

Drilling Contractor as a source of equity stake



ESMAP: Geothermal Dev Plan
3rd Roundtable, Reykjavik April 25-26, 2016

Overview of Iceland Drilling



Business Area

Iceland Drilling Company (IDC) was established in 1945
IDC's main focus is on drilling high-temperature geothermal wells

Drilling history

150 geothermal wells since 1970
100 thereof 192 for the last 10 years
Well depths range from 1.000 to 4.083 meters
Temperature up to 320°C

Ownership Structure

100% owned by 3 of the 5 largest Icelandic Pension funds
100% owned by Samherji hf. (www.samherji.is) the largest seafood company in Iceland

Certification QHSE

2008 - Quality Management System - ISO 9001:2008
2010 - Environmental Management System - ISO 14001:2004
2010 - Occupational Health & Safety Management System - OHSAS 18001:2007



Operations



Operating countries past and present

Iceland, Philippines, New Zealand, Nicaragua, Dominica, Montserrat and Azores

Core markets

Indonesia, Malaysia S. America and East-Africa

Assets and employees

Modern fleet of 7 rigs

5 rigs in Iceland, 1 in New Zealand, 1 rig in

Nicaragua, 1 rig in the Philippines

Around 200 employees currently

Community involvement

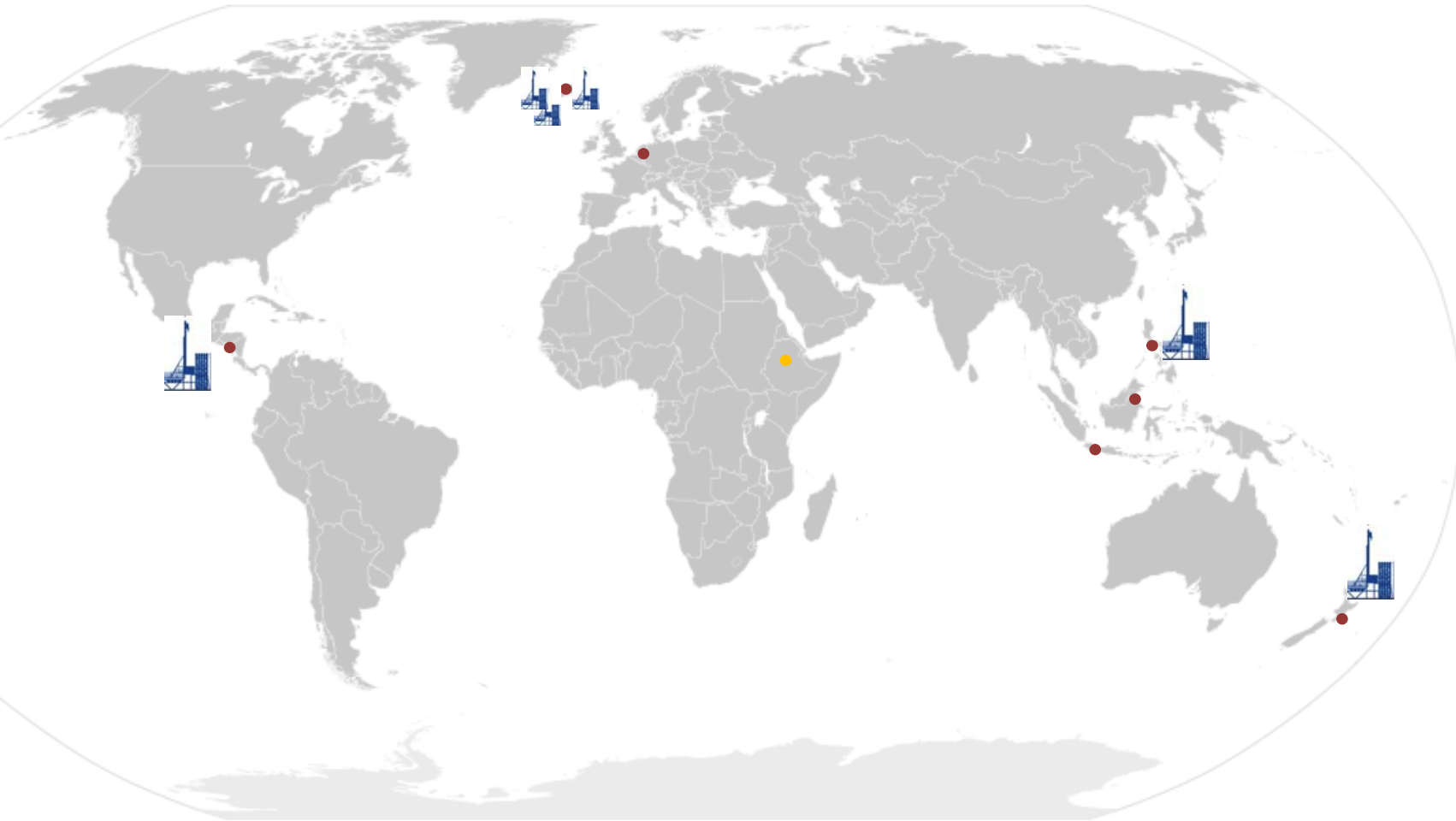
Collaboration with local contractors and

suppliers

Providing employment for local communities



Market Area



Managua

Head office

Hekla Energy

Jakarta

Kota Kinabalu

Manila

Taupo

Banking sector appetite



..for the geothermal Project Financing

Early stage – exploration risk (15-25%)
Early stage – Resource flow testing

High risk – Private Equity
Risk mitigation funds?

