

## Al Majal Updates



### **Al Majal Signs a Partnership Agreement with Iraq Drilling Company (IDC) to Develop Technical Teams and Qualify Specialized Maintenance Workshops**

Al Majal is happy to announce its new, three-year partnership agreement with Iraq Drilling Company (IDC). The agreement aims to develop IDC's technical teams and to qualify its specialized maintenance workshops in accordance with international standards.

In an online statement published by IDC, the company said that the agreement incorporates the joint cooperation in providing services that cover blowout preventers (BOPs), top drive systems, inspection and certification of equipment in accordance with API standards, in addition to coring services, gyro and EMMS services, valves and valves systems, fishing and downhole services, bottom hole assembly (BHA) services.



### Christmas and New Year's Celebrations at Al Majal Business Park (AMBP)

Every year, Al Majal Business Park (AMBP) hosts Christmas and New Year's dinners at both properties in Burjessia and North Rumaila. This year was AMBP hosted two beautiful events, while still keeping in mind and taking all safety precautions and social distancing guidelines.

Thanks to AMBP management team and their great efforts, our clients enjoyed their nights with festive vibes, great company and good food.



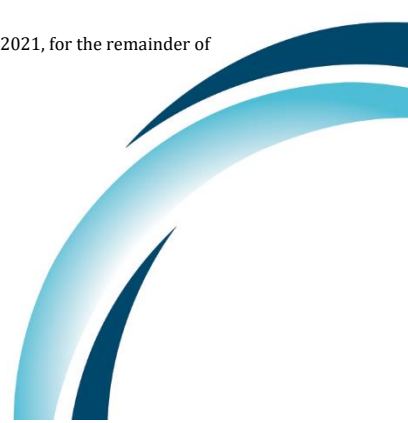
# Al Majal's Oil & Gas Roundup in Collaboration with Qamar Energy

## *Latest in the Iraqi & Global Energy Markets*

- The country's economy is gradually recovering from the double oil and CoVid-19 shocks of 2020. In H1 2021, Iraq's GDP grew by 0.9% y-o-y. According to the IMF, Iraq's economy is expected to grow 3.6% in 2021 and 10.5% next year following a contraction of 15.7% in 2020 due to the pandemic. Iraq's non-oil economy grew over 21% in H1 2021 following a solid performance in the services sectors along with the easing of containment measures, a pick-up in vaccination rollouts and a decline in infection rates. The non-oil economy recovery outpaced the slowdown in the oil sector, which was down by 10% in H1 2021 as the country attempted to meet its OPEC+ compliance obligations. Iraq's non-oil real GDP is expected to rebound by 12% in 2021, while inflation is projected to ease from the current 7.2% recorded in September, according to IMF.
- Iraq expects to earn oil revenues of US\$ 47.5 B<sup>1</sup> based on an oil price of US\$ 45/b and ~3.5 Mb/d of exports, which in devalued dinars should significantly improve state earnings. With oil prices averaging US\$ 65/bbl this year, the actual deficit would come well under the reported figure of US\$ 19.5 B. Iraq's oil export earnings are likely to reach over US\$ 77 B in 2021, nearing 2019's US\$ 79 B, as OPEC+ eases restrictions and oil prices remain well above budgeted levels.
- 3.5 Mb/d is a significant jump from Federal Iraq's current ~3 Mb/d exports, which it hopes to realise from state-run fields that have been shut-in due to OPEC+ constraints. Oil prices are also likely to be higher, as Brent crude has averaged almost \$66 per barrel so far this year, with Iraqi export pricing to Asia about \$0.50 below that. Under the revised OPEC+ deal of July 2021, the group's production will increase by 400 kb/d each month, of which Iraq's share would be 44 kb/d, up to April 2022. After that, production will increase by 432 kb/d each month to the end of 2022, with Iraq's share at 48 kb/d. If oil prices remain at current levels, Iraq would therefore earn almost an additional \$115 million progressively each month. This would raise Iraq's quota to 4.412 Mb/d by end-April 2022 and 4.797 Mb/d by end-2022, implying that the country would reach its actual capacity during 2H 2022.
- This has caused Fitch Ratings to revise the Outlook on Iraq's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'B-'.
- In the medium term, oil GDP will be the primary driver of growth. The economy is forecasted to gradually recover on the back of rising oil prices and OPEC+ production quotas, which are planned to be phased

