



May 25, 2010

52-wk Range: £0.10-1.31
12-month target: £2.00

Market Cap (M): £438.0
EV (M): £438.0

Oil & Gas

Financing done

Summary

Gulf Keystone is an independent company whose objectives are to explore, develop and produce oil and gas primarily in North Africa and the Middle East.



Key Metrics

Shares Outstanding (M): 519.9
Current Price (GBP): £0.84

Event

Gulf Keystone has today completed a fully subscribed placing of 152,300,000 new common shares of \$0.01 at a placing price of 75p per share, raising gross proceeds of approximately US\$165m. These shares were placed by Mirabaud Securities, Renaissance Capital, Fox-Davies Capital Limited and Madison Williams and Company with existing and new institutional shareholders. Admission of New Shares Application has been made for the new shares to be admitted to trading on AIM with dealing expected to commence on 28 May 2010. Following the Placing there will be 672,185,122 common shares of \$0.01 in issue.

The proceeds raised will be used primarily to progress the three Shaikan appraisal wells, the Shaikan-1 extended well test and production facilities, Sheikh Adi exploration well and the acquisition of further 3D seismic data over the Shaikan and Sheikh Adi licences. The funds raised will also be used for any future increase in Gulf Keystone's interests in the Kurdistan assets.

The 530 km² 3D seismic survey over the Shaikan structure that started in April 2010 is 14% complete and full completion is expected by September 2010. The survey follows on from the 2D seismic programme on Shaikan in 2008 and will be extended to cover the Sheik Adi block in the event of encouraging early results on the exploration well at Sheikh Adi.

A work-over rig has been contracted from Arar Petrol Ve Gaz Arama Uretim Pazarlama and is scheduled to arrive at SH-1B at the beginning of June, to enable short term production testing of several previously tested Jurassic targets (DST zones 2 and 3) using an electric submersible pump. Immediately following on from this, an extended well test will be performed in the initial upper Jurassic discovery zone in Shaikan-1 (DST#1). As previously announced, the current evaluated data indicates the zone to be capable of a flow-rate of approximately 8,000-10,000bopd. Hydrocarbon flows will be received into a temporary production facility which is currently under construction. The first shipment of equipment for this facility is expected to leave from Canada in May 2010 with production expected to commence in August 2010.

SH-2 will be the first appraisal well drilled on the Shaikan structure, and will be used to evaluate the Cretaceous, Jurassic and all zones in the Triassic through to the Permian, in which total oil in place volumes of 1.9-7.4Bbbl (P90 to P10), with a mean value of 4.2Bbbl, were discovered. The well location 9km to the east of SH-1 has been constructed and is awaiting the return of the WDI rig-842 from the Akri-Bijeel Block, expected towards the end of May 2010.

SH-4 will be the second appraisal well drilled in the Shaikan structure and will appraise all zones down to and including the upper Triassic, with an option to go to the Permian. The well location 6km to the west of SH-1 is being constructed and the well will be spudded in Q4 2010.

Contact

Lionel Therond
+44 (0)207 936 5244
Lionel.Therond@fdcap.com

Disclaimer

This is a marketing communication. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Non-US research analysts who have prepared this report are not registered/qualified as research analysts with FINRA, may not be associated persons of the member organisation and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

The appraisal well at SH-3, targeting the shallow Cretaceous zone, will be located near Shaikan-1. It will be drilled using the rig currently operating at SH-1B immediately following completion of the SH-1B work-over, and should spud in Q3 2010.

Construction has been completed on the well location of SA-1, the first exploration well in the Sheikh Adi block. The well will be drilled using the Atlantic Onshore Services rig, Discoverer-1, which is currently expected to arrive during July. SA-1 will explore all zones down to and including the upper Permian and is on schedule to spud in the third quarter of 2010.

The Bijeel-1 exploration well in the MOL operated Akri Bijeel block is very near final TD and is still conducting operations to test and evaluate recent drilling results.

Comment

The Company is now fully financed to proceed with the appraisal of the Shaikan discovery and the exploration of two additional assets, Akri Bijeel and Sheikh Adi. A well is currently being drilled in Akri Bijeel by the operator MOL and has already been announced as a discovery; the well is very close to TD. A well will soon be spudded in Sheikh Adi on a continuation of the Shaikan structure and as such with a very high probability of success. Financing and political risks were at the forefront of investors mind with respect to Gulf Keystone. The financing risk is now mostly behind us and we have seen in the last week or two some very important steps being taken towards a solution of the political standoff.

