



Middle Eastern promise: Stockopedia speaks to Kenneth Judge of Gulfsands Petroleum plc



It came as little surprise to market-watchers earlier this year when [Gulfsands Petroleum](#) (LON:GPX) found itself at the centre of a potential bid approach. The AIM listed oil and gas group has enjoyed a string of successes at its flagship projects in Syria and is now sparking more interest with prospective drilling work in Tunisia as well as making progress on a deal over a major gas play

in Iraq. For corporate development director, Kenneth Judge, while the March takeover talks failed to offer anything close to a deal, the prospects for Gulfsands remain hugely exciting.

Judge played a role in earlier Gulfsands asset deals and was brought in as a director in October 2006, 18 months after the company floated in London. Since then, the company has shifted its focus away from exploration and production in the US Gulf of Mexico in order to pursue its original strategy of developing projects in the Middle East and North Africa.

He spoke to Stockopedia about the company's production plans in Syria and his expectations for the company as deals and project work in Tunisia and Iraq gather momentum.

Gulfsands kicked off production from the Khurbet East field in mid 2008 and is now producing from the Yousefieh field as well. What have been the challenges in building up your production profile?

Production in Syria now is averaging over 20,000 barrels a day, which is around 2,000 barrels a day ahead of our original guidance. Most of that upside has come from Yousefieh itself and some smart footwork to increase the capacity of our early production facility, where the original nameplate capacity was only 18,000 barrels a day. Obviously, as we are producing over 20,000 barrels a day, we must have come up with some inventive solutions to get past that, which is what we have done.

Khurbet East and Yousefieh are only 3km apart, so we are able to transport the oil from the facility at Yousefieh across to the larger facilities at Khurbet East and use the transport and storage facilities there to handle the higher volumes of oil from combining production from both fields. The current oil transport system involves a trucking operation which constrains our ability to



move production even higher because we're very busy already, running about 85 trucks per day on a dedicated highway. We will finish construction of a pipeline which will eliminate that trucking operation before the end of the third quarter. Once we have the pipeline in place we will look at our options to see whether we can take our present 20,000 barrels a day of production, a little higher taking further advantage of the additional storage we've installed at Khurbet East. Yousefieh looks like it's capable of producing more oil than it is currently producing. We are in fact drilling a well right now at Yousefieh-4H, and we would anticipate that when finished, that well will probably add another 1,000 barrels a day of production. We are acknowledged to be the lowest cost operator in the country, and we have a combined production and transport cost of less than \$2.50 a barrel and it is currently selling for \$70 net a barrel. The profit sharing with the Syrian government is a fair and equitable arrangement and certainly one of the better contracts in the MENA region. Our relationship with the Syrian government has been first class; their co-operation in all aspects of what we do in Syria has been excellent.

How have you managed to succeed in the Middle East where many other oil and gas companies have struggled?

We were one of the first companies to look at investing and operating in Syria in a generation and our PSC (production sharing contract with the Syrian government) which was signed in 2003 was the first to be signed in 15 years. The President is an outward looking, internationally aware person and I think it would be fair to say that the initiative he supported to encourage smaller, technically and financially qualified companies to invest in Syria has been a resounding success for which the President deserves considerable credit.

Syria has adopted a strategy that has encouraged smaller companies to come to the country where they can deliver on commitments to really focus on and give priority to, activities in Syria. In general, these companies, including Gulfsands, have delivered on their commitments to undertake exploration within fairly short time frames and Gulfsands is a perfect example of delivering on our commitments, in general, well ahead of the expected time table.

Obviously in doing everything we could to meet or exceed the expectations of our government partners in Syria, we have created a terrific amount of goodwill and received reciprocal co-operation from the Syria Petroleum Company and the General Petroleum Corporation which has enabled us to accelerate development and production to the mutual benefit of our shareholders and our Syrian government partners.



How well are you balancing the production ramp up with continued exploration on Block 26?

As planned we recently paused our exploration program on Block 26 so that we could drill a number of development wells to add production capacity at Khurbet East. With the completion of these production wells, we are now able to move back into exploration and we will be busy exploring for the next few months. This is just the natural rhythm of our production and exploration programs and more importantly, as we build the extra facilities at Khurbet East and Yousefieh, we will now have additional production capacity to bring on stream to increase our overall production from these two fields.

The subject of Iraq has been the source of great excitement and great frustration for many oil companies. How do you view it and what are the realities of you being able to get traction with the Maysan Gas Project?

