

Greenland's riches remain elusive

The 2011 project cost set to reach \$600m, as Cairn extends drilling season



Barry Parker — New York

RECENT news from Greenland has been disconcerting, as the Edinburgh-based Cairn Energy has come up dry, drilling with the Ocean Rig-owned semi-submersible Leiv Eiriksson.

With the arrival of Cairn in 2010 after securing licences beginning in 2007, Greenland has seen renewed drilling activity; six wells had been drilled in the 1970s and one in 2000.

A 2008 assessment by the US Geological Service has estimated that the undersea area between Greenland and Canada — the site of Cairn's activities — could hold up to 17bn barrels of oil equivalent; waters east of Greenland are estimated by the USGS to hold 31bn boe.

According to Cairn, the USGS reckons that west Greenland holds "risky yet to find volumes" of 7.3bn barrels of oil, and 54trn cu ft of gas.

So far, these riches remain elusive. Cairn announced that its Delta-1 well, in the West Disko area, about 365 km offshore, would be plugged up. The rig will be moving southward and resuming work on another well (AT7-1), where work had been suspended previously.

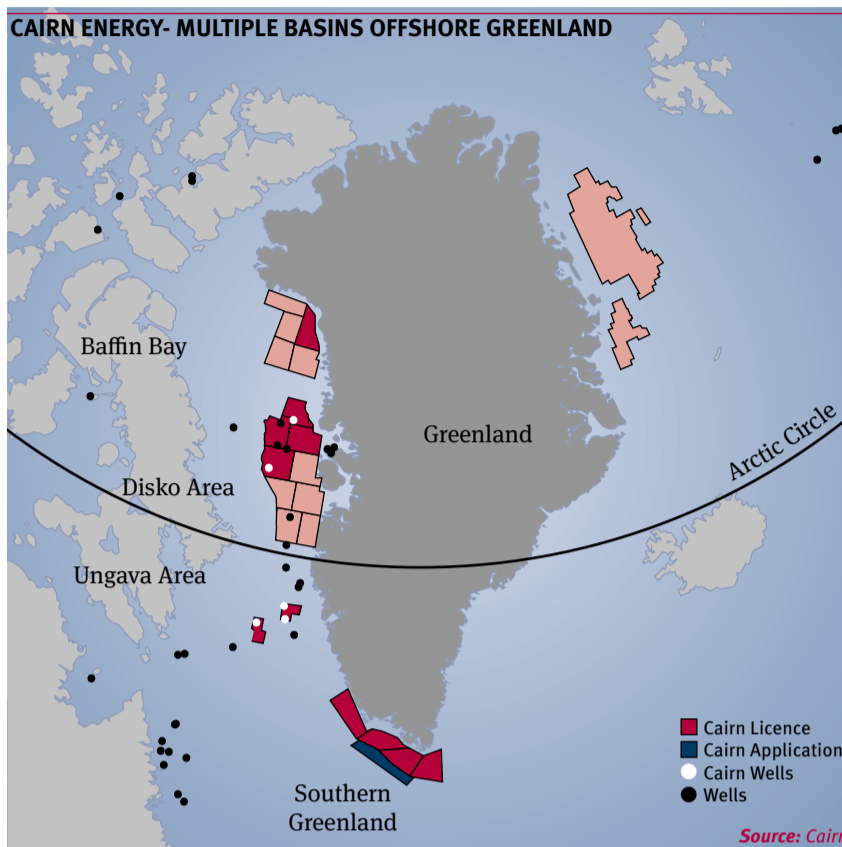
Cairn's other hired rig, Ocean Rig Corcovado, will be shifting from the Napariaq region to a nearby block, AT-2-1, also in the Atammik Basin, to drill in 1,045 m — the fifth well of an extended season.

The disappointing drilling results, against the backdrop of almost daily upheavals in the equities markets, have taken a toll on the stock price of LSE-quoted Cairn, with its price falling below 300p and its market capitalisation falling below \$4bn. The value of Cairn shares, which stood at 462p at end March, has dropped to 282 p by end September.

For comparison, the OSX index — an index of 15 oil service stocks that began at a value of 75 in 1996 — has dropped slightly less, from about 300 to around 190 in the six-month period from end-March through end-September.

