



Paul ATHERTON

Heritage Oil Ltd is an independent, E&P company with a focus on Africa, the Middle East and Russia. Its shares trade on the London (LSE) and Toronto Stock Exchanges. In June 2009, it started the acquisition process of Turkey's Genel Enerji, after having discovered oil at its miran West licence. The new HeritaGE will have a combined value of \$6Bn and two core areas: Kurdistan and Uganda and has the potential to become a regional energy giant.

Giant in the making

TOGY talks to

Paul ATHERTON, Chief Financial Officer
HERITAGE OIL PLC

The Oil & Gas Year: *In one of the largest deals of the year, the acquisition of Genel has made Heritage Oil headline news. Before delving into details of Miran and the operational conditions in Kurdistan, could you outline the genesis behind this significant acquisition?*

Paul ATHERTON: As partners in the Miran block, both Heritage Oil and Genel know each other well. Heritage was awarded the Miran licence in October 2007 with Genel as a nominated party by the Kurdistan Regional Government, farming into the licence at the beginning of April 2009.

With this strong synergistic working relationship, it was obvious that there were a lot of complementary skills with which to build a large Anglo-Turkish oil and gas company focused on Kurdistan and Africa. When you add the development and operating skills gleaned by Genel through their work on the Taq Taq field and their role as joint operator and large shareholder in TTOPCO, we believe this merger, if completed, has the potential to make the enlarged company, HeritaGE, a very large international player in the oil sector.

There will be shared experiences developing Miran and Taq Taq together. The fact that Genel has interests in Tawke and Taq Taq, both of which produce a total of approximately 100,000 barrels a day, enables us to balance our portfolio by incorporating their production, reserves and an experienced team into the Heritage fold.

The cash flow generated will ensure we are able to further bolster our ambitious worldwide development and exploration programme. To give you an illustration, in Uganda we were the first company to work in the Albert Basin for more than 60 years. There has been unprecedented success since the beginning of 2006, with 23 wells having been drilled, successfully finding oil. In total we discovered 600 million barrels, with the future potential to find in excess of 2 billion barrels of oil.

Our Uganda successes have been followed by our find at Miran in the Kurdistan Region of Iraq. Starting in December 2008 we drilled the Miran West-1 well, completing the operation at the end of March 2009. We made a significant discovery, which could contain between 2.3 to 4.2 billion barrels of oil in place. Further testing of this well will be undertaken in July with a view to continue drilling the Miran field later on this year.

As you can see, the combination of Genel's producing assets and Heritage's proven track record of exploration success is an obvious value-generator for both shareholders. With reserves in excess of 300 million barrels and approximately 3 billion barrels of resources, our balanced portfolio of production, development and exploration will make us the fifth largest oil company in the London Stock Market, propelling us into the FTSE 100.

"The combination of Genel's producing assets and Heritage's proven track record of exploration success is an obvious value-generator for both shareholders."

Looking to the future, our net production is estimated at 35,000 barrels a day for the remainder of this year, increasing to 60,000 barrels in 2010 and 90,000 in 2011. Bear in mind these figures only account for the Tawke and Taq Taq fields and exclude a contribution from Miran which is expected to commence production at the year-end. Our partner, Genel, has a very powerful shareholder base and the doubling of our shares through the 50-50 merger will give us an even stronger financial footing from which to work.

These are very interesting and exciting times. As one of the largest deals in the sector this year, we epitomise the dynamism of the oil and gas industry and look forward to exploiting our joint expertise both in the Middle East and Africa.

TOGY: *Having worked in Uganda, Tanzania and other parts of the world, how do the operating conditions and PSC agreements in Kurdistan Region of Iraq compare?*

PA: First of all, the Kurdistan Regional Government has a very experienced oil and gas professional in Dr Ashti Hawrami, the Minister of Natural Resources. Our contract was awarded in October 2007, after the Kurdistan oil law was passed in August 2007 and, in terms of the quality of the Production Sharing Contract, it is a proper, well negotiated and articulate document, setting out all of the fiscal terms for the entire life of the Miran field. The smooth negotiation process and the final quality of the agreement is testament to the skill of the Minister of Natural Resources, Dr. Hawrami, and his team.

