

Oil and the Kurdistan Regional Government



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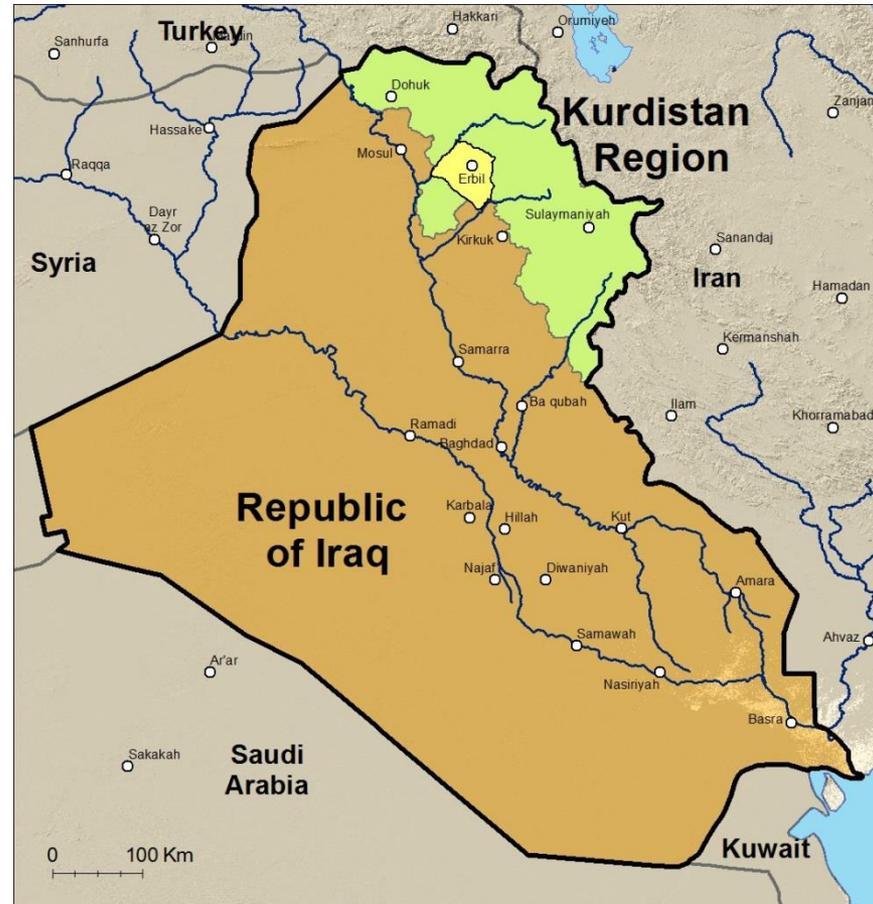
Kurdistan Regional Government
Representation in the United States

Abbreviations...

- KRG = Kurdistan Regional Government of Iraq
- Erbil = Capital of Kurdistan Region of Iraq
- BPD = Barrels Per Day
- TCM = Trillion Cubic Meter (Natural Gas)
- PM = Prime Minister
- GOI = Government of Iraq
- SOMO = State Organization for Marketing Oil

