



# Daily Oil Bulletin

## IFR Appointment Of Former Pemex Exec To Its Board Likely To Be Viewed As A Sign The Company Is To Be Taken Seriously

By JIM BENTEIN – JULY 8, 2016

A former senior executive with **Petroleos Mexicanos** (Pemex), which has long monopolized the oil and gas sector in Mexico but now faces private sector competition, has joined the board of one of those competitors, Canadian-based junior [International Frontier Resources Corporation](#) (IFR).

IFR announced Thursday that **Ignacio Quesada Morales**, who previously served as the chief financial officer and board member with Pemex, will become a member of its board of directors.

Quesada, who is now managing director of global professional services firm **Alvarez & Marsal**, has more than 20 years of experience in finances and strategic consulting, mostly in the energy industry, in Mexico, Brazil, Chile, Argentina, Spain and South Africa.

For IFR, a junior with minimal existing production but with a focus on the newly emerging competitive E&P landscape in Mexico, the appointment of Quesada to its board is likely to be viewed as a sign the company is to be taken seriously, despite an existing small footprint in the country.

At Pemex Quesada was responsible for the company's treasury, budgeting, accounting and risk management. Previously he held senior government positions, including serving as chief of staff for the secretario de hacienda y credito publico, Mexico's treasury office, as well as secretary for its ministry of social development.

**Steve Hanson**, IFR's chief executive, said the appointment of the former Pemex executive to the board solidifies an existing arrangement with Quesada, who previously acted as an advisor to the company. "His role will certainly increase," he

said. "We're honoured to have him as a board member." Hanson said Quesada's background with Pemex and his past government positions means "he understands the [oil and gas] industry in Mexico" and the way government works. "He understands the energy reform and from a strategic standpoint that will be very helpful," he said.

IFR, which is partnered with Mexican petrochemical company **Grupo Idesa S.A.**, recently was awarded a block formerly held by Pemex, after the previous bidder, a Mexican-based company, was unable to raise the needed capital to provide financial guarantees to the **National Hydrocarbons Commission (CNH)**, the government entity overseeing the auction of about 15 per cent of land-based and offshore blocks formerly held by Pemex.

Pemex, facing a debt of about US\$100 billion, as well as pension liabilities in the billions of dollars, is also planning to enter into several joint ventures and farm-ins with private sector firms like IFR and **Renaissance Oil Corp.**, another Canadian-based junior that has been awarded four onshore blocks in Mexico.

The block IFR won is located in the Tampico-Misantla basin, where there are billions of bbls of oil reserves and significant natural gas deposits. The area within that basin where IFR won its concession is in the Tecolutla block, which is 7.2 square kilometres in size and is a mature field. IFR has described the area as a carbonate oil reservoir, located in the El Abra formation, at a depth of 2,340 metres. It said 3D seismic has been acquired over the entire block and seven wells have been drilled into the producing reservoir.

IFR formed a Mexican division, named **Tonalli Energia**, to pursue opportunities in the Mexican oil and gas industry. IFR has minimal production now, but holds substantial leases in the Northwest Territories, in Alberta's Mannville formation and in Montana.

Hanson said the company, through Tonalli, is focused on Mexico and will be for many years. He said the Tecolutla block win gives the company a "beachhead" in the country. He said the low royalty it will have to pay improves the economics of the block. The initial successful bidder was going to pay a 68.40 per cent royalty to the government, but Tonalli will only have to pay 31.22 per cent. Hanson said modern horizontal and recompletion technologies should unlock significant production from the block, as well as giving the company a good opportunity to begin its operations in Mexico.

"There has been no horizontal drilling in this region," he said. "There is an opportunity to utilize advanced Canadian drilling and recompletion technologies." It is expected to gain full operational control of its new block in late August, Hanson said. The block previously achieved peak production of 900 bbls daily, but Hanson

said IFR expects to significantly exceed that. He said Tonalli plans to bid in future auctions for land-based assets. He said he expects those auctions to occur later this year.

“Our goal is to be a significant player in Mexico,” he said. “We believe that over time Canadian companies, and particularly TSX-listed companies [both IFR and Renaissance are listed on the TSX Venture Exchange], will be major players in the Mexican oil and gas industry.”

In addition to having discussions with Pemex about future joint ventures, he said Tonali is in discussions with Mexican companies that have won blocks, with the goal of forming joint ventures with them. He said he believes investment by Canadian companies in Mexico’s oil and gas industry will eventually mimic that which has occurred in the mining sector, where about 70 per cent of total investment comes from foreign companies and 75 per cent of that comes from Canadian-based firms. Mining investment in Mexico totalled US\$11.5 billion between 2007 and 2010.

The biggest prize in the Tampico-Misantla basin, where both IFR and Renaissance won new blocks, is the Chicontepec field, which covers about 3,800 square kilometres. It has been estimated that it has recoverable reserves of almost 19 billion bbls of oil and oil-in-place is estimated at 139 billion bbls, with Chicontepec ranked as one of the world’s giant land-based oilfields. However, the reservoir has a low recovery factor because of discontinuous, multiple sandstone reservoirs and low permeabilities. Pemex has invested billions of dollars to develop Chicontepec, but has achieved production of only about 68,000 bbls daily.