

Gulfsands Petroleum

Moving East to West



Gulfsands Petroleum is quickly shaping up to be one of the most exciting oil and gas plays on AIM. After some wobbles in 2006, 2007 turned out to be a corker of a year for the company; it struck oil in the Khurbet East oil field on Block 26, in Syria, whilst reaping increased revenues from its producing oil and gas assets in the Gulf of Mexico.

For the uninitiated, Gulfsands Petroleum came to the market with a solid game plan: use cash flow from its mature assets in the Gulf of Mexico to fund higher impact exploration and development projects in Syria, whilst developing relationships and contracts in Iraq. The plan has certainly benefited the group. A recent reserves update on its US operations confirmed net 2P reserves of 40.7 billion cubic feet of gas equivalents (bcfge), or 6.8 million barrels of oil equivalent (mmboe) and 3P reserves of 48.7 bcfge, or 8.2mmboe, as of 31 December 2007. Thanks to surging oil and gas prices in the United States, the net present value of the operations increased by 10% to US\$226 million. Full year results are due in around one month's time, and we think it's fair to say revenues from ongoing operations will be robust.

Edison Investment Research is forecasting revenues of US\$35 million; having production from mature assets in the Gulf of Mexico has benefited the company immensely. While other oil and gas juniors have struggled to fund exploration and development projects - largely due to limited rig availability and spiralling costs for drilling - Gulfsands has been able to use its own internal cash flow to keep it driving ahead, and having tangible assets on the balance sheet makes the occasional trip to your local bank manager far, far easier. It

would be easy to classify Gulfsands' assets in the Gulf of Mexico as relatively boring and safe, with limited scope for material changes in their value - and this is where the company's Arabian business comes into play.

Syria and Iraq may not be everyone's cup of tea, but there is no denying that both countries offer impressive exploration potential for companies with the skills and determination to operate in the region. Gulfsands has already proved that it's more than up to the challenge. In fact, Syria is looking so good that by the end of 2009, the company is more likely to be classified as a mid-tier Middle Eastern focused oil play, rather than a Gulf of Mexico producer with ambitions in the Middle East.

An independent competent persons report based on the first three wells drilled at Khurbet East, estimates 2P gross reserves of 66 million barrels of oil equivalent with 3P reserves of 143 million barrels of oil equivalent. Edison Research points out that based on the current net 2P reserves, Gulfsands already has 11.3 million barrels at Khurbet East, as Syria offers very good terms for Production Sharing Agreements. In most countries, if a company has a production sharing agreement, it means that the government takes a cut from production revenues (the government's "production-sharing" cut) and then taxes the profits on the balance of production. The Syrian government just takes its production-sharing cut and levies no further tax on production. This is something that Gulfsands noted when it first entered the country.

Since the first reserves report, Gulfsands has received approval from the Syrian Government to fast track development of the field. Stage 1 of this development will include a temporary production facility

with the capacity to accommodate 10,000 barrels of oil per day of production. This facility will be taking oil from the three vertical wells already drilled, plus two additional horizontal wells, the first of which is currently being drilled. Horizontal well technology is common place in producing fields on Block 26, so Gulfsands isn't reinventing the wheel here, and it is well documented that compared with traditional wells, horizontal wells can boost production by as much as tenfold. Investors can expect an updated reserves report in the not too distant future, too, as further wells are drilled, increasing the confidence of the oil in place. Migration of some of the 2P and 3P reserves, to 1P and 2P, is pretty much a certainty. The company is also planning to build a permanent production facility ready for production which is expected to be ramped up to 30-40,000 barrels of oil per day by the first half of 2010 - the final number will be dependent on results from the initial production characteristics of the field.

Gulfsands is already giddier than a schoolboy because the field appears to have better reservoir characteristics than most fields in Block 26, and has slightly lighter oil (26 degrees API) than average for the area too. Excellent infrastructure already exists in the immediate area, allowing the company to also benefit from considerably lower development and drilling costs than just about anywhere else on the planet. This all blends into a potent mix of low development costs, excellent infrastructure, good PSA terms and, ultimately, excellent fundamentals for a very cash strong field development proposal... no wonder shares in Gulfsands have nearly doubled in 12 months. If this wasn't enough to keep Gulfsands busy, it has another four targets to follow up on its license, offering plenty of



additional potential for new discoveries.