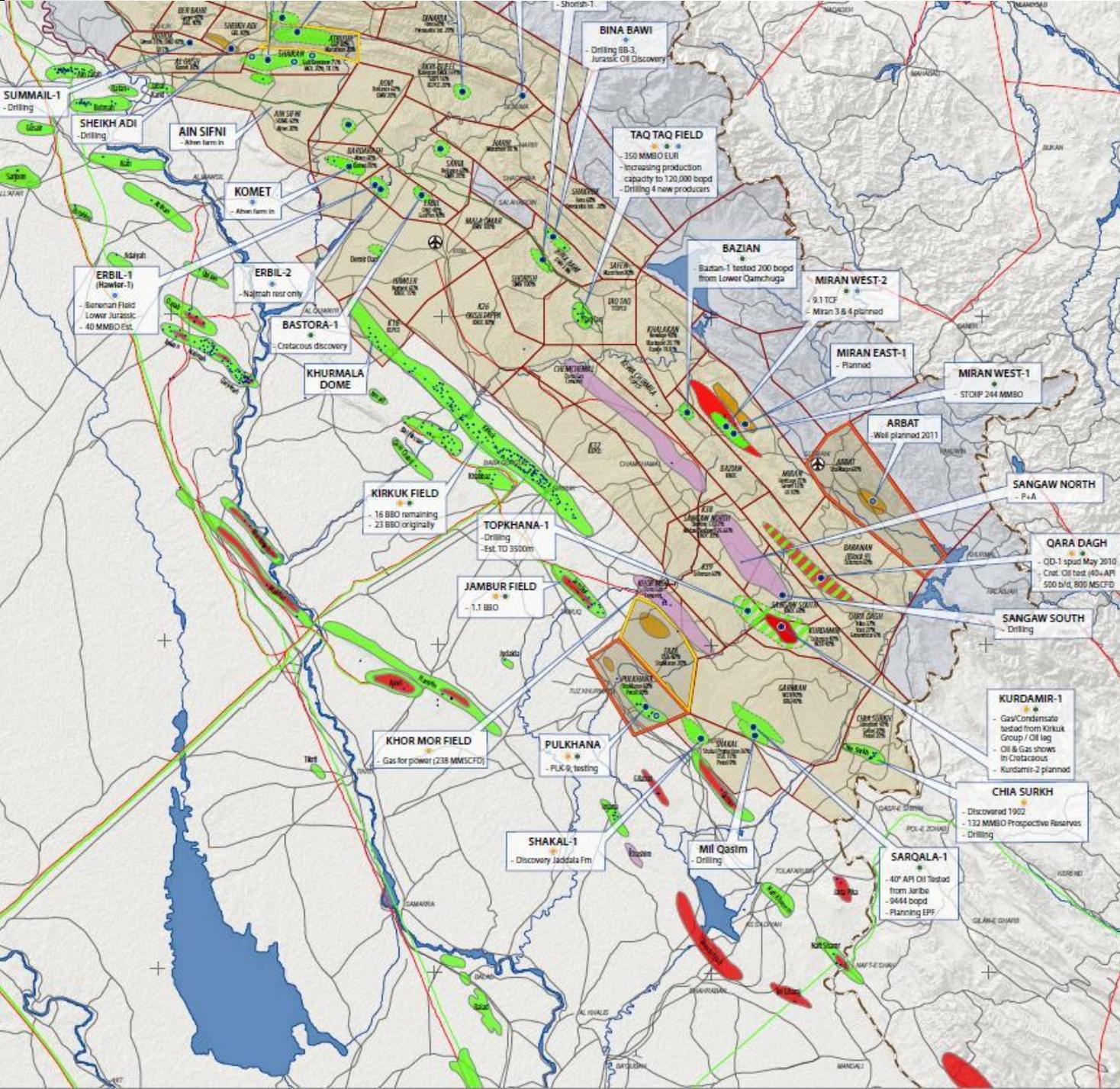
What is the Kurdistan Regional Government?

- Autonomous region in northern Iraq
- Administrates Duhok, Erbil, and Sulaymani governorates and now Kirkuk
- Since 2003, has operated with near independence from Baghdad, particularly economically.
- In 2014 KRG received a fraction of the Constitutionally mandated budget from Baghdad



Some Numbers for you...

- Estimated oil potential = 45 billion barrels
- Estimated natural gas potential = 2.8tcm to 5.7tcm
- By 2009, international oil companies had committed \$10bn to invest in Kurdistan
- Funds committed by oil and gas companies to capacity building makes up over \$2.5bn.



BLOCKS (indicative)

- Open Blocks
- ShalMaran Operated
- Awards announced by Kurdistan Regional Government (KRG)
- ShalMaran Non-operated

- FIELDS & PIPELINES**
- Oil field
 - Oil Discovery
 - Gas field
 - Gas / Condensate field
 - Gas / Condensate field Discovery
 - Oil pipeline
 - Gas pipeline
 - KKK pipeline
- OTHERS**
- Leads / Prospects
 - Well planned, recently drilled or currently drilling
 - Well location unknown
 - Other wells
 - Cities
 - ✈ Airports with European direct flights

RESERVOIR WITH HYDROCARBONS (PRODUCTION & DISCOVERY)

- TERTIARY
- CRETACEOUS
- JURASSIC
- TRASSIC

Current Exploration Success for Oil on new PSCs = 77 % (17/22)

LISTED OPERATORS / PARTNERS

- Addax (Sinopac)
- Atrion
- DINO
- Crescent Petroleum
- Dana Gas
- Gas Plus Khazalain Canal Enerj
- General Exploration Partners (Aspect 66.5%, ShalMaran Petroleum 33.5%)
- Grandstar Resources
- Gulf Keystone Petroleum (GK)
- Heritage Oil
- Hess
- HKN Energy
- HOME (Hunt Oil Middle East Limited)
- Kurdistan Exploration and Production Company (KEPCO)
- Korean National Oil Company (KNOC)
- Komet Group SA
- Longford Energy Inc. (Forbes & Manhattan)
- Marathon Oil
- MOL Hungarian Oil and Gas PLC (Kalegran Limited)
- Murphy Central Duhoek Oil Co.
- Nico Resources
- Nordest Limited
- North Oil Company
- Oil Search Iraq Limited (OSIL)
- OMV Petroleum Exploration GMBH
- Perenco
- Petob
- Petrofac Int.
- Prime Natural Resources JV (Hawker Energy)
- Rialanza Industries Limited
- Shakal Production (Prime Natural Resources JV)
- ShalMaran Petroleum
- Starling Energy
- Talisman Energy
- TIPCO (JV between Addax (Sinopac) and Ganal)
- UI Energy
- Vest Exploration
- Western Zagros Resources (WZR)

Scale



Infrastructures

- Refineries at Tawke, Bazian, Erbil
- Planned refineries in Kurdamir, Sheikh Adi
- Crude pipelines from Kirkuk to Fish Khabour (completed 2013), Tawke to Fish Khabour (Turkey), Taq Taq to Kirkuk
- Gas pipelines also planned for Kirkuk to Fish Khabour



Current production

- KRG currently producing 400,000 bpd crude
- Production has not been slowed by advance of ISIS
 - ISIS has captured some oil fields in Kirkuk
 - Several companies pulled some workers in the early August panic. All are restoring or have restored all. Gulf Keystone has promised to increase production
 - Chevron scheduled to go into production by mid-2015
- Transport occurs through pipelines, on trucks
- Projected production to reach 1 million bpd by end of 1st Quarter of 2016.

