



January 18, 2010

52-wk Range: £0.05-1.31  
12-month target: £2.00

Market Cap (M): £473.9  
EV (M): £473.9

## Oil & Gas

## Shaikan 1-B final evaluation

### 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): 483.6  
Current Price (GBP): £0.98

### Event

Dynamic Global Advisors, Ltd. (DGA) has published an update that supersedes the earlier report, Gulf Keystone's Shaikan 1-B Discovery, Kurdistan, Iraq, Report 1 – Preliminary Jurassic Evaluation, issued on October 21, 2009, while the well was still being drilled. Report 1 documented DGA's preliminary evaluation of the Jurassic resources only.

The latest report documents DGA's evaluation of the hydrocarbon-bearing formations logged and tested in the Shaikan 1-B well from 885 to 2,950 meters MD (measured depth), which is the TD for the well. The Shaikan 1-B well discovered a significant amount of oil and gas in the Cretaceous, Jurassic, and Triassic Formations. DGA estimates the oil resources to be between 1.9 BBO (P90) and 7.4 BBO (P10) with a mean value of 4.2 BBO. Gas resources range from 0.4 TCF (P90) to 1.5 TCF (P10) with a mean value of 0.8 TCF. The high side (P1) resources are estimated at 13.0 BBO and 2.7 TCF.

The Shaikan 1-B had to be stopped several hundreds of meters above the planned TD due to an influx of high-pressure gas while drilling. Gulf Keystone plans to test the Lower Kurra Chine Formation as well as the Upper Permian with the Shaikan 2 well in 2010. Seismic data shows even deeper closures below the Lower Kurra Chine Formation that are prospective. Potential resources for these deeper formations are 1.0-5.0 BBO and 6.0-14.0 TCF, which is in addition to the P1 upside estimate of 13.0 BBO and 2.7 TCF.

DGA further confirms that this discovery greatly reduces the geologic risks in the Sheikh Adi, Akri Bijeel, and the Ber Bahr blocks, Gulf Keystone's adjacent opportunities. The Shaikan discovery proves the presence of hydrocarbon source and migration in the area.

### Comment

The previous estimates from DGA were 1.0-5.0 BBO of oil in place (OIP), hence a mean estimate of 3.0 BBO which compares to current estimate of 4.2 BBO. Our own estimates for the equivalent stratigraphic section were 2.5-5.5 BBO with a mean of 4.0 BBO, hence very close to the latest revised DGA number.

However we only had an estimate of about 0.4 BBO for the section below the Upper Triassic (Kurre Chine), based on pre-drill Company's estimate; clearly this number was understated compared to the latest DGA estimates of 1.0-5.0 BBO and 6.0-14.0 TCF. Unfortunately the Shaikan-1B well could not penetrate that section down to the Permian and we have to reclassify those into the prospective resources category, until a proper test is carried out in the forthcoming Shaikan-2 well.

We have revised our estimates of hydrocarbon volumes for the section penetrated by the well in accordance with DGA's assessment of total OIP, i.e. a best estimate of 4.2 BBO and a range of 1.9-7.4 BBO. Our estimate of recovery factors still stands at just below 30%, resulting in a best estimate for mean resources of about 1.2 BBO, unchanged versus our previous number (Exhibit 1).

