



Petrel Resources - Interview with David Horgan, Managing Director of the LSE's only oil and gas company working in Southern Iraq.

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Market: AIM

Epic: PET

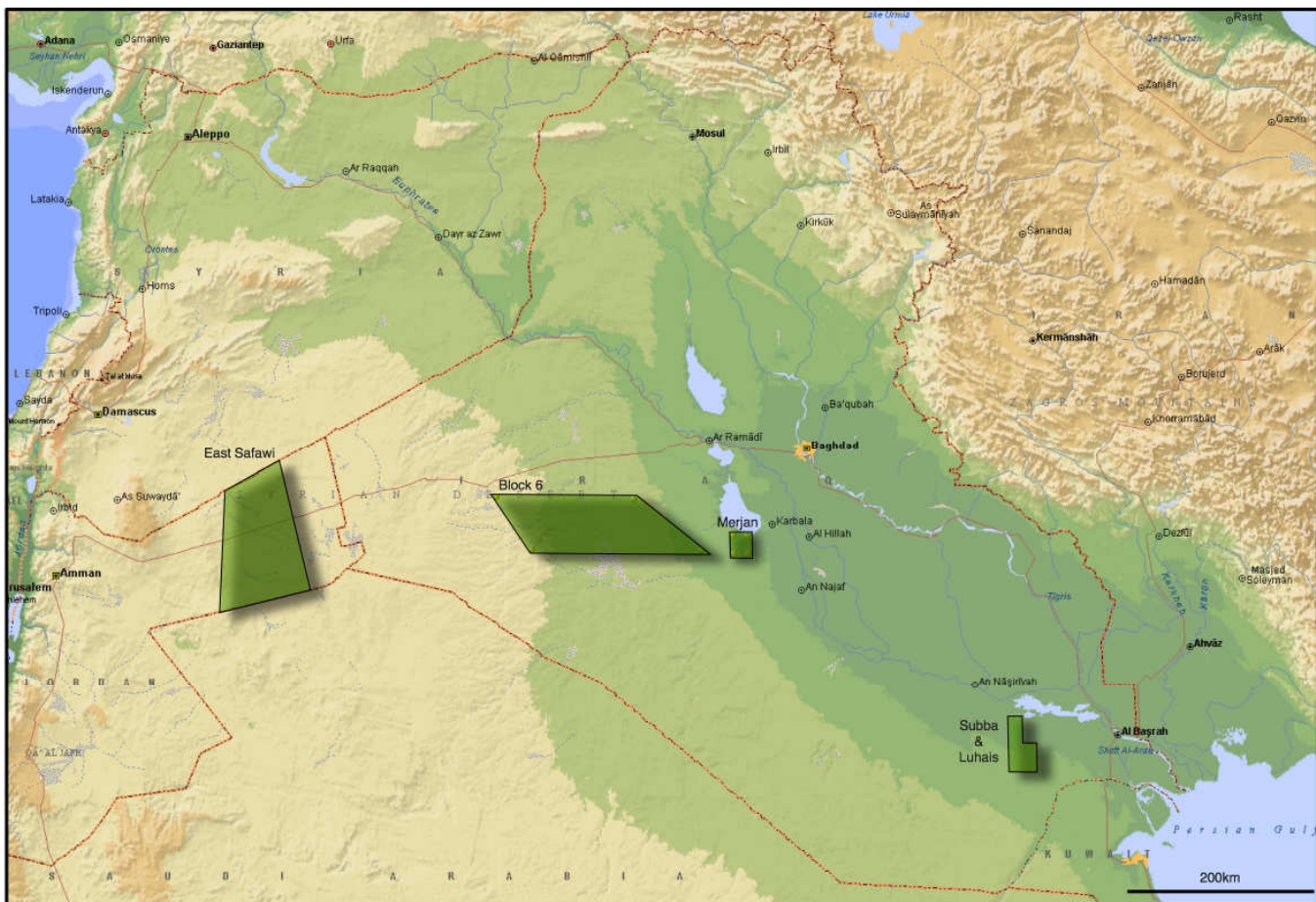
Market Cap: £ 92 million (fully diluted)

Sector: Oil & Gas Producers

Website: www.petrelresources.com

This week, I was lucky enough to catch up with David Horgan, Managing Director of Petrel Resources, while he was in London. As the only UK-listed oil and gas company with operations in Southern Iraq, Petrel Resources has captured the speculative interest of the Alternative Investment Market making it one of the more heavily traded and volatile stocks around – movements of as much as 10% a day are not uncommon!

