



Simon HATFIELD

WesternZagros, a Calgary based E&P company has held a Production Sharing Contract in the Kurdistan Region since 2006, but has been involved in the region since 2003. It drilled its first exploration well as operator of the Kalar-Bawanoor licence (Sarqala-1), but had to abandon it for technical reasons despite oil shows. In May 2009 the company is spudding its second wildcat (Kurdamir-1) in another part of the licence.

The Oil & Gas Year: *Can you tell us about your organisation's involvement in Iraq?*

Simon HATFIELD: I received my first insight into Iraq in the mid-eighties when I spent some time with Exxon Production Research in Houston and was involved in a project looking at the whole of the Middle East. I learned there are three countries that an oil company should get into, if they could - Iraq, Saudi Arabia and Iran. Saudi Arabia is still essentially closed, Iran is open but the contract terms are terrible, and it's only the turmoil in Iraq and its recent history that has provided opportunity for companies such as WesternZagros in Kurdistan.

A little later in my career, I worked for mid-sized independent Canadian company called Chauvco Resources and, in the mid-nineties, along with some other Canadian and French companies such as Total, I had the opportunity to travel to Baghdad and talk to the Ministry of Oil. In 1997, Chauvco was taken over by a US company, Pioneer Resources. Due to sanctions, Pioneer couldn't pursue opportunities in Iraq so I moved on and joined Talisman as a consultant involved in new business development opportunities in the Middle East.

In 2003, I crossed paths again with my former boss, Guy Turcotte, from Chauvco and he thought we might take another look at Iraq and pick up things where we had left them. At this time, Guy had co-founded Western Oil Sands and, one month after I joined the company, we were in Iraq again talking to officials in Baghdad and to the North Oil Company in Kirkuk. During this time, we noticed the security situation in Iraq deteriorating rapidly. At the same time, we became aware of the fact that the Kurdistan Region of Iraq had a completely different security situation and was stable.

In 2004, we signed a MOU with the government in Kurdistan and started doing some preliminary

Not all so quiet on the western front

TOGY talks to

**Simon HATFIELD, President
WESTERNZAGROS**

technical work. After the Constitution of Iraq was adopted in 2005 and became the pivotal piece of legislation that gives the right to the regional governments to enter into petroleum agreements. We started negotiating a contract with the KRG and signed it in early May 2006.

In October 2007, Marathon acquired the Canadian assets of Western Oil Sands and our project in Kurdistan was launched into a new publicly-traded entity - WesternZagros. We began trading on the TSX Venture Exchange in late October 2007 but we'd already been operating in Kurdistan for three years as a subsidiary within Western Oil Sands.

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TOGY: *As someone who knows the Iraqi situation very well, how would you say the situation in the Kurdistan Region of Iraq has changed on the ground from the beginning of your involvement to date?*

SH: The security situation hasn't changed very much. It was pretty safe when we first went into the region and it's just as safe now. What's changed is just the number of companies that have come into the region. We were the fourth group in Kurdistan. Ahead of us were only DNO, Genel Enerji/Addax (TTOPCO) and Petoil/Prime Resources. The clear advantage of being an early mover was that we had more choice over the area that we focussed on. The major difference is that when we first arrived in Kurdistan

there were almost no service companies in the area other than one seismic company. Now, I believe there are six seismic crews in Kurdistan and we, for instance, brought in a gravity and magnetic crew from Canada. A lot has changed and there are a lot more operators in the region now. In the meantime, the government unified so we now have a coherent government with a very capable individual as Minister of Natural Resources.

TOGY: *Back to the service situation, you mentioned that the number of seismic crews available to operators had increased. You spudded a well in May 2008. How challenging was it to establish all the camp facilities and develop your field to take it to spudding stage?*

SH: I'd say it was remarkably easy. Considering that the Kurdistan Region of Iraq is still a frontier area we had no problem at all. We brought in a rig from Texas and mobilised it through Turkey. That went as smoothly as any international move can be. In the end, about 200 truckloads came across the border during a time of tension between the Turkish Army and the PKK. Yet we didn't have one problem. All the equipment we brought in was expedited very rapidly by the KRG and all the permits that we needed were given very swiftly. In fact, we've had more issues with suppliers in Europe, and particularly with some of the pipe mills, which were not able to deliver what they had contracted to us.

