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With Expertise and a Little Luck, East West Petroleum Reels in Profits Despite Oil Price Plunge

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COMPANIES MENTIONED

- **East West Petroleum Corp.**

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Many oil companies have been devastated by the oil price debacle. East West Petroleum, on the other hand, is making money, pumping more oil and strengthening its cash balance. CEO David Sidoo tells *The Energy Report* how shrewd joint ventures and a firm commitment to low costs have led to highly profitable wells in New Zealand and significant upside in Romania.

Source: Kevin Michael Grace of *The Energy Report*

The Energy Report: When was East West Petroleum Corp. (EW:TSX.V) founded, and where do you operate?

David Sidoo: East West was formed in 2010 on the back of the award of four exploration blocks in Romania's prolific Pannonian Basin. Following the award, we raised $30 million ($30M) to fund a work program and future business development. We then entered into joint ventures on these blocks with NIS (Naftna Industrija Srbije), the Serbian subsidiary of Gazprom. NIS is committed to funding Phase 1 exploration of €60 million (€60M) in exchange for 85%; we retain an interest of 15% carried through to commerciality.

In 2012, East West entered New Zealand's Taranaki Basin with the award of three blocks held jointly with TAG Oil Ltd. Ten wells were drilled initially, and production and cash flow from New Zealand began in 2013.

TER: What was your experience before you started East West?

DS: I studied at the University of British Columbia (UBC) in Vancouver and played on its Thunderbirds football team. In 1982 we took home, for the first time, the Vanier Cup, the Canadian interuniversity championship. I then played professionally for six years in the Canadian Football League. After retiring from football in 1988, I entered the brokerage business and worked at Canaccord and Yorkton Securities for 11 years.

TER: What did you learn from football that is applicable to business?

DS: I learned that you can't build companies and achieve success on your own. You've got to have a good team around you. That's what we've assembled at East West. Most important, members of the team have to have strong technical knowledge. Next comes a good management squad that knows how to run a company, and has the expertise and connections to raise capital.

TER: What was your experience in oil before East West?

DS: More than a decade ago, I became involved in a company in the Pannonian Basin called Gasco Energy Inc. We secured acreage and raised over $150M. Gasco has some very good reserves and is doing well.

We then formed a company called American Oil & Gas Inc. in 2013. We worked in the prolific Bakken fields in North and South Dakota, and sold the company to Hess Corp. for $630 million ($630M) in 2010.

TER: What is your philosophy of building an oil company?

DS: Our model has been to enter highly prospective areas early to build a material position, and then find companies with operational capabilities that complement our technical expertise. Our goal is to complete successful partnerships and maximize value to shareholders.

As far as exploration goes, we're not interested in moose pasture. We want decent acreage in proven areas with infrastructure.

TER: How does your management team give East West a competitive advantage?

DS: We have the experience and the technical expertise. Aside from my own track record, Dr. Marc Bustin, a director who's our technical advisor, is a professor of petroleum and coal geology at UBC. He was awarded the Canadian Society of Petroleum Geologists' Stanley Slipper Gold Medal in 2013. He is world-renowned and has examined source rocks all over the world. He can quickly evaluate assets when we look for new opportunities. We're agile and nimble, and we can pull the trigger quickly.

TER: What are the advantages of working in Romania and New Zealand?

DS: Both have proven histories of oil production, which significantly derisks exploration. And both offer stable political environments with attractive fiscal terms. The netbacks in Romania and New Zealand are quite high, unlike many other places in the world. Working in these countries is quite similar to working in the United States or Canada.

TER: What are the advantages of the joint venture (JV) model?

DS: It allows explorers and producers like East West to diversify and hold a larger portfolio. JVs make our money go further. By partnering with professionals in the areas we operate, we benefit from their local expertise, while they gain access to our technical team's track record and history of reviewing many different projects around the world. You can never get enough trained eyes to evaluate projects.

> "Our goal is to complete successful partnerships and maximize value to shareholders."

We have a substantial and successful history with this model. American Oil & Gas worked with Halliburton Co. This allowed us to monetize assets that were sold for $45M, which gave us the capital to develop our Bakken play.

TER: What do your partners in Romania and New Zealand bring to the table?

DS: In Romania, our partner NIS has extensive success operating in the Pannonian Basin. The company has been the leading oil producer for many decades in Serbia, which is just across the border from our southern two blocks.

In New Zealand, TAG Oil is one of the leading operators and most active drillers in the Taranaki Basin. The company has a well-earned reputation in New Zealand for great community relations. We had long-term relationships with senior members of their team, which greatly facilitated our deal there.

TER: How soon after you began exploration in New Zealand did you begin production?

DS: We were awarded three concessions in New Zealand in December 2012, and began drilling our first well, E1, in August 2013, nine months later. We achieved our first production by year-end 2013. This was our first JV well, and it is still flowing naturally today, with little decline to date. I'll tell you something my wife always says I shouldn't say—you need to be a bit lucky. Some guys have a lot of luck and do well in business, and some don't.