As a reminder, oil exports from Kurdistan have been stopped since H2 2009 when a compensation mechanism for oil producing companies could not be agreed between the KRG and the Federal Government in Baghdad. Also the Federal Government has so far refused to recognise the exploration licences awarded by Kurdistan to independents without Federal clearance. A partial agreement on remuneration has recently been struck that we believe paves the way for a full agreement and full recognition of licences in the near future. Hence we remain convinced that the political solution is around the corner and that asset prices in Kurdistan will increase sharply thereafter.

Recommendation

The stock is rated Buy with an unchanged price target of 200p.

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.

T: +44(0)20 79365244

E: Lionel.therond@fdcap.com

Investment analyst certification

All research is issued under the regulatory oversight of Fox-Davies Capital Limited. Each Investment Analyst of Fox-Davies Capital Limited whose name appears as the Author of this Investment Research hereby certifies that the recommendations and opinions expressed in the Investment Research accurately reflect the Investment Analyst's personal, independent and objective views about any and all of the Designated Investments or Relevant Issuers discussed herein that are within such Investment Analyst's coverage universe.

Fox-Davies Capital Limited provides professional independent research services and all Analysts are free to determine which assignments they accept, and they are free to decline to publish any research notes if their views change.

Research Disclaimers

Research disclosure as of 25 May 2010

Company Name	Disclosure
Gulf Keystone	7

Investment Research Disclosure Legend:

1. In the past 12 months, Fox-Davies Capital Limited or its affiliates have had corporate finance mandates or managed or co-managed a public offering of the Relevant Issuer's securities or received compensation for Corporate Finance services from the Relevant Issuer.
2. Fox-Davies Capital Limited expects to receive or intends to seek compensation for Corporate Finance services from this company in the next six months.
3. The Investment Analyst or a member of the Investment Analyst's household has a long position in the shares or derivatives of the Relevant Issuer.
4. The Investment Analyst or a member of the Investment Analyst's household has a short position in the shares or derivatives of the Relevant Issuer.
5. As of the month end immediately preceding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Fox-Davies Capital Limited and / or its affiliates beneficially owed 1% or more of any class of common equity securities of the Relevant Issuer.
6. A senior executive or director of Fox-Davies Capital Limited or a member of his or her household is an officer, director or advisor, board member of the Relevant Issuer and / or one of his subsidiaries.
7. Fox-Davies Capital Limited makes a market in the securities of the Relevant Issuer.
8. Fox-Davies Capital Limited acts as corporate broker for the Relevant Issuer.

The Investment Analyst who is responsible for the preparation of this Investment Research is employed by Fox-Davies Capital Limited, a securities broker-dealer.

The Investment Analyst who is responsible for the preparation of this Investment Research has received (or will receive) compensation linked to the general profits of Fox-Davies Capital Limited.

Research recommendations

Fox-Davies Capital uses a five-tier recommendation system for stocks under coverage:

Buy	Recommendation implies that expected total return of at least 15% is expected over 12 months between current and analysts' target price.
Trading Buy	Recommendation implies that the analysts' expected total return over the short term compared against the target price is positive.
Hold	Recommendation implies that expected total return of between 15% and zero is expected over 12 months between current and analysts' target price.
Trading Sell	Recommendation implies that the analysts' expected total return over the short term compared against the target price is negative.
Sell	Recommendation implies that expected total return expected over 12 months between current and analysts' target price is negative.

Fox-Davies Capital Limited (FDC) has been advising and raising funds for the natural resource sector since February 2001. The firm specialises in assisting international resource companies gain access to the UK, European and North American capital markets and has a substantial background in emerging markets particularly in Africa, Asia, Russia and the CIS, raising over US\$250mn in 2007.

FDC enjoys a successful track record in advising and undertaking fundraising transactions for its clients from private equity to IPO and secondary offerings and works with over 350 specialised institutional resource and emerging markets funds worldwide.

FDC provides professional advice based on effective analysis and research to assist its corporate clients in presenting their proposals to the investment community. Our strength lies in the oil & gas and mining sectors where as a company we have advised clients on AIM and ASX.

