



# *It would be* **WILDWOOD**

**SURMONT ENERGY FURTHER DE-RISKS ITS SAGD ASSET BY FILING ITS REGULATORY APPLICATION JUST ONE YEAR AFTER CORPORATE INCORPORATION**

— *By Jim Bentein* —

RELATIVELY WARM WEATHER DURING SURMONT ENERGY'S WORK PROGRAM LAST WINTER IS BEING CREDITED IN PART WITH THE SPEED AT WHICH THE FLEDGLING COMPANY HAS BEEN ABLE TO FILE A COMMERCIAL PROJECT APPLICATION.

**I**t's got to be some sort of record—nearly one year to the day of incorporating as a company, on October 4, privately held junior Surmont Energy Ltd. announced the filing of its regulatory application for a 12,000-barrel-per-day steam assisted gravity drainage (SAGD) operation in Alberta's oilsands. Give it about another year and the company anticipates regulatory approval will be in place, and procurement and construction will be able to begin.

Michael Little, president of Calgary-based seismic project management firm GeoTir Inc., says he has never seen an oilsands project management team assemble the financing, arrange for seismic and drilling, and submit an application to regulatory authorities as quickly as Surmont has.

"What was surprising to me is how quickly they were able to do all of that," he says. "They're likely at least a year ahead of what others would do."

GeoTir has assembled seismic data for hundreds of clients, in both the conventional and unconventional sectors, including Surmont. Little says that a bit of luck helped Surmont accelerate its project application in that the weather was good last year for field work. Also, the fact that Surmont's partner, Bounty Developments Ltd., had done so much preliminary work played a part.

"In a short period of time it has become an exciting story," Little says.

Surmont's project is called Wildwood, and the owners, well, they are Albertans—at least that's how company president Bill Cooper sees it.

"[We were] able to raise \$14 million from individual Albertans, and we didn't have an investment bank behind us," says Cooper, who has been involved in the private financing of resource industry companies since 1998.

That figure would have been a few million dollars higher, but a Houston-based investment

fund backed out during the final stages of the deal last February.

Even Cooper, who has helped raise \$50 million in start-up funding for a number of Alberta-based firms, including water technology company Wescorp Energy Inc., aggregate-resource developer Reperio Resources Corp. and wireless technology developer Meta4hand Inc., was surprised by Surmont's success in raising dollars from individual investors.

"We had not raised a dime prior to incorporating the company last October," he says. "That's when we went looking for a project. It was all about timing."

The company is managed by oil industry veterans including chief executive officer Mark Smith, a corporate lawyer with 25 years of experience in the oilpatch. Smith previously served as a chairman or director/officer of a number of successful companies, including seismic-focused service firm ►

## A SLICE of WILDWOOD

**Project location:**  
82-07,08,09W4

**Owner:**  
Surmont Energy

**Technology:**  
SAGD

**Capacity:**  
12,000 barrels per day

**Procurement & construction start:**  
Q4/2013

**Target start up:**  
Q1/2015

**Target reservoir:**  
McMurray Formation

**Net average pay thickness:**  
20 metres

**Average bitumen saturation:**  
73 per cent

**Recovery factor:**  
45 per cent

**Recoverable bitumen in development area:**  
46.4 million barrels

**Planned wells:**  
20 pairs on three pads

**Water treatment:**  
Evaporative technology

**Steam generation equipment:**  
Drum boilers

Destiny Resources Services Corp., Horn River and Montney shale gas-focused Stone Mountain Resources Ltd. and Cardium-focused Infiniti Resources International Ltd.

Surmont's chief operating officer is Gordon Holden, a petroleum engineer who attended the London Business School and was formerly chief executive officer and chief financial officer of Infiniti, as well as a senior executive officer with Scimitar Hydrocarbons Corporation, an Egyptian oil-centred firm which was sold for \$900 million after a merger with Rally Energy Corp.

Cooper says the executives in Surmont were approached by executives with another privately owned firm, Bounty Developments, almost "coincidentally," as they started to raise cash for their new company.

