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By Carrie Tait

Dec. 21 (Financial Post) -- CALGARY - Talisman Energy Inc. has struck a $1.05-billion deal with South African petrochemicals giant Sasol Ltd. that could eventually lead to the development of some of northern British Columbia's unconventional gas fields without the companies getting hit by languishing natural gas prices.

Talisman plans to sell 50% of its Farrell Creek shale gas assets to Sasol, which will pay the Calgary-based company $260- million when the deal closes and then cover $790-million of its expenses at Farrell Creek.

The joint venture could transform into more than a natural gas exploration and production project. Sasol and Talisman, which had broadcast that it was looking for a partner for some of its projects, will conduct a feasibility study to determine if it makes sense to build a natural gas-to-liquids (GTL) facility.

GTL is like a refinery for natural gas. It converts natural gas into products such as jet fuel and diesel, giving the partners products to sell if natural gas prices remain weak.

"A key consideration [when choosing Sasol] was the option value of gas-to-liquids,' Paul Smith, Talisman's executive vice- president of the company's North American operations, said in an interview. 'There continues to be a large disconnect between gas and oil prices, where gas-to-liquids could play a very big role in the North American market.'

The study will take about two years, he said. Sasol and Royal Dutch Shell PLC are the only two companies with GTL technology. When oil prices are high and natural gas prices are low, GTL makes financial sense, Mr. Smith said.

Sasol said the GTL plant it could eventually build in Canada would be bigger than the facility in Qatar, which has a design capacity of 34,000 barrels a day. Sasol is also involved in a GTL joint venture in Nigeria.

"With the technology advances that we have developed in- house, we will be looking at a bigger facility than we have in Qatar and in Nigeria,' Lean Strauss, a senior group executive at Sasol, told a media call.

Randy Ollenberger, an analyst at BMO Capital Markets, praised the deal even without the GTL component.

"It is definitely a good deal for Talisman shareholders," he said.

Prior to the deal, Mr. Ollenberger valued Talisman's Montney assets at 10¢ per thousand cubic feet (mcf). The transaction now implies a value of 22¢ per mcf, excluding any benefits that may come if Talisman and Sasol build the GTL facility, according to his calculations. Talisman shares jumped almost 4.8% on the day, closing at $21.89 on heavy trading on the Toronto Stock Exchange.

Talisman, Canada's No. 3 independent oil and gas company, controls about 44 trillion cubic feet (tcf) of contingent resource in the Montney. Farrell Creek represents about 9.6 tcf or 22% of its total Montney position.

Canadian energy companies -- even the most powerful -- have been searching for international partners to help develop shale gas.

Encana Corp., one of North America's largest natural gas companies, is trying to hammer out a partnership deal with China National Petroleum Corp. for some of Encana's unconventional shale assets.

Talisman will continue to operate the Farrell Creek assets.

Talisman produces oil and gas in North America, the North Sea, Southeast Asia and elsewhere but has recently refocused its Canadian and U.S. operations on shale-gas production.

Shale gas -- natural gas trapped in layered rock, rather than porous reservoirs -- has revolutionized the U.S. gas market by offering an abundant new supply source, driving prices down.

Sasol expects to benefit from Talisman's expertise to be able to advance its shale gas venture in South Africa.

TALISMAN ENERGY
Ticker TLM/TSX
Close $21.89, up $1
Total volume 5,630,696
Avg. 6-month vol. 4,367,873
Rank in FP500 60

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