

Gulf Keystone Petroleum Limited
13 April 2007

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Recommended acquisition of Gulf Keystone Petroleum Limited by RAK Petroleum PCL

Gulf Keystone (AIM: GKP) is an independent oil and gas exploration company operating in the Republic of Algeria.

Summary

- The board of directors of Gulf Keystone, RAK Petroleum and RAK Bermuda, a wholly owned subsidiary of RAK Petroleum, announce the terms of a recommended acquisition of Gulf Keystone by RAK Petroleum to be effected by way of an amalgamation of Gulf Keystone with RAK Bermuda.
- Under the terms of the proposed Amalgamation Gulf Keystone Shareholders will receive:

For each Gulf Keystone Share

74 pence in cash

- At the Amalgamation Consideration of 74 pence per Gulf Keystone Share, the value of the issued and to be issued Gulf Keystone Shares (including Gulf Keystone shares that may be issued under the Gulf Keystone Executive Bonus Scheme) to be cancelled pursuant to the Amalgamation, together with the Cash Cancellation Consideration for other Gulf Keystone Options, is approximately £208 million.

Background to the Amalgamation

- Notwithstanding the success of Gulf Keystone in building its portfolio of assets within Algeria, the Directors believe that for a company of Gulf Keystone's size and resources, the generation of future cash flow and the realisation of the full potential of the Company's portfolio in a timely and predictable manner will continue to be challenging given the operational environment in which it is working.
- The Amalgamation Consideration represents a premium of approximately:
 - 17.5 per cent. to the average Closing Price of approximately 63.0 pence per Gulf Keystone Share for the one month period ended on 5 February 2007, being the last dealing day prior to the date of Gulf Keystone's announcement that it was in discussions which may or may not lead to an offer being made for the whole of the issued and to be issued share capital of the Company;
 - 20.9 per cent. to the average Closing Price of approximately 61.2 pence per Gulf Keystone Share for the three month period ended on 5 February 2007; and
 - 19.4 per cent. to the Placing Price of 62 pence per Gulf Keystone Share on 17 August 2006.

Overview of RAK Petroleum

- RAK Petroleum is an unlisted public company incorporated in the Ras Al Khaimah Free Zone, and was established in late 2005 funded by an initial capital of approximately AED 3 billion raised by private placement. RAK Petroleum has a further unissued authorised capital

allocation of AED 2 billion to be utilised in future fundraisings. The vast majority of RAK Petroleum's issued share capital is held in the United Arab Emirates and Saudi Arabia.

- RAK Petroleum was founded with the objective of initiating, participating, investing and developing energy related projects, assets, ventures and businesses in the highly prospective Gulf Cooperation Council markets and beyond. RAK Petroleum is strategically focused on developing into an international, integrated oil and gas company.

The Amalgamation

- The Amalgamation is subject to a number of conditions, including the approval by a simple majority of votes cast by Gulf Keystone Shareholders voting in person or by proxy at a general meeting and Algerian regulatory approvals.
- The effect of the Amalgamation will be that, conditional upon satisfaction or waiver of the Conditions, Gulf Keystone and RAK Bermuda will amalgamate and on the Effective Date the Gulf Keystone Shares will be cancelled in exchange for the payment of the Amalgamation Consideration to Gulf Keystone Shareholders.
- Full details of the Amalgamation and the conditions precedent to completion of the Amalgamation are set out in Appendix I and Appendix II to this Announcement.

Irrevocable undertakings

- RAK Petroleum and RAK Bermuda have received irrevocable undertakings to vote in favour of the Amalgamation Resolution from the Directors, Gulf Keystone Petroleum Co. LLC, GIBCA, Ali Al-Qabandi, and Ibrahim Al-Khaldi in respect of 90,973,366 Gulf Keystone Shares (representing approximately 33 per cent. of the Gulf Keystone issued share capital). All of the irrevocable undertakings will cease to be binding if a person other than RAK Petroleum, or a subsidiary or parent of RAK Petroleum, formally announces via a Regulatory Information Service a Competing Proposal or the Company has served confirmation in writing to RAK Petroleum of a Superior Proposal to acquire all of the Gulf Keystone Shares, other than any Gulf Keystone Shares already owned by the person making such offer, provided that the value of the consideration under such transaction represents, in the reasonable opinion of the Independent Directors, an improvement of five per cent. or greater to the value of the Amalgamation Consideration and, within seven days of such announcement, RAK Petroleum does not formally announce a revised offer to acquire all of the Gulf Keystone Shares which is, in the reasonable opinion of the Independent Directors, on no less favourable terms.

