U.S. Oil Sands announces short-term layoffs

Rudy Herndon Moab Sun News | Posted: Thursday, December 8, 2016 7:58 am

For the second time this year, the Canadian developer of a proposed oil sands mine in the Book Cliffs has scaled back work on the controversial project, leading to the temporary layoffs of most company employees.

U.S. Oil Sands of Calgary announced last week that as it seeks additional funding for its PR Spring Mine, it is deferring work on the project, which is located near the Grand and Uintah county lines about 70 miles northeast of Moab.

“We were just getting tight on funds,” U.S. Oil Sands Vice President of Operations Barclay Cuthbert told the Moab Sun News.

The company said that with the exception of project-financing personnel, the layoffs will affect the bulk of its 34 or so employees, who are almost evenly divided between Utah and the company's home province of Alberta.

PR Spring Mine

Canadian developer U.S. Oil Sands says it has “substantially completed” work to commission its PR Spring Mine in the Book Cliffs northeast of Moab. But the company announced last week that it is scaling back work on the project, leading to the temporary layoffs of most employees. [Photo courtesy of U.S. Oil Sands]

Cuthbert said his company hopes to close a $7.5 million financing deal later this month, and then resume start-up activities at the open pit mine in January 2017. In the meantime, he said, it may hire regional employees on a part-time or short-term basis to help maintain equipment or basic operations at the site, such as removing water from the processing plant's components.

“(The employment numbers) aren't absolute,” Cuthbert said. “It does fluctuate as we're doing our various cleanup tasks.”

U.S. Oil Sands CEO Cameron Todd said that as the company tries to preserve its working capital, it knows this hasn't been an easy time for stakeholders.

“The decisions we have had to take have not been made lightly, as we know they affect many businesses and families,” Todd said. “But slightly delaying the project and completing this financing is believed to be in the best interest of all concerned, including our shareholders.”

The latest announcement follows the company's move in February to reduce its operating costs until it

could finalize a previously announced deal for $10 million in royalty payments.

At the time, the company told its investors that it still had more than $10 million in the bank – enough money, it said, to keep it going well into 2017 in the event that commodity prices remain low for a prolonged period.

It subsequently locked up a financing deal in late May with its main investor – Luxembourg-registered company ACMO S.à.R.L. – and resumed full construction work at the site.

Assuming that the latest financing deal closes later this month, the company says it only needs to complete the "last few commissioning procedures" to begin commercial production at the mine.

In addition to producing oil sands, the company hopes to use PR Spring as a demonstration project to market its biodegradable, citrus-based solvent that separates oil from sands. Todd has said that the proprietary bitumen-extraction process could eliminate the need for large-footprint mine tailings ponds that are commonplace at oil sands projects in Alberta, while reducing water usage at such projects by up to 95 percent.

"We are looking forward to making first oil early into 2017 and profitably demonstrating the company's commercial technology," he said.

But Living Rivers Conservation Director John Weisheit of Moab is doubtful that the project can get off the ground that quickly, calling it a speculative venture.

"This is just a scam, in my opinion," he said.

The company previously reported that it would be ready to begin commercial production in the first quarter of 2016 – a projected start-up date that had already been pushed back from its previously announced targets. After it delayed the projected start-up date again, the company told investors in late August that it would be ready to commission the mine and begin commercial operations during the fourth quarter of the year – in other words, right now.

Weisheit said the company has been making similar promises to its shareholders since 2010.

"They've been doing it since I've been involved with this," he said.

Majority shareholder ACMO has continued to build its stake in the company, and if it agrees to the latest financing deal with U.S. Oil Sands, it would own about 58 percent of the company's common shares.

Although crude oil prices were up to more than $50 per barrel earlier this week, Weisheit questions whether it makes economic sense for investors to put their money into the company or the mine.

"Most investors say (the project) couldn't possibly break even until it gets to $60," he said. "If the prices

rise, it's still not enough to break even."

Weisheit sees the latest announcement as a sign that others aren't lining up to invest in the company.

"Here they are, $200,000 short of (finishing) their processing plant, and they announce that the only people they have money for are essential personnel," he said. "They're not only laying off people in Utah, which they've done before. They're laying off people in Canada."

Regulators seek additional project information, guarantee of water rights contract

While the company reported on Friday, Dec. 2, that it is now ready to begin active mining operations, Weisheit said it cannot, until state and federal regulators sign off on additional permitting and contract requirements.

He said that his group's administrative appeal of the project's groundwater monitoring plan is still pending with the Utah Department of Environmental Quality.

In addition, the Utah Division of Oil, Gas and Mining (UDOGM) has not approved the company's amended "Notice of Intention to Commence Large Mining Operations," based on its determination that the document remains incomplete.

UDOGM Minerals Program Manager Paul Baker said the company has not yet responded to his office's request for additional information, although it still has more than one week to do so, and Cuthbert says it's working to address the division's concerns.

Baker's office first discovered the incomplete documentation as it sought information relating to the proposed mine's reclamation bond.

"The main reason for getting this submittal was so that we could update the bond amount, but this was a slightly different issue that came up as we were reviewing it," Baker said.

Baker said that when he asked a hydrologist to review the amended notice, that person noticed "a few problems" with the document.

"They're not serious, but they're details that need to be clarified in the plan," he said.

In particular, Baker said, the company omitted information about its stormwater management plans at the mine site.

"Whether they would show the stormwater pollution prevention plan, or just have the basic information in the notice ... we do need to have that," Baker said. "We do need to know how the stormwater is being managed."

Meanwhile, the Utah State Engineer's Office has approved the company's latest water rights application. But it also ruled that a contract with the U.S. Bureau of Reclamation is required before the company can divert water from two newly permitted sources.

Both new sources are wells, but Utah Deputy State Engineer Boyd Clayton said his office issued the condition because the base right for the application originally covered a water right from Flaming Gorge Reservoir.

Clayton said that water right was conveyed to the state on the condition that anyone who benefited from it must have a contract with the federal bureau.

Until the company meets those additional requirements, Weisheit doesn't believe that it's in a position to begin commercial operations.

“They claim that they have all of the clearances they need to start, but they clearly don't,” he said.

But Cuthbert said his company is committed to wrapping up the loose ends, with the hope that mine operations can start as soon as possible.

It's been a difficult few years for the oil and gas industry, he said.

“But we've persevered, and we're looking forward to production in the new year,” he said.