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The Oil Mining Company, Also Known As TomCo, Is About To Come Of Age

By Alastair Ford

Marketing is now well underway ahead of the proposed Aim listing of TomCo, a company which takes its name from a shortening of the phrase "the oil mining company". Markets are somewhat choppy at the moment, so it'll be interesting to see how easily the company can get away. But however it goes, it won't be for lack of simplicity. This is a company, in the words of the Ronseal ad men, that does exactly what it says on the tin, or in this particular case, capsule. Oil is the product, but it is mined, having first been isolated and heated in a capsule dug out of previously mined ground. If that sounds a bit familiar that's because it is. Mining oil from shale, as TomCo will, is not new. But TomCo brings innovations to the party that should titillate investors and get them asking questions at the very least.

One such investor who's already been titillated enough to part with £5 million of his own hard-earned is Chris Brown, the well-known serial investor behind Kenglo, a man who first made his money in the mining world. For a long time Chris masqueraded as an analyst at Williams de Broe, but one day he struck out on his own and banked a major fortune in a deal involving London Mining. Now, he's become adept at seeking out unusual homes for his new found wealth – viz., he put more than £1 million into Conroy Diamonds & Gold and managed to turn a profit on it too, which is not something everybody can say. And the latest beneficiary of the Brown millions in TomCo, in which he holds a 26.33 per cent stake.

What does Chris see that he likes? TomCo has oil shale licences in Unitah County, Utah. It has plenty of them, all on State land, and although not yet fully permitted, chief executive Stephen Komlósy that first oil production can be delivered by 2014. It also has access to a proprietary technology owned by neighbour Red Leaf Resources, which according to the TomCo literature has "increased the commercial potential of oil shale as a source of oil". Simple as that. Or perhaps not so simple.

It all depends on how technical you want to get. But Stephen Komlósy manages to lay it out in layman's terms fairly well. Oil shale is a sedimentary rock which is rich in organic matter called kerogen, which is itself the source material for oil. Deeply buried for millions of years, oil shale can form the source rock for conventional oil fields. But geologically young or shallow-buried shales also have the potential to produce oil if they are heated to temperatures ranging between 400 and 900 degrees. And therein lies the rub. Until now, at least. The cost of the heating has been prohibitive relative to the oil price and the cost of extraction from conventional fields.

But two things combine to make the TomCo offering attractive. One is persistently high oil prices. The other is the likely cost savings that will be generated by the Red Leaf method of extraction, which is known as EcoShale. It's also worth mentioning that the vagaries of the Arab Spring are unlikely to affect investor sentiment towards Utah, unless it involves a further hike in the oil price.

So, with the stars beginning to align for TomCo, the listing has got underway. Stephen Komlósy has been doing the rounds of the City, explaining how EcoShale involves mining the shale and then depositing it again in ground that's already been mined, this time around an elaborate network of piping. It's the arrangements for that piping, through which the heat is delivered, that makes EcoShale proprietary. TomCo paid Redleaf US$2 million for the license, in a deal that was initiated by TomCo. Stephen emphasises that Redleaf was actually perfectly happy to pootle along on its own Seep Ridge

project without involving anyone else. But the opportunity to construct a similar operation on TomCo's Holliday Block, just 15 miles away from Seep Ridge just looked too good. TomCo went after a deal, and after one or two tricky negotiating moments, got it. Stephen emphasises that TomCo will wait until Redleaf has proved commercial viability at Seep Ridge before it will start construction at Holliday, and he's realistic enough to concede that if there are delays at Seep Ridge then there'll be delays to the TomCo timetable too.

Having said all that, a pilot plant at Seep Ridge operated successfully between 2008 and 2009, and construction is now underway for a 9,500 barrels per day operation which should produce first oil in 2013. TomCo will come along one year behind, producing roughly the same amount. All in all getting it up and running should cost around US$230 million. But at the moment, that's not the hard part. According to Stephen he's had several expressions of interest, including from banks **like Macquarie, regarding the provisions of those funds. The hard part is getting to the point where that capex can be deployed.**

That's the purpose of the current raise, which aims to deliver a more modest £3.5 million into the company's coffers ahead of an admission to Aim on 31st May. Too small for the big boys, but perhaps just right for some of London's more niche players who like the look of the upside. According to the company's base case economic study, Holliday could deliver consistent cash flow of more than US$100 million per year, across a 15 year period, and that's using US$80 oil. At a proposed listing price of 3p there's clearly huge potential upside on offer. The question now is: can the company deliver?

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