At a media briefing in late May regarding the 2011 Greenland exploration, Cairns deputy chief executive Mike Watts told listeners: "The total cost of the programme is maybe \$580m to \$600m, a very expensive programme. Part of that is the quality of the rigs. We're using the best rigs out there." After having done 2D seismic studies in 2010, Cairn continues to build up its database — it hired Petroleum Geo-Services for shooting 3D seismic this year.

Adding to expenses are the small flotilla of craft to support its operations in the region. According to Cairn: "The operations are supported by four helicopters and a range of vessels



Further funding to come from selling stakes

CAIRN Energy holds 11 blocks out of 20 that are currently licensed in Greenland waters, writes Barry Parker.

Other holders include oil majors such as ExxonMobil, Chevron and Shell, as well as Maersk Oil and Statoil

In late 2009, Cairn 'farmed out' a 10% share in six blocks to Petronas. In spite of Petronas' recent strategy of devoting resources closer to its home turf in Southeast Asia, it continues to back the Edinburgh-based independent as exploration moves south along the Greenland coast.

Cairn deputy chief executive Mike Watts said in May: "They are 100% behind us on that application area. So they didn't come with us in the Baffin bid round, but they are coming with us down south."

For Cairn, with its coffers enriched from a \$1.4bn tranche of proceeds from the sale of its India business, farm-outs — selling stakes in a particular project to other companies — are an integral part of its financing strategy.

In August Dr Watts said: "We set out a programme for Greenland and it was bounded by 10 wells — \$1bn. We are going to go slightly over the \$1bn, but we are not looking to use any returns from India to further investments in Greenland. That further activity in Greenland we hope to fund from farm-outs as they come next year."



Watts: "We are going slightly over the \$1bn."

At the Sanford Bernstein investor conference in September, Dr Watts explained that its initial "risk capital exploration phase" would conclude this year. That month, reports in the Danish press suggested that Maersk Oil would be drilling in Greenland within three years, after first conducting seismic studies.

In the November 2010 Baffin Licensing Round, Maersk had acquired a licence for drilling in northern areas offshore western Greenland.

Besides Cairn subsidiary Capricorn, which realised victories at three blocks, other winners included Statoil, Shell and GDF Suez; Nunaoil, the national oil company of Greenland, maintains a stake in all blocks, alongside each operator. ■

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Ocean Rig's Corcovado has been hired by Cairn Energy to drill in 1,045 m of water in the Atammik Basin, while Siem has chartered five PSVs, including *Siem Aquamarine*, to Cairn offshore Capricorn Energy.

including: six ice-management vessels, two emergency response stand-by vessels, three supply vessels, one freighter and two warehouse hotel vessels for accommodating crews if necessary."

The activity in Greenland, Cairns' second year of operations there, has been controversial besides being expensive. A campaign by the environmental group Greenpeace, which included two illegal occupations of the Leiv Eiriksson, were met with lawsuits by Cairn.

Earlier in the year, Capricorn Energy, the Cairn entity handling its Greenland activities, had employed the *Troms Castor*, a supply vessel, at the princely rate of £25,000 (approximately \$39,000 at recent rates) a day.

A transaction at the beginning of the season saw Siem Offshore announce charters of five vessels to Capricorn — the platform supply vessels *Siem Louisa*, *Siem Danis* and *Sophie Siem* and the 28,000 bhp anchor handlers *Siem Topaz*, subsequently put on to Statoil, and *Siem Aquamarine*.

In the second quarter of 2011 a large offshore component dogged Siem, related to the sluggish startup of the 2011 season in Greenland. Several of the Siem vessels had been shown in broker lists with end September availability at Aberdeen, as Cairn extended its season and chartered in other vessels in a market that had strengthened.

Leiv Eiriksson has had its contract extended through November, which, in turn, will delay the start of drilling in the Falklands for Borders & Southern — its next charterer.

Cairn lists the *Toisa Vigilant* as working around Nuuk. As the Siem vessels have come off their charters, recent fixture lists show Cairn/Capricorn employing the

PSV *Rem Fortune*, with 11,440 bhp, out of Aberdeen, and the 7,370 tug *Zeus* out of Aberdeen — chartered for 60 days with a 40-day optional continuation.

