



Todd KOZEL

Gulf Keystone is an independent E&P company focusing primarily on North Africa and the Middle East. The company currently has exploration and appraisal rights for six blocks and two producing fields in Algeria. Until November 2007 Gulf Keystone was 100 percent focused on Algeria. Now the company has diversified with two production sharing contracts in the Kurdistan Region. It holds the Shaikan and Akri-Bijeel concessions in partnership with Hungarian Oil and Gas Public Company Limited MOL.

Middle East and North Africa specialist

TOGY talks to

Todd KOZEL, Executive Chairman and CEO
GULF KEYSTONE PETROLEUM LIMITED

The Oil & Gas Year: *As an E&P company focused on the Middle East and North Africa, can you tell us the genesis of Gulf Keystone and how you've emerged as a player in this region?*

Todd KOZEL: Gulf Keystone Petroleum Limited was founded in 1999 as a joint venture focused on the Middle East and North Africa, the "MENA" region. Our founding shareholders originate from Kuwait, Saudi Arabia, the United Arab Emirates and the United States and combine extensive oil industry experience with close and high level relationships in the MENA region. Looking back, it was a strange time to start an oil company, with the price of a barrel of oil at just 13 US dollars. However, we were convinced that there were significant opportunities open to us where our experience and relationships could add real value.

Our business model is to look for prospective areas in the MENA region that are outside the focus of the "majors". These prospects tend to be too small for the majors and often have a higher perceived political risk, but they are potentially very material to Gulf Keystone. Using our own expertise and resources, and through seismic acquisition, interpretation and exploration drilling, we aim to identify oil & gas reserves suitable for commercial development. That's why we went to Algeria where, with our recent drilling success, we believe our convictions have been proved to be correct.

Our business philosophy is that above all else, we consider ourselves to be a guest in our host countries and seek to work in the spirit of respect and partnership for the benefit of all stakeholders. We are also happy to work with industry partners where we believe our combined efforts can accelerate the process, reduce risk and enhance returns for all stakeholders.

We won our first licence in Algeria in 2001 and listed on the London Stock Exchange in Septem-

ber 2004 to fund the development of that asset. Since then we've grown to nine blocks and started our first production from the Hassi Ba Hamou field, a major gas project, to support the development of which we were pleased to bring in BG North Sea Holdings Limited as a partner.

In 2007, we were delighted to be awarded a licence in Kurdistan. We firmly believe that, as an oil exploration company, the Kurdistan Region of Iraq is the place to be. The industry will recognise this soon. It is a great place for small companies with the flexibility to work in a fast developing environment. Even as an experienced oil person, you can't go to Kurdistan and not be excited by the many natural oil seeps. Iraq is a place for all

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sizes of player. It has the multi-billion barrel oil fields that are of interest to the majors such as Chevron, BP and Shell, but it also has those smaller but nonetheless material targets of 100, 200 or 300 million barrel oilfields that are a natural playground for independent companies such as Gulf Keystone.

TOGY: *What initially brought your attention to this region?*

TK: We had an interim head of exploration who had worked for Dr. Ashti Hawrami, the Minister of Natural Resources, on a Kirkuk project that was sponsored by Shell. He joined Gulf Keystone and with his encouragement Kurdistan quickly be-

Gulf Keystone is drilling on the Shaikan block together with its partner Kalegran Ltd, a wholly-owned subsidiary of Hungary's MOL.

came a part of our business development strategy. In June 2006, we started looking at the Kurdistan Region in detail. We put a lot of people on the ground and invested a lot of money and time evaluating the opportunities. We have since had the privilege of being invited to explore for oil in two licence blocks and we look forward to earning a fair return on our investment.

Over this time, I have personally developed a great respect for the leaders of Kurdistan and the policies that they are implementing. The people who live locally to our growing operations have also proved most warm and welcoming as well as good workers.

When we first arrived in Algeria, we quickly realised that it had a security risk associated with it and we took appropriate precautions. So, when our security advisors returned from a routine assessment visit to the Kurdistan Region and said: "It's a pretty safe place" we were delighted. So much so that in June 2008, we jointly sponsored with the Prime Minister's office a visit that included international investors, representatives of the 'City of London' and a senior journalist from The Wall Street Journal. The Wall Street Journal subsequently published a leading front page article about the investment opportunities in the region that ran worldwide and got the word out that the region was a safe place to invest. We felt strongly that if people were uncomfortable with the region because their understanding was based on misconceptions, then they weren't going to be comfortable investing in, or doing business with, the companies committing funds to the region.

TOGY: *What specifically attracted you to the Shaikan and Akri-Bijeel blocks and what is your outlook on competition with other operators in the region?*

TK: Kurdistan has five blocks spread throughout the region that we would have happily taken on. Fortuitously, Shaikan was our number one choice and Akri-Bijeel was our number two. We are in a Production Sharing Contract (PSC) for both of these blocks with Kalegran Ltd, a wholly owned subsidiary of MOL Hungarian Oil and Gas Public Limited Company. The PSC on the Shaikan block which is operated by Gulf Keystone Petroleum (75 percent), Kalegran (20 percent) and Texas Keystone (5 percent). The Akri-Bijeel block is operated by Kalegran Ltd, which holds an 80 percent working interest, while Gulf Keystone Petroleum retains a 20 percent interest.

