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OSUM Plans Cold Lake Thermal Project; Closes \$275 Million Financing

By Jim Bentein

OSUM Oil Sands Corp., the Calgary-based oilsands development company that had its plans to drill for heavy oil underneath a lake near Cold Lake cancelled last October by the Alberta government, will develop an in situ project on a lease it owns further east in the same region.

"We're looking at a project as large as 35,000 bbls," **Steve Spence**, vice-president of projects for the privately-owned company, said in an interview.

"We're planning delineation drilling there this winter... These are good leases, and none of it is near a lake."

OSUM has 100% ownership of 29 net sections directly adjacent to **Imperial Oil Limited's** Cold Lake project, where that oil giant has produced heavy oil since the 1960s and now averages 154,000 bbls a day. The junior acquired the leases in 2007 and earlier this year.

Separately, OSUM announced on Wednesday it has closed a private equity financing for a total of \$275 million. It said the financing was led by **Warburg Pincus LLC** and included a substantial investment by private equity giant **Blackstone Capital Partners V LP**.

The financing would allow the company to move ahead with both the Cold Lake and Saleski carbonate projects, **Richard Todd**, OSUM's chairman and chief executive officer, said in a news release.

OSUM had its plans to develop oil under nearby Marie Lake cancelled after local residents objected to its proposal to use a vertical shaft and horizontal tunnels and wells 500 metres below the lake to tap an estimated 252 million bbls of recoverable reserves. The company, which had planned to spend \$750 million to eventually produce 30,000 to 40,000 bbls a day there, bitterly reacted at the time to the province's announcement that it would cancel its lease.

However, Spence, who joined the company last May, after a 20-year career with **Shell Canada Ltd.** and who was the development manager for its Orion project, also in the Cold Lake area, said the company has moved on.

"Our Marie Lake lease is cancelled and rescinded and we have walked away from that lease," he said. "Marie Lake is the past."

The company had indicated last year it might consider a lawsuit against the government, but it has not yet taken any legal action and Spence would not indicate if it plans to. He said OSUM is now concentrating on the development of its two core areas.

In addition to its Cold Lake lease, it has a position in the emerging carbonate oilsands play near Fort McMurray. It holds 103 gross sections of what it calls its Saleski carbonate play, 67 of those jointly owned with **Laricana Energy Ltd.**, which is controlled by **Glen Schmidt**, a former executive with **Deer Creek Energy**, which was bought by France's **Total** in 2006 for \$1.67 billion.

With an estimated more than one billion bbls of recoverable oil, the leases could collectively support a 150,000 bbl a day project. The companies are also preparing a commercial application for development there.

It would not be an oilsands mining project, rather "some kind of thermal technology" would be used, said Spence.

OSUM's first priority, though, is the development of its Cold Lake area project, which it has not yet named.

He said the company is conducting an environmental assessment and plans to submit it to the provincial

government this fall and hopes to submit an application for commercial development by the end of next year.

Spence said OSUM hopes to begin production at its Cold Lake leases in 2013.

"We see it as a staged development, with the first phase being 10,000 bbls a day," he said.

He would not provide a cost estimate, but said development in the Cold Lake area has a price advantage over doing so closer to Fort McMurray.

"It's not quite as stressed an area as the Fort McMurray area in terms of labor and labor costs," he said.

He said the company is exploring the use of cyclic-steam injection on its leases, similar to the technology Imperial has used for over 30 years.

"We also see an opportunity for SAGD (steam assisted gravity drainage)," he said.

He said OSUM doesn't foresee any significant problems producing from the reservoir it has in the Cold Lake area.

"We have a team that is experienced in producing from these reservoirs," he said. "We're confident we can produce without significant problems."

Spence said the company plans to begin consultations with local people this fall and it plans an open house in November in the area.

He said the company does not plan to use fresh water to produce the steam it will need for heavy oil recovery, and instead will rely on brackish water. It will also find ways to minimize surface impacts and air emissions.

"We've been through Marie Lake," he said. "We gained a lot of knowledge in going through that."

He said OSUM will be sensitive to any community concerns about its project.

"But it's not like we're breaking new ground," he said, commenting on the fact that Imperial and other oil companies have been active in the area for many years.

"These funds provide the opportunity for OSUM to confidently move forward to first commercial production from our Cold Lake bitumen project of approximately 35,000 bbls a day, and to pilot production at our much larger Saleski project in the Wabasca region of Alberta, where our significant land position holds the potential to produce in excess of 150,000 bbls per day from several projects," said Todd

Todd added that the Saleski carbonate area, which he called "one of the world's next giant oil plays" is likely to proceed to commercial development after it receives results from its first pilot plant there in early 2010.

OSUM also announced that **Jeffrey Harris** and **David Krieger**, both managing directors of Warburg Pincus, would join its board of directors, as well as **David Foley**, a senior managing director with Blackstone.

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