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## UPSTART OSUM MAKES MARK IN OIL SANDS, SNAPS UP ORION PROJECT FOR \$325-MILLION

It has been a rough market for small companies in Alberta's oil sands of late, as financing dried up and concern over transportation bottlenecks kept investors at bay.

But Osum Oil Sands Corp., a privately held company chaired by former Suncor Energy Inc. chief executive Rick George, is doing just fine, its chief executive said Tuesday.

"We haven't forced anything," Steve Spence said in an interview at Osum's Calgary offices. "We have very patient shareholders and a very strong and patient board who have a lot of oil sands experience who have helped us make the right decisions at the right time."

Those shareholders include private equity players Warburg Pincus and Blackstone Group, BlackRock and Kern Partners. Korea Investment Corp. and the government of Singapore's investment arm are also backers.



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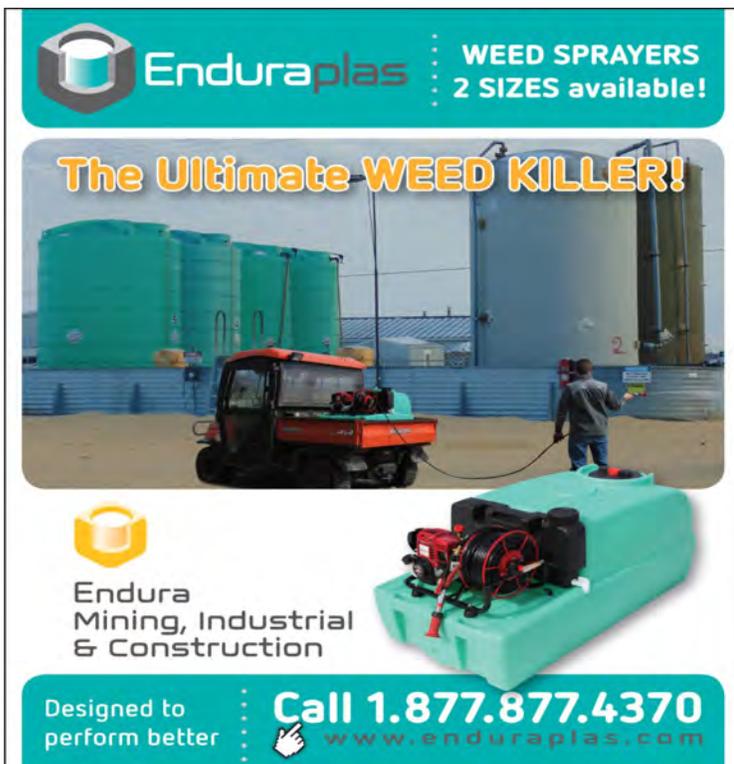
On Tuesday, the upstart company pulled the trigger on a \$325-million acquisition, snapping up an oil sands property called Orion from Royal Dutch Shell PLC for \$325-million in a deal that gives it something that has eluded other small oil sands players: a producing asset. The deal is expected to close July 31.

“This actually provides us with a really good opportunity to step forward in our business,” said Mr. Spence, a former Shell executive.

Orion, located about 30 kilometres northwest of Cold Lake, Alta. has been in operation since 2007 and pumped about 6,700 barrels of bitumen per

day from 22 steam-driven well pairs as of the first quarter this year. As part of the transaction, Osum said it had financing commitments from Barclays Bank PLC and Goldman Sachs Lending Partners LLC for credit facilities of US\$225 million.

Shell has been looking to sell Orion since 2012. It acquired the project



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as part of its \$2.4-billion acquisition of BlackRock Ventures in 2006.

Merger and acquisition activity among small- and mid-sized companies in Alberta's energy patch has picked up amid strengthening oil and natural gas prices and a revival in the availability of capital, analysts say. The industry has tallied seven transactions valued at US\$2.5-billion so far this year, not including asset deals, according to IHS Energy. That compares to US\$2-billion in all of 2013, a 10-year low.

But oil sands properties have been the exception, with some analysts attributing a slowdown in activity to rules introduced by the federal government that effectively bar state-owned companies from taking controlling positions in the resource.

Growth prospects for smaller oil sands players have been thrown in neutral, as companies such as Southern Pacific Resources Corp. and Sunshine Oil Sands Ltd. struggle to convert large asset bases into cash producers.

