Energy firms in sticky situations

Tar sands projects look to overcome challenges of lower oil prices

By Dennis Webb

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US Oil Sands is tantalizingly close to opening its new tar sands operation across the Utah border, but hopes hinge on getting a loan approved and, in the meantime, the company had to furlough most of its staff. At the same time, another tar sands operation near Vernal, Utah, has produced some 10,000 barrels of oil on and off over the past couple of years, but operations are on hold as it moves its plant to a larger lease.

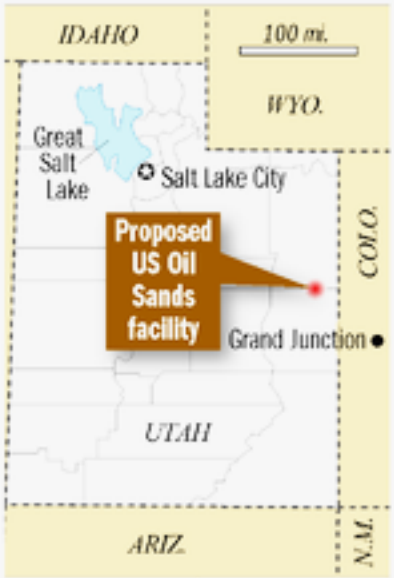
So tantalizingly close — and yet still so far.

That's one way of looking at the status of efforts to get into long-term commercial production of oil from tar sands deposits in eastern Utah.

US Oil Sands Inc. had already completed mechanical construction of a plant just across the Colorado border before announcing Dec. 2 that it was deferring final steps to commission the plant and laying off most of its employees while it seeks to close on a $7.5 million loan. It was forced to seek the financing after it went over its $60 million budget for the plant because of the drop in oil prices during the last few years.

"We need a little bit more money to get us over the finish line," said Cameron Todd, the company's chief executive officer.

Meanwhile, MCW Energy Group Limited already has produced more than 10,000 barrels of oil during intermittent operations over the past year and a half outside Vernal, Utah. Company spokesman Paul Davey said the company was in commercial



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production "until the price of oil got nasty."

It's now working on moving its plant but needs to obtain additional financing of about $3 million to get up and running, and is hoping for increased investor interest now that oil prices have rebounded somewhat, to more than $50 a barrel.

US Oil Sands' problems with oil prices were indirect, since it hasn't yet begun producing and selling oil itself. The lower price of oil hurt energy-related contractors working on the project, leading two of them to close operations in Utah altogether.

Todd said that led to cost overruns on its project in part because some work had to be redone when it had to hire different contractors who work in a different way.

"You're stuck in the middle," in such a situation, he said. "You have to do your best to pick up the pieces."

US Oil Sands is working to develop oil on bitumen leases on more than 32,000 acres in the PR Spring area north of Interstate 70 on the border of Uintah and Grand counties. It's pursuing the use of a citrus-based solvent to extract the bitumen from the tar sands.

MCW is using a different solvent-based approach.

The companies tout their methods as environmentally friendly means of producing oil from tar sands.

US Oil Sands is based in Calgary, and laid off most employees in both the United States and Canada as it pursues a loan. It also laid off all its contractors. Todd declined to say how many people were laid off.

While the timing was difficult, coming just before the holidays, Todd characterized the layoffs of employees as hopefully being temporary ones — "basically a furlough" until it closes the loan deal.

"Our hope is that we can bring those people back once we have financing. But there's a lot of circumstances beyond our control. We don't know when that would be. We certainly plan to get this plant started up and we certainly plan to use the people that we hired in order to do that," Todd said.

US Oil Sands has a tentative deal to obtain a loan from one of its major shareholders, but it continues to pursue various approvals on the loan.

"I can't give a timeline on it, and I can't guarantee that it will go ahead," Todd said.

The company has acknowledged that it would be unable to continue operating without obtaining financing, and Todd declined to speculate as to other options it might pursue if it fails to obtain the loan it is seeking.

"The company will pursue whatever options are available to it. Right now, this is what we're targeting," he said.

The loan agreement also will require approval from the Canadian stock exchange on which the company's stock is traded. Its stock is currently priced at a few Canadian cents a share, down from more than 20 cents in late 2013, before oil prices dropped.

Final commissioning of the plant will involve introducing crushed ore, water and solvent into the system, something US Oil Sands has decided wouldn't be prudent to do this time of year given its current financial situation. Todd said it would be an ordeal if had to clean out everything in order to keep the bitumen from freezing up and solidifying.

Todd said the company has no bank debt, but bought some equipment on term loans and owes money to service providers and contractors. The loan it is seeking would help it manage such financial requirements in addition to starting up the plant.

It has employees who have come from Grand Junction and Vernal, and local businesses have benefited from the project, he said.

"We hope to have that sort of relationship long into the future," he said.

As for the challenges it is facing, he added, "When you're an entrepreneur and you're a pioneer with a new technology and new ways of going about your business, you find many, many, many more obstacles than your average guy does, or your average enterprise. You have to become very good at being resilient and dealing with difficult circumstances."

MCW, based in Toronto, has produced oil from a plant with a 250-barrel-a-day capacity at Asphalt Ridge near Vernal.

Davey said it is moving the plant about 10 miles, to where its feedstock is. The plant's current location is on a lease containing about 25 million barrels of proven oil reserves, but the second lease has an estimated 89 million barrels of reserves. The second site also involves a private rather than state lease, and a large existing mining permit, having long been used as a regional source of road asphalt.

MCW also is planning to expand its production capacity at its plant.

As far as paying for the project, one possibility is that funding for it could emerge as a result of initiatives MCW has been pursuing to participate in soil hydrocarbon cleanup projects in North America and globally using a solvent-based approach. It's exploring joint venture and licensing initiatives along these lines.

Its stock is trading at about 20 Canadian cents, down from $1.50 a few years ago.

Meanwhile, US Oil Sands is looking for opportunities to use its solvent technology for oil sands projects in other locations around Utah, North America and the world.

Todd said that could be through a joint venture or licensing arrangement, or initiating its own operations elsewhere.

“However, we’ve got a large land base out in Utah right now,” he noted. “Our current project is only a small project on a small part of the lands that we’ve discovered oil on.”

Tar sands development opponent John Weisheit with the group Living Rivers remains skeptical about the prospects for the US Oil Sands project ever succeeding.

“I’ve been listening to this ‘We’re going to start any moment now’ for six years,” he said.

He said the company continues to face not just financial hurdles, but administrative ones, such as a recently imposed requirement to get a water-related contract from the Bureau of Reclamation and new bonding requirements from the state of Utah.

Todd said such requirements are typical of the kind of amendments or permit revisions required of an operation as it moves forward.

US Oil Sands plans to recycle most of its water and says its water use will be minimal, but Weisheit remains worried about impacts on the Colorado River if tar sands development becomes widespread.

“The Colorado River doesn’t have water for this kind of activity. … There’s a lot of tar sands out there (in Utah). If you cumulatively look at the water impact it’s huge,” he said.

THIRD EFFORT STALLED

A third effort to develop tar sands in Utah appears to have stalled, at least for now.

American Sands Energy Corp., based in Salt Lake City, has been pursuing a project east of Price. It had filed for an operating permit with the Utah Department of Oil, Gas and Mining, but division spokeswoman Hollie Brown said the state hasn’t heard from the company since last year, after sending it a letter identifying deficiencies in its permit application that needed to be addressed.

The company couldn’t be reached for comment.