TOGY: *Do you feel that there is enough service ability in the field today for casing, cementing and other oil field services?*

SH: No, we would like to see more services. We've brought our own cementing unit from Canada and we would like to see more drilling services. Logging is one of the big issues. We'd love to see Schlumberger or Halliburton in the Region. We have access to good basic logging equipment through a local company but we'd like to see more choice.

TOGY: *The disagreement between Baghdad and Erbil over production and export licences has marred an otherwise unparalleled success story. In your opinion, how long can we expect this situation to last?*

SH: The fact that the Kurds have compromised a certain amount and that the other parties have compromised too is positive. While we were in a two steps backward one step forward situation, I think we just made two steps forward with the agreement to move ahead with the provincial elections in January 2009. So there is a possibility that we could see the Petroleum law passed in the near future.

As for our company, we have a little bit of time on our side. We are drilling our first exploration well right now and you've got three companies ahead of us – DNO, Genel-Addax and Dana Gas – that are ready to produce liquids and export them so we are watching what happens with those companies.



A land of hills, mountains and undiscovered underground resources...

TOGY: *Do you think that it is just a matter of time before the situation stabilises and companies like WesternZagros are allowed to bid for projects elsewhere in Iraq?*

SH: We certainly hope so. Sometimes it takes governments a long time to understand the value that smaller companies can bring to the market. WesternZagros is probably the smallest company I have ever worked for but we pride ourselves on taking action. We've acquired seismic for four years in a row, we've mobilised a rig and we're drilling our first well. It's a relatively deep well as we are trying to get down to about 4,800 metres. It's in a challenging drilling area, with high-pressure intervals. A lot of governments just don't realise what small companies can do. In Canada there are many small companies and the majority of new discoveries come from them. The majors only focus on the big assets so you get smaller companies coming in and they really keep things turning over. This is what could happen in the Kurdistan Region of Iraq because there are smaller companies involved in the region and they can't afford to just sit back and wait for things to happen.

TOGY: *What have been the major concerns on the investment community side with regards to operations in the region and is there a good understanding of what the Kurdistan Region of Iraq truly stands for as opposed to the rest of Iraq?*

SH: In the early days we spent a lot of time educating people. As one of the first four companies in the region we were probably one of the biggest ambassadors for Kurdistan in the investment community in Canada, the US, London and other parts of Europe.

Now, I think there is a pretty good understanding of what the Kurdistan Region is about and the KRG has done a good job of promoting its region and has put a lot of information on its website for the public. It has tried to make this process as

transparent as possible, which frankly is pretty unusual and quite exceptional in the Middle East.

Suddenly the region is the flavour of the month. Now the test here is what happens with the relationship with Baghdad. Everybody is watching that really closely.

TOGY: *What would you say are the major shortcomings of any investment operation in this region?*

SH: The single biggest question right now is: "How is it going to evolve?" And, "when will companies in Kurdistan get access to export facilities?" The other challenge in the region is the oil industry. Despite Kirkuk being discovered in 1928 and being on production since the 1930s, there is not a lot of expertise inside the region. So it's going to take a while for companies to train local people up and it is going to be 10 years before there is a good population of well-trained people that the oil industry can draw from. So for quite a bit of time, companies will need to look at bringing experienced oil and gas professionals into the region.

TOGY: *Expanding on what you just said about the issue of vocational training and bringing the local population up to speed with the needs of the industry, how much of a role do you think a company like yours can play in this process?*

SH: In the first few years of operating in Kurdistan we did a huge amount of training just on our own projects. Dr. Ashti Hawrami praised us for this, saying WesternZagros had done more training of Kurdistan personnel than any other company active in the region. We've run training courses here in the Kurdistan Region, in Amman, in Istanbul, and we also have brought people from the region to Canada for training. We have people in Canada now on long-term training scholarships.

I think we've trained over 250 local people since we've started and, right now if you counted up all the people who are working for us in the Kurdistan Region, I think it would be 380.

TOGY: *Is there a good cooperation amongst the operators to work on this local development?*

SH: The oil industry is a funny business because we like to cooperate and we like to compete. Rigs are in short supply right now, so people are guarding their rigs very closely. But if an operator runs into a difficulty with something and doesn't have the right tools then you usually get fantastic cooperation.