Current exports...

- Shipping through pipeline to Turkey continues
 - Some from KRG
 - Pipeline that goes near Mosul is disrupted
 - Work being done in connecting Kirkuk pipeline to KRG's newly build one.
- Before Erbil-Baghdad budget & oil deal in December of 2014, KRG's share of payments for oil were transferred to Halk Bank in Turkey.

Future Goals, Emerging Market

- Production is constantly increasing
- By end of 2015, we are on track to be producing approx. 500,000 bpd
- By Q1-2016, we anticipate 1 million bpd



International Oil Companies in Kurdistan Region

In order by volume:

- Exxon Mobil (USA)
- Chevron (USA)
- Total (Frnech)
- Genel Energy
- DNO (Norwegian)
- Gulf Keystone Petroleum LTD.
- OMV
- DNO
- HESS (USA)
- Oryx Petroleum
- Repsol
- Dana Gas
- Marathon Oil Corporation (USA)
- Gazprom Neft
- MOL Group
- Hunt Oil Middle East Limited (USA)
- Oil Search (Iraq) Limited
- Talisman Energy
- Viking International
- AFREN (USA)
- HKN Energy
- Western Zagros



Disputes with Baghdad

Before Erbil-Baghdad Agreement – Dec 2014

- Baghdad was attempting to restrict KRG's ability to export oil
 - Litigation, in international courts, as well as in the US
- Has tied up shipments of oil
 - United Kalavrvta, currently 60 miles off Galveston
- The KRG has the constitutional right to export oil (oil fields developed after 2003) outside of authority of Iraqi marketing agency "SOMO"
 - Iraqi High Court, on June 24, ruled unanimously in favor of KRG exports
- Baghdad under PM Maliki withheld budget since January 2014
- New GOI PM Abadi government recently released some funding to KRG, since taking office

Challenges Facing KRG

- Humanitarian disaster
 - 1.5 million refugees/IDPs in Kurdistan,
 - Serious strain on public infrastructures
 - Winter - desperate need for supplies
- Fight against ISIS
 - Need heavy weapons, armored vehicles, armor defeating munitions
 - Baghdad has always refused to pay for Peshmerga forces, even though they are explicitly permitted by the Constitution as a regional defense force, till recently.
 - Today, KRG shares over 600-mile border with ISIS, only 15 with Iraq



Business in Kurdistan

- Despite the chaos in Iraq, the Kurdistan Region remains safe and economically and politically stable
- The KRG continues to honor all contracts- past, present, and future
- The Investment Law remains one of the most attractive in the Middle East for foreign investors
 - Zero tariffs and tax for 10 years
 - Land is provided free or at greatly reduced price
 - Production Sharing Contracts (PSC) for foreign investors
- Since 2006, over \$13 billion in foreign and domestic investments
- US-Kurdistan Business Council