Recommendation of the Independent Directors

- Hoare Govett and Tristone Capital have acted as financial advisers to the Company in connection with the Amalgamation and Tristone Capital has provided the Independent Directors with an independent opinion in relation to the fairness of the value, from a financial point of view, of the Amalgamation Consideration to be received by the Gulf Keystone Shareholders (other than those Gulf Keystone Shareholders holding Excluded Shares). In providing their independent advice, Hoare Govett and Tristone Capital have taken into account the commercial assessments of the Independent Directors. Based upon such advice and consideration, the Independent Directors have unanimously resolved to recommend that the Amalgamation Agreement be approved by the Gulf Keystone Shareholders and that the Amalgamation Consideration be confirmed as representing fair value for the Gulf Keystone Shares.

Todd Kozel, Chief Executive of Gulf Keystone Petroleum Limited said:

“The Gulf Keystone Board is pleased to support this transaction as we believe it delivers fair value to our shareholders for the portfolio of assets that the Company has built up over the last six years and that RAK Petroleum PCL offers enhanced opportunities for our employees and benefits to Algeria given RAK Petroleum PCL’s ability to more rapidly develop the country’s strategic resources.”

Mr Abdul-Aziz Al Ghurair, Chairman of RAK Petroleum said:

“We are delighted to have reached agreement on the acquisition of Gulf Keystone. When combined with our recently announced acquisition of the majority of Indago Petroleum’s assets, we believe this creates a strong platform for future growth within the strategic focus areas of RAK Petroleum.”

This summary should be read in conjunction with the full text of the announcement. The Amalgamation will be subject to the terms and conditions set out in Appendix I to this Announcement. Appendix III contains the definitions of certain terms used in this Announcement.

The Circular including a letter from the Chairman of Gulf Keystone and a notice convening a Special General Meeting of the Company to approve the terms of the Amalgamation Agreement will be posted to Gulf Keystone Shareholders today.

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Tristone Capital Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Gulf Keystone Petroleum Limited and for no-one else in connection with the transaction and will not be responsible to anyone other than Gulf Keystone Petroleum Limited for providing the protections afforded to clients of Tristone Capital Limited or any advice in relation to the transaction nor any other matter referred to in this Announcement.

This Announcement has been prepared for the purposes of complying with English and Bermuda law and information disclosed in them may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside England or Bermuda.

The distribution of this Announcement in jurisdictions other than the United Kingdom and Bermuda may be restricted by law and therefore persons into whose possession this Announcement comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of securities laws of any such jurisdictions.

The Amalgamation is subject to Bermuda law and is not subject to the rules of the City Code on Takeovers and Mergers and this Announcement has not been prepared for the purpose of complying with the City Code on Takeovers and Mergers.

In this announcement, unless otherwise stated, US dollar and AED amounts have been converted into Sterling using the closing mid-point spot exchange rates set out in the Financial Times on 12 April 2007, being the latest practicable date prior to the publication of this announcement, as follows: US\$1.9789 : £1.00 and AED 7.2661 : £1.00.

Recommended acquisition of Gulf Keystone Petroleum Limited by RAK Petroleum PCL

13 April 2007

1. Introduction

The boards of directors of Gulf Keystone and RAK Petroleum today announce the terms of a recommended acquisition of Gulf Keystone by RAK Petroleum to be effected by way of an amalgamation (pursuant to the Companies Act) of Gulf Keystone with RAK Bermuda, a wholly-owned subsidiary of RAK Petroleum. Accordingly, Gulf Keystone, RAK Petroleum and RAK Bermuda have entered into the Amalgamation Agreement and the Implementation Agreement, which are the documents that govern the terms of the Amalgamation. The effect of the Amalgamation will be that Gulf Keystone will continue to exist in the form of the Resulting Company (a wholly owned subsidiary of RAK Petroleum) and, in accordance with the Companies Act, the contractual status of Gulf Keystone will remain unchanged with the Resulting Company succeeding to all property, rights, powers and privileges and becoming liable for all debts, liabilities and obligations of both RAK Bermuda and Gulf Keystone existing as at the Effective Date.