In complete contrast to the frenzy and speculation that surrounds Petrel Resources, David Horgan is incredibly relaxed yet confident about their position in Iraq. He has every reason to be. Since joining AIM in 2000, Petrel has witnessed several changes in power, and a war, but has still managed to pass a number of impressive milestones in Iraq, and is now aiming to secure the biggest prize of all: an exploration licence for Block 6 in the Western Desert.





Subba & Luhais Gas Compressors

Petrel Resources is no stranger to Iraq, first entering the country nearly a decade ago to negotiate with the then government controlled by Saddam Hussein. At the time, Petrel managed to secure an 'Iraqi Model Contract' with the Iraqi Government, to carry out an agreed work programme on Block 6 in the Western Desert. A lot has happened in Iraq since 2000, but Petrel has managed to keep its hat in the ring, building strong relationships, and wisely deciding to focus on the southern & central regions controlled by the Shia and Sunni Muslim populations, while avoiding the Kurdish area which is heading for a showdown with the Iraqi Oil Ministry over unapproved awards of contracts to foreign companies.

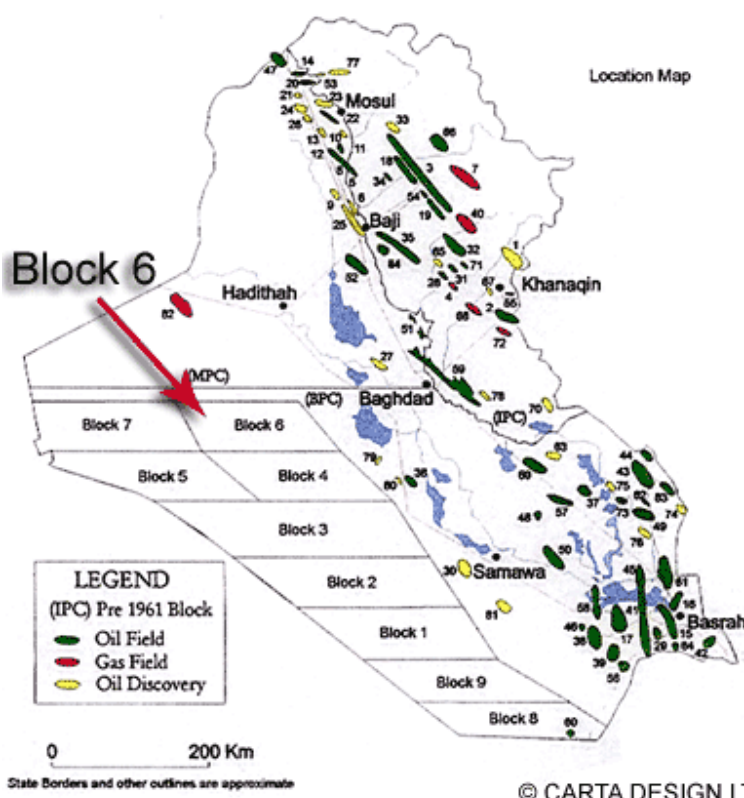
In more recent times, Petrel has won a number of contracts with the new Ministry of Oil, including the Merjan oil field Technical Cooperation Agreement

and the Subba & Luhais oilfield development (EPC or Engineering, procurement & supervision of Construction contract). These are essentially technical and advisory contracts that do not actually transform Petrel Resources into an oil producer. However, in a country like Iraq where relations are vital, the work conducted will have helped the Company to build up its chances of securing the far more lucrative Production Sharing Agreement (PSA) style of contract. PSA's are widely expected to play a large role in securing the much needed multi-billion dollar investment required to transform Iraq into a world leading oil producer.