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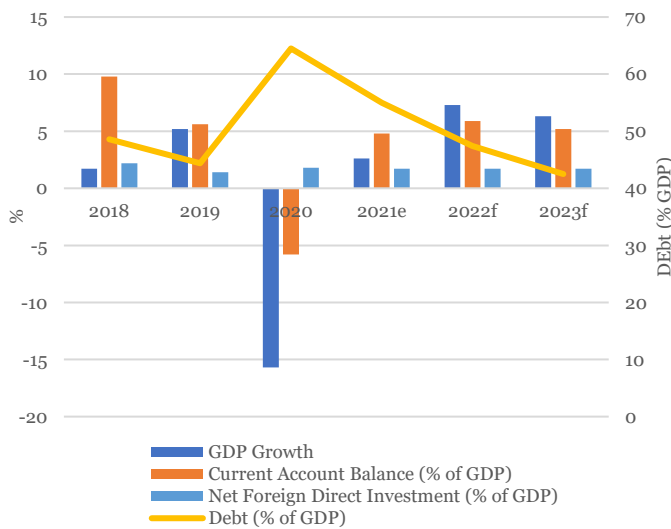
<sup>1</sup> While not yet disclosed by the Iraqi Parliament, the revenues earned seemed to be calculated by excluding the first two months of 2021, for the remainder of the year



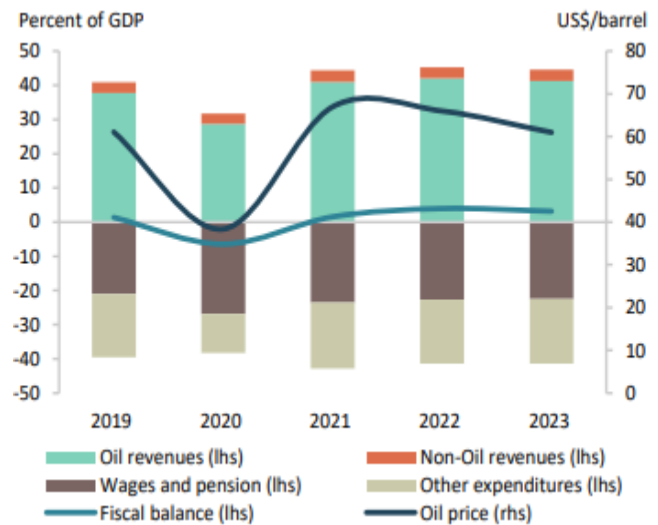
out end-2022. Non-oil GDP gains are forecasted to recover but remain under 3% on average in 2021-2023, mainly due to the impact of the CoVid-19 Delta and possibly Omicron variants along with water and electricity shortages, affecting the agricultural and industrial sectors. The fiscal balance will likely remain in surplus in the medium term, leading to a steady drop in the debt-to-GDP ratio. However, the IMF expects non-oil real GDP to rebound by 12% this year, with the fiscal and current account balances to improve significantly, taking into account recent economic developments and policy priorities in Iraq.

- However, Iraq's economy might be subject to significant downside risks including: a potential decline in the oil price, political problems over government formation following October's elections, a fourth wave of CoVid-19 possibly caused by the new Omicron variant detected in southern Africa, a deterioration in the security situation, intensified impact of climate change and additional macroeconomic volatility.

Macroeconomic Indicators' Outlook



Budgeted Revenue & Spending, 2019-23<sup>2</sup>



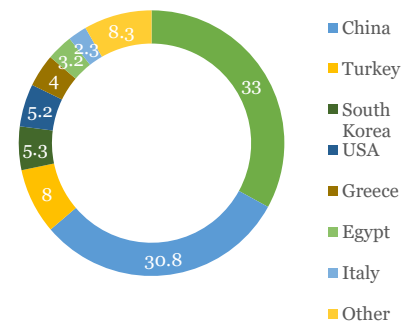
<sup>2</sup> World Bank

The latest developments in the Iraqi energy markets are summarised in the table below.