Mr. Spence said buying Orion gives Osum cash flow to help develop a nearby oilfield called Taiga, which the company says could produce up to 35,000 barrels of bitumen a day over time using steam-driven technologies.

"That forms the base and then lets us build out," he said. He said the company has pushed back construction of Taiga from this fall while it works to integrate Orion. Taiga's first phase could cost as much as \$625-million.

Mr. Spence said Osum has benefitted from the involvement of Mr. George, who was appointed chairman of the privately held company in November 2012, shortly after stepping aside as chief executive of oil sands giant Suncor. Suncor under Mr. George grew from a valuation of \$1-billion to a market capitalization of more than \$50-billion. "He brings all that experience of you've got to break some eggs to make a cake," Mr. Spence said.

Osum has been rumored as a potential candidate for an initial public offering. However, Mr. Spence played down the option, saying the company has no immediate plans to test public markets. "It's not our time yet," he said.

### CANADIAN STOCKS RISE AS OIL PRODUCERS, FINANCIAL SHARES ADVANCE

Canadian stocks rose a second day as energy shares advanced and the nation's largest lenders climbed after data showed home prices increased.

Athabasca Oil Corp. jumped 3.4 percent after PetroChina Co. said it is committed to completing the purchase of a stake in an oil-sands project. Royal Bank of Canada added 0.6 percent to reach a record. Bombardier Inc. rose 2.5 percent after a U.K. lessor signed letters of intent to purchase as many as 24 CSeries jets. Argonaut Gold Inc. and Alacer Gold Corp. slumped more than 2.7 percent as gold prices headed for the biggest decline in almost seven months.

The Standard & Poor's/TSX Composite Index rose 48.71 points, or 0.3 percent, to 15,174.21 at 10:45 a.m. in Toronto. The benchmark Canadian equity gauge has gained 11 percent this year, the third-best performer among the world's developed markets. The index closed at a record on July 9.

Athabasca Oil climbed 3.4 percent to C\$7.10 to pace gains among energy stocks. The S&P/TSX Energy Index climbed 0.6 percent, the most in the benchmark Canadian equity gauge. Six of 10 industries in the

S&P/TSX rose on trading volume that was in line with the 30-day average at this time of the day.

Chen Shudong, the incoming director of China National Petroleum Corp.'s Canadian unit, said in an e-mail that PetroChina is committed to completing its C\$1.32 billion purchase of the stake it doesn't own in the Dover oil-sands project in Canada from Athabasca.

Home Prices

Royal Bank, the nation's second-largest lender by assets, added 0.6 percent to C\$78.81, a record.

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The S&P/TSX Banks Index rose 0.5 percent to an all-time high. Home prices rose 0.9 percent in June for a third month of gains, according to the Teranet-National Bank Home Price Index.

Bombardier jumped 2.5 percent to C\$3.87. The company said July 12 that Falko Regional Aircraft Ltd. has signed letters of intent for as many as 24 CS100 aircraft. The company's CSeries jet was absent from the world's biggest aviation expo after an engine caught fire during May testing.

Lundin Mining Corp. increased 4 percent to C\$6.52, a three-year high, after the base metals mining company declined to comment on earlier reports the company will buy a mine in Chile.

**FIRST NATIONS LAUNCH LEGAL CHALLENGES AGAINST ENBRIDGE'S NORTHERN GATEWAY PROJECT**

A number of B.C. First Nations are contemplating legal action related to the Northern Gateway Project.

They believe the federal government did not take Aboriginal title and rights into consideration when it approved the controversial oil pipeline.

The Enbridge Project has faced repeated criticism because of environment concerns.

Leaders from several B.C. First Nations are expected to lay out their legal plans to fight Enbridge's Northern Gateway pipeline proposal, at a news conference

this morning in Vancouver.

The list of speakers includes Peter Lantin, the president of the Council of the Haida Nation; Clarence Innis, acting chief councillor for the Gitxaala; Ellis Ross, chief councillor for the Haisla; Martin Louie, chief councillor of the Nadleh Whut'en; Jessie Housty, councillor for the Heiltsuk; and Grand Chief Stewart Phillip, the president of the Union of B.C. Indian Chiefs.

It is expected First Nations groups will argue the proposed pipeline violates their aboriginal land rights in their respective territories, particularly in light of the Supreme Court of Canada victory last month by the Tsilhqot'in First Nation.