Iraq is blessed with the second (third using OPEC data) largest oil reserves in the world (second only to Saudi Arabia) but after years of war and sanctions, it has never reached its full potential. Now, with a newly elected government, keen to be self-governing without the help of the West, the process of dividing up Iraq's oil wealth is back on the agenda. And this is where the true potential of Petrel Resources lies.

Under Saddam Hussein, any licences awarded were based on an internal rate of return calculation, which essentially capped the operator at c. 22% or including possible bonuses a maximum IRR of 45%. The new negotiations look more and more likely to be conducted under existing hydrocarbon laws in Iraq, which Petrel believes would be more likely to be a net production interest, where the operator would receive 25-35% of net production revenues, while the State company would take the remainder.

"It now looks like the existing hydrocarbon laws will be used with PSA agreements in Southern Iraq. Any new contracts will include local infrastructure and possibly paying some revenues to local charities and resulting in a net production interest in Block 6 of 25-35%. Approximately 60% of production will be 'cost oil': available for investors to recover capital & operating costs. Petrel expects to receive a





100% exploration permit for Block 6 and, when converted to a production sharing agreement, the Iraqi State would take its interest. Therefore Petrel Resources would be operator of the licence and fund its exploration in development. Fortunately, we have an excellent relationship with Itochu, a major Japanese conglomerate, who take large volumes of crude oil, which has a 60 day 'first look' option at any upstream projects we receive."

"Assuming Petrel is awarded an exploration licence, we would reprocess the current 2D seismic data and shoot new 2D seismic. The size and depth of the targets don't require 3D seismic."

"We expect to be invited soon to discuss Block 6. We were also asked to resubmit our materials to qualify for other contracts, though we are already working on Iraqi contracts."

Petrel Resources argues that its 'Iraqi Model Contract', negotiated under the previous government, gives effective title and, as such, is confident that when new exploration contracts are awarded, it will have the option to convert its current arrangement into an exploration licence. The stakes are not small here: Block 6 is believed to hold as much as 5 billion barrels of recoverable oil, and Petrel has already reprocessed some seismic data from the Block and is ready to conduct a work programme immediately.

"The most likely initial drill targets on Block Six sit at depths of 3600-4000 metres in the Paleozoic zone and look to be gas and liquids prone with a shallower oil bearing zone at about 2000 metres. The Paleozoic zone extends all the way to Jordan where some production already occurs. Oil targets are mainly in the mid-depth Mesozoic."

Turning to the southern Iraqi fields, there are oil-prone Jurassic targets, similar to neighbouring Kuwait and Saudi Arabia's main producing fields. Interestingly, most of the major oilfields in the region, in Saudi Arabia for example, produce from the deeper Jurassic zone, yet little or no production is from this period in Iraq, suggesting there is considerable potential for new discoveries. So while we are likely to first drill exploration wells to 4000 metres in the Western Desert the deeper targets in southern fields are certainly part of the equation"

Petrel also has a licence next door in Jordan, which is prone for gas, but gas certainly plays second fiddle in Iraq, though Petrel is still committed to its work requirements there.



David Horgan signing Jordan PSA

"Jordan is more gas prone, more fragmented. What has changed is the price of gas and oil. The potential is smaller and the geology is higher risk, but PSA terms are very attractive for oil, though less so for gas as it's based on a calorific conversion. Our plan is to drill shallow Triassic oil targets. It is onshore and easily accessible. Further west there is a basalt layer so it makes seismic acquisition difficult, but this is not a major problem on Petrel's East Safawi block. We are obliged to shoot seismic by 2009 and drill by 2010, but it could be the subject of a farm-out to reduce the group's requirements and accelerate multiple wells."

This week, Petrel stated that it expects to begin discussing Block 6 with the Oil Ministry soon and hopes to have a decision by the summer,.

"If we sign by summer we will deploy a seismic crew over the winter 2008/9, allowing a well the following winter."

Shares in Petrel soared on the update as this nimble Irish company looks set to add another milestone to its impressive progress in a country that many still avoid.