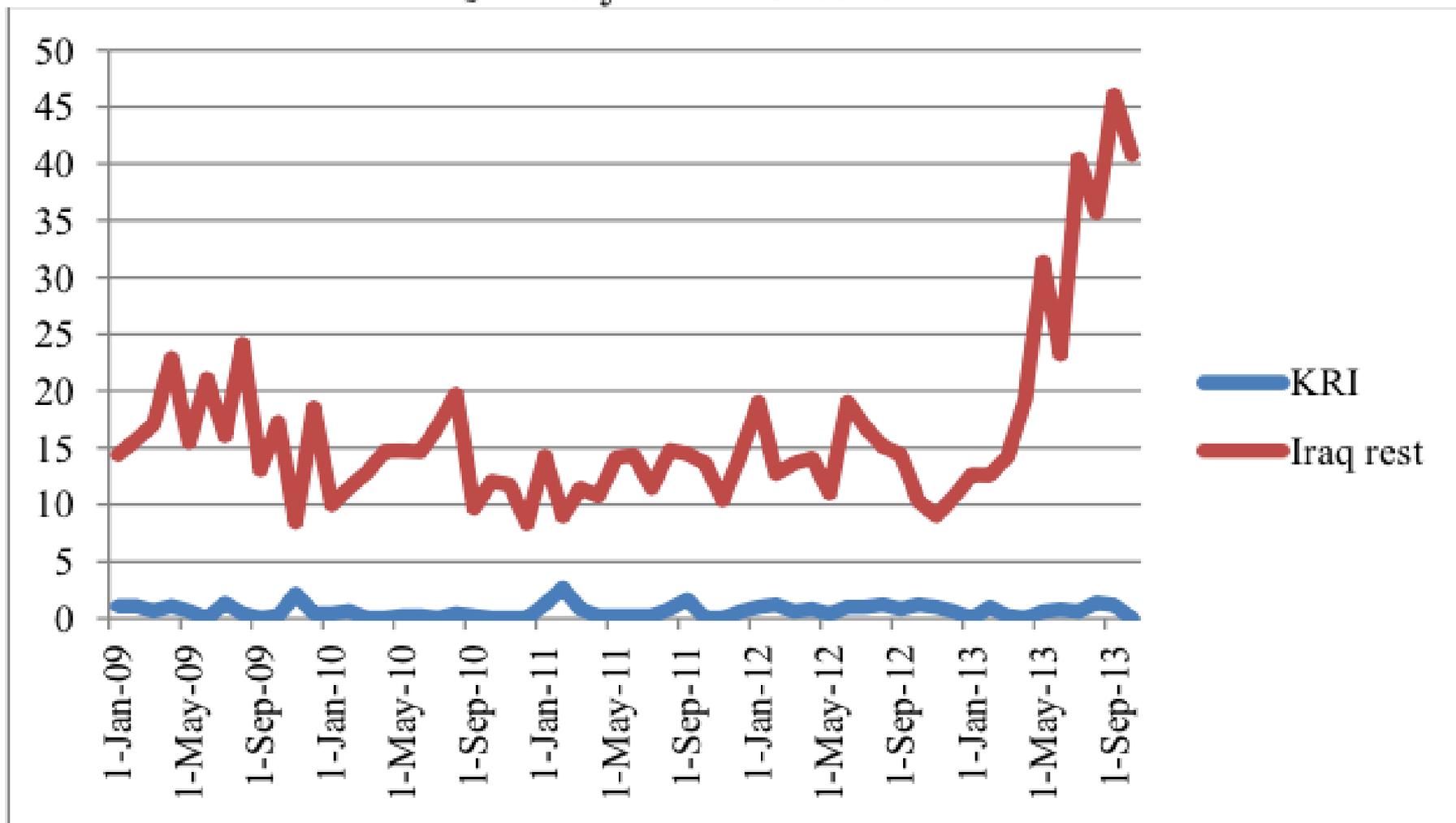
Political developments

- Negotiations with Baghdad
 - KRG joined Abadi's government in 2014 with conditions
 - KRG did not receive constitutionally guaranteed 17% share of federal oil revenues at all in 2014
 - Major breakthrough in negotiations with Baghdad in December 2014
 - KRG would pump 250,000 bpd from own oil fields, plus 300,000 bpd from Kirkuk, to be delivered by Kurdish pipeline and sold through SOMO
 - In exchange, Baghdad to release KRG's full 17%
 - Showed that Abadi is willing to be pragmatic - Iraq is in middle of very serious financial crisis
 - This weekend, Baghdad informed KRG that they would be unable to deliver \$500 Million owed for December and January, only can deliver \$300 million