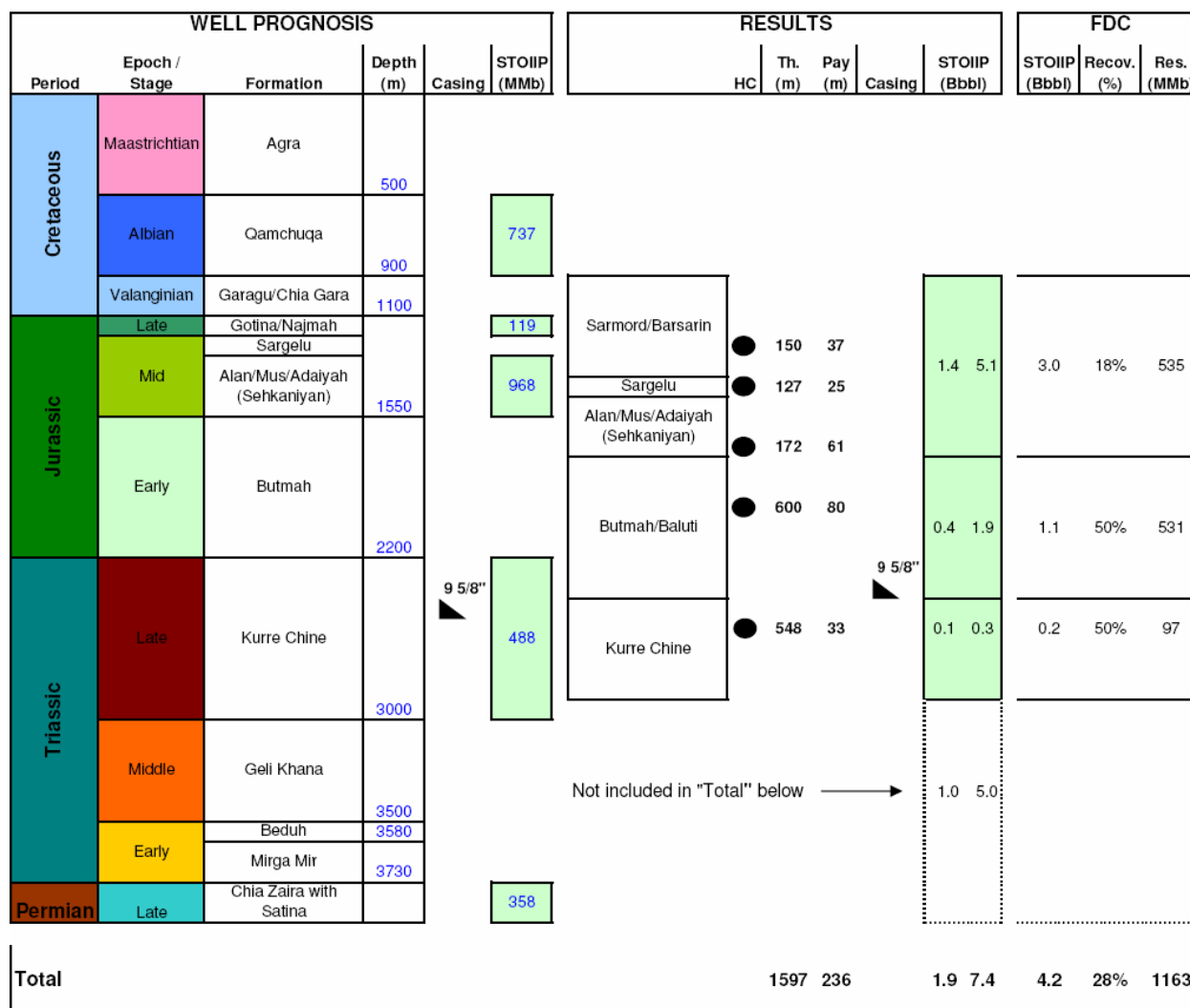
### Contact

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.

Exhibit 1: Shaikan-1B



Source: FDC

We take comfort that there is a recognised upside potential in addition to the latest upgrade in OIP. Prospective resources of 3.0 BBO with a 25% probability of success could add up to 100p in value. Although there is no ready market for gas, the identified gas volumes should provide a cheap source of energy for future field development and eventually could be used domestically. However, there is still a lot of appraisal work to be done in order to firm up reserves and upside. Also we believe the probability of success of 67% we assign currently to Shaikan is fair but not shy and a similar comment applies to the 50% we assign to the three other licences, where we estimate an aggregate 1.8 BBO of prospective resources.

The political issue obviously continues to obscure the excellent exploration record. We believe it will be addressed in the months ahead, once a new government is in place in Bagdad and decides to negotiate a way through the current crisis with the KRG. We would expect the existing contracts to be honoured as a failure to do so would severely damage Iraq's reputation with foreign investors. It is also true that the Company needs to raise the finances necessary to fund further exploration and appraisal activities. The financing round is likely to be carried out sooner rather than later as the Company intends to carry out an active exploration and appraisal programme in the months ahead and needs adequate resources to do so.

Hence although the latest upward revision of OIP and prospective resources are very positive steps and strengthen our positive view on the investment case, we have chosen to leave our valuation unchanged until we get clarification on some of those issues as we believe the current 200p is a fair reflection of the current risked upside.

### Recommendation

We maintain our Buy rating on the stock with an unchanged but ever more solid 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 18 January 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:

<b>Buy</b>	Recommendation implies that expected total return of at least 15% is expected over 12 months between current and analysts' target price.
<b>Trading Buy</b>	Recommendation implies that the analysts' expected total return over the short term compared against the target price is positive.
<b>Hold</b>	Recommendation implies that expected total return of between 15% and zero is expected over 12 months between current and analysts' target price.
<b>Trading Sell</b>	Recommendation implies that the analysts' expected total return over the short term compared against the target price is negative.
<b>Sell</b>	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 18 January 2010

Company	Ticker	Recommendation	Date	Target Price	Last Price
Oil & Gas					
Ascent Resources	AST LN Equity	BUY	06.11.09	£0.20	£0.06
Circle Oil	COP LN Equity	BUY	15.01.10	£0.72	£0.35
Enegi Oil	ENEG LN Equity	HOLD	17.12.09	£0.10	£0.10
Gulf Keystone	GKP LN Equity	BUY	18.01.09	£2.00	£0.98
Matra Petroleum	MTA LN Equity	BUY	16.10.09	£0.11	£0.05
Max Petroleum	MXP LN Equity	BUY	14.01.10	£0.50	£0.20
Petrokamchatka	PKP LN Equity	HOLD	14.01.10	C\$0.15	C\$0.135
Po Valley	PVE AU Equity	BUY	16.10.09	A\$3.00	A\$1.66
Range Resources	RRL LN Equity	BUY	17.12.09	£0.08	£0.04
San Leon Energy	SLE LN Equity	NA	NA	NA	£0.21
Tower Resources	TRP LN Equity	HOLD	17.06.09	£0.03	£0.04
Victoria Oil & Gas	VOG LN Equity	BUY	06.01.09	£0.08	£0.05

## 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.