2. Summary of the terms of the Amalgamation

Completion of the Amalgamation is conditional upon satisfaction or waiver of the Conditions, including approval of the Amalgamation Resolution by the Gulf Keystone Shareholders. On Completion, all Gulf Keystone Shares will be cancelled (including those of Gulf Keystone Shareholders at the Amalgamation Record Date who did not vote in favour of, or abstained from voting on, the Amalgamation Resolution) and each Gulf Keystone Shareholder (other than those Gulf

RAK Petroleum, as sole shareholder of RAK Bermuda, has approved the Amalgamation Agreement and the Amalgamation.

4. Background to the Amalgamation and reasons for the recommendation of the Independent Directors

Gulf Keystone was established to pursue the exploration, development and production of oil and gas in the Republic of Algeria and elsewhere in North Africa and the Middle East. The focus has been on exploration in proven hydrocarbon-bearing basins and on the appraisal and exploitation of existing undeveloped discoveries.

Since the Company began operating in Algeria, the Company has established a substantial onshore acreage position in Algeria with approximately 27,400 sq km under licence. These interests are held under the PSCs with the Company's partner, SONATRACH, the Algerian national oil enterprise. Gulf Keystone was awarded these licences as sole foreign partner to SONATRACH and hence, under the terms of the PSCs, the Company has been responsible for the entire cost of the exploration and appraisal activities undertaken to date on behalf of itself and SONATRACH.

Gulf Keystone currently holds interests in nine blocks: four in the oil prone Constantine Basin in North Eastern Algeria (Blocks 126a, 108/128b and 129), and five in the gas prone Allal Dome area of Central Algeria, constituting the Hassi Ba Hamou Concession ("HBH").

As part of Gulf Keystone's strategy to introduce strategic partners into its portfolio, Gulf Keystone farmed out 49 per cent. of its interest in HBH to BG North Sea Holdings Limited ("BG"), a subsidiary of BG Group Plc, in August 2006. This farm out was completed in January 2007. The introduction of BG brought a partner with highly complementary technical and commercial expertise and facilitated, in the Directors' opinion, a material expansion of the near term exploration and appraisal work programme.

Gulf Keystone's exploration and appraisal activities have so far been focused principally on Block 126a. This block contains the two oil discoveries, GKN and GKS, for which field development plans have been prepared, and one oil discovery on GRJ, a separate structure on Block 126a, which still remains to be tested. On the basis of an independent reserves review carried out in May 2006, RPS Energy estimated gross remaining Proved plus Probable oil reserves for the GKN and GKS discoveries of 35.6 MMbbls and Proved oil reserves of 17.7 MMbbls. Under the terms of the Block 126a PSC, Gulf Keystone's net entitlement to oil reserves attributable to its 60 per cent. equity interest in the block will depend on the overall profitability of the development.

The Directors currently expect that the GKN and GKS discoveries will be developed as a single integrated project in a phased manner. Plans for the Phase 1 development (which are dependent on a formal declaration of commerciality in respect of the GKN and GKS fields by the relevant Algerian Authorities), which will target 11.5 MMbbls of oil, have been agreed with SONATRACH and development start-up is planned for the first half of 2007. Plans and timing of the second and third phases of development of GKS and GKN will depend on the performance of, and data gathered from, Phase 1. The Company is still awaiting formal ratification of GKN and GKS commerciality by the Algerian Authorities before it can commence the Phase 1 development.

With regard to the GRJ discovery, data from discovery well GRJ-2 indicates that there are three separate potential reservoir intervals which may have the potential to contain hydrocarbons. Testing of the well was deferred pending formulation of an optimal test programme and the granting of a licence extension by the Algerian Authorities to facilitate completion of the work. A licence extension has now been granted until 29 July 2007 and testing is expected to commence in Q2 2007.

