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Weekender

# Oilfield NEWS



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## TALISMAN PREPARES FOR JOB CUTS AS CANADA'S OIL PATCH STRUGGLES

Talisman Energy Inc. (TLM.T, TLM) is preparing to cut its workforce as it works to substantially reduce office costs amid a broader push toward better profitability.

Talisman expects to slash its general and administrative (G&A) costs by "at least 20 per cent overall," Helen Wesley, the company's executive vice-president of corporate services, told the CIBC Whistler Institutional Investor Conference Thursday morning. "And that's a combination of both people and indirect costs."

She said the company will act in "a couple of weeks." Talisman is "rationalizing the size" of its operations both on the corporate side and in the many regions it operates in. That is likely to result in the company backing away from certain countries, she suggested.

"When we start exiting countries, we take out the G&A associated with those countries directly, but then all of the associated work that happens to make a country like Poland and Peru function. Pretty significant," she said. "Because we've had such a distributed focus over the last few years, I think the company will function differently as a result of being more streamlined in terms of the portfolio."

Talisman currently spends C\$1.3-billion a year on its general and administrative costs budget. It's unclear what percentage of its workforce, which stood at 3,700 at the end of 2011, will be let go. Talisman spokeswoman Phoebe Buckland said cuts will include "people, offices, travel, IT. It's the overhead as well as the people cost."

The looming layoffs are the latest sign of widespread difficulty in the Canadian oil patch. Oil sands companies, faced with high costs and heavily discounted crude prices, have begun to scale back growth plans. Gas companies, which have faced a longer run of low prices, have largely managed by selling off pieces of their property, mostly through joint ventures with foreign companies.

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Talisman's changes, which include the departure of executive vice-president of special project Tony Meggs, come months after long-time Calgary corporate leader Hal Kvisle took over as chief executive officer.

The company is now in the midst of deep corporate surgery designed to improve its performance. The company's shares, after touching nearly C\$25 in early 2011, now sit at just above C\$12. Talisman has acknowledged that of the three legs of its corporate stool -- the Americas, the North Sea and southeast Asia -- only the latter is generating free cash flow today.

"Our goal is to make sure that all three of these regions are generating free cash," said Richard Herbert, executive vice-president of exploration, on Thursday. "We will divest non-core assets that are outside these regions, but will also look at divesting non-core assets within these regions. We will high-grade the portfolio wherever we look."

In North America in particular, Talisman is looking to back out of a number of operational areas. It is currently involved in five so-called "resource plays." It wants "to focus on 3.5 of those," Mr. Herbert said.

"Through a combination of divestment or joint ventures, and we're looking at all of the options that are possible, we're going to reduce

our footprint in North America."

The company's difficult financial circumstances have largely ruled out even more dramatic moves, said Mr. Herbert. Last year, Talisman "took a look to see what options did we have, ranging from asset sales or joint ventures, all the way through to splitting up the company," he said. But it's tough to hive off companies that aren't especially profitable.

"We wouldn't be able to set up a North American business independently, for example, with the current debt that we've got," he said.

Plus, he added, the company's relationships with big state-owned companies like Malaysia's Petronas "to some extent depend on Talisman being a sort of global player, and being of the scale and size that it is."

Selling the company, he added, is "not something that we're putting any focus on right now."

Talisman is not looking to expand its oil and gas production in 2013, although it is hoping to shift its output toward oil, which in North America has seen far stronger pricing than natural gas. Some of that effort has been challenged by delays in gaining community and environmental permits in Colombia, where "we're moving at a slower pace than we had hoped a year ago, but it is now moving ahead," Mr. Herbert said.

## The Bergg Homes Team



Steven Bergg Allen Epp Annette Jensen-Bergg

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He was eager to highlight Talisman's efforts in Iraqi Kurdistan, where it has drilled three wells and is now drilling two more. Finding and development costs -- the amount it takes to discover new barrels -- there are "probably one of the lowest ... left in the world," he said, and the company has found an "oil column" nearly 150 metres thick, although it may be thicker.