In that landmark ruling, the Supreme Court of Canada recognized the Tsilhqot'in First Nation's aboriginal title over a wide area to the south and west of B.C.'s Williams Lake, which it considers its traditional territory.

The court also established what title means, including the right to the benefits associated with the land and the right to use it, enjoy it and profit from it.

However, the court declared that title is not absolute, meaning economic development can still proceed on land where title is established as long as it has the consent of the First Nation, or where the government can make the case that development is pressing and substantial.

The court also made it clear that provincial law still applies to land over which aboriginal title has been declared, subject to constitutional limit

**FORT MACKAY RESIDENTS SHORT ON CASH AFTER OIL SANDS PROFITS DIP**

Band CEO blames low profits for missing payment

Some residents from the wealthy Fort McKay First Nation are in financial trouble after the band failed to provide an expected dividend from oil sands profits last month.

Band members have long been receiving the payment, known as a PCD, which the band is able to pay

out due to profits gained from oil sands-related operations. Recently, members collected more than \$10,000 per year from the funds.

But band CEO George Arcand says oil sands profits took an unexpected dip last year – leaving the band with a \$13 million shortfall.

Annette Campre says she's having a hard time making ends meet without the PCD payment. (Supplied)

Right now, Arcand says the band simply can't afford to spend money on PCDs.



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Annette Campre is a single mom who takes her diabetic son to Fort McMurray for treatment.

She said she relies on the PCD to top up her welfare payments and help cover costs.

"I'm broke, I don't even know where I'm going to get gas now," she said.

"You know we should have got our PCDs. We've been getting them every year since 2001 since we formed these groups of companies."

Officials blame tight resources.

In recent years, Fort McKay's group of companies was grossing more than \$100 million annually.

Mel Grandjambe ran the companies until last November. He blames the current band leadership for the diminishing PCDs.

While the Fort McKay First Nation declined a recorded interview, CEO George Arcand told CBC News that band members have been warned not to rely on PCDs.

Spokesperson Dayle Hyde added that the payments are only distributed when excess cash is available, and that it was not "financially prudent" to pay them out in June.

"In the past year, the profits from our businesses were less than expected due to various temporary competitive pressures, which have since been resolved. Accordingly, there was less excess cash," she wrote.

Hyde said the shortfall of income also came at a time when the First Nation was investing a large amount of financial resources into improving social programs,

housing and infrastructure. CEO Arcand said the bills will be paid off shortly, which should mean band members may start receiving some sort of PCD payment later this year.

In the meantime, he suggested people encountering financial difficulty apply to the band for help -- something Campre says she's tried to do, but with no success.

**JEFF IMMELT IS JUST THE AMERICAN CANADA NEEDS TO CLEAN UP ITS OIL SANDS**

General Electric Co. chairman and chief executive officer Jeff Immelt is just what Canada needs to develop its oil sands — an American leader with stature in Washington, on Wall Street, in the oil patch and in Silicon Valley.

He said this week that GE will help companies clean up the oil sands so that the deposits — the largest in the safest jurisdiction in the world — can continue to be tapped. His remarks are a welcome relief from Ottawa's and Edmonton's "our-oil-sands-are-not-dirty" mantra that threatens to strand the deposits not just in Canada, but in Alberta.

The problem is not Keystone XL, other pipelines, President Obama or Al Gore. It's oil sands emissions and other environmental challenges. Fix those, says Immelt, and more oil sands exports will get the green light. He's right, and Immelt is proposing that industry collaborate and voluntarily establish lower

emissions targets in order to remove the political opposition to Keystone XL as well as that faced by Premier Christy Clark in British Columbia.

"We, in terms of the oil sands, need to peg a greenhouse-gas target that would make us competitive with any other fuel source in the world. I think that more or less takes it off the table as an excuse," Immelt told The Globe and Mail this week.

By contrast, oil sands proponents and Ottawa have had a tin ear, defending the status quo for years, which is not an option.

Worse yet, Republicans have made Keystone XL an issue and published polls that allege a majority of Americans favor Keystone. But polls are biased, most respondents don't know what Keystone is and public opinion among Democrats, Silicon Valley, Hollywood, the media and academia has turned against the oil sands in particular and Canada in general.