The other Northern Area blocks, in which Gulf Keystone retains a 75 per cent. working interest, being Blocks 129 and 108/128b, are in the exploration and appraisal licence phase and contain a number of exploration leads and prospects for oil and gas and certain discoveries previously made by SONATRACH that have hitherto not been appraised or comprehensively tested. The remaining work commitments covering Blocks 108/128b include the drilling of one appraisal well on the Ras Toumb oil field and the drilling of one exploration well. The remaining work commitment on Block 129 consists, principally, of the drilling of one exploration well. The 2007 work programme on these

blocks includes geological and geophysical studies, the acquisition of 2D seismic data and the re-entry and testing of the HEK oil discovery on Block 129, which is being carried out in conjunction with the testing of well GRJ-2.

Under these planned operations, the first well to be tested will be HEK-3, which was drilled by SONATRACH in 2004, in the southern part of Block 129. Immediately following this test, the operations are planned to move to well GRJ-2 (c. 20 km to the west) which was drilled by Gulf Keystone in 2005. Well GRJ-2 was not tested at the time of drilling due to the lack of suitable test equipment in the country.

Operations are expected to commence in April 2007 and last approximately 4-5 weeks. The aims of the two well tests are: (i) to obtain stable flow rates from the wells and potentially enhance these rates by acid fracturing, a technique that has not previously been undertaken in Algeria; (ii) to obtain key crude properties from the wells including GOR / API / viscosity / PVT quality samples; (iii) to obtain information on the reservoir (including deliverability, boundaries and potential volumes); and (iv) to be in a better position to determine a forward plan in both areas.

The 18,380 sq km HBH concession contains the HBH gas discovery and certain leads and prospects. RPS Energy, as part of their May 2006 review, estimated that the HBH field contains contingent gas reserves of 995 bcf with a low estimate of 406 bcf and a high estimate of 1,690 bcf (these are classified as Contingent Resources, pending future commercialisation of the gas). An extensive work programme of six exploration and appraisal wells, together with the acquisition of 2,000 km of 2D seismic data and 500 sq km of 3D seismic data, is planned to be completed prior to conclusion of the initial exploration phase of the licence in September 2008. The seismic acquisition programme is underway and is currently expected to be completed during Q4 2007.

Notwithstanding the success of Gulf Keystone in building its portfolio of assets within Algeria, the Directors believe that for a company of Gulf Keystone's size and resources, the generation of future cash flow and the realisation of the full potential of the Company's portfolio in a timely and predictable manner will continue to be challenging, given the regulatory and operational environment in which it is working.

In particular, progress towards securing the necessary declarations and consents to achieve first oil production from Block 126a has been significantly slower than expected and the Directors believe that active portfolio management will continue to be a challenge for the Company. The Directors believe that Gulf Keystone cannot necessarily expect to be able to pursue the further risk spreading activities that would be an important part of the strategy of a company of its size. This, together with the relatively short exploration licence periods that govern the Company's present PSCs, leads the Directors to conclude that the timely realisation of the full value of Gulf Keystone's portfolio would be best achieved by a company of greater scale and wider financial and operational resources.

Given the challenges facing the Company and the conclusions drawn by the Independent Directors, as described below, the unsolicited approach by RAK Petroleum to acquire the whole of the issued and to be issued share capital of Gulf Keystone led to detailed discussions and negotiations resulting in the proposed acquisition by way of Amalgamation.

At the first Gulf Keystone Board meeting at which the approach of RAK Petroleum was discussed, held on 15 December 2006, Sheikh Sultan Bin Saqr Al Qassimi declared that he had beneficial and non-beneficial holdings amounting to approximately 2.0 per cent. of the issued share capital of RAK Petroleum. As a result of Sheikh Sultan Bin Saqr Al Qassimi's interests in RAK Petroleum, an independent committee of the Board was established, which consisted of all the Directors except Sheikh Sultan Bin Saqr Al Qassimi, to consider the approach by RAK Petroleum. **Accordingly, Sheikh Sultan Bin Saqr Al Qassimi has not taken part in any of the consultations or discussions leading up to the recommendation of the Independent Directors to vote in favour of the Amalgamation Resolution or the formation of the opinion of the Independent Directors that the Amalgamation Consideration constitutes fair value for the Gulf Keystone Shares.**