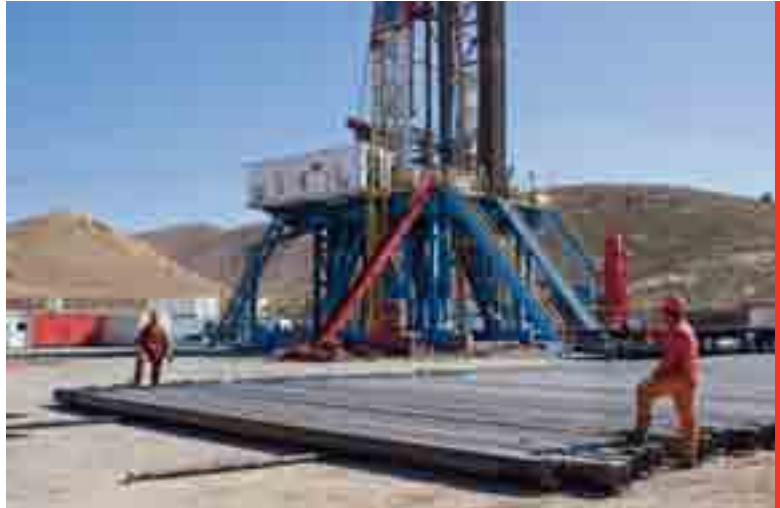
TOGY: *Do you think that the new heavyweight created by the acquisition of Genel could in any way shift the opinion of the Ministry of Oil in Baghdad and help solve the stalemate on PSC recognition?*

PA: Opinion is shifting. The watershed moment for Kurdistan came on the 1st of June as the first production was put into the export pipeline. At that moment the President of Iraq, Jalal Talabani, stated that the oil deals signed by the KRG are legal and constitutional. This monumental change in the relationship between the north and Baghdad is important as the 100,000 barrels a day being produced from Taq Taq and Tawke are for the benefit of not only the Kurdistan Region, but also the whole of Iraq. These are the first two fields to have commenced production for over 30 years in Iraq and, given the country's potential, I trust there will be other opportunities in Iraq for this new enlarged HeritaGE.

TOGY: *Genel has the rights to build a 60,000-barrel refinery plant between the Taq Taq and Miran fields and there are talks about a collection pipeline to gather up some of the future production in the Taq Taq vicinity. Following your acquisition of Genel, what will be the likely future of these projects?*

PA: We've had an office in Kurdistan since August 2005, so we know the assets and operations. Also Taq Taq is less than 30 kms away from Miran. As I outlined earlier, there are a lot of synergies from developing them together. By building a pipeline, we can achieve sizeable increases in the level of production, bringing significant increases in revenue at a lower cost benefiting all people of Iraq as well as HeritaGE.

We know that local demand far outstrips supply as there is an estimated 97.5 thousand barrel a day requirement for refined products in the region and no refinery to satisfy this. A small refinery has now been built and 20,000 barrels a day will be commissioned within the next few weeks,



The Miran West 1 discovery is world-class, unveiling a world-class oil field, currently being appraised.

demonstrating just how viable this type of infrastructure is here.

The agreements are in place with the KRG for crude supplies making it a very attractive investment and clearly something that can benefit shareholders. As such, it is therefore something that we'll look to construct as soon as possible. Together with an accelerated work plan for the extended drilling of Miran, other Heritage assets in Kurdistan and Genel's recently farmed-in or acquired acreage in a number of other exploration licences, there will be further high impact exploration drilling in the near future to complement any infrastructural developments.

“The watershed moment for Kurdistan came on the 1st of June as the first production was put into the export pipeline.”

Currently, Genel is drilling in Kewa Chirmila and the result should be out shortly. When this is combined with Dohuk, potential further drilling up in Tawke and finally West Dohuk there are many opportunities. These fields, containing, potentially, one billion barrels of oil, have to be drilled as quickly as possible and, given Heritage's current 100 percent exploration success rate, we're hopeful for plenty of future successes.

TOGY: *At the beginning of the year, you announced great news from Uganda: the 350 million barrels Buffalo-Giraffe discovery. A few months later, the news from Miran dwarfed news from Uganda. What challenges do you have to overcome in managing such impressive short-term growth and the creation of an energy giant by acquiring Genel?*

PA: We believe we will grow significantly in the short, medium and long term. Usually the challenge in a major acquisition comes when you envisage two technical, management and development teams coming together. However, for HeritaGE there are two complementary teams coming together: our exploration capability with their development experience leaves both parties confident that we can continue the growth through the existing management, technical and operating teams.