IRAQ KEY EVENTS SCORECARD, NOVEMBER 2021			
Politics	Iraq's Kuwait Invasion Compensations	● ↑	Iraq has completed its reparations to Kuwait for the 1990 invasion as the ministry of finance processed the last US\$ 45 M payment to the Geneva-based United Nations Compensations Commission (UNCC) on December 12. Originally, UNCC claimed 30% of the proceeds of Iraqi oil exports, while allowing the country to only import necessities through the oil-for-food program. After 2003, UNCC brought down the deduction to 5%, with the total compensations made by Iraq amounting to US\$ 52.4 B since 1996.
	Iraq's US\$ 7 B Debt to Iran	● ↑	Yahya al-Eshagh, head of Iran-Iraq Joint Chamber of Commerce, mentioned that Baghdad has paid a part of its outstanding debt of US\$ 7 B to Tehran on December 11. This was made possible through an arrangement between the neighbours' central banks, enabling Iraq to pay off its debt via purchases of commodities instead of cash – a way to avoid sanctions. Previously, Iraq has provided Iran with around US\$ 250 M worth of the Russian-made Sputnik CoVid-19 vaccine. So far, Iraq has managed to bring down its debt to Iran by approximately US\$ 1 B, with the entire process being coordinated with the US. The debt stems from Iranian gas supply to Iraq's power sector, although increasing Iranian gas consumption recently implies that such supply would be rather unreliable, which is seen in the curtailed volumes sent to Iraq in November.
	Iraq's 2022 Budget	● ↔	The Ministry of Finance said it is working on preparing legislation for the 2022 budget, which was supposed to be approved on the 1st of October. The Parliamentary Finance Committee confirmed recently that Kadhim's outgoing government failed to prepare the budget for the next year; leaving that responsibility on the next government, potentially delaying the approval of the budget till end-December. This remains to be seen as Iraq failed to pass a 2020 budget and only passed the US\$ 89 B 2021 budget by end-March. Finance Minister Ali Allawi mentioned that 2022 will represent a model for economic change by means of budget reform. However, continuous subsidies and obligations, including public sector salaries, social security spending, pensions, and debt servicing, represent a major obstacle to the planned reform. Allawi



			aims to increase 2022's budgeted oil price to US\$ 50/bbl – still conservative given current market conditions.
Oil	Oil Production	● ↑	<p>According to S&amp;P Global Platts, Iraq's nationwide production reached an 18-month high of 4.208 Mb/d in November, from October's 4.07 Mb/d (lower than Iraq Oil Report's figure of 4.30 Mb/d in October). Iraq's OPEC+ quota rose to 4.193 Mb/d in November, from 4.149 Mb/d in October, as the coalition continues to raise production caps. Output might further increase in the immediate term, with the resumption of production at Qayarah field, averaging just under 10 kb/d, while the state-run Amara oilfield, which has not been producing since July 2020 due to quota constraints, is in process of installing 3 new gas-oil separation units that will double production capacity from 20 kb/d to 40 kb/d. Gains from other state-run fields including Majnoon and West Qurna-1 could also boost production by end-H2 2021. Iraq has worked off some of its past under-compliance, and its rising quota should have room to accommodate the expansion of Amara and a gradual return to higher output from other state-run fields and IOC-operated fields such as West Qurna-1.</p>
	Oil Exports	● ↑	<p>Iraq's nationwide oil exports rose to 3.678 Mb/d in November, up from 3.523 Mb/d from October levels. Federal exports increased to 3.273 Mb/d in November, up 153 kb/d from October, while KRG exports remained unchanged from last month at an average of 404 kb/d. Revenues fell to US\$ 7.594 B in November, down slightly from US\$ 7.666 B in the previous month, reflecting slightly weaker global oil prices, with the average price of Iraqi crude rising to US\$ 77.33/bb. Over the first ten months of 2021, India and China accounted for nearly two thirds of Iraq's crude oil exports. Exports to India</p>



			averaged nearly 980 kb/d, while China received 910 kb/d, followed by Turkey as the third largest market.
Halliburton's bid for Exxon's West Qurna-1 Stake	● ↔		Halliburton denied a claim by Iraq's oil minister that it's in talks to buy the stake of ExxonMobil in the huge West Qurna-1 (WQ1) field. Although the oil services giant held talks about providing services to a prospective buyer of the WQ1 stake, those talks are now over, according to Emily Mir, a spokeswoman for the Houston-based contractor. Oil Minister Ihsan Abdul Jabbar mentioned that Iraq seeks a US partner for Exxon's stake and is ready to step in and buy the field if Halliburton does not, implying that Basra Oil Co. is a potential buyer. While Halliburton has been one of Exxon's primary contractors at the field, holding ownership of the field would be a rarity for a company focussed on drilling, fracking and other services to assets operated by other companies.
Lukoil development plan for Eridu field	● ↑		Russia's Lukoil submitted a preliminary development proposal for the Eridu oilfield in southern Iraq, with a proposed peak production standing at around 250 kb/d. Lukoil's preliminary geological assessment indicates significant oil reserves of between 7-12 billion barrels, the largest discovery in Iraq in the last 20 years. Lukoil had secured permission from the oil ministry to start early oil production of 30 kb/d at the field. The company is also operating the giant West Qurna-2 field, where it plans to double capacity to 800 kb/d by 2027, pushing it 2 years forward than originally planned. The company is also in talks with Baghdad to reduce its 75% stake at the field, though the sale was vetoed by the oil ministry. Yet, the company is still negotiating better terms under its TSC for further development of West Qurna-2, especially for the deeper Yamama formation reserves.
Baghdad-Erbil Budget Deal	● ↔		Federal Iraq and the semi-autonomous KRG have reached a notional agreement to implement a revenue-sharing deal that stalled since the ratification of the 2021 budget on March 31. So far, the Iraqi Finance Ministry sent three budget transfers of US\$ 138 M on July, August and November to the