One part of Gulfsands' portfolio that receives less attention is its ambitions in Iraq. Ken Judge, Director of Corporate Development, told Proactive that while the company is very serious about its ambitions in Iraq, at the same time it is cautious about making too much noise. Ken confirmed that Gulfsands is actively pursuing a number of potential contracts in Iraq, and the company is very encouraged by the progress made to open up the country to foreign direct investment in its oil sector, but until contracts are awarded by the Ministry of Oil, the company will be keeping its cards

close to its chest. One could easily argue that developing an oil field in Syria would do no harm in its credentials, in order to gain similar opportunities in Iraq.

Iraq aside, the development of the

Khurbet East field, in Syria, more than justifies attention from investors who are looking for emerging oil producers with significant potential to add to their production and reserves profile.

COMPANY INFORMATION

Name Gulfsands Petroleum Plc

Market LSE

CEO John Dorrier

Sector Oil & Gas Producer

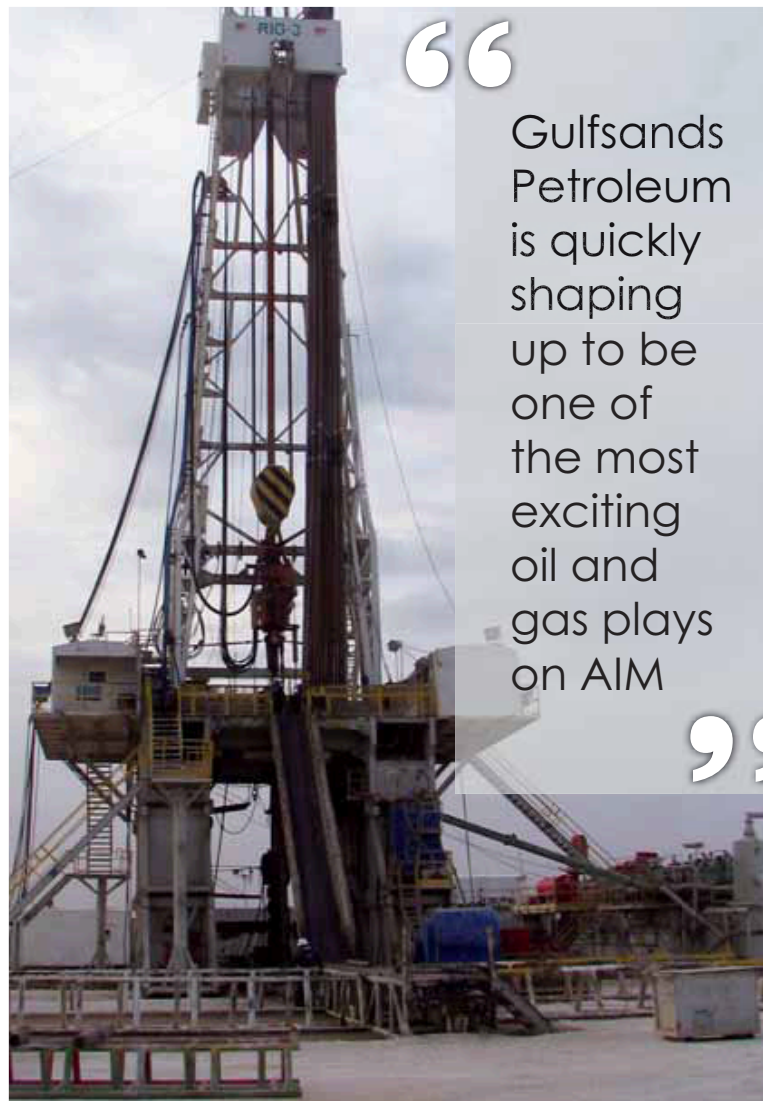
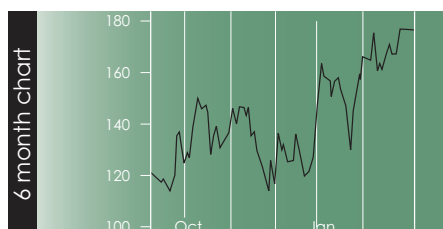
Ticker GPX

Share Price 177p

Shares in Issue 111.18m

Market Cap. £196.79m

1 Year Range  180p  64.5p



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