Later stage - Capacity drilling (30-40%)

Lower risk –
easier to obtain loans

Later stage - Power plants (30-45%)

Investment financing lines

Example of Financing structure or participants



Sponsor/Developer: Both IPP's and PPP's. Very often one or two entities who initially establish the SPC and acquires the geothermal concession agreement from a government. Typically controls and make equity investments in the SPC

Additional Equity Investors: In addition to the initiator of the project, there are frequently additional investor in the SPC. Such as:

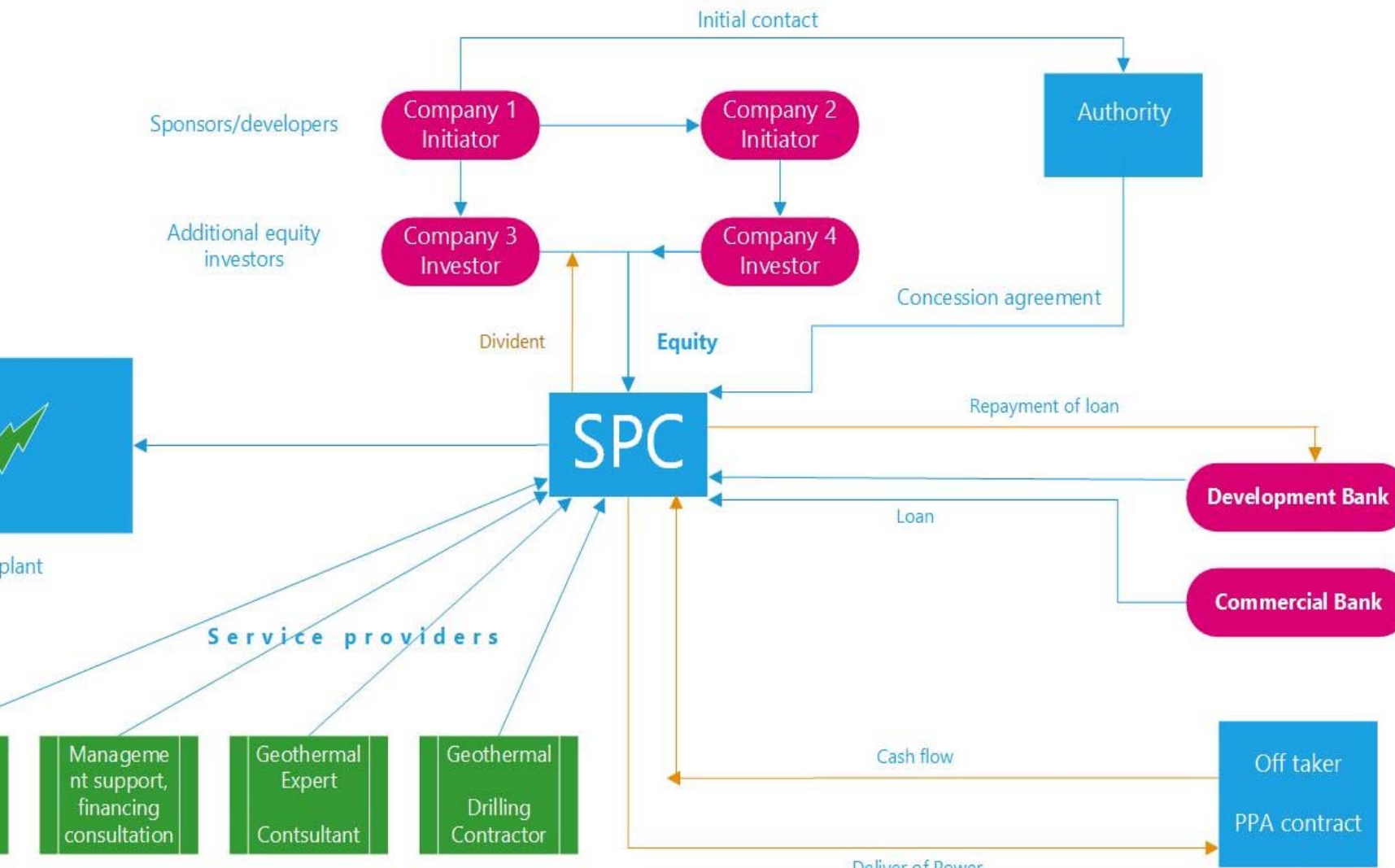
- Government either investing or providing grants or guarantees
- Contractors (such as drilling contractor)
- Equipment suppliers
- Off-Takers (PPA)

Lenders: A financial institution or a group of financial institutions that provide a loan to the SPC to construct the project.



ICELAND DRILLING

Geothermal project - Stakeholders



WHY – CONTRACTORS PARTICIPATION



Contractors viewpoint

Diversification – Reduce risk

Utilize underutilized personnel and equipment

Enable us to keep experienced employee's during recessions

The ability to select and secure work as a contractor

Bank developers viewpoint

Helps the developer to move the project forward

Banks often lack the fundamental knowledge for geothermal projects, resulting in a conservative view towards the risks in exploration drilling

Helps to obtain loan approval

Adding investors who have the necessary knowledge and track record in Geothermal exploration

The advantage of creating common interests with a service provider



Contractor must evaluate the equity transaction

Dual roles

investor

- The prospect of the area, in geological respect
- Expected return on the investment
- Possible exit option

a service provider

- Size of the drilling project and location
- Our ability to secure the contract
- Terms and conditions
- Contract price and its fee



Possible conflicts - Ownership agreement

Possible conflicts:

Addressed in normal drilling contract, terms and conditions

- Hazard geological situations
- Cost overruns
- Temporary suspension of works
- Termination clauses

The approach of handling conflicts

- Softer approach

Shareholders agreement:

Conventional clauses

- Ownership and voting rights
- Buy-sell agreement, How to share profit and losses.
- How to react in case of additional requirement of capital calls in the event of loss
- Corporate governance, management and decision making, etc

