

upstream

MEXICO FOCUS

Reaping the rewards of reform



Mexico's President
Enrique Peña Nieto
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NEW PLAYERS

Canadians join rush for Mexico's onshore riches

Renaissance Oil wins targets long-term presence in country after winning **three onshore blocks**

KATHRINE SCHMIDT
Houston

THE gold industry helped bring together the team behind Canadian independent Renaissance Oil, which won three blocks in Mexico's onshore round.

Now the Toronto-listed junior is keen to dive into its role as a new operator in Mexico, having brought on notable members of the US shale industry to help jumpstart a vision that includes both mature and unconventional assets.

"We're in Mexico for the long run," says chief executive Craig Steinke. "While the properties are small, we want to learn the process of how to be a competent operator before bigger plays roll out."

Renaissance co-founder and director Ian Telfer has past experience in Mexico as chairman of mining player Goldcorp, which has run the Los Filos mine in Guerrero state since 2001.

Telfer and Steinke previously

teamed up to build Realm Exploration, a start-up that focused on European shales, later acquired by San Leon Energy in a 2011 merger.

The pair decided to make a move on Mexico following energy reforms and set up Renaissance in 2014.

The company has built a team that includes veterans of Mitchell Energy, the company headed up US unconventional pioneer George Mitchell before it was

bought by Devon in 2002. The lineup includes industry veteran Dan Steward and others who played a key role in putting together the game-changing unconventional model in the Barnett shale.

Other veterans come from throughout the upstream sector.

Renaissance aims to leverage its collective experience to tackle its three modest blocks — Mundo Nuevo, Topen and Malva.

The blocks lie in Chiapas state in the Macuspana trend, all characterised by the same cretaceous fractured carbonate play.

The blocks were estimated to have 140 million barrels of original oil in place, with 46 million barrels recovered so far.

The contract will run for 25 years with two possible five-year extensions.

Decisions The company also has four months to decide whether to exercise an option to acquire a fourth block, Ponton, in Veracruz state in the Poza Rica trend.

The three blocks are currently producing about 700 barrels per day of light oil.

Renaissance bid aggressively with some of the highest offers of the round for additional royalties to the state, with values of 80.69%, 78.79% and 57.39%.

While the blocks have been billed as mature areas, Steinke describes the areas more as "neglected fields" where only primary recovery methods are neces-



Process: Renaissance Oil
chief executive Craig Steinke
Photo: RENAISSANCE OIL

sary. The blocks are covered by 3D seismic, so Renaissance is working up appraisal plans for submission to Mexico's regulators and is targeting approval by the end of the year.

It will then have a year to complete a \$16 million minimum work programme likely to include the drilling of four wells and multiple workovers.

The company is beginning to scope out its supply chain options with an eye towards running either one or two rigs.

Renaissance completed a \$10 million equity raise and has set up a \$20 million credit facility to fund the plan.

The company is cautious about making firm output projections, but Steinke points to examples of other similar wells being "very, very prolific" and sees 3000 barrels per day from the combined three blocks as a reasonable goal.

However the company sees its first three blocks as only the beginning in a promising market, and intends to play an active role in future bid rounds, from onshore to unconventional.

Tonalli gets second bite at Tecolutla block prize

TONALLI Energia initially left empty-handed from Mexico's highly competitive onshore round last December.

However, the Toronto-listed company had come in second on Block 24, Tecolutla, and in May found itself the winner after the first-place bidder failed to furnish its guarantee.

"We were pleasantly surprised," says Steve Hanson, president of partner International Frontier Resources (IFR), which has about three months to finalise the contract.

Tonalli was formed as a 50:50 joint venture between the Canadian explorer IFR and Mexico's Grupo Idesa, a well-established petrochemical company.

IFR, which has positions in Canada and the US state of Montana, was keen to look at the Mexico opportunity following energy reforms but considered it crucial to tap a

strong local partner to work with important local constituencies such as unions, says Hanson.

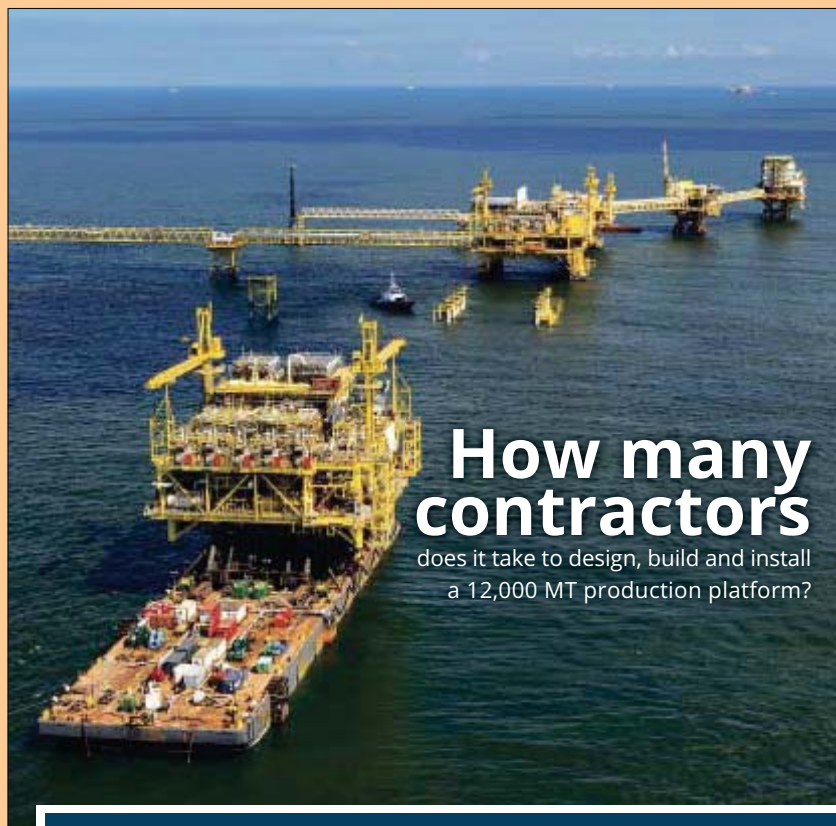
"It's a different business culture, a different operating culture," he adds.

The company now sees its initial block, which covers 7.2 square kilometres in the Tampico-Misantla basin, as a crucial foothold in Mexico's new energy landscape.

The tract produced a peak of 900 barrels per day from three wells in the 1970s, with some production as recently as 2014.

The company's operations team envisages the deployment of advanced carbonate drilling, completion and recompletion techniques to help reboot production on the block.

The company has already carried out baseline work for the area and also aims to invest in local infrastructure. Future rounds are also on the company's horizon.



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