			KRG this year. The third budget transfer is not part of the 2021 federal budget law but a pre-election deal between the two parties, providing much needed boost for Erbil. At the Middle East Peace and Security (MEPS) Forum, KRG's PM Masrour Barzani claimed that Federal Iraq owes the KRG about US\$ 3.1 B as a result of budget disagreements.
Gas	Genel Energy Arbitration case against KRG	● ↓	Genel Energy is taking the KRG to international arbitration over the termination of contracts for the Miran and Bina Bawi gas fields, ending 10 years of uncertainty over Erbil's strategy for developing its gas sector. The legal dispute is the latest blow to the KRG by IOCs who also voiced concerns about the government's track record for failing to pay invoices on time or adhere to the schedule for repaying debts. This is likely to discourage capital spending, with Kurdistan's overall production already declining by 10% this year. The dispute over the gas fields stems from long failed efforts to agree on a commercially feasible way to develop gas in the KRI. Since the fields contain high-sulphur gas, they would require large capital investment to build the midstream infrastructure, and potential financiers have been rather reluctant to provide finance without a solid arrangement for monetizing the production.
	Iraq Drilling deal with China's ZPEC	● ↑	Iraq Drilling Co. (IDC) signed a deal with China's Zhongman Petroleum and Natural Gas Group (ZPEC) which includes the implementation of drilling and various other activities for international operators of Iraqi oilfields. No further details were disclosed about the deal. So far, IDC has signed several contracts with IOCs, including Halliburton, Weatherford, and Schlumberger with the aim to accelerate the implementation of the projects.
Power	Iraq Power Imports	● ↑	Baghdad is discussing potential electricity interconnections with each of Saudi Arabia, Turkey, Jordan, and Kuwait. However, the country failed to agree on the price for the imported power, hindering progress after long-running negotiations. Despite its huge oil and gas reserves, Iraq cannot provide reliable 24-hour electricity due to supply shortages caused mainly by insufficient transmission infrastructure, insufficient generation capacity and sabotage. This pushed Iraq to rely on Iranian electricity and gas imports.
	Ducab awarded major	● ↑	Ducab Group has been awarded to supply overhead conductors for a 288 KM Over Head Line (OHL) project, part of a GE Renewable Energy's Grid Solutions business electrification project in Iraq.





Renewable Energy	turnkey grid project			
	KRG Debt to Power Producers	●	↓	Iraq's semi-autonomous Kurdistan Regional Government (KRG) has run up almost US\$ 5 B worth of debt to power producers, making it hard for the government to improve electricity services and attract investment. The single largest debt stands at over US\$ 4 B owed to Mass Group, an Amman-based company owned by Iraq-Kurdish businessman Ahmad Ismail Saleh, running three power plants in Dohuk, Erbil and Sulaymaniyah provinces in the KRI. The KRG's inability to settle its debt disincentives power producers to spend money on maintenance that could improve electricity services, and will likely cause concern for prospective investors evaluating the risks a with making large capital investment in the region's power sector.
	Iraq & Masdar solar agreement	●	↑	Iraq signed agreements with a number of foreign companies to build 5.2 GW worth of solar power plants in the first phase. The electricity ministry plans to sign new deals with other firms, seeking to boost production to 7.5 GW in the medium term.
	33% clean Energy by 2030 Target	●	↑	Iraq seeks to raise the share of clean energy to 33% by 2030 building on solid expansion in solar capacity, according to the country's oil minister. The plan is to develop 12 GW of installed solar capacity by the end of the decade. The government signed a number of contracts for solar projects with international companies including France's TotalEnergies, Saudi Arabia's ACWA Power, UAE-based Masdar, and PowerChina.