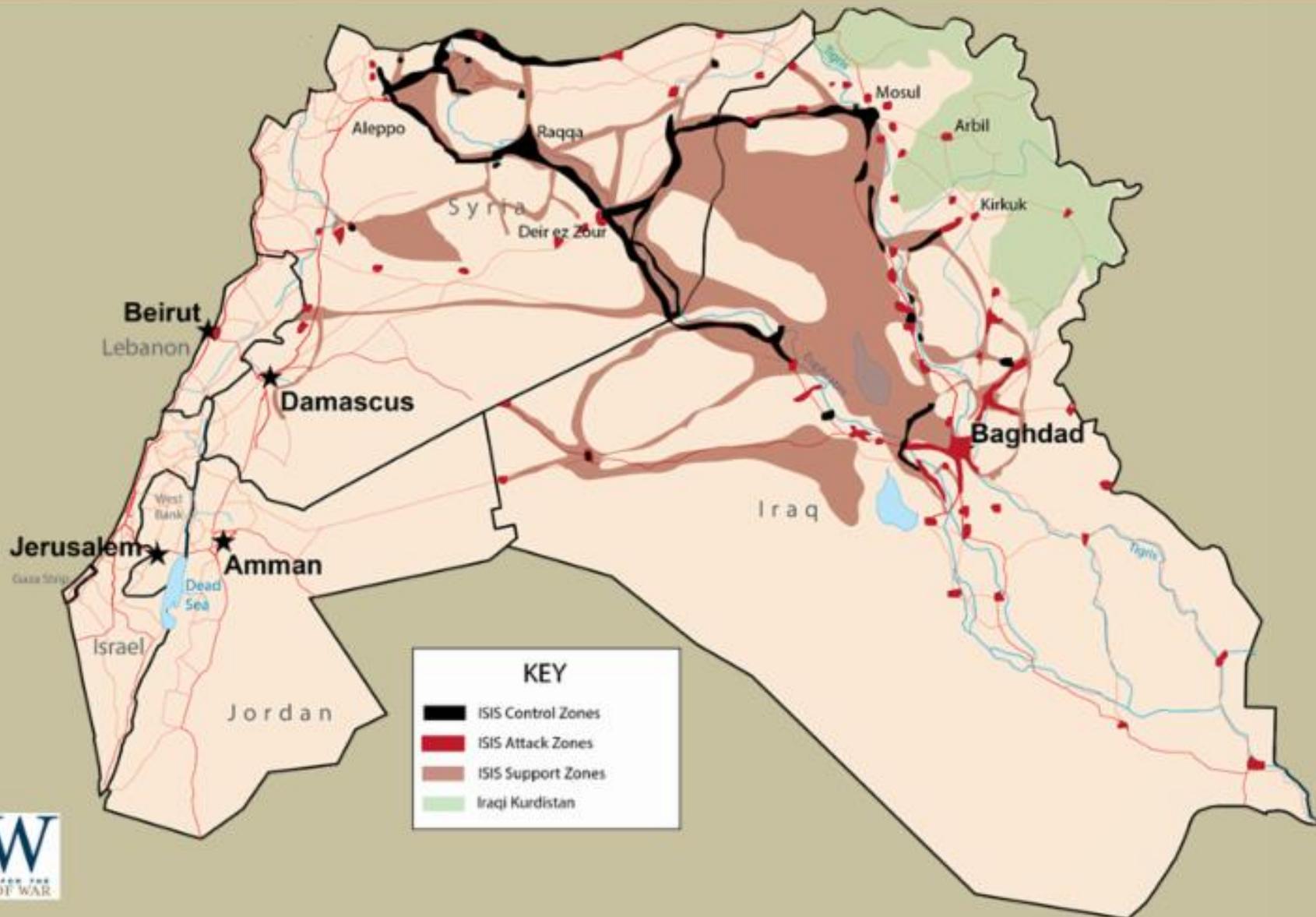
Security updates

- The fight against ISIS is ongoing
- Kurdish Peshmerga forces are engaged across eight operational fronts, all of which are regularly active.
- Recently there were major ISIS assaults on Peshmerga in Kirkuk and in Gwer/Makhmour.
- Peshmerga are on the offensive. Last month, a large Peshmerga operation cut vital ISIS supply routes north of Mosul. Since December, Peshmerga have retaken over 1,500 square miles and liberated dozens of towns and villages.
- Even so, the Kurdistan Region remains as safe and secure as ever.

**Figure 2.13: Monthly Civilian Deaths by Violence (per million inhabitants)
January 2009 - October 2013**

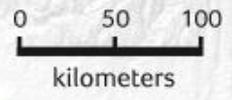


Source: Iraq Body Count and World Bank data.



Economic updates

- KRG continues to pursue economic growth across many sectors
 - Oil and secondary industries, banking, tourism, agriculture, and others
- Today there are 47 oil companies from 7 different countries operating in Kurdistan, accounting for \$10 billion in investment. Oil production is nearly 400,000 bpd
- Significant upgrades to pipeline in 2014 have helped this number steadily increase.
- The Investment Law remains a cornerstone of KRG's commitment to attracting foreign direct investment
 - Benefits include tax exemption for 10 years, tariff exemption for imported equipment for 10 years, free or greatly discounted land and more
- Several major infrastructure projects are under construction or about to begin, including construction of natural gas pipeline to Turkey and highway system connecting Erbil to Turkish border
- KRG recently signed agreement with World Bank that would fund construction of \$1 billion water resources project



- 2015 producing blocks
- Oil for export
- Oil for refining
- Condensate for refining
- Oil pipelines
- Planned oil pipelines
- Gas pipelines
- Planned gas pipelines
- Possible future connection pipeline
- Oil refinery
- Planned oil refinery
- Power plant
- Planned power plant
- Other blocks
- Oilfield used for refining
- Pipeline capacity
- Metering station
- Border
- Disputed territory border