TOGY: *Let's talk about the rig currently at work in Sarqala and the preparation for drilling a second well at Kurdamir.*

SH: Sarqala is not a really deep well compared to some of the wells in Southern Iraq which have been drilled to depths of 6,000-7,000 metres, but for this region and this type of setting it is quite deep. We also believe that there are a maximum

of ten possible intervals to look at. We're actually drilling in the top seal above the reservoir (October 2008). The reason we are moving to the north to drill Kurdamir is that the whole geological section in that part of our block is shallower so we can drill into older formations and test more of the section than we can at Sarqala - where the best we can probably do is get into the top of the Cretaceous. At Kurdamir, we can probably get into the middle part of the Cretaceous or maybe deeper. So we have positioned these two wells - one in the southern block and one in the northern block - to give us maximum information on the formations in the whole block and then we can decide where we go next. According to our PSC terms, we have a commitment to drill three wells before the end of 2010.

I've been looking at exploration blocks for about 30 years around the world and this is one of the best ones I've ever seen. Since we've run four years of seismic, we have indications of big subsurface structures and that's where we are drilling.

"The single biggest question right now is: 'How is it going to evolve?' And: 'When will companies in Kurdistan get access to export facilities?'"

TOGY: *You are very near Khor Mor, a condensate reservoir. Do you expect to encounter the same type of formations?*

SH: Khor Mor has gas and condensate in the shallower reservoirs. We anticipate finding oil and gas but we don't know the relative quantities. Khor Mor is interesting. Although they've drilled gas in the shallow reservoirs, they didn't drill and never tested those deeper reservoirs and there is an oil seep on the flank of that structure. So somewhere, deeper down, there is oil too.

TOGY: *You are one of the early movers, which gives you a number of privileges and a recognised level of experience. Are you looking at pursuing new blocks in the Kurdistan Region of Iraq and if so what do you think are the most prospective regions amongst the ones that have not been touched upon yet?*

SH: We have our hands full with this block right now and we are 100 percent focussed on that. If other opportunities to expand our position in the Kurdistan Region become open to us then obviously we would like to look at that. Frankly, the land is pretty tight now and the operators are all guarding their positions very closely. I think it is a little bit unlikely that we will see a lot of acreage opening up.

The open blocks, the ones that run along the Iranian border to the northeast, are more attractive for minerals exploration than petroleum ex-



ploration because of the nature of the rocks at the surface. So I think the next step that the KRG is going to do is to issue minerals licences.

TOGY: *What have been the steps taken by WesternZagros to raise and reinforce HS&E standards for its operations in the Kurdistan Region of Iraq?*

SH: We operate in Kurdistan according to Canadian regulations. The regional government is in the process of developing its own regulations but our company operates according relevant Canadian guidelines where appropriate, including those regulations established by the Alberta Energy Resources Conservation Board. One thing we are pretty proud of is that we've been operating in Kurdistan for four years, including a drilling programme this year, and we recently passed the two million man hour mark without a lost time incident. Health, safety, environment and security are at the top of our list in everything we do. Not only are we introducing technology and actually doing the work there but we are also introducing standards. We have also been involved in community support. They have a really bad drought now in southern Kurdistan. To help alleviate this issue, we have a water well drilling programme and we've drilled ten water wells so far and continue to drill more.

We have provided assistance to local hospitals and local schools, and we will continue to do so as it is part of our corporate and social responsibility programme. We're also supplying professional advice to the City of Sulaymaniyah for their water supply.

TOGY: *As a message to the rest of the oil and gas industry looking at Kurdistan and the rest of Iraq as well, what would be the best advice to them?*

SH: If they were looking at Kurdistan, I would tell them they may be too late. If they have an opportunity to get into Kurdistan, whatever that opportunity is, they should look at it and absolutely go for it. How often do you have an opportunity to get a piece of exploration acreage in a major producing province of the world, in an OPEC country that had well established oil production for decades and yet is an area that the industry hasn't looked at since the fifties. As far as investors, it is a great opportunity to buy our stock now. There is nothing inside the company that justifies what is going on right now in the stock market. None of our fundamentals have changed. We are just about to drill into the top of our reservoirs here. There is tremendous opportunity. The company is incredibly well financed as well. At the end of June 2008, we had 180 million US dollars in cash, and we exited 2008 with 130 million US dollars in working capital. All our money has been raised and is dedicated to investing in the Kurdistan Region of Iraq so we're the only 100 percent pure play for the Kurdistan Region.

We represent a window of opportunity where investors can directly invest in Kurdistan instead of investing in a company with diluted interests in other parts of the world.