These influencers are not always right, but they are never wrong. They don't want our oil sands oil because of its emissions and by ignoring their message, Canada

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now wears a "baby seal hunt" image again. This is why Immelt must be heeded and supported.

Four years ago, and in my recent book, I argued that both countries and the industry need to undertake a massive "Manhattan Project" to reduce oil sands emissions and to enable alternative energy technologies. Only by doing so, will the two realize their potential as the world's foremost energy superpower.

Immelt is correct: Without a promise to provide cleaner energy, all bets are off

Immelt is proposing to do this with a Silicon Valley slant: He envisions an "open source" project with all companies sharing patents, intellectual property and best practices with one another. He also announced a competition, with a prize of \$1-million, to find technologies that will dramatically lower emissions from non-traditional sources.

Interestingly, the oil sands industry itself was the brainchild of U.S. engineer Joseph Pew who envisioned turning sands into bitumen in the 1960s. He came to Alberta, after Imperial Oil Ltd. made a huge oil discovery at Leduc, to scout around and realized the potential of the gooey sands. His company, Sun Oil, bet heavily on them, then convinced the Alberta government to follow suit. In 1967, he built the world's first plant and called it the Great Canadian Oil Sands plant. Exxon followed by bankrolling Syncrude with government subsidies initially.

Pew, like Immelt, understood the resource's strategic value to the U.S. He said at his plant's 1967

opening: "It is the considered opinion of our group that if the North American continent is to produce the oil to meet its requirements in the years ahead, oil from the Athabasca [oil sands] area must of necessity play an important role."

It was true then and remains true. Despite increases in cleaner shale oil production south of the border, oil sands production will still be needed for the U.S. to wean itself off Middle East or Venezuela oil in 2025 or so. And also like Pew, Immelt's proposed mega-project will require tens of billions of dollars and the biggest players are there to step into this space.

For instance, ExxonMobil, mostly through subsidiary Imperial Oil, is the largest player in Canada's oil patch with global revenue in 2013 of US\$420.8-billion, or almost twice the revenue of the Canadian federal government (US\$240.4-billion). Royal Dutch Shell has global revenues of US\$451.2-billion and GE has revenues of US\$146-billion.

So far, Canada's largest corporation, and biggest oil sands player, Suncor Energy Inc., with revenues of US\$35.5-billion and a few other companies are supporting Immelt's strategy. But all the big boys must also join his initiative, and governments should, too.

Like it or not, the environmentalists have convinced the influencers and stopped the pipelines. They are vigorously attacking railway shipments, attacking oil sands customers and suing those who refuse to ban the stuff. Some U.S.

states have joined with bans.

Blaming Obama is off topic. Blaming the greens is, too. Immelt is correct: Without a promise to provide cleaner energy, all bets are off.

## JOE OLIVER TAKES OIL SANDS FIGHT TO EUROPE'S FINANCIAL HEART

EU's bid to label Alberta bitumen dirty just 'bad policy,' minister tells executives

Joe Oliver brought new evidence against a plan to label Alberta's bitumen dirtier than other oil to the financial heart of Europe.

Canada's minister of natural resources told an audience of more than 125 energy executives at the Canada Europe Energy summit in London that the European Union's proposed Fuel Quality Directive is a "bad policy."

"As currently drafted, the FQD is unscientific, discriminatory, opaque and will discourage and harm the European refinery industry," he said.

For the past couple of years Canada has been fighting plans by the EU to bring in the directive as part of the EU's efforts to reduce emissions from transportation.

The FQD assigns values to three types of oil — bitumen, shale oil and conventional oil — based on emissions created during production.

The Canadian government disputes the value assigned to conventional oil, saying it's too low.

Oliver's department released a study last week by ICF International, a company that previously provided expert advice on energy to the European Commission. It looked at how Europe calculates the emissions from the oil it uses now and concluded the EU's math is wrong.

The report points out the EU assigned average values for oil now used in Europe.

But, it concludes, that average doesn't take into account that conventional oil has different emissions depending on where it comes from and how much flaring — or burning off of gas — occurs during production.

Oliver argues that makes conventional oil appear cleaner than it really is.

"This is basic energy science," Oliver said "But the FQD doesn't reflect it."

Oliver wants the EU to create a new system of values for conventional oil.