The icebreaking anchor handler *Vadar Viking*, with 18,300 bhp, is working out of Peterhead where Cairn is mobilising loadout of supplies to Nuuk and Aasiaat. Automatic Identification System websites show the sister vessel *Balder Viking*, on charter to Capricorn, also working west central Greenland, en route to the Leiv Eiriksson.

The North Sea market is stronger than in recent years; market sources suggest that anchor handling tug supply vessels are earning hires of £35,000 per day to upwards of £45,000 per day for large dynamic positioning equipped vessels.

In its discussions of likely future production, Cairn has pointed to a possible model of subsea production, tied back to a floating production, storage and offloading unit.

Paul Mayland, Cairn's director of planning/business development, speaking at the briefing, said: "It'd be passive ice management in terms of shuttle tanker and FPSO strengthening... naturally we've assumed in this case that we find light, sweet oil. The oil we're looking for would be close to relatively strong North American/European markets."

In answering questions about marketing of gas, Mr Mayland told analysts: "You need to be all the magnitude of 3trn cu ft to 4trn cu ft minimum and probably closer to 6 [trn cu ft] to make it work. And that's selling into European markets... gas goes predominately to Spain, for example. I guess that's the sort of market we'd even be targeting." ■

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Cairn heads for the Med, while eyeing Cyprus and Lebanon

THOUGH Cairn's setbacks in Greenland have grabbed recent headlines, the company also hopes to step up its activities in the Mediterranean, in what it calls "frontier exploration", writes Barry Parker.

It successfully gained 100% interests in five blocks in the Gulf of Valencia, offshore Spain, in early 2011 and will be consolidating existing data before taking the next steps.

The frontier also extends eastward, where it expects to bid in 2012 for exploration rights off Cyprus and Lebanon, in conjunction with Lebanese company CC Energy and Cove Energy, which is listed on the UK AIM.

Regarding investment in the Mediterranean Cairn chief executive Simon Thomson said: "It is all about what fits with our strategy, with our portfolio. As you know, our raison d'être is an absolute

focus on things that can provide transformational potential."

Noble Energy, actively drilling for gas at the Tamar and Leviathan fields off the coast of Israel, has announced a reshuffle of rigs. It has shifted the Transocean-owned Sedco Express from the Tamar field to the Leviathan field to complete drilling at the Leviathan 3 well, while moving its Enso 5006, formerly Pride North America, to a new location at the western portion of the Leviathan field, where repairs will be conducted on its riser system.

Enso's latest fleet status update explains that its rig will earn "zero rate for all of the third quarter due to unplanned downtime", with an expectation that it would be returning to a full rate, in the \$270,000s, in mid October.

Noble Energy says that Sedco Express will shift back to Tamar after its work at

Leviathan, and that the Enso 5006, once repaired, will move to the Hanna field about 50 miles south of Tamar.

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Exclusive Economic Zones are in dispute. Noble Drilling's Noble Homer Ferrington, an F-G 9500 'Enhanced Pacesetter' semi-submersible on an assignment from head charterer ExxonMobil to Noble Energy for several months at \$505,000 per day, is moving to Cyprus.

In late September, it finished a job in waters off southern Israel, at the Noa field (about 25 miles west of Ashdod), and was shifting into Cypriot waters to begin exploration at the Aphrodite field in the 'Cyprus A' block, to the west of Leviathan.

Local sources say that the newly delivered anchor handler *Skandi Saigon*, with 16,300 bhp, built at STX OSV yard in Vietnam and owned by Aker DOF Deepwater — a joint venture of Aker and DOF — assisted with the short move; the boat is now listed with prompt availability at Aberdeen.

The local Greek Cypriot press was reporting that all concerned were keeping a watchful eye for Turkish naval manoeuvres nearby against the backdrop of recent sabre-rattling from Turkey over the drilling.

Also in the region, in early spring, Syria's Oil Ministry had announced a bid round for three offshore blocks in waters off the coast of Tartous, Banias and Latakia. With continued civil unrest, and lately, the EU sanctions recently broadened to include investment in Syria's oil industry, the country has extended its deadline for bids, originally slated for October, into mid December.

Political leaders in neighbouring Lebanon, where a bid round is not scheduled until next year, are currently discussing a disputed 860 sq km swath along its undersea border with Israel. ■

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