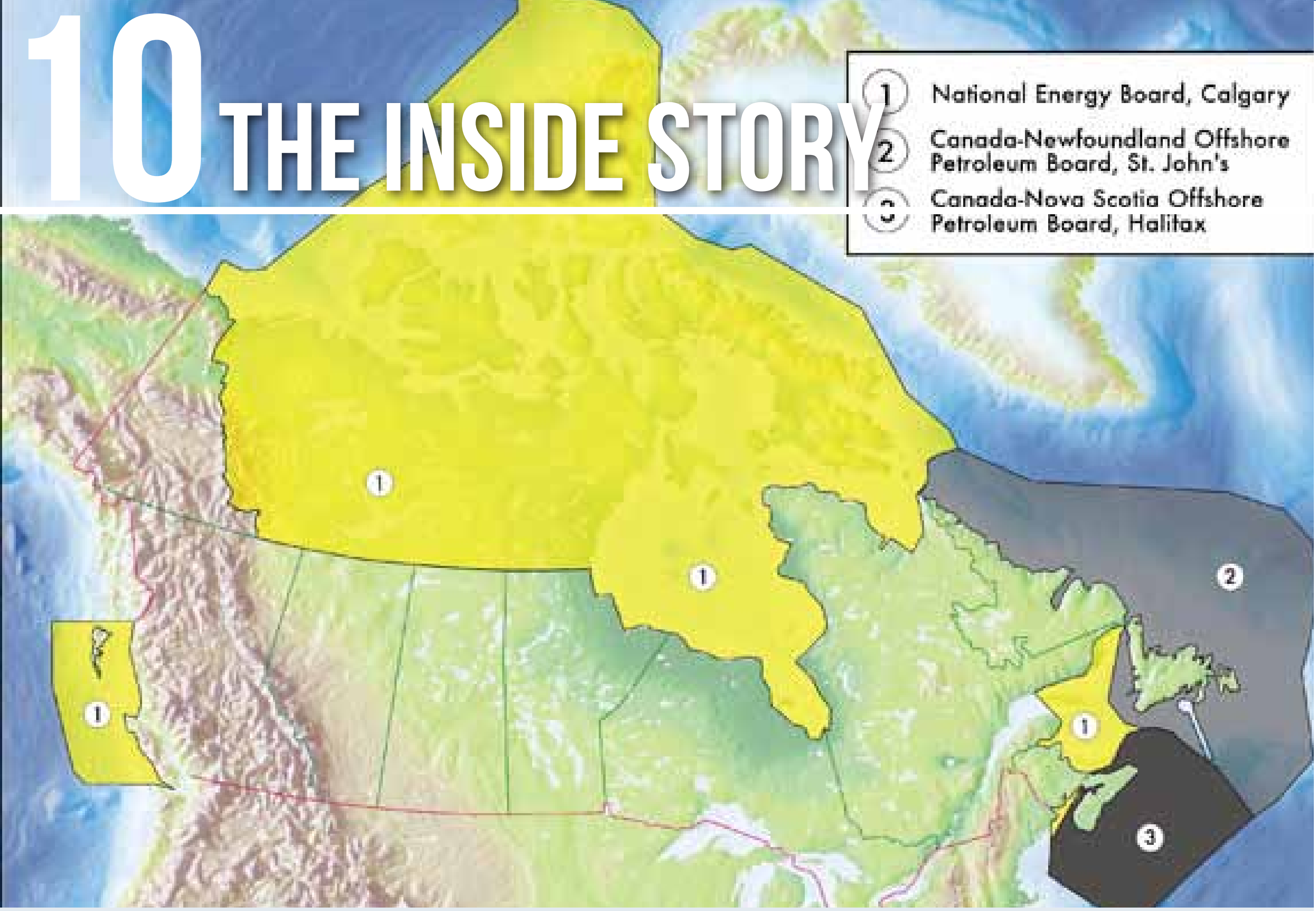
The regions we will initially cover in Canada are not in the




arctic. Newfoundland and Labrador and Nova Scotia are where projects are currently underway, while the Canadian Beaufort Sea is likely decades from bringing oil to the market given the difficult logistical issues. There is currently local tonnage covering the Canadian market, however we have seen lately that North Sea tonnage has been fixed in the market given the lack of tonnage in the market. Tax regulations involved with bringing foreign tonnage to the market are slowly being phased out, but for the time being contracts longer than one year are taxed an importation tax of 23% of the market value. This importation tax was initially 25%, and is being reduced by 1% yearly. Contracts for less than one year are charged 1/120 of the importation tax on a monthly basis.

There are three major areas in the North Atlantic that are currently producing, with Hibernia the biggest. Located east-south east of St John's, Hibernia was discovered in '79 at 80 meter water depth and currently has an average daily production of 175,000 barrels with reserves of 1.39 billion barrels. Activity is still solid with an increase in production since 2008. The Hibernia Southern Extension is currently underway with a total investment of CAD 1.74 billion, with five production wells in total on the existing platform and five new down-dip subsea water-injector wells. The Terra Nova project is some 35 clicks southeast of Hibernia with a daily production of 134,000 barrels per day and reserves of 516 million barrels. In total 30 wells are planned for area, currently there is temporary removal of the FPSO Terra Nova for remediation work and will return in October. The White Rose field is located 50 kilometers from Terra Nova and Hibernia and produces 100,000 barrels per day with about 305 million barrels in reserves. All three of these fields have extensions built or are being built to increase or maintain the current production. The latest development in the region is the Hebron Oil Project which is also found in Newfoundland with estimated reserves of 400 million to 700 million barrels of heavy crude and an expected peak daily production of 150,000 barrels. The initial development is expected to be the Hebron and the West Ben Nevis fields, with future potential for development of Ben Nevis. The venture is led by Exxon Mobil and first oil is expected by 2017, if not sooner. Apart from these major projects in Newfoundland there are also other exploration developments such as the two planned exploration wells by Statoil in the Flemish pass and one in the Jeanne d'Arc basin by Seadrill's West Aquarius. Statoil has in total 11,000 square kilometers of licensed area and will conduct 4,000 square kilometers of seismic work this year alone. Finally