● Very positive   ● Positive   ● Neutral   ● Negative   ● Very negative   
 ↑ Improvement in last month   ↔ No change   ↓ Deterioration in last month

OPEC forecasts 2021 world oil demand to increase by 5.7 Mb/d, despite the upward revision in GDP growth from the previous month (5.6% from 5.5%). Rising economic recovery is projected to take place mainly in non-oil-intensive sectors, while accelerated vaccination campaigns shall boost transportation fuels' outlook, particularly in the US. However, slower-than-expected demand in other OECD nations, CoVid-19 resurgence in non-OECD countries (particularly in South America and South-East Asia), and an expected fourth/fifth wave in the northern hemisphere due to colder weather between October-December could put a lid on growth. China's oil demand growth is anticipated to rise strongly in H2 2021, driven by a healthy economic outlook and mobility returning to pre-pandemic levels, though reinstituted lockdown measures in some

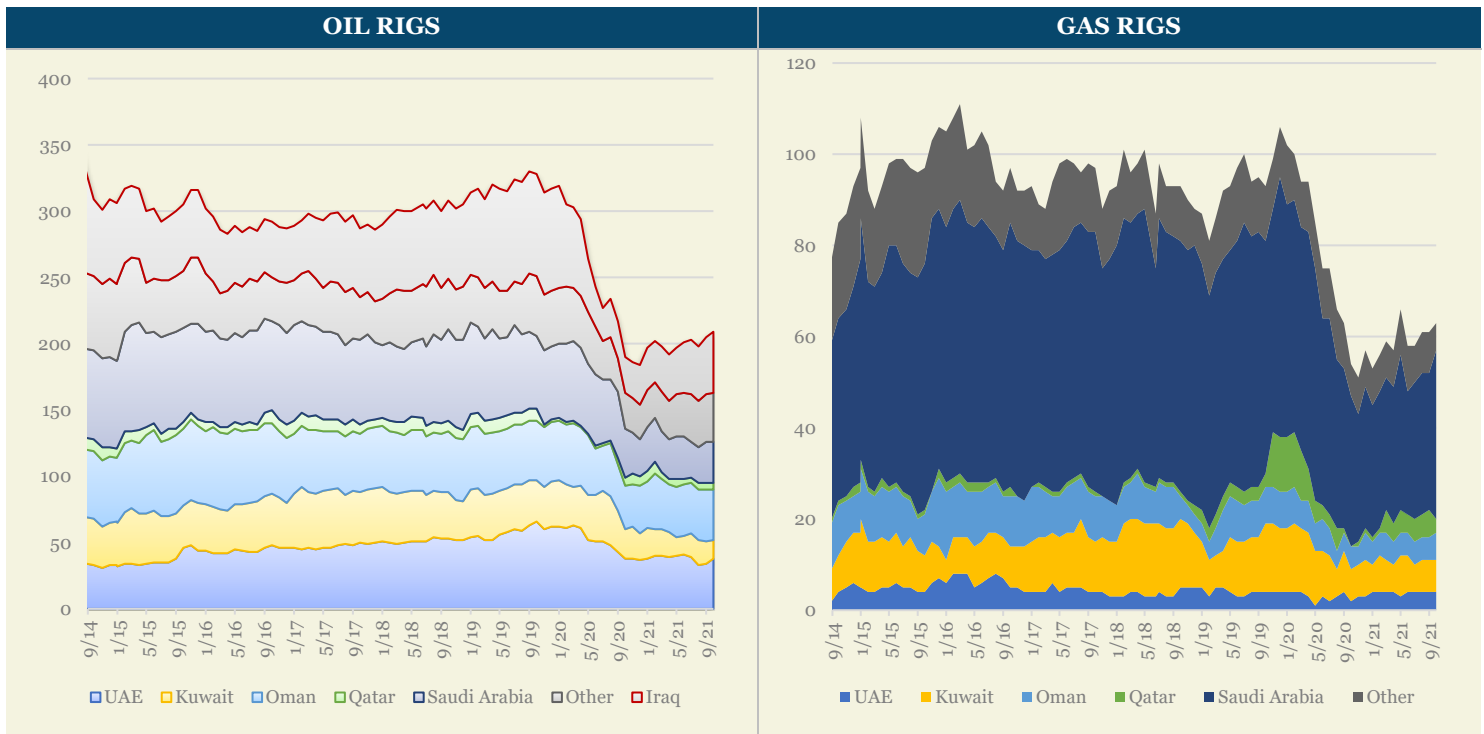
areas to contain growing CoVid-19 cases could affect the country's demand growth. Spill-over effects of the lockdown might be seen in H1 2022.