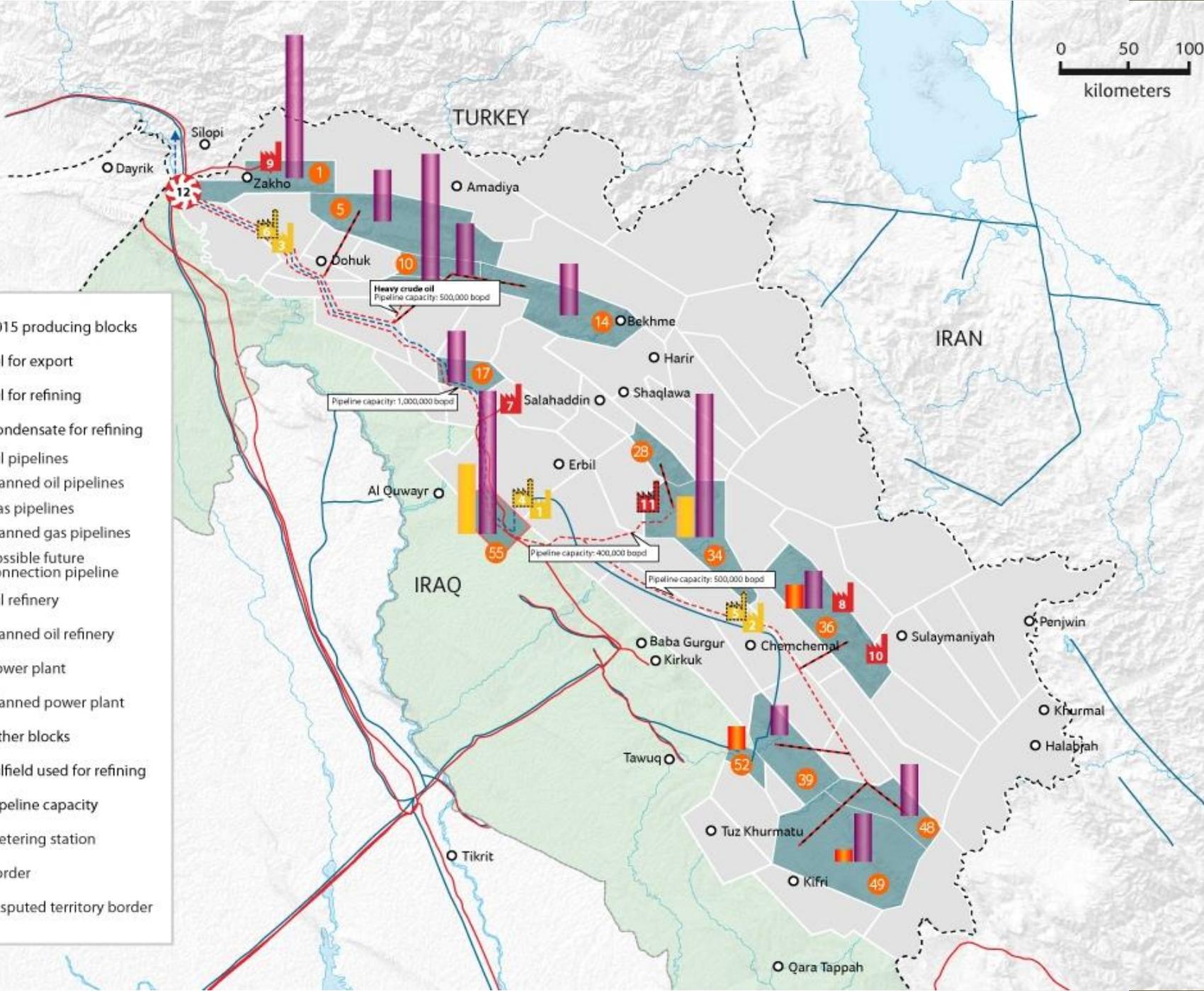
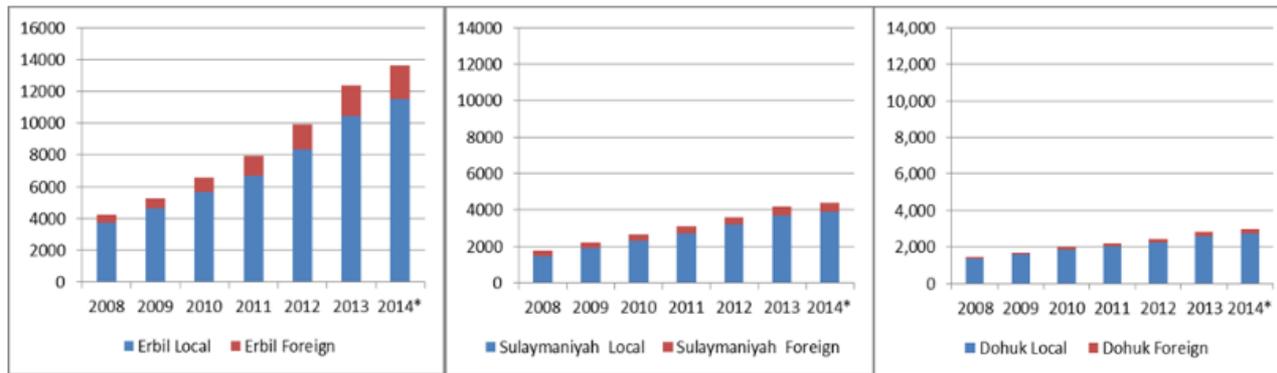
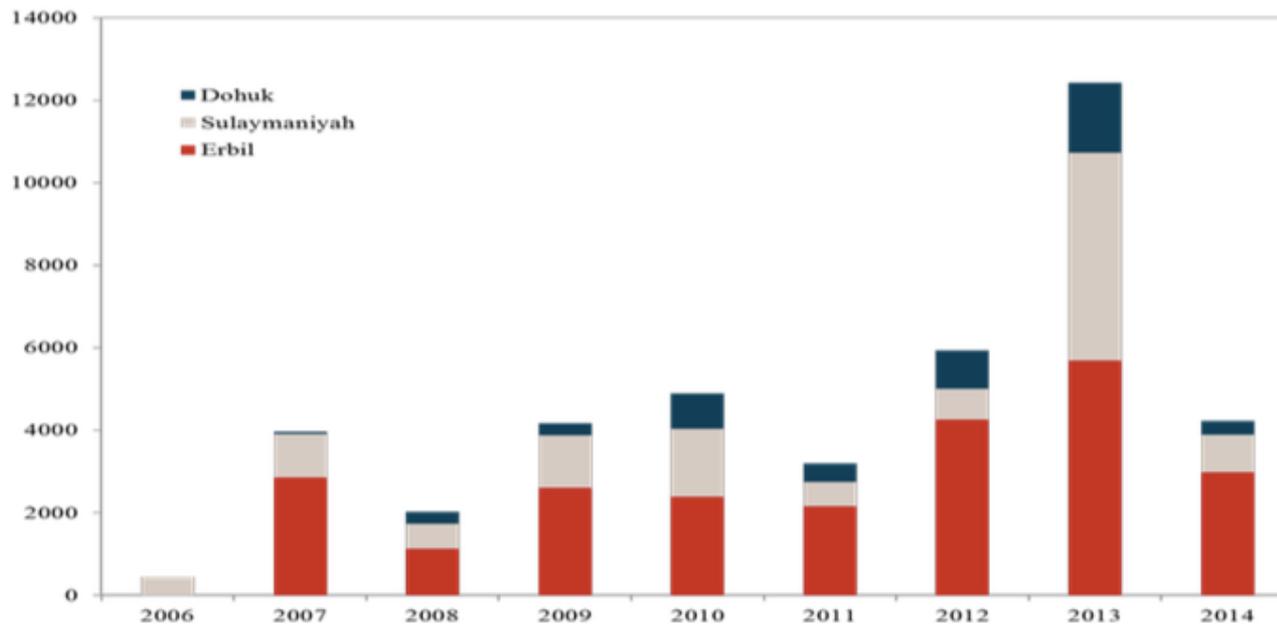


