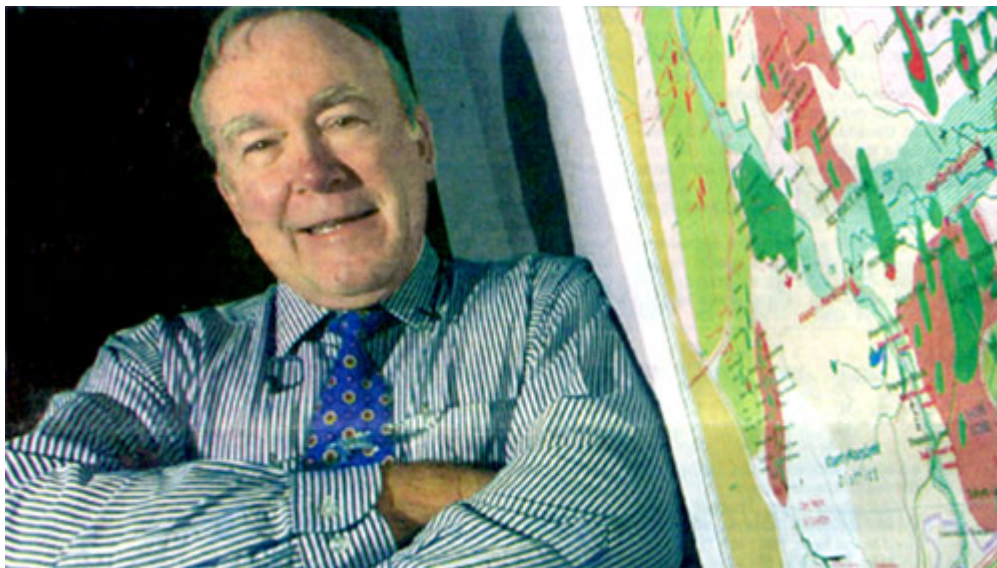


## IN BUSINESS



Keith Morison

CanBaikal CEO Bob Bolton shows off map of Russia. The Small Calgary company has survived an 18-month slump in Russia to sign a new deal.

# Canbaikal hot on Siberia

## Tiny Calgary firm finding road to success

Grant Robertson  
Calgary Herald

**A**fter more than a year of hibernating from the Russian bear economy, Calgary-based CanBaikal Resources has resumed pumping crude from its Western Siberian oil reserves. In keeping with CanBaikal's sleepy existence since first going public in 1997, the move hasn't generated a lot of attention for the tiny company. But CanBaikal has emerged from its 18-month slumber virtually unscathed - a remarkable feat considering the heavy losses incurred by companies operating in the Russian oilpatch during the collapse of the country's economy and the fall of oil prices in 1998.

While common in Alberta, the practice of culling back operations is foreign in Russia where oil companies employ thousands of people and often provide an array of social programs.

Without the freedom to lay off its staff when revenues dropped off, however, Russian companies coming out of the collapse of the Soviet Union have been seen as monolithic and inefficient, leaving them ill-prepared for the fall in oil prices that hit in 1998.

"In Russia, the company you work for would often provide everything from the local hospital to the soccer team to the summer camp for your kids," says Peter Robinson, a professor of entrepreneurship at the University of Calgary.

Robinson spent time in Russia studying the birth of its free-market

For CanBaikal, it is the big payoff from a deal reached in 1997 which allows the company independent control over its oil production in the Khanty-Mansiysk region of Siberia.

This week, Canbaikal executed a \$1.25 million common share offering on the heels of an agreement in December to sell its crude to Russia's Yukos Oil Co.

CanBaikal expects to deliver a combined daily average of 1,000 barrels from its two wells in the region and has begun construction of a pipeline.

"The licensing agreement has made all the difference in the world," says CanBaikal president Robert Bolton.

"We were able to go into a holding pattern while quite often it was costing some Russian companies more to produce than they were getting paid."

The licensing agreement is the only deal of its kind for a foreign oil company operating in Russia. As a rule of thumb, most foreign producers

entered into joint venture agreements with Russian firms when they flocked to capitalize on the newly opened markets in the former Soviet Union.

"The conventional wisdom is to get a Russian partner," says Bolton.

"But a lot of these joint ventures don't give producers the control they need, particularly in hard times.

"We control our own destiny, so we could do what we felt was the right thing to do which was shut down production in the down time." For 18 months, CanBaikal held off on pumping oil, doing only what was needed to maintain its two person office, which had shrunk from a staff of four in 1998 before economic hardship hit Russia.

economy following the collapse of the Soviet Union in 1991.

"But these joint venture agreements are dicey because when you need to cut back, you can't lay off employees. It's not in the Soviet mentality."

Hurricane Hydrocarbons ran into similar problems operating in Kazakhstan.

As oil prices dropped and a battle with its refiner led Hurricane to amass a \$180 -million debt, the company learned it couldn't easily liquidate its unneeded partnership interests in the Shymkent refinery which included a farm and a soccer team.

CanBaikal shares remain in hibernation, however, with the company's stocks trading at about 36 cents on the Canadian Venture Exchange. The shares reached a six-month high of 45 cents on Jan. 5.

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