We're now producing about 330 barrels of oil equivalent per day (330 boe/d) at a cost of about $22 per boe, and that includes all royalties. With the Brent price at about $56 per barrel ($56/bbl), that makes our operations profitable, and allows us to fund the rest of this year's capital expenditure (capex) from cash flow without using any of our $8.1M cash balance. Our rapid progress in New Zealand is a testament to TAG and to the country, which is very supportive of oil and gas development.

TER: How much of your production is oil, and how much is gas?

DS: Oil is 73%; 27% is gas. Right now we're only selling the oil; we're flaring the gas. But in about three months, a gas pipeline will be completed. That should reduce our cost per barrel to about $18.

TER: What do you anticipate East West's year-end daily production to be?

DS: We have one commitment well to drill later in 2015. Production should remain fairly steady, but we hope to raise it to perhaps 400 boe/d.

TER: You announced the successful recompletion of your Cheal-E2 well in mid-March. How significant is that?

DS: When E2 was drilled initially, in 2013, it did not produce. So its recompletion demonstrates the technical abilities of both TAG and East West. It provides the JV with an additional 100 boe/d for relatively low cost, and greatly improves our bottom line.

TER: What's the status of your Romanian operation?

DS: We are fully approved by the National Agency of Mineral Resources. Our JV has four blocks in Romania, and NIS has done seismic work to identify two drill locations on block number 7. NIS is permitting for one location as we speak, and we're hoping to drill by the end of the year.

TER: You mentioned that East West is profitable, even with Brent at $56/bbl. How low would Brent have to fall before that profitability is threatened?

DS: Breakeven for our operations is $35/bbl. That includes opex, salaries and all expenses. Today, many petroleum companies are shutting in oil wells or not completing them. They're waiting until oil rises to over $60/bbl, which is their breakeven cost. We're safe and sound now, selling at a Brent crude price even as we benefit from the weakness of the New Zealand and Canadian dollars. But when the price does rise above $60/bbl, we can start taking risks again.

"When the market turns around, we are poised to respond quickly."

We've had people approach us for financing, but this would create dilution, so we're not interested. We're making money in New Zealand and we're carried in Romania, but the market isn't giving us any credit for the latter. We are discussing some other locations at the E site in New Zealand, but right now we're determined to focus on our bottom line and keep our general and administrative expenses low. When the market turns around—and this tends to happen fast in our space—we are poised to respond quickly.

TER: As you said, your cash balance is $8.1M. How much of a cash cushion would you like to maintain?

DS: I think a double-digit cushion never hurts. When you've got $0.10/share in cash in the bank, and you're building reserves, you start to look quite attractive to the market.

TER: Despite your rapid advance to production and high margins, East West trades at only $0.15/share. What are you doing to persuade the market of the value of East West?

DS: We are continuing to spread the word that we're a well-capitalized company, with profitable operations at current prices and meeting our financial obligations. It is our strong belief that when you build a good company, the stock price will follow.

We were at $0.50/share with no production; now we're at $0.15/share with stable production. We'll be doing $3–4M this year at current oil prices, and we'll start selling our gas shortly. We have a strong shareholder base, and 15% of East West is owned by management. We are all shareholders here. I think there has never been a better time to buy this stock. We're derisked in New Zealand, and our cards are on the table.

TER: Where do you see your company in three years' time?

DS: We believe oil prices will likely stabilize in the next few years at $70–75/bbl. In three years, we would like to see production rise above 1,000 boe/d with no further dilution. We'd like to have $15–20M in the bank. We are already looking at increasing our acreage in New Zealand. Our operations in Romania should be well advanced by then. And then we'll look at acquiring a couple of other companies, bringing in partners and getting carried.

Our shareholders have been really patient in Romania, which is great because we see real upside potential there. This is where we expect to get a big win in terms of developing toward that 1,000 boe/d.

TER: David, thank you for your time and your insights.

David Sidoo is president, CEO and a director of East West Petroleum Corp. Mr. Sidoo is a successful businessman based in Vancouver, where he oversees a successful private investment banking and financial management firm. Upon graduating from the University of British Columbia in 1982, where he held a four-year football scholarship with the UBC Thunderbirds, he was drafted to play professional football with the Canadian Football League. Mr. Sidoo retired from football in 1988 and was introduced to the brokerage business. From there he became a broker with Yorkton Securities, where he quickly became one of the company's top revenue generators. He went on to become partner and advisory board member at Yorkton Securities, consistently generating commissions that *ranked in the top five nationally. In 1999, he left Yorkton to pursue private investment banking. He was founding shareholder of American Oil & Gas Inc. (AEZ:NYSE), which was sold to Hess Corporation in 2010 for over US$630M in an all-stock transaction. In 2008,* The Vancouver Sun *voted Mr. Sidoo one of the top 100 South Asians making a difference in British Columbia. In 2014, Mr. Sidoo was appointed by the British Columbia government to the board of governors for the University of British Columbia.*

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