Bounty had previously struck a deal with Excelsior Energy Limited to develop a SAGD project on 19 sections of land—about 12,000 gross acres—located about 70 kilometres south of Fort McMurray, Alta.

However, Excelsior ran into financial troubles and was subsequently sold to Athabasca Oil Sands Corp. (now Athabasca Oil Corporation) in 2010 for \$144 million. Athabasca acquired oilsands acreage in the Hangingstone and West Surmont areas from Excelsior where it is now moving ahead with development, but it passed on the lease Bounty controlled. That's where Surmont entered the picture.

The company agreed to a farm-in deal with Bounty last October with a commitment to spend about \$12 million, including \$3.2 million on seismic, \$7 million on drilling and \$2 million on the application to the Energy Resources Conservation Board. In early October, it submitted its 400-page application. Bounty, which had controlled 100 per cent of the lease, continues to maintain a 20 per cent interest while Surmont owns 80 per cent.

The companies will develop what they say is a "high-quality McMurray oilsands reservoir,"

located amid a cluster of operating projects owned by ConocoPhillips Canada, Japan Canada Oil Sands Limited, Connacher Oil and Gas Limited, and Statoil ASA.

Production at Wildwood is expected to start in 2015, gradually ramping up to its 12,000-barrel-per-day capacity over the following year or two. Peak production is expected to continue for 15 years, with an overall project life of 24 years.

**"In a short period of time [Surmont Energy] has become an exciting story."**

— Michael Little, president, GeoTir Inc.

Surmont says no issues have been identified with resource quality, caprock integrity, reservoir top gas, reservoir bottom water or associated natural gas. Conventional water treatment, steam generation and bitumen/water/gas production technologies are to be applied from a central processing facility. The company has chosen evaporators and drum boilers as the heart of its SAGD system.

The central processing facility design includes a natural gas-fuelled cogeneration power plant. However, discussions are also underway for the supply of primary backup power via the electricity grid.

Cooper says the company will need to build about an eight-kilometre access road to the site and may eventually develop a pipeline, relying initially on trucks to ship its bitumen to downstream customers. It is anticipating it will be able to achieve a steam to oil ratio of 3:1 or 3.4:1.

More drilling and seismic is planned for this winter, as is further facilities design. Cooper says Surmont and Bounty will spend about \$10 million over the next several months.

"We're now entertaining having investment bankers come in," he says, adding that there is interest because the companies have de-risked the project by conducting the drilling, seismic and other work.

Surmont is continuing the process of consulting with local Aboriginals and other residents, as well as other stakeholders.

It anticipates the regulatory review process will take 15-18 months. Normally, project applicants receive supplementary requests for more information after four to six months.

While Cooper marvels at the company's ability to raise the money to advance the project, he acknowledges that the remaining fundraising effort will be more challenging.

"We'll need to raise \$500 million to fully develop the commercial project," he says.

At this point, Surmont has no plans to go public, believing it can mimic companies like Laricina Energy Ltd., which has remained private while developing its Saleski and Germain oilsands assets, as well as privately held Osum Oil Sands Corp., which has raised \$1 billion to date (including from Korean and Singapore state-owned companies) to develop its Taiga and Grosmont projects.

"We have no need to go public. We are very proud of our company, our team and our shareholders, 95 per cent of whom are school teachers, business owners and people you meet at the mall everyday."

Cooper believes the track record of the Surmont executives will play a key role in attracting investors.

Resource estimates for the company's leases won't hurt either. A best-estimate discovered/undiscovered bitumen-in-place assessment of its 19 contiguous sections placed reserves there at 1.49 billion barrels, with 170 million barrels readily recoverable. The current project area has an estimated 46.4 million barrels of recoverable bitumen.

Cooper says the companies would like to develop a second phase of the project in the future, taking production up to 28,000 barrels per day.

"We think we can eventually expand to 40,000 barrels per day in total," he says. "It's really a function of money." OSR



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SOURCE: SURMONT ERCB APPLICATION



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