Figure 1.3: Number of Local and Foreign Registered Firms: Erbil, Sulaymaniyah, and Dohuk Governorates



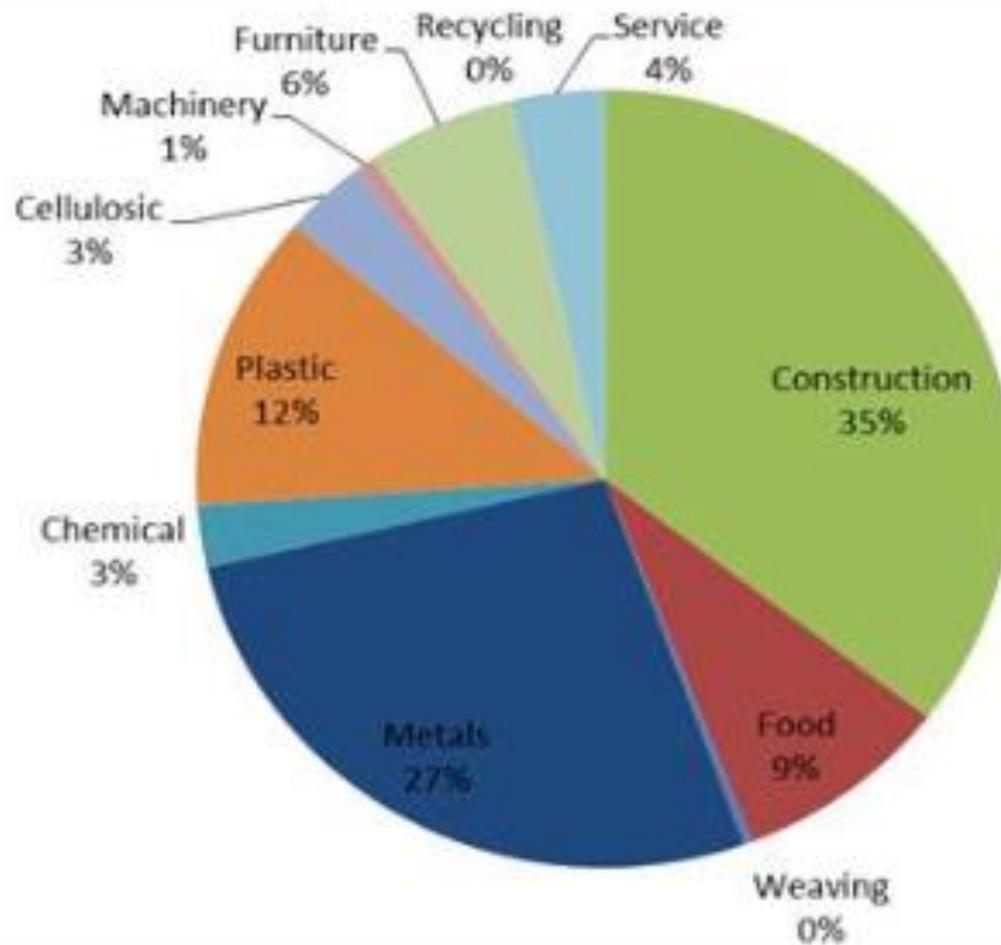
Source: KRG Board of Investment.

Figure 1.4: KRI: Licensed Investment Projects, November 2006 till September 7, 2014 (project capital in US\$ millions)



Source: KRG Board of Investment.