TOGY: *Undoubtedly the last few years have seen The Kurdistan Region of Iraq taking centre stage in the world of energy related news. Looking back, were you expecting such explosive growth a few years ago and, subsequently, has your vision for the region changed significantly?*

PA: Our strategy has always been one of first mover advantage in order to cherry pick the best assets. Fortunately Genel shares the same vision and was awarded the first licence in Taq Taq in 2002. We were also one of the first oil companies in Kurdistan.

Ultimately it's all about having very technically capable teams; we've got two of the leading Iraqi geologists working for Heritage, one of whom has written the definitive guide to the petroleum geology of Iraq. We also have our dual strategy, focusing our operations in Uganda and in Kurdistan. Genel is very much the same, with a strong first mover advantage and good relationships with the Kurdistan Regional Government. Meanwhile, Turkey is playing a fundamental role in the Middle East, as demonstrated by one of President Obama's first foreign visits being to Turkey.

TOGY: *Heritage has past and present experience in the DRC, Malta, Tanzania, Pakistan, Mali, Russia and Oman. On the other hand Genel is strongly focused in Kurdistan. Are you looking at rationalising your portfolio and concentrating on the region of Kurdistan?*

PA: That's possible. As a company, Heritage Oil has been focusing for some time in Kurdistan and Uganda. Recently we've demonstrated that we have the ability to sell assets, for instance our holdings in Oman were sold in April for 28 million US dollars.

Our current portfolio has been assembled over the last 24 months or so, and we think there is great potential within it. We are indeed focusing on core areas at this point in time and without doubt we will look to explore in these other territories over the course of the next one to three years.

TOGY: *In terms of community development, the KRG expects E&P players to contribute significantly. Can you give us some examples of how Heritage Oil has contributed and, looking forward, what we can expect from Heritage/Genel from now on?*

PA: The first and most obvious commitment to the region is through our operating capabilities. We signed a licence in October 2007, acquired





Photo courtesy of Heritage Oil Plc.

seismic and started drilling our first well within 15 months.

We also take our corporate social responsibility programme extremely seriously. We make sure that we work in partnership with the local communities and undertake a number of schemes whereby we can develop, work with and enhance the community, particularly in the areas where we have licences. There are a myriad of things that we undertake, including, wherever possible, recruiting and training locals. 71 per cent of our workforce is Kurdish and they will benefit immensely from the skills transferred to them via Heritage. We'll continue to increase the number of staff using locals wherever possible.

In terms of our CSR policy, we've undertaken a number of schemes working with the local community. We always try wherever possible to discuss schemes with the local community, and see what long-term projects will benefit future generations.

TOGY: *A number of the E&P players, particularly in the small-to-mid sized cap range, have told us how privileged they felt to chase these world-class assets. You posted a discovery ranging between 2.3 to 4.2 billion barrels, with a very high recovery factor. Do you feel the same sense of opportunity and does it come with an associated sense of responsibility?*

PA: Certainly. As previously discussed our vision is of first mover advantage and investing in regions that can transform Heritage. There are very few places in the world where you can obtain these results and we see this as a platform where we can build our own regional giant.

With that opportunity comes responsibility and we must undertake work to the highest international standards. Our sense of responsibility to government, our workers, the local communities and to all of our stakeholders ensures that we operate in the most efficient manner, to the highest environmental and safety standards which one would expect from a very large company.

TOGY: *Based on your success in the region, what advice would you give to prospective E&P investors looking at Kurdistan as their next move?*

PA: Fundamentally, Kurdistan is a safe and secure region. You've got a government with properly negotiated contracts, a healthy working relationship and an area with huge prospects. The US Geological Society estimated in 2000 that there are 40 billion barrels of oil potential in the region, so for investors it means that the opportunities for companies to find huge billion barrel fields exist.

These assets can be transformational whatever the size of the company, and I think that from an investor's point of view, it's a case of looking at who is the leading oil company in Kurdistan. Which company got in first? Which company has the largest asset spread? Which company has a mixture of producing assets, development assets and exploration assets... For us, there is only one company: the enlarged HeritaGE Group!