



22 April 2010

52-wk Range: £1.61-3.46      Market Cap (M): £390.1  
 12-month target: £3.00      EV (M): £357.0

## Oil & Gas

## Exploration well Hanoon-1 plugged and abandoned

### Summary

Gulfsands Petroleum Plc is an independent oil and gas exploration and production company focussed on the Middle East. It has oil exploration and development projects in the Syrian Arab Republic. Gulfsands also produces oil and gas from a portfolio of properties in the USA, offshore Gulf of Mexico.

### Event

Gulfsands Petroleum announced that operations have concluded on the Hanoon-1 exploration well, the second well in the 2010 exploration drilling programme. The well has been interpreted as having a non-commercial oil reservoir and has been plugged and abandoned. The Hanoon-1 well, located approximately 8km to the north of the Khurbet East field, targeted the Cretaceous Shiranish and Massive Formations, the latter being the producing formation in the Khurbet East field. The well targeted a structure with pre-drill estimated reserves of 5-15MMbbl. Hanoon-1 encountered the top of the Cretaceous Shiranish Formation at approximately 1885m Measured Depth ("MD"), or 1440m True Vertical Depth ("TVD") below mean sea level, approximately 30m deeper than the pre-drilling prognosis. A few metres below this depth hydrocarbon gas was detected and oil shows were observed on drill cuttings. On the basis of these oil and gas shows drilling operations were suspended and two sequential coring operations were undertaken. 24 metres of core were recovered which were intermittently coated with viscous oil. The well was then open hole tested, however no hydrocarbons were recovered to surface. Drilling operations resumed and the well was deepened to the top of the Massive Formation which was encountered at 1975m MD (1530m TVD bmsl), also 30m deeper than the pre-drilling prognosis. The presence of oil shows and oil on drill cuttings shakers at 1989-1992m MD (1544 and 1547m TVD bmsl) prompted a further coring operation to be conducted, and an additional 3.5m of core were recovered. The formation generally consisted of tight dolomite and limestone with spotted viscous oil shows. It is considered likely that the quantities of oil observed at surface had emanated from oil filled natural fractures that were detectable from wireline logs. Further testing operations were then conducted in open hole over the Shiranish and Massive Formations combined, inclusive of acidification of both intervals with lift assistance provided via nitrogen injection. These operations recovered non-commercial amounts of viscous oil to surface along with formation water. The cost to Gulfsands for its 50% share of the Hanoon-1 exploration well is estimated at approximately US\$2.0m before cost recovery and approximately US\$700,000 after cost recovery.

### Comment

This is the second unsuccessful exploration well on the licence as part of the 2010 drilling programme and the results vindicate our view that the Block has limited exploration potential left. Two exploration prospects remain to be drilled with an aggregate pre-drill resources estimate of about 22MMbbl. We have a 50% probability of success for those prospects and our valuation of the Company also includes some 30MMbbl of prospective resources net to Gulfsands in two Leads with a probability of success of 25%.

### Recommendation

We retain a Hold rating on the stock with a 300p price target

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### Key Metrics

Shares Outstanding (M): 121.0  
 Current Price (GBP): £3.22

## Research Disclosures

### Lionel Therond

Lionel has worked at Fox-Davies since April 2009. Prior to this, he had 13 years experience as an investor at JPMorgan Asset Management and had previously spent 10 years in the Oil&Gas industry at Shell. Lionel graduated in Geology and Geophysics (MSc) before gaining an MBA at Insead; he is also a CFA charterholder.

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Research disclosure as of 22 April 2010

Company Name	Disclosure
Gulfsands Petroleum	7

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Fox-Davies corporate client & coverage universe as of 22 April 2010

Company	Ticker	Recommendation	Date	Target Price	Last Price
Oil & Gas					
Ascent Resources	AST LN Equity	BUY	23.03.10	£0.20	£0.05
Borders & Southern Petroleum	BOR LN Equity	BUY	01.02.10	£1.50	£0.58
Circle Oil	COP LN Equity	BUY	25.03.10	£0.80	£0.38
Desire Petroleum	DES LN Equity	HOLD	29.03.10	£1.00	£0.50
Enegi Oil	ENEG LN Equity	HOLD	17.12.09	£0.10	£0.12
Falklands Oil & Gas	FOGL LN Equity	BUY	01.02.10	£4.00	£1.52
Gulf Keystone	GKP LN Equity	BUY	15.03.10	£2.00	£0.83
Gulfsands Petroleum	GPX LN Equity	HOLD	22.04.10	£3.00	£3.22
Matra Petroleum	MTA LN Equity	BUY	26.01.10	£0.11	£0.05
Max Petroleum	MXP LN Equity	BUY	24.03.10	£0.50	£0.20
Petrokamchatka	PKP CN Equity	HOLD	14.01.10	C\$0.15	C\$0.115
Po Valley	PVE AU Equity	BUY	16.10.09	A\$3.00	A\$0.785
Range Resources	RRL LN Equity	BUY	17.12.09	£0.08	£0.04
Rockhopper Exploration	RKH LN Equity	HOLD	01.02.10	£1.10	£0.49
San Leon Energy	SLE LN Equity	NA	NA	NA	£0.21
Sterling Energy	SEY LN Equity	HOLD	01.02.10	£1.50	£1.30
Tower Resources	TRP LN Equity	HOLD	23.03.10	£0.02	£0.01
Victoria Oil & Gas	VOG LN Equity	BUY	21.04.10	£0.09	£0.04

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