"Whether we choose to stay in this and develop it, bring in partners to do that or monetize it entirely and exit are all choices for the future," Mr. Herbert said. "Right now, we think the right thing to do is continue to grow value by appraising what's clearly a very exciting discovery."

## ALTAGAS, IDEMITSU KOSAN FORM JV AIMED AT EXPORTING ENERGY FROM CANADA

AltaGas and Idemitsu Kosan revealed Tuesday that the companies have signed an agreement to form the AltaGas Idemitsu Joint Venture. The JV plans to pursue opportunities involving exports of liquefied petroleum gas (LPG) and liquefied natural gas (LNG) from Canada to Asia. AltaGas and Idemitsu will each own a 50 percent interest in the JV.

"We are excited to partner with Idemitsu, a global leader in the supply of energy, petroleum, lubricants and

petrochemical products and services to the people of Japan. Idemitsu has a proud heritage of creating value for the benefit of Japan and the societies, consumers and communities in which they operate", said David Cornhill, Chairman and CEO of AltaGas. "We are pleased to work with Idemitsu to develop opportunities that will be good for the people of Japan and Canada. As we move forward, we will continue in our commitment to engage and work effectively with Governments, First Nations, and other stakeholders."

"Canada is one of the world's most resource-rich countries and has proven to be a very promising new supplier of gas to Japan. As a leading energy infrastructure company in Canada, AltaGas has enjoyed rapid and sustainable growth in its natural gas infrastructure, power generation, and natural gas distribution businesses. The Partnership with AltaGas is a natural fit with Idemitsu's gas and power business. AltaGas is simply the best strategic partner for us in terms of both existing business and potential opportunities, and we have great expectations and enjoyment in our collaborative discussions with this rapidly growing company. We believe that a joint venture with AltaGas will enhance the businesses of both companies while making a significant contribution to the national interests of both Canada and Japan." said Kazuhisa Nakano, President of Idemitsu Kosan.

The JV plans to pursue opportunities to develop long-term natural gas supply and sales arrangements to meet the growing demand for natural gas in Asia. As Asia's largest LNG consumer, Japan would benefit from a new and dependable source of LNG from the JV. LNG from Canada would provide a clean, stable, and reliable source of energy to meet Japan's growing demand for natural gas. The development of a Canadian LNG export opportunity would also provide long-term benefits to Canadians at a time when Canada is seeking to diversify its energy markets.

The JV will undertake feasibility studies for the development and construction of liquefaction facilities as part of the proposed project to export LNG to markets in Asia. The feasibility study is expected to be completed by early 2014. The pipeline capacity required to transport natural gas to the liquefaction facility is expected to be provided by AltaGas' wholly owned subsidiary Pacific Northern Gas. Subject to consultations with First Nations, and the completion of the feasibility study, permitting,

regulatory approvals and facility construction, the proposed LNG exports could begin as early as 2017.

In addition, the JV plans to pursue opportunities to develop a LPG export business, including logistics, plant refrigeration and storage facilities. The feasibility study is expected to be completed in 2013. Idemitsu is a shareholder of Astomos Energy Corporation, one of the world's largest LPG suppliers. Subject to consultations with First Nations, and the completion of the feasibility study, permitting, regulatory approvals and facility construction, the proposed LPG export business could begin as early as 2016.

## 14 DEAD, 80 INJURED IN MEXICO OIL COMPANY BLAST

An explosion at the main headquarters of Mexico's state-owned oil company in the capital killed 14 people and injured 80 on Thursday as it heavily damaged three floors of the building, sending hundreds into the streets and a large plume of smoke over the skyline.

There were reports that people remained trapped in the debris — as many as 30 according to civil protection and local media — from the explosion, which occurred in the basement of an administrative building next to the iconic, 52-story tower of Petroleos Mexicanos, or Pemex.

Ana Vargas Palacio was distraught as she searched for her missing husband, Daniel Garcia Garcia, 36, who works in the building. She last heard from him at 1 p.m.