As discussions with RAK Petroleum developed, the Independent Directors formally engaged, on behalf of the Company, its existing financial advisers, Hoare Govett and Tristone Capital, to advise with respect to a possible transaction with RAK Petroleum and to evaluate the merits of RAK Petroleum's

proposal. Following several weeks of further discussions and detailed negotiations of, *inter alia*, the terms of the Amalgamation Agreement and the Implementation Agreement, the Independent Directors met on 16 March and again on 11 April 2007 to formally consider the terms which had been negotiated with RAK Petroleum.

In considering the approach and subsequent offer by RAK Petroleum to acquire Gulf Keystone, the Independent Directors have taken account of a number of positive and negative factors, including, without limitation, the factors listed above and the following:

- the slower than expected rate of progress towards achieving production from Gulf Keystone's existing oil field interests in Algeria, and thus receipt of cash inflows, which impacts particularly severely on a company with no other regular source of revenues;
- the exploration and appraisal nature of the assets of Gulf Keystone, which contain a significant level of technical uncertainty;
- the fact that no other party seeking to acquire the Company has made any approach beyond making preliminary enquiries since the announcement on 6 February 2007 of RAK Petroleum's unsolicited approach;
- the financial advice of Tristone Capital and Hoare Govett in connection with the Amalgamation and the independent opinion of Tristone Capital in relation to the fairness of the value, from a financial point of view, of the Amalgamation Consideration to be received by the Gulf Keystone Shareholders. In providing advice to the Independent Directors, Hoare Govett and Tristone Capital have taken into account the commercial assessments of the Independent Directors;
- the level of the Amalgamation Consideration in comparison to previous Closing Prices. The Amalgamation Consideration represents a premium of approximately 17.5 per cent. to the average Closing Price of approximately 63.0 pence per Gulf Keystone Share for the one month period ended on 5 February 2007, being the last dealing day prior to the date of Gulf Keystone's announcement that it was in discussions which may or may not lead to an offer being made for the whole of the issued and to be issued share capital of the Company; approximately 20.9 per cent. to the average Closing Price of approximately 61.2 pence per Gulf Keystone Share for the three month period ended on 5 February 2007; and approximately 19.4 per cent. to the Placing Price of 62.0 pence per Gulf Keystone Share on 17 August 2006;
- the fact that the Amalgamation Consideration is all in cash and held in the Escrow Account providing certainty of value to the Gulf Keystone Shareholders;
- the fact that as at 10 April 2007 Gulf Keystone held total cash balances of US\$102.0 million, of which US\$21.6 million is held as guarantees to SONATRACH for Gulf Keystone's committed exploration and evaluation programmes stipulated within its contracts. As at the same date Gulf Keystone had no borrowings;
- the terms of the Amalgamation Agreement and the Implementation Agreement which were negotiated on an arms-length basis and with the advice of Gulf Keystone's financial advisers;
- the fact that the Implementation Agreement permits Gulf Keystone to consider any unsolicited Competing Proposal prior to the SGM, to communicate or enter into discussions and/or negotiations with any third party in relation to any such unsolicited Competing Proposal, to liaise with and provide necessary assistance to such third party in relation to the production of documentation relating to any such Competing Proposal, and (subject to RAK Petroleum's right to match) to communicate with or make recommendations to the Gulf Keystone Shareholders in respect of such a Competing Proposal;

- the fact that, on Completion of the Amalgamation, Gulf Keystone Shareholders would not benefit from any potential future increase in the Company's value beyond the value of the Amalgamation Consideration;
- the Conditions and RAK Petroleum's right to terminate the Amalgamation Agreement and the Implementation Agreement in specified circumstances (summarised in Appendix I to this Announcement);
- the restrictions that the Implementation Agreement would impose on Gulf Keystone's ability to operate its business until completion or termination of the Amalgamation (summarised in Appendix I to this Announcement); and
- the possibility of disruption to Gulf Keystone's operations and personnel following the announcement of Gulf Keystone's potential acquisition and the potentially adverse effect on Gulf Keystone if the Amