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April 24, 2007

Submission to the Multi-stakeholder Committee for the Alberta Oil Sands Consultations

Good afternoon,

My name is Marla Van Gelder from Laricina Energy Ltd. Laricina is a small oil sands player focused on creating value through developing a diverse portfolio of oil sands assets that leverage technology and market developments. We are targeting oil sands opportunities south of the Athabasca mining area, and in Peace River and Cold Lake concentrating on *in situ* reserves with the development potential of approximately 10,000 barrels of bitumen per day.

As you are probably aware, these deposits are likely to be less developed and not as mature as current producing *in situ* projects within the competitive McMurray region. Laricina's strategy is to use the strength of our experienced technical teams to innovate and adapt development techniques and capitalize on the huge untapped potential of *in situ* reserves for the benefit of all Albertans. The carbonate plays in particular, offer substantial development potential, but will require companies such as Laricina to prototype with innovative technology to develop this opportunity.

Since inception in late 2005, Laricina has raised over \$190 million, no small amount for investors and employees to invest in the vision of sustaining economic development in Alberta. Laricina has over 20 employees, numerous consultants and third-party partnerships currently dedicated to the realization of this vision.

Laricina has been active in Crown land acquisitions, completed its initial core drilling program, supported research with the University of Calgary, employed 12 summer and Co-Op students and hired its first new graduate, in its first year of operations. Laricina is a leading edge, high-tech resource-company, founded by Albertans, of which I am proud to be a part. Oil sands development is not just about multi-nationals exploiting our resource. I believe Laricina and other Alberta-based companies are creating the technologies, jobs and economic spin-offs that Albertans expect along with their resource development. While there have been growing pains, Alberta's partnership with industry is achieving payoffs. Laricina is only one such example of this high-tech centre of excellence fostered by oil sands development.

My comments below follow the format of the Options for Strategies and Actions prepared by the Multistakeholder Committee.

Quality of Life

The benefit of oil sands developments enhances the quality of life in Alberta and elsewhere in Canada through its direct and indirect spin-off benefits which are substantial. We can not lose sight of this through the consultation process and the forthcoming recommendations to government. Although the oil sands industry has been painted with significant negative qualities, the positive implications from its development can not be underscored in searching for an oil sands policy framework. The negative consequences of development as outlined in the vision document must be viewed as the challenges for which all interested parties must work together to find solutions. The issues are so interrelated it is unlikely one solution for all issues or every concern can be found. Companies such as Laricina, offer staged and moderate pace of development as technology is innovated, adapted and incorporated into projects. The larger, existing projects, that both laid the foundation for growth and accelerated its

challenges, have also opened the way for new Alberta-based, junior companies to fill the *in situ* development void.

Clearly, a moratorium on development is not in the best interest of Albertans and would significantly reduce the quality of life for Albertans. A moratorium should not be recommended. Calls for a moratorium or other shut-down attempts arose primarily from fear, misinformation or final pleas for government attention for funding assistance. What is clear to me is the facts are not well known, understood, and available or believed by the public, and thereby full knowledge and understanding by Albertans is not what it should be.

Communication is critical; companies accept this responsibility upfront to operate in this industry, but government must also take an active role in informing the public with credible fact based studies, reports, processes and strategies that will help answer the public's questions so we can all reach our social, economic and environmental goals.

I believe Albertans should be excited by more than a dozen new home grown *in situ* companies creating the needed technology and expanding at a more moderate pace of development than the mega-projects of recent mines. The *in situ* combustion prototype of Petrobank Energy and Resources Ltd., the underground mining opportunities of Oil Sands Underground Mining Corp. or Laricina's own carbonate prototype, are but a few of the examples from these technology leaders that Alberta has fostered.

It is necessary that the recommended actions to government support this overarching goal.

Healthy Environment

The oil sands industry is not a single business but really comprised of three distinct groups; mining, upgrading and *in situ*. All groups are working to make technological breakthroughs in reducing costs, increasing recovery and improving environmental performance.

The *in situ* business is really at a very early stage of exploration and development and the number of small explorers pursuing opportunities within this segment of the oil sands industry has grown substantially over the last number of years. This is due of course partly to the overall excitement in the oil sands, the smaller manageable scale to enter the *in situ* business versus mining or upgrading, but also because of the innovations and technical advances being made by small explorers in understanding these reservoirs and necessary recovery processes and the significant upside this carries. Small companies need to invest in innovations and technical adaptations to be competitive and are often the ones that lead improvements in costs, recovery and environmental performance. These advances are opening opportunities for marginal *in situ* resources to be pursued with testing and pilot work that can have a tremendous positive impact to environmental performance and overall resource development where both society and company shareholders win.