Concern over effect in U.S., too

Canada recently signed a free trade agreement with Europe and sees it as huge new customer for its petroleum. But a higher number attached to Canadian oil sands bitumen under the proposed Fuel Quality Directive would discourage EU members from using it.

Oliver warns the FQD could also give Alberta bitumen a black eye in the U.S.

The Obama administration is still mulling over a decision about the controversial Keystone XL pipeline.

"It could stigmatize the oil from Canada and impact on our access to some markets, Oliver told reporters. "I don't see a direct

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tie-in with Keystone but it clearly would not be helpful," he added.

As Oliver spoke protesters dressed in white hazmat suits outside London's Canada House unveiled a mock oil spill clean up. The work, by artist Lucy Sparrow, showed geese, seals and other wildlife made of felt covered in oil as workers "mopped" up the spill around them.

"Joe Oliver has just sort of revamped his campaign to water down the Fuel Quality Directive to try and stop progressive EU climate legislation," said Suzanne Dhaliwal from the UK Tar Sands Network.

"We wanted to bring this oil spill here today to show that animals are being destroyed, communities are being destroyed and ecosystems are being destroyed. And we wanted them to think about that when they go into these meetings today."

### SINOPEC MAY BACK AWAY FROM NORTHERN LIGHTS OIL SANDS LEASE

The Canadian arm of China Petrochemical Corp. may shelve work on its Northern Lights oil sands lease or sell the property entirely, as Chinese companies begin to rethink future investment prospects in the world's No. 3 crude reserve.

CNOOC Ltd. subsidiary Nexen Energy ULC is restructuring its operations and letting go staff despite pledges to Ottawa by

China's largest offshore oil producer to keep all employees and senior management and turn the Calgary-based company into a platform for growth, industry sources say

Sinopec, as the company is known, could delay efforts to develop the property or seek to sell its interest in the lease entirely as it consolidates its North American assets, a person familiar with board-level discussions in Beijing said. The person asked not to be identified because the talks are private.

The Chinese energy giant owns a 50% stake in Northern Lights through subsidiary SinoCanada Petroleum Corp. The Canadian unit of France's Total SA holds the remaining 50%. The mining lease, located about 100 kilometres northeast of Fort McMurray, Alta., is estimated to hold about 1.08 billion barrels of recoverable bitumen, according to Total's website.

Investments by state-run Chinese companies in the oil sands ground to a halt after changes introduced by Ottawa effectively barred them from taking controlling interests. But industry experts say the companies, after paying a premium for stakes in the oil patch, are also reluctant to pump more cash into projects with uncertain commercial prospects.

Sinopec "is having trouble with Northern Lights like everybody else," said the person. "You can't throw money into a black hole forever."

The state-run energy giant is one

of several Chinese shareholders in Sunshine Oil Sands Ltd., which has faced difficulty securing financing for its stalled West Ellis bitumen project. China Investment Corp. and Bank of China are also Sunshine investors.

The Financial Post last month reported CNOOC Ltd. subsidiary Nexen Energy ULC is looking to slash costs by as much as 21%. The company's new CEO, Fang Zhi, has yet to be granted a visa and work permit by the federal government. Nexen said it expected Mr. Fang to be in Calgary this month.

The episode has raised eyebrows with senior officials at Sinopec and the China National Petroleum Corp., who voiced concerns over the work-permit delay during a recent high-level meeting with Alberta bureaucrats held in the mountain town of Jasper, according to one participant.

The state-run companies have also faced difficulty bringing technical staff from overseas to work on Canadian

assets, the participant said.

Sinopec in 2005 paid privately held Synenco Energy Inc. \$105-million for a 40% slice of Northern Lights, designed to produce 100,000 barrels of oil per day. Sinopec boosted its interest in the project in 2009, buying another 10% of the lease from Total.

The French energy giant this year shelved its \$11-billion Joslyn mine, citing concerns over escalating costs and profitability.

Sinopec also controls a 9% share of the Syncrude Canada Ltd. project, acquired from ConocoPhillips Co. in 2010 for US\$4.65-billion. In 2011, Sinopec paid \$2.2-billion for Calgary-based conventional oil and gas producer Daylight Energy Ltd.

Representatives of Sinopec's Canadian unit did not respond to a request for comment. A spokeswoman for Total in Calgary said the company doesn't comment on speculation.

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