Partnerships are normal in the oil business so I don't look at other oil companies as competitors. We and our partners share expertise and resources with the objective of completing projects successfully. And we see our host governments as particularly important partners too. Success is a mutual benefit. It doesn't do me any good if my neighbour drills dry holes. I hope he finds a billion barrels of oil and shares that information with me. If we work together in the Kurdistan Region of Iraq we will attract rigs, services and people that we can train, and that will benefit all of the companies.



TOGY: *In April 2009 you'll be starting your first well at Shaikan. What will be the drilling process and how soon will you move to Akri-Bijeel?*

TK: Our plan, so far, is for at least one well on each block. There is currently no well commitment on Akri-Bijeel. But once you've looked at the seismic on each block and if you want to do a proper job, you're going to want to drill a well.

TOGY: *In November 2008, DNO from Norway and the Canadian-Turkish joint venture TTOPCO received export authorisations from the Iraqi Oil Ministry. What is your initial reaction to this good news?*

TK: It is clearly good news but I don't think the announcement has particularly affected my opinion of the Kurdistan Region of Iraq. While I never comment on political issues, what I can say is that this news will have a positive effect on oil production and revenues. It will also bring a little more optimism to the industry in the region, although I have been optimistic since the beginning. We would not have invested 42 million US dollars in Iraq if we didn't believe this issue was going to be resolved.

TOGY: *You've moved confidently into this market, while larger international oil companies have been reluctant to enter. Is this a lack of courage on their part and what does their stance say about the business opportunities in the Kurdistan Region?*

TK: The major companies are being typically prudent and politically aware. The size of prospects and their materiality is of course important to these companies, and large prospects lie elsewhere in Iraq as well. The majors don't want to jeopardise their chances with greater Iraq prospects by committing to the Kurdistan Region too early. Still, there's going to be a lot of work in Kurdistan and international companies are realising that - as evidenced by the great number of nationalities represented by companies that have been awarded licences to date. As for services, Weatherford needed just one company to say: "We're going to drill a well and we want to use your goods and services." It gave them a corporate justification to move expensive equipment into the country.

TOGY: *What oil services are currently needed the most in the Kurdistan Region?*

TK: It's an argument we always have in newly prospective regions. Our technical people want to utilise the most modern technology but I argue that DNO and TTOPCO were able to discover oil without this technology. As an industry we should maybe consider changing the way we think and becoming more practical. For now it's enough to work with what is available and eventually the technology will come as the industry grows to a critical mass. It's a new frontier and that takes time and patience to develop.

TOGY: *Describe the working relationship that you've had with the region's authorities and local communities.*

TK: It is excellent. Within a year of signing a contract we had completed seismic on two blocks, built a pipe yard, brought all the tubulars and long lead items into the country and signed rig and service contracts. The Kurdistan Regional Government (KRG) didn't erect any bureaucratic barriers and were quick to understand our needs. It has been easy to import supplies, move equipment around the country and sit down with decision makers to work out problems or issues that have arisen. We've performed one giant logistical and legal exercise over more than 13 months without any stoppages. We haven't had one problem that we haven't been able to overcome quickly.

TOGY: *Can you give us an idea of what Gulf Keystone has done and will be doing to build communities in the Kurdistan Region of Iraq?*

TK: Part of our business model is that we recognise that we are guests in a country. In Iraq's Kurdistan Region we plan to follow our Algerian model. We are the only company in Algeria that is run completely by Algerians. We don't have one expatriate working there. So far we don't have one expatriate working in Kurdistan.

We also believe passionately in supporting the local communities in which we operate. So we seek to employ from those communities where we can offer training and support. We can also help with improving infrastructure such as roads and public buildings or providing recreational facilities and drilling water wells.

TOGY: *Doesn't a policy of hiring only locals create difficulties for finding the right expertise and quality labour?*

TK: Hiring local technical expertise always makes your operation better. We've delegated budgetary and technical control of the Kurdistan Region to our office in Erbil, and it will stay that way. Still, it is challenging finding drilling engineers and supervisory people for the drilling process. Because of the lack of a historical business in the region it is challenging to fill those positions, especially with all the companies competing to fill the same slots at the same time. Over the last couple of years we have hired people from the University of Erbil to assist us in fieldwork: analysing structures, blocks and data. We're also educating students at the university and we have brought young Kurdish graduates with geology degrees onto our staff.

We move forward with the understanding that the oil and gas business can be disruptive for people living in the area. Our first well is a short distance from a village. We organised a town hall meeting with Kurdish locals and informed them about our activities. The response was extraordinary. People asked us: "How can we help?" We are asking the local community about their needs and are addressing those needs. If we are successful, we are going to be there for 25 years. Therefore we need to communicate and cooperate with the local community to ensure success for our operation, the region and the country.