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## **Gulfsands Petroleum starts production from Yousefieh oilfield**

by Jamie Ashcroft



Gulfsands Petroleum (AIM: GPX) has reported further progress in Syria, where the company has begun production from the Yousefieh oilfield, and is ready to begin a three-month, three-well, development and appraisal drilling programme at the Khurbet East oilfield.

Initially, Yousefieh oil will be produced from two vertical wells, Yousefieh-1 and Yousefieh-3, to a local production facility, which was constructed by and leased from the Syrian Petroleum Company. Production comes just 18 months after Yousefieh-1 discovery well was drilled in November 2008, and only 3 months after Gulfsands received commerciality approval from the Syrian Authorities.

"Achieving first oil production at Yousefieh within 3 months of government approval to develop the field is an outstanding result and demonstrates the commitment our employees, the General Petroleum Corporation and the Syrian Petroleum Company have in making this project such a success", Gulfsands chief executive Ric Malcolm commented.

Initial rates from the two Yousefieh wells have a combined initial rate of approximately 1,200 barrels of oil per day (bopd). "Together with production from the Khurbet East field, total Syrian production is now anticipated to be able to be increased further from today's combined production from both fields of approximately 18,000 bopd to approximately 20,000 bopd in the second half of 2010", Malcolm added.

The production facilities installed at Yousefieh possess sufficient capacity to handle at least 6,000 bopd, which is the targeted production rate for the Yousefieh field that Gulfsands is aiming to achieve by 2012, it stated. The company plans to drill a further development well in the Yousefieh field later this year.

The Yousefieh oil is separated and metered at the Syrian Petroleum Company facility, and then taken via pipeline to existing oil storage tanks located adjacent to the nearby Khurbet East Field Early Production Facility (EPF). Gulfsands' noted that processing and exporting Yousefieh's initial oil production in this manner will not constrain production from the Khurbet East field - where production is currently limited by the Khurbet East EPF capacity of 18,000 bopd.

In 2010, Gulfsands is undertaking a key construction project, to build the permanent central production facility at Khurbet East, to replace the early production facility. This new facility will have a design capacity of 50,000 barrels of fluid per day and be capable of handling a minimum of 35,000 bopd allowing for the eventuality of associated water production.

The drilling rig has now returned to the Khurbet East oilfield, from the Hanoon-1 exploration site, to begin a three well combined development and appraisal drilling programme.

Gulfsands will drill two new horizontal production wells, Khurbet East-15H (KHE-15H) and Khurbet East-17H (KHE-17H) are planned in the crest of the Khurbet East field. The two wells have multiple objectives – to increase the field's production capacity, to facilitate better reservoir management and to further develop reserves as identified from technical modeling studies.

The KHE-15H is a vertical delineation and production well, targeting the producing Cretaceous Massive formation in the north central cretal area, and was spudded on 27 April. Similarly, the KHE-17H horizontal production well will target the producing Massive formation, in the south central cretal area and it is presently anticipated that this well will spud at the end of June - after KHE-16.

After completing KHE-15H drilling, Gulfsands will move on to drill the Khurbet East-16 (KHE-16), as a step out from the central cretal area. KHE-16 will test the potential for an extension of the cretal karstified reservoir along a ridge that has been interpreted to lie to the north-east, accordingly KHE-16 will be drilled 1.5km to the north-east KHE-1 - the field discovery well

“Geological data from 3D seismic combined with pressure data indicating minimal reservoir depletion to date suggests that the field could extend beyond the reservoir limits as currently mapped in the base case field interpretation performed for the Company's recent reserves assessments”, Gulfsands stated.

KHE-16 is expected to spud at the end of May, and if the results prove successful, Gulfsands considers there may be potential to further delineate this trend with a more aggressive step-out from the current interpretation of the field limits.

At the end of March, in its FY09 results, reported significant progress with greatly improved financials. Gulfsands increased revenues by 57% to US\$84.4m (FY08: US\$53.6m), to turn a maiden net profit of US\$27.8m compared to a loss of US\$5.4m in the previous year.

The company's strong performance was driven by increased production at Khurbet East. In Syria, Gulfsands reached gross production of approximately 17,000 bopd by the year's end, up 70% on the previous year and exceeding the company's target of 16,000 bopd.

Overall during the twelve months, the company's cash position was greatly improved, with cash from operating activities up 117% to US\$43.5m (FY08: US\$20m). Gulfsands ended the period with free cash balances US\$57.6m (FY08: US\$36.8m). This strong financial position has been crucial to the company's ability to continue to function, unimpeded, through the very difficult financial circumstances of the past eighteen months, Gulfsands stated. Consequently, the company is well placed to fund our plans for development and exploration in Syria from its own resources.

Also last month, the oil and gas company, with activities in Syria, Iraq, and the USA, became the target of an unsolicited approach from two major Indian oil companies - Oil India (BOM: 533106) and Indian Oil Corporation (BOM: 530965). On 23 March 2010, Gulfsands reiterated that the proposal was wholly inadequate, highly conditional and materially undervalues the company.

It is understood that the offer approach, made on 18 March, was priced at 315p per share for the Gulfsand's entire share capital.

In a separate statement this morning, the UK Takeover Panel issued a 'put-up or shut-up' ruling in relation to the unsolicited approach. The Panel Executive has ruled that Oil India and Indian Oil must announce a firm intention to make an offer for Gulfsands by 5.00 pm on 11 May 2010, or announce that it does not intend to make an offer. Should either Indian petroleum company fail to make an offer within the Panel's deadline, they will be bound by the takeover and merger code and as such they will be unable to make any further approach for at least 6 months.