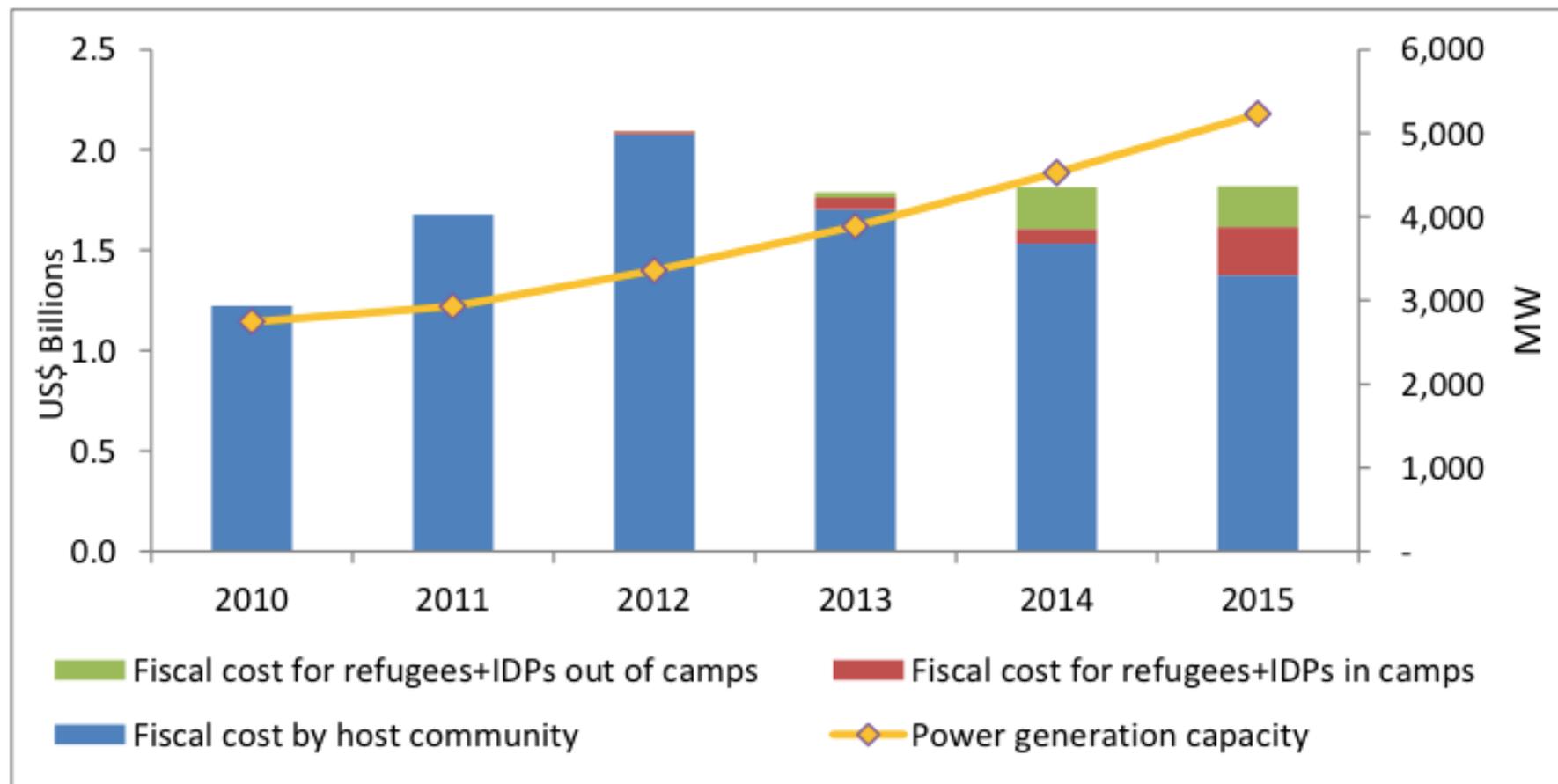
Figure 1.6: Installed Plants in Industry Sector, July 2014



Economic effects of humanitarian, financial, and security crises

- World Bank and KRG Ministry of Planning recently released report on effects of ISIS on KRG economy.
- The rapid increase in population from refugees and IDPs has had a tremendous strain on all sectors. In February of this year, over 1.5 million, representing a 28% increase in population of Kurdistan.
 - Driven down wages, raised demand and prices, additional security concerns
 - Flooded public services. Most public services have seen demand increases of greater than 25%, stressing already fragile systems
 - Includes education, public welfare systems, healthcare,
 - Many infrastructure assets have been captured by ISIS, including grain silos, farm land, oil infrastructure, etc.
- Report found that investment of \$1.4 billion in infrastructure and other investments will be needed to stabilize economy.
- GDP growth has suffered - 8% in 2013 to 3% in 2014.
- Poverty rates increase from 3.5% to 8.1%
- These challenges come at a time when the government in Baghdad has restricted the budget.

Figure 3.1: Fiscal Cost of Electricity Delivery in the KRI



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