However as you know, this industry is very capital intensive, requires very long lead times to project start-up and has significant technical risks. Access to capital is critical to sustaining development plans for small producers who are most sensitive to industry forces. Laricina is concerned with the added high degree of uncertainty caused by the combined issues of oil sands royalty regime reviews, accelerated capital cost allowance elimination, regulation on the pace of development, and increasing pressures for environmental taxation.

Maintaining a stable and competitive investment climate is paramount to supporting small *in situ* producers in their pursuit to achieve reservoir performance enhancements with the dual goal of environmental improvements. Therefore a balance must be maintained between supporting technological and financial goals while promoting societal and environmental goals. Examples, such as Laricina, where nearly \$200 million of capital to date is being deployed in the resource

high-tech sector, should continue to be encouraged. Research In Motion, based out of Waterloo, was not Bell when developing their key products, but was created in an environment that supported a high-tech sector. Alberta has the opportunity to support this innovative growth and is already seeing some of these new generation resource companies at work.

Next generation companies that develop next generation technologies must be fostered through any introduced governmental programs or these Canadian businesses will not survive in the competitive global marketplace. Existing long-term rates of returns for oil sands companies are not any greater than the broad industry, and returns for new, growth oriented small companies in the innovative and growth stage must be higher than large producers to attract the capital to drive their developments forward. Uniform and reactive policy development based on public perception and not facts will have a considerable negative impact on our business.

Even as a small producer, Laricina is a leader in searching for applications of technology to find solutions for the many challenges in our industry. As previously noted, we are a very active participant in fundamental research with the University of Calgary, and are advancing our field prototypes in undeveloped reservoirs. The Alberta government must recognize the differences within the sub-sectors of the oil sands industry when considering an environmental policy framework. Developments in small stages require a different framework than the mega-mine and upgrading projects around Fort McMurray.

Climate Change, Water and Reclamation

Laricina understands that global warming and the potential influence that CO2 emissions may have is a complex issue; both from a scientific and political perspective. The *in situ* oil sands development has a substantially smaller environmental footprint and emissions impact than mining or upgrading operations.

Regardless of the complexity of environmental concerns, Laricina has regard for the impact its business operations may have on the environment; we all wish to have clean air and water and minimize the impact to the boreal forest. As such, Laricina endeavors to conduct its operations in a manner which mitigates the impact to the environment with initiatives that explore and advance technology innovations in pursuit of potential reductions to environmental impacts. These include; water treatment and reuse, alternate fuels and CO2 clean up and sequestration. Laricina is also researching and testing reservoir depletion schemes that will optimize our use of energy and support the reduction of negative environmental effects. Our goals mirror Alberta's goals; to efficiently develop the resource.

Our strategy is for an orderly and staged development that is flexible to include future innovations as an improvement to current practices. A staged development allows operations to be refined from field experience and evolving technology, to the benefit of environmental performance and enhanced recovery. Laricina, for example, views CO2 as an opportunity that may support *in situ* oil sands enhanced oil recovery and is already advancing this research.

The Multistakeholder Committee should recommend that the Alberta government focus an environmental framework on the three separate oil sands businesses that addresses specific issues to each and continue support of research and development through incentive programs.

Maximizing Value Added

This Vision Statement demonstrates the competing interest of economic prosperity and environmental consideration. Any recommendations in this regard will need to balance the government's own policy on the environment to the desire to have Alberta based upgrading, as upgrading is likely to increase the environmental impact in the province.

Clearly this is a complicated issue and as stated earlier, upgrading is a separate business within the oil sands industry. The committee should identify the barriers, gaps and impediments of upgrading and refining in Alberta relative to other jurisdictions, determine the level of investment and conduct a full cost – benefit analysis. From this, opportunities may be presented to make upgrading in Alberta more competitive and maximize the return from the province's bitumen resources. However, the committee should strongly oppose any mandated, conditional bitumen project approvals or provincial percentage targets for upgraded oil sands. Market forces must be allowed to work to balance the requirement for increased economic upgrading activity and future benefits to Albertans against maximizing return on investment. Mandating upgrading using today's know-how will hurt the advancement of other potential technologies that may improve the oil quality *in situ*, or through solvents, firefloods, etc. Additionally, improvements to bitumen economics through market forces, alternative fuels, operating and capital cost improvements, pressure the desire to upgrade in Alberta. Laricina for example, is evaluating alternate fuel and diluent sources as a less costly and less environmental intensive operation so as to improve the economic value of bitumen production. Like most developments, there will not be only a single solution.

Builds Healthy Communities

The oil sands industry has made large contributions to the communities in which they operate. Corporate responsibilities are taken very seriously and community engagement and stakeholder consultation is a thorough and transparent process. Contributions to communities should be specific to the current stage of company development. As a young company, Laricina already makes contributions to the community and expects this involvement to expand and evolve as we grow. However, it is government's responsibility to ensure adequate funding and support to community health and education, infrastructure and housing needs. Crown land lease sales, royalties and taxes provide sufficient government revenue to deal with the specific issues for high growth areas. The committee should recommend the Alberta government plan for community needs specifically as they relate to high growth areas with a longer focus to support sustainable development and ensure the future prosperity for Alberta.