Overall Middle East demand fell in October by 123 kb/d over August levels, with October demand estimates expected to be higher, as lifted restrictions, a continuous decline in CoVid-19 cases along with improvements in mobility added to a robust recovery that could pick up pace further in H2 2021. According to the KAPSARC Oil Market Outlook (KOMO), Saudi Arabia's demand in Q3 2021 is expected to have grown by around 280 kb/d, mainly due to increased seasonal demand for electricity generation and the Hajj season in July. In 2021, Saudi Arabia's international and domestic jet fuel consumption averaged 70.3 kboe/d, still well below 2019's levels of 131.2 kboe/d. PMIs have stabilised, even though economic activity has not yet reached pre-CoVid-19 levels. This has informed some noteworthy deals in the energy sector in recent weeks, summarised in the following table.

## TOP ENERGY DEALS IN THE REGION

PROJECT	SUMMARY	CLIENT / BUYER	CONTRACTOR / SELLER	IMPLICATIONS
<b>Eni's 49.9% stake sale in Algerian pipeline to Italy</b>	Italian energy company Eni will sell 49.9% of its stake in a gas pipeline to Italy to Snam	Eni	Snam	Eni agreed to sell its stake for US\$ 435.7 M to Snam, with the remaining 50.1% stake to remain with the newly incorporated firm NewCo. Under the new agreement Eni will transfer the ownership of the two pipelines, the onshore gas pipeline running from Algeria to the Tunisia border and offshore gas pipelines connecting Tunisian coast and Italy. Snam has been building its gas infrastructure business with a view to eventual adaptation to hydrogen.
<b>Egypt &amp; Jordan to increase their electricity capacity</b>	The plan is to increase the current capacity from 500 MW to 2000 MW to increase exports	Egypt	Jordan	Egypt and Jordan agreed to strengthen their ties over electrical interconnection and put up a plan to exchange the energy with the MENA region. The plan is to increase the current capacity from 500 MW to 2000 MW as said by the Jordanian Minister of Energy and Mineral Resources Saleh Al-Kharabsheh. Egyptian Minister of Electricity and Renewable Energy Mohamed Shaker stated that the country has been able to increase electrical capacity enough to export.

## REGIONAL RIG COUNT<sup>3</sup>: OPEC+ PRESSURE HAS KEPT IRAQ RIG COUNT LOW



- Middle East oil drilling has still not recovered from the sharp drop induced by the pandemic and the related OPEC+ production cuts. However, it is likely to start expanding as quotas increase and production growth plans in the UAE and Iraq get underway. Iraq added a further three rigs in October for cumulative gains of 16 since beginning-2021. All rigs are onshore targeting oil. This rebound comes as INOC and its subsidiaries signed a series of deals with international service companies.
- Gas drilling is starting to show a moderate recovery, supported by the beginning of Qatar's LNG expansion projects.

**Note:** Iraqi gas rigs are not reported by Baker Hughes, likely because Iraq reports gas rig figures clubbed with oil rigs and/or lack of response from contractors (drilling for non-associated gas is at minimal levels compared to oil, although it should pick up as Sinopec's development of Mansuriyah and the Pearl Petroleum consortium's expansion of Khor Mor move forward).

<sup>3</sup> Baker Hughes International Rig Count

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## Iraq Oil Market Highlights

### Crude Oil Prices

Closing prices, January 2<sup>nd</sup> 2022

Brent: USD 77.78

WTI: USD 75.21

### Iraq Rig Count

As at month end

Nov 2021: 44

Oct 2021: 46



### Iraq Oil Exports

For the month of

Nov 2021: 3.678 Mbpd

Oct 2021: 3.523 Mbpd



### Oil Exports Revenue

For the month of

Nov 2021: 7.594 USD bln

Oct 2021: 7.68 USD bln



## Iraq Coronavirus Cases Overview

### Total Cases

As at month end

Dec: 2.1 M

Nov: 2.1 M

### Total Deaths

As at month end

Dec: 24,163

Nov: 23,807

### People Fully Vaccinated

As at month end

Dec: 5,639,110

% of population: 14.4%

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## Get in Touch

For any inquiries, contact us at [info@almajalenergy.com](mailto:info@almajalenergy.com)

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