

## **Pacific Asia Petroleum Is A Development Stage Company On The Cusp Of Cash Flow That Has Distinguished Itself From The Competition With A Diversified Portfolio That Includes Coal Bed Methane, And Tight Gas Sand Property As Well As A Successful Enhanced Oil Recovery Program**



**Basic Materials**  
**Oil & Gas Drilling & Exploration**  
**(PFAP-OTC: BB)**



**Stephen F. Groth**  
**Vice President and CFO**

**BIO:**

Stephen F. Groth, 56, has served as Vice President, Chief Financial Officer and Manager of Pacific Asia Petroleum, Inc. since its formation in August 2005, and brings to Pacific Asia more than 25 years of experience in financial analysis, financial modeling, corporate reporting and financial reporting systems. Mr. Groth joined Texaco, Inc. in 1979, and held positions in various financial groups, including a key position in the corporate executive group, with the unique respon-

sibility of reviewing all of its investments and divestments (capital expenditures, acquisitions, and divestitures) greater than \$10 million from 1999 until 2001. From 2001 until 2006, Mr. Groth served as Vice President of Global Venture Investments, LLC ("GVI"), a small energy consulting firm located in White Plains, New York that is wholly-owned by Frank Ingriselli. In his roles at both Texaco and GVI, Mr. Groth reviewed billions of dollars of transactions, assuring that evaluations were done in accordance with appropriate corporate standards and that the assumptions underlying the economic valuations were valid, and he regularly advised client operating departments on appropriate ways to evaluate investment alternatives, providing support for the company's negotiation of major acquisitions and divestitures.

**Company Profile:**

Pacific Asia Petroleum, Inc. is engaged in the business of oil and gas exploration, development, production and distribution primarily in Asia and the Pacific Rim countries, with a specific focus on developing a broad range of energy opportunities, including clean and environmentally friendly natural gas ventures, in China. The Company was founded in 2005 by a group of senior Texaco executives and is led by CEO Frank C. Ingriselli. Pacific Asia Petroleum is headquartered in Hartsdale, New York, with offices in Beijing, China and California.

**Interview conducted by:**  
**Lynn Fosse, Senior Editor**

**CEO/CFO:** Mr. Groth, what is the vision at Pacific Asia?

**Mr. Groth:** Frank Ingriselli, our CEO, spent many years in Asia as a senior executive with Texaco. In that position, he discovered many high-value energy assets that were too small for multinationals to develop profitably. By creating a small, entrepreneurial team of senior energy executives in the States and Asia, Frank has assembled the talent and technology required to develop these assets. And, unlike the multinationals, Frank can leverage 30 years of high-level government relationships – particularly in China -- to get deals done. And he has. From gas distribution, to Coal Bed Methane (CBM) to drilling for oil, we are building value upstream and downstream with projects that generate real returns and real cash flow. That's our vision and we are executing against it 24/7.

**CEO/CFO:** With so much going on in the energy industry in China, how do you identify opportunities?

**Mr. Groth:** Our strategy is pretty simple. We want low-risk high-return assets and acquisitions that can generate revenue in the short-term and deliver big upside in the long-term. Let me give you two examples.

In August 2009, we used our newly acquired Enhanced Oil and Recovery Production (EORP) technology to generate revenues from the first of many wells in the Liaoning Province. EORP technology can also be used to help recover the estimated 20 billion barrels of un-recovered high viscosity crude in China. We also have a great CBM story to tell. We have started a multi-well drilling program in our 100%-owned Zijinshan Block in the Ordos basin. The China United Coal Bed Methane Company (CUCBM) estimated

this asset to have potential gross gas in place in excess of 3.8 Trillion Cubic Feet. Given that natural gas consumption is growing more than 5% a year in China, this asset has tremendous long-term value to our company.

**CEOCFO:** What is the government's role in business development in China?

**Mr. Groth:** The government, as in any economy that's run from the top down, plays a big role. For instance, they want CBM to be a major player in their domestic energy mix. But CBM is a relatively new technology in China. To further develop it, they formed a joint venture collaboration between the national coal company and China National Petroleum Corporation (CNPC) – it's called China United Coal Bed Methane. Part of this joint venture will involve building major pipelines to distribute the gas. One of these pipelines is already being built near our CBM block and will connect with Beijing. As part our Production Sharing Contract with the Chinese government, we will keep 60% of the gas we deliver and they'll take the other 40%. We get an attractive purchase price for the gas and the government gets the energy they need. It's win-win.

**CEOCFO:** Would you tell us more about the CBM industry in China?

**Mr. Groth:** There are a number of companies pursuing CBM. One is Far East Energy along with my previous employer Texaco (now Chevron) -they've been working at it for a long time. Shell is very big and very interested in natural gas production and CBM in China. Arrow Energy is collaborating with Shell and has been very successful in gas wells. Green Dragon Gas started a number of CBM projects and recently Conoco Phillips announced that they intend to buy into them. Bottom line, there's a lot of interest and it's growing every day. More broadly, the Chinese want a reliable, steady supply of natural gas. That's why they signed a large contract to purchase

LNG (Liquefied Natural Gas) from Australia's Gorgon Field. It's not cheap to import LNG, which certainly validates China's commitment to natural gas as an energy resource.

**CEOCFO:** What is the environmental aspect of working in China?

**Mr. Groth:** China builds more coal-fired power plants every year than exist in the United Kingdom. I spent a month in Ho Hot, the capital of Inner Mongolia, and my hotel was one of the tallest buildings in the city. There were mountains outside my window that you rarely saw because of the pollution from the city's coal-fired plant. That said, they are working toward a cleaner environment and their laws are beginning to reflect that. They are working toward burning more natural gas and they support clean technology. For in-

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stance, they're investing a tremendous amount in solar power and wind power. CBM, of course, will be a big part of the cleaner-energy solution. And with our CBM resources, we are well positioned to help solve the problem.

**CEOCFO:** How has the current economic scenario affected you?

**Mr. Groth:** We had a large opportunity in the CBM area with a multinational that did not go forward because of delays in financing and securing all the required governmental approvals. These are very attractive assets, but the collapse in the worldwide financial markets, which prevented us from securing those assets, turned out to be a "blessing in disguise." We were able to avoid encumbering our company with challenging financial terms, and we were able to walk away

from that deal with no break-up fees. We still have no debt in our company and we do have a very attractive CBM asset that we intend to aggressively move towards commercialization.

**CEOCFO:** What else would you tell potential investors about Pacific Asia; what are the other strengths?

**Mr. Groth:** We always want to raise the bar at Pacific Asia. Whether it's revenue recognition, strategic partnerships, we behave in a manner that's socially responsible and fiscally conservative. In fact, we have been rated in the top 100<sup>th</sup> percentile among 12,000+ companies for corporate accounting and governance by Audit Integrity. As CFO, that's something I'm really proud of.

**CEOCFO:** What is the financial picture like for Pacific Asia Petroleum today?

**Mr. Groth:** We are a development stage company. We have begun operations, like our EORP activities and drilling in our CBM asset. The EORP business will yield revenues and cash flow and we will start reporting those numbers in September. In addition, we announced a large potential transaction detailed in a September 4, 2009 8-K filing that could yield significant revenue.

**CEOCFO:** In closing, what are the challenges of working in China, and how does your company know how to deal with the different aspects of these challenges?

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