The Alberta Benefit

As mentioned under quality of life, communication is the key to ensuring Albertans understand the facts. One of the most important agreed upon actions of the Options for Strategies and Actions, is to educate Albertans about the oil sands fiscal regime. The contribution the oil sands industry makes to Alberta, and the expected increase in this amount over time is staggering. A strong oil and gas industry benefits the province. At an estimated production of 3.0 million barrels of bitumen per day by 2015, the known recoverable oil sands resource has a reserve life of more than 150 years. Including the carbonate recoverable potential through advancing technology and recovery schemes, we will see Alberta create a revenue resource that will support Albertans for generations.

The fiscal regime must support investments in projects and new technology through a stable lasting fiscal regime which will allow these long-term investments be made in a volatile industry. Simply focusing on higher commodity prices does not justify higher royalty rates. Bitumen netbacks have remained relatively consistent over many years and have only recently increased as a result of other positive market developments and forces. There is no guarantee this will be the case in the future. Rates of returns to oil sands companies have been no higher than those seen in general industry. As more marginal resource is developed and new technological initiatives are required, risk increases, hence return decreases.

As stated by the Alberta government's own documents, 95% of the mineable resource in Alberta is already leased and represents only 20% of the estimated recoverable resource. The *in situ* resource development will contribute significantly in the future to production growth, recoverable resources and provincial revenues. Clearly, to meet the challenges presented in many of the Options for Strategies and Actions, industry needs to continue to invest in technology for enhanced recovery and improved costs, environmental performance initiatives, training for an insufficient labour force, community health and infrastructure. However, industry can only invest if the ability to raise capital through investors is available or the reinvestment of cash flow represents sufficient returns. A partnership approach to the fiscal regime has served Alberta well; the formula is working, development is occurring and the province is benefiting. In the past, for example, royalty structure supported conventional miscible flood enhanced oil recovery projects in the late 1970's and 1980's that increased oil recovery and government revenues. Recognition that the industry pays the capital, takes the risk, and when a profit exists, it is shared, are the driving principles of partnership that build Alberta's strength.

The committee should recommend to the Alberta government that it demonstrate the economics of the marginal producer and new entrants and compare to existing projects in payout status. This will help Albertans understand the importance of the two stage royalty structure and the current fixed 1% pre-payout rate. The committee should also emphasize to the government that a stable fiscal regime is critical. We understand the oil sands Royalty Review Committee are furthering the discussion of this important issue and we look to provide more detailed comments to that task force.

Alberta as a World Leader

Even as a small company, Laricina is investing in technology, training and education that will create and sustain a skilled workforce. With no revenue, Laricina has supported over seven University Co-Op work terms and five summer student placements. We are investing in people and technological advances because we believe it is the key to finding solutions for challenges in our industry. This can not be mandated by government but must be supported by market dynamics and the drive of companies to maximize return and profitability, which benefits all Albertans. So in economic terms it's what makes "cents". Actions for training and educating to create a skilled workforce are all industry challenges and those companies who invest will be rewarded. Laricina is part of the high-tech centre for resource recovery, investing in technology and people that the Alberta government has fostered. With more than a dozen other active high-tech players such as Laricina, Alberta is only beginning to see the dividends from this investment.

The Multistakeholder Committee should recommend to the Alberta government policies it develops in this area should not single out oil sands with unfair, biased or inequitable treatment but look to all industry to support Alberta as a world leader in education, technology and a skilled work force.

Infrastructure

The support for communities in the government's funding model does not adequately compensate those communities most impacted by oil sands develop. It is imperative the government review special infrastructure needs despite established funding ratios. The long-term prosperity of the province is hinged on the continued development of the oil sands and those communities specifically impacted must be supported.

The fiscal regime must recognize this imbalance and understand the driver of increased resource revenue and provide those communities that are critical to the continued development with the necessary funding.

Governance

The process established by the government in its creation of this Multistakeholder Committee for oil sands consultation is a positive first step in establishing an effective governance structure for oil sands development. The presented agreed upon actions are positive indicators towards a framework that is transparent and delivers accountability. Many of the disagreed actions will also be addressed under the first eight vision statements where an open dialogue will ensure beneficial long-term development.

Laricina values the opportunity to participate in the oil sands consultation process through this submission. I am excited about the future that Alberta has before it with Alberta-based companies like Laricina creating opportunities for Albertans. We are hopeful for a policy that supports sustainability, investment and prosperity for all Canadians and I look forward to the committees' recommendations on how we continue to build on this partnership.

Thank you,

Marla Van Gelder
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