"I called his phone many times, but a young man answered and told me he found the phone in the debris," Vargas. The two have an 11-year-old daughter. His mother, Gloria Garcia Castaneda, collapsed on a friend's arm, crying "My son. My son."

There was no immediate cause given for the blast, which also damaged the first and second floors of the auxiliary building in a busy commercial and residential area. But in a Tweet, Pemex said it had evacuated the building as a precautionary measure because of a problem with the electrical system.

The company later tweeted that experts were analyzing the explosion and any reports of a cause were speculation.

"It was an explosion, a shock, the lights went out and suddenly there was a lot of debris," employee Cristian Obele told Milenio television, adding that he had been injured in the leg. "Co-workers

helped us get out of the building."

The tower, where several thousand people work, was evacuated. The main floor and the mezzanine of the auxiliary building, where the explosion occurred, were heavily damaged, along with windows as far as three floors up.

"Right now they're conducting a tour of the building and the area adjacent to the blast site to verify if there are any still trapped so they can be rescued immediately," Interior Ministry spokesman Eduardo Sanchez told Milenio.

A reporter at the scene saw rescue workers trying to free several workers trapped. Television images showed people being evacuated by office chairs, and gurneys. Most of them had injuries likely caused by falling debris.

"We were talking and all of sudden we heard an explosion with white smoke and glass falling from the windows," said Maria Concepcion Andrade, 42, who lives on the block of Pemex building. "People started running from the building covered in dust. A lot of pieces were flying."

Police landed four rescue helicopters to remove the dead or injured. About a dozen tow trucks were furiously moving cars to make more landing room for the helicopters.

Streets surrounding the building were closed as evacuees wandered around, and rescue crews loaded the injured into ambulances.

"I profoundly lament the death of our fellow workers at Pemex. My condolences to their families," President Enrique Pena Nieto said via his Twitter account.

Shortly before the explosion, Operations Director Carlos Murrieta reported via Twitter that the company had reduced its accident rate in recent years. Most Pemex accidents have occurred at pipeline and refinery installations.

A fire at a pipeline metering center in northeast Mexico near the Texas border killed 30 workers in September, the largest-single toll in at least a decade for the company.

## PETROLIA CONFIRMS HYDROCARBONS AT BOURQUE WELL

Pétrolia confirmed that results of analysis on well Bourque 1, drilled in summer 2012, reveal the presence of a reservoir containing important quantities of hydrocarbons, some of which is oil. This result justifies the mandate given by Petrolia to an independent expert, Sproule Associates, to evaluate the hydrocarbon volume initially in place

in this reservoir. Located in the Forillon Formation, it is characterized by the presence of numerous vugs which can reach large sizes, up to several tenths of centimeters and which are associated with open fracture zones.

The analysis of an imaging log (FMI) by Schlumberger Canada confirms the presence of a reservoir of good capacity. The analysis demonstrates that the Bourque 1 well penetrated numerous zones where this type of (vuggy) porosity develops, between the depths of 1465 m and 1820 m (355 meters interval).

This result adds to those obtained during drilling, when two tests carried out on part of this interval have demonstrated the presence of hydrocarbons, including oil. One of these tests (at the top of the interval) recovered very light oil (53 degree API) whereas the second one (in the center of the interval) yielded an initial flow of 1.4 million cubic feet per day of wet gas.

Vuggy porosity cannot be detected during analysis of the drill cuttings (one to two millimeters in diameter) because of the large size of the vugs (up to several tenths of centimeters). In carbonates, this porosity is often associated with weathered zones located close to main faults, such as the North-West Arm fault which transects the Bourque structure.

The regional context suggests that weathered zones containing this type of reservoir could be present along the North-West Arm fault, which extends over more than 37 miles (60 kilometers) length. Acreage located along this fault thus becomes an interesting target in the search for hydrocarbons.

Considering these results, Petrolia has chosen to develop a production test program in order to properly evaluate the porous interval discovered in the Bourque 1 well. Production tests are also planned in the deeper section of the Bourque 1 well, as well as in the Bourque 2 well.

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