# THE INSIDE STORY




Chevron has been active in the Orphan Basin with two wells drilled so far and another expected later this year. The Nova Scotia region also has areas where production is underway with gas production at the Deep Panuke field operated by Encana is about 250 kilometers southeast of Halifax and the Sable Island offshore energy project which is said to contain about 85 billion cubic meters of recoverable gas, expected to last until 2025.

The Arctic regions are much further from production given the obvious logistical challenges, but the potential of the area is not in question. There are currently 905,000 hectares that have been put up for auction between May and September of this year, which is a 30% increase in area that is already under lease in the Beaufort and Mackenzie Delta. So far more than 400 wells have been drilled in the North with 65 petroleum fields found and very little product brought to market. This area is undoubtedly one for the future, with oil companies like Imperial Oil, Exxon Mobil, BP and Chevron all having leased major areas for solid investments. Also of interest are the operations underway in Alaska in the Chukchi Sea and Beaufort. We have briefly mentioned in a previous article that the involvement GoM players have in this sector, but it is interesting to note the Viking Supply Ship's Tor Viking II which is ice breaking for Shell in the region has signed a contract in the region. Given that the vessel is not supplying any rigs it is not subject to the jones act requirement. The program Shell currently has running in the area is to drill ten wells over this year and next supported by the Kulluk and Noble Discoverer. Currently there is delay given ice issues with limitations on drilling periods. In the Beaufort Sea Shell must suspend drilling by October 31st, in addition to a stop allowing for the native Alaskans to hunt bowhead whale, while the Chukchi is only open till September 24th. Given the issues right now they hope to get two wells drilled and potentially conduct top-hole drilling for completion in 2013. It is clear that ice issues and environmental concerns are a major hurdle in the development of this region and can cause lengthy delays, in any case in the long term the need for vessels is there.

We have previously written about Greenland and the potential exploration program in the region, Cairn has been on the search for partners and has achieved just that in Statoil. Despite Cairns early failures there is great expectation for the area with Exxon Mobil, Shell and Husky Energy all planning exploration campaigns. In total there are 20 license currently held in the area, with the 2012/13 licensing round underway. According to the US geological survey there are a total of 31 billion barrels of oil estimated in the area. So far Husky Oil has confirmed two test wells in the summer of 2013.

So the answer to the title question is that we believe in sum that the areas that have been developed and are currently producing, the areas that are under development and those areas that someday will be developed provide an excellent foundation and future source of activity for Westshore Arctic.

**Thanks to Innovation Norway in Canada for information utilized in this article.**

## Offshore Technology Spotlight

MD Group has been at the forefront of Oil Spill Recovery and Ice Management since its inception in 2009 with a focus on technological evolution through building on well-functioning techniques from the O&G, fishing and seismic industries. The main production facility is located in Egersund, Norway strategically close to the North Sea. Given its two main business areas, it is only natural that the Arctic areas hold an important strategic role for the group's future. Currently the company has representative offices in Kristiansand, Austevoll, Houston and now recently in St John's to focus on the regions in the North Atlantic and North American arctic. The MD Group and managing director Tore Halvorsen has been an invaluable source of information for this month's inside story.

Their Oil Spill Recovery system is termed the MDG MOS Sweeper which is towed behind a vessel like a trawler collecting oil even in harsh weather conditions. The system has a uniquely designed V-Shape formation creating a hydrodynamic force towards the center and is available in a number of different sizes which are able to fit on most vessels allowing for quick response in emergency situations. They are proven to be much more efficient than current solutions. Their ice management system uses nets, dyneema ropes and proven handling devices to ensure maximum safety and efficiency during iceberg moves. The MD Group are continuously developing new tools to advance their product sphere within its two main competencies, but also in other areas where they can use the same principles to provide efficient tools.

MD Group has provided Cairn Energy with state of the art iceberg management equipment for their drilling campaigns in Greenland. All the R&D effort from the group paid off and during the 2011 season there was 7 to 8 offshore vessels in action from June to October dedicated to iceberg management. Together they towed some 280 icebergs with no incidents, with single vessels having towed up to seven million tons in one operation. The MD Group iceberg management equipment was successful in helping operators keep downtime to a minimum. MD Group is working with the government in Greenland for future solutions regarding contingency plans.

## Retirement Celebrations for Offshore Supply Stalwart

Westshore recently paid tribute to one of the North Sea's longest serving personnel, Stein Tysnes who will retire at the end of this month. Stein, currently spending his last few days as Chartering Manager at Viking Supply here in Kristiansand, began his career in the offshore segment in 1978 and went on to work as a broker before switching to the owner's side working for Havila and Bourbon before settling at Viking. We wish Stein all the very best in his retirement and hope to continue to see him around town and when the opportunity arises!