FDC is authorised and regulated by the Financial Services Authority (FSA) and is a member firm of the London Stock Exchange (LSE).

Fox-Davies Capital Coverage

Fox-Davies corporate client & coverage universe as of 25 May 2010

Company	Ticker	Recommendation	Date	Target Price	Last Price
Oil & Gas					
Ascent Resources	AST LN Equity	BUY	22.04.10	£0.20	£0.04
Borders & Southern Petroleum	BOR LN Equity	BUY	01.02.10	£1.50	£0.66
Circle Oil	COP LN Equity	BUY	20.05.10	£0.90	£0.35
Desire Petroleum	DES LN Equity	HOLD	29.03.10	£1.00	£0.79
Enegi Oil	ENEG LN Equity	SELL	17.05.10	£0.10	£0.31
Falklands Oil & Gas	FOGL LN Equity	BUY	01.02.10	£4.00	£1.77
Gulf Keystone	GKP LN Equity	BUY	25.05.10	£2.00	£0.78
Gulfsands Petroleum	GPX LN Equity	HOLD	04.05.10	£3.00	£2.61
Hardy Oil & Gas	HDY LN Equity	BUY	26.04.10	£3.00	£1.71
Matra Petroleum	MTA LN Equity	BUY	26.01.10	£0.11	£0.05
Max Petroleum	MXP LN Equity	BUY	24.03.10	£0.50	£0.15
Petrokamchatka	PKP CN Equity	HOLD	14.01.10	C\$0.15	C\$0.095
Po Valley	PVE AU Equity	BUY	29.04.10	A\$1.50	A\$0.3
Range Resources	RRL LN Equity	BUY	17.12.09	£0.08	£0.04
Rockhopper Exploration	RKH LN Equity	HOLD	07.05.10	£1.10	£2.22
San Leon Energy	SLE LN Equity	BUY	18.09.09	£0.60	£0.18
Sterling Energy	SEY LN Equity	HOLD	01.02.10	£1.50	£1.19
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	£0.03

Disclaimer - Important Information

This document was produced by Fox Davies Capital, a trading name of Fox Davies Capital Limited ("FDC"), Whitefriars House, 6 Carmelite Street, London EC4Y 0BS. FDC is authorised and regulated by the Financial Services Authority ("the FSA").

This document is not independent and should not be relied on as an impartial or objective assessment of its subject matter. Given the foregoing this document is deemed to be a marketing communication and as such has not been prepared in accordance with legal requirements designed to promote the independence of investment research and FDC is not subject to any prohibition on dealing ahead of the dissemination of this document as it would be if it were independent investment research.

The research analyst is primarily responsible for the content of the research document. He/she certifies that all views expressed accords with his/her personal views about the issuer or securities covered in the research document. The contents are based upon sources of information believed to be reliable but no warranty or representation, expressed or implied, is given as to their accuracy or completeness. Any opinion reflects our judgment at the date of publication and neither FDC, nor any of its affiliated or associated companies, nor any of their directors or employees accepts any responsibility in respect of the information or recommendations contained herein which, moreover, are subject to change without notice.

This is not an offer, nor a solicitation, to buy or sell any investment referred to in this document. The material is general information intended for recipients who understand the risks associated with investment. It does not take account of whether an investment, course of action, or associated risks are suitable for the recipient. FDC or its affiliated or associated companies and their directors or employees may, as principal or as agent, make purchases, sales and offers to purchase or sell in the open market or otherwise and may have positions in or options on any such investment(s). FDC may provide services (including corporate finance advice) where the flow of information is restricted by a Chinese Wall. Accordingly, information may be available to FDC that is not reflected in this document.

This report has been approved in the UK by FDC solely for the purposes of section 21 of the Financial Services and Markets Act 2000. In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(5) (persons who have professional experience in matters relating to investments) or Article 49(2) (a) to (d) (high net worth companies, unincorporated associations, etc) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (as amended) or (ii) are intermediate customers or market counterparties of FDC (all such persons together being referred to as "relevant persons"). This report must not be acted on or relied up on by persons in the UK who are not relevant persons.

FDC Capital Limited may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US Institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country's laws for which FDC does not accept responsibility. By accepting this document you agree that you have read the above disclaimer and to be bound by the foregoing limitations / restrictions.

Please note that unless otherwise stated, the share price used in this publication is taken at the close of business for the previous business day.