I think Maysan represents for us a beachhead in the country and it has been a learning experience for us. We have used it to demonstrate our willingness to work there, demonstrate our technical capability, our willingness to be inventive and creative, come up with solutions as to how various petroleum resources could be developed. We have had a signed memorandum understanding in place for quite some time now but the timing for finalising formal development contracts so we can move to the development phase remains a question of the government's overall priorities. It has taken a while for all of the elements of a successful deal to fall into place but we are almost there. The next step in the process is going to require the formal confirmation of the new government and everyone involved in the administration going back to work so they can begin signing off on deals that have been negotiated and documented but awaiting formal government approval.

There are a number of large international companies that have expressed interest in being a participant in this project once it is formally approved. When we do finally sign off on this deal I think you'll see that we will be able to move quite swiftly to conclude agreements with a couple of those companies.

Getting traction in the negotiation process has been complicated because there are numerous conflicting political priorities, which included the government's focus on successfully completing the two bid rounds that got underway in the second half of 2009. Ensuring those bid rounds were a success has been critical to the government's future plans for the country because the bid rounds were focussed on fields that were already discovered and partially developed and will now move on to become fully developed, thereby dramatically increasing Iraq's oil production and with it, revenues



available to complete the reconstruction of the country. However, those development plans also make it even more compelling that the Maysan Project be developed as soon as possible because the gas-to-oil ratio of the oil that's produced in Iraq today and will be produced in the near future is quite high such that Iraq's current production of roughly 2m barrels of oil a day already results in flaring of roughly 1 billion cubic feet of gas per day... a massive volume of wasted energy.

If all the recent bid round blocks are developed in the way that has been committed to, they will initially increase production by about 6m barrels and add another 6m barrels behind it. The effect of those developments would be to increase Iraq's gas production to about 7 BCF of gas being produced per day so gas to liquids processing projects such as the Maysan project will be of great importance to the country's near term development.

You expanded your interests into Tunisia in March with one onshore and one offshore permit. With drilling underway, are you satisfied with what you've seen so far?

The reception to our entry to Tunisia with these transactions was really somewhat better than I might have anticipated and we are looking for other opportunities to expand our presence there. The commercial terms of operating in Tunisia are not far different to Syria, they're not quite as good as Syria but they are certainly some of the better terms in the Middle East and North Africa.

We are quite familiar with developing and operating the sorts of onshore fields that are likely to be discovered and we have the technical and financial capability to handle developments of the size envisaged should we be successful with our exploration. So we think it's likely to be a prospective country for us to pick up additional interests. We have entered Tunisia with two transactions, one onshore and another offshore. The offshore one is now drilling the Lambouka-1 target and we are probably just under halfway into that well. It is a pretty significant target and if it were to come in as prognosed, with a mean proven probable estimate of 270m barrels of oil equivalent, our 30% share of that would amount to roughly 90m barrels, which would be roughly double what we have in Syria today. The Tunisian government seems to be very pleased that the current well is now being drilled as it represents a potentially important opportunity to add to the country's energy reserves.



It wasn't a surprise that someone would make an approach to buy Gulfsands at some point; that happened to you in March. Do you feel pressure to engage with potential bidders?

The Board of Gulfsands is widely experienced and well advised by the people at RBC Capital Markets. The reality is that public companies are just that, they're public companies, and any sensible approach has to be taken seriously. We don't need anyone to put pressure on us to take things like that seriously because we all understand what the rules of engagement need to be.

Having said that, the two Indian companies that came forward, did so in a really quite peculiar manner, making lots of noise, sending us lengthy correspondence that included pages and pages of conditions as pre-conditions to making a possible offer but not actually confirming whether they were going to do anything. So why in those circumstances would we engage in discussions over a potential sale of the company. To do so would not have been in the best interests of our shareholders.

Frankly, we just couldn't get to first base with them because their highly conditional, indicative, possible proposal remained, at all times, just that.

In the past Gulfsands has talked about expanding into new territories and looking at different opportunities. What is your approach to doing asset deals?

We have a basic rule at Gulfsands which is that whatever we do, whether it's by way of acquisition or farm-in, it has to be compelling and something we would regret if we didn't go after it. One of the problems of doing things in public capital markets is that it is a very competitive market place. Often, the asset you're really interested in is part of a portfolio of assets, which makes it difficult to buy what you really want. So in our experience it is probably smarter to buy assets rather than to buy companies.

With that in mind and looking forward to the rest of this year and 2011, would you consider expanding further afield?

Well we're always on the look-out for interesting opportunities and there are a couple of countries of interest. Oman is one, and there are a couple of other North African countries that could provide us with an interesting asset acquisition opportunity. We are also keen on additional assets in Syria and, of course, there's Iraq. So we're not short of ideas and we're not short of ambition.