

Using Enhanced Recovery Techniques, MegaWest Energy Corp. Is Focused On Heavy Oil Resources In Underexplored, Underexploited Areas Of North America With Potentially Billions Of Barrels Of Original Oil In Place

**Energy
Oil & Gas
(MGWSF-OTC: BB)**

MegaWest Energy Corp.

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**Kelly Kerr
V.P. Finance and CFO**

BIO:

Mr. Kerr has held senior executive positions in junior public oil and gas companies since 1992 with Deep Basin Energy Inc., TriQuest Energy Corp., Innova Exploration Ltd. and Action Energy Inc. In addition, Mr. Kerr spent four years as Corporate Finance Associate at Rogers & Partners Securities, providing him with a broader perspective of the finance and investment industry. He received his B. Comm. Degree from the University of Calgary and progressed into his first role

as Corporate Controller after working at KPMG.

Mr. Kerr brings strong public market experience and a solid background in corporate accounting, internal controls and corporate finance to MegaWest, having previously been involved in various corporate restructurings and public equity and debt financings. Mr. Kerr has oversight of finance, accounting and treasury functions and will focus on investor relations and corporate governance for MegaWest.

Company Profile:

MegaWest Energy Corp., a publicly held oil and gas company (OTC BB: MGWSF), plans to become a leader in non-conventional oil and gas operations with an initial focus on North American heavy oil. MegaWest Energy has acquired and continues to acquire large blocks of acreage known to contain substantial deposits of heavy oil. MegaWest's strategy for growth is underpinned by three converging market factors; the need for security of energy supply in North America, the current world oil price, and new technical developments in commercial thermal recovery of heavy oil.

MegaWest plans to create shareholder value through the exploitation of North American heavy oil using various methods of thermal and enhanced recovery. MegaWest's operational and head office is in Calgary, the heart of the Canadian oil patch and home to vast array of technical experts in the recovery of heavy oil. The company has a team with expertise in various methods of primary and thermal heavy oil recovery, including Cyclic

Steam Stimulation (CSS), Steam Assisted Gravity Drainage (SAGD), steam drive, in situ combustion, electrical heating and solvent processes.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Kerr, you have been the CFO of MegaWest Energy for a short period of time; what attracted you to the company?

Mr. Kerr: There are a number of things that attracted me to MegaWest Energy. The first being the fact that MegaWest was a heavy oil enhanced recovery company. I believe that oil prices will rise over the long term and heavy oil differentials will remain narrow. The second reason being that the gentlemen on the management team were very experienced, having managed a number of other companies including Murphy Oil, CS Resources, Petrovera Resources and others, where they had made successes. Another reason that I joined MegaWest was because of a very difficult decision that was made by the management team in December of 2008, when they shut in all of the production and laid off about 80% of their staff when the oil price crashed. They decided to wait for better times. For a public company with the market expecting constant growth, a decision like that is a very challenging thing to do and they made that tough decision and I admire them for that. I thought, these guys know how to make the tough decisions. Those were some of the main reasons why I joined.

CEOCFO: Reclaiming North America's untapped energy potential is a focus for

MegaWest; what is happening there and what is the plan?

Mr. Kerr: What these fellows did when they started the company was to undertake a relatively large widespread survey of North American heavy oil resources. They looked for places with known heavy oil accumulations that were relatively underexplored and or underexploited. Based on that search, they found some underexplored land in Montana, Missouri, Kansas, Kentucky and Texas that had known oil resources. MegaWest then raised about \$50 million and went out and acquired a bunch of these lands with a portion of these funds. After that, the Company used some of the money to drill lands in certain of the areas; as an example, the first area that MegaWest drilled was in Texas, which unfortunately was not as successful as we expected.

MegaWest then purchased an already drilled project at Che-topa, Kansas, which it put into production. This facility was shut in after producing over 10,000 barrels of oil due to equipment issues with the steam generation plant. Because of the better reservoir properties across the state line in Missouri, we then drilled on two properties in Missouri and we were very successful there. MegaWest built two facilities and drilled over 150 wells, started steam injection and oil production and then shut everything in because of low oil prices in December 2008. At that point, the Company was tapped out of money. In July and August of 2009, oil prices were showing strong signs of recovery and management decided to re-start steaming operations in Missouri. In order to do so, management needed to raise more money. MegaWest was successful in raising \$4.2 million dollars with a very innovative financing structure when other junior companies were having significant challenges in raising new funding.

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MegaWest is looking for. These reservoirs are also shallow, as an example, in the Missouri area, the depth of most of the wells are about 250 feet and MegaWest drills them with a water well rig. Therefore, it is a wonderful, inexpensive way to find large quantities of oil at a very low cost.

CEO CFO: Given that there are billions of barrels of oil there, how do you decide where you want to look?

Mr. Kerr: The first part of what MegaWest did was to look through the national geological surveys to find places where oil wells have been drilled, even up to 100 years ago and have not been able to be produced for whatever reason. As an example, in the Missouri Kansas area, the oil reservoir is contained in sandstone between two shale layers. The oil is heavy

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(18 gravity) and does not flow very well through the rock. In order to produce the oil, some technology other than just pumping has to be applied, such as what MegaWest does, which is Steam Stimulation. We inject steam into the reservoir, which heats the rock, reduces the viscosity of the oil, and helps the oil to flow to the pumping wells. The steam also pushes the oil through the rock toward the production wells. Therefore, MegaWest looks for areas where oil has been found that other companies have had difficulty producing in the past and we apply this technology to produce the oil.

CEO CFO: Is this a technology that has been developed by you or is it commonly being used: what does MegaWest know that others don't?

Mr. Kerr: This is a pre-existing technology that has been in use for about 30 years. The difference is that our team has decades of experience in steam technology, so we are very familiar with it. More so than perhaps other companies that might be interested in developing resources that are in place in the areas we are working. For example, other companies in Missouri might not have the same experience that MegaWest does, so we are using our experience to leverage the opportunity.

CEO CFO: Your projects seem to be in the United States; is that just opportunistic or by design?

Mr. Kerr: I think that it goes back again to the survey of underexploited heavy oil resources that MegaWest did. For example, let's look at what is going on in Canada, where the majority of the heavy oil resources are in the tar sands area or in deeper geological horizons and they are all very expensive. These oil horizons are usually quite a bit deeper than where we are operating and/or they are mining operations, where companies strip the tar sand right off the surface. Heavy oil resources in Canada are deeper, more expensive and more difficult to get at and process. Canadian heavy oil resources are also largely exploited. In Canada, it is very expensive to buy the

land and very expensive to get into the play, so one of the reasons why MegaWest focused on the United States resources was because the lands were available at a relatively low cost. In addition, it seemed like there was less competition with very few other companies that were involved in developing shallow heavy oil resources in these areas.

CEO CFO: What is the status of MegaWest today and what is the financial picture?

Mr. Kerr: Right now MegaWest is injecting steam and producing oil from both of its major projects in the Deerfield area of Missouri. There is one project in an area called Marmaton River and it takes up about 20 acres of land in a 300-acre parcel. There are two phases of drilling

that have been completed there and we are currently producing anywhere from 130 to 160 barrels a day, depending on the day and depending on how well the steam is going into the reservoir. Then we have our second newer project approximately 3 miles away in the Grassy Creek area of Deerfield. The Grassy Creek project has 20 acres developed on a 400-acre parcel. MegaWest has a 90% working interest in the entire Deerfield area with only 40 acres developed out of our total 15,000 acres in the area. MegaWest's entire land holding in Missouri alone is approximately 38,000 acres. We have approximately 130,000 acres of land tied up in our Company, so MegaWest has a lot of land to be explored and developed.

Where we are at financially is that we have over \$2.5 million in the bank and no debt. At the moment, our total company production is ranging anywhere from 140 to 180 barrels a day. The expectation is that sometime in the summer of 2010, with no additional drilling, we should be producing about 1,000 barrels a day from the two projects that are currently under steam injection. On top of that, we have identified up to 23 additional projects on lands that MegaWest currently owns where expect that we can ramp up to 400-600 barrels a day each. Each project costs approximately \$4.0 to \$4.5 million to build the steam facility, to build the production facility, to drill 45 producing wells, to drill 15 steam injection wells and to drill 3-4 service wells on a 10 – 20 acre parcel. If we decide to take the slow route to growth, we can grow organically with these projects using existing cash and net cash flow generated from oil sales or we could finance at some point in the future when it makes sense and accelerate that growth.

CEOCFO: What is your two-minute take on the energy/oil situation?

Mr. Kerr: We are one of the few petroleum companies out there right now that

really likes to have low gas prices and high oil prices. So, right now we are in a situation that is very favorable to us, because gas prices are low as a result of oversupply in North America because of the shale plays that have come on, particularly in Texas and that area. There is lots of excess production coming on stream, so gas prices seem to be depressed, which we are very happy about, because we use gas to fire our boilers, which generate the steam. Each of MegaWest's projects burns about 1 million cubic feet of gas a day, so the cost of purchasing natural gas is our largest operating cost and when gas prices are low, we like that a lot. Then you add on to that the oil price scenario right now, which seems to be in a state of recovering from where it was at the end of 2008. The West Texas price has virtually doubled since then, trading above \$70 a barrel. We are a heavy oil company and we sell our oil for 80% of the West Texas price on the spot market. High oil prices and low gas prices are currently very favorable economic conditions for MegaWest. Our main challenge is to get to the point where we can actually start producing more oil than we are burning gas and that will be coming forth very soon. As far as what we see in the medium term, we expect that gas prices will be relatively depressed, mainly because of the full gas storage situation and we don't expect that situation to change much over the next couple of years. On the oil side, we expect that demand is going to increase. The world uses oil to create gasoline and other fuels for transportation and countries like India and China, have very large growing affluent middle classes. The people in those economies want more cars and trucks. This will generate increased demand for fuel. Therefore, we see the demand for oil in the medium term growing, which means higher prices.

CEOCFO: Lay out the case for potential investors; why should they pay attention to MegaWest Energy?

Mr. Kerr: There are a number of reasons why investors should pay attention to MegaWest Energy. Number one, we are a growth story that has the potential for organic growth and/or accelerated growth through financing when it makes sense. Our independent reserve evaluators have given us a value for the assets in the company of about \$195 million and our enterprise value with no debt is currently \$20 to \$25 million depending on our stock's trading price on the day. Therefore, we think that there is a lot of unrecognized value for our share price in the stock market. MegaWest has the properties and the ability to grow significantly with relatively low geologic risk by adding multiple individual projects each with potential production of 500 barrels of oil per day. We have an aggressive growth strategy planned and we think that any investors that are here with us now are going to reap the rewards of MegaWest's growth plans and increasing valuations in the market.

CEOCFO: Final thoughts, what should people remember most about MegaWest Energy?

Mr. Kerr: There are a few things that we would like to point out. One of them is that we have a very large land base for a company of our size. When you capture the land, you capture the value. MegaWest has the ability to add projects and production at a very low cost and the reserve cost in the ground, on a long term basis, is going to be somewhere in the \$10 a barrel range, which is much lower than most other conventional plays. We have the ability to have long-term steady production growth, and we have an excellent management team all of whom are very experienced in running companies and finding oil and gas. Therefore, we believe that all of these factors will result in higher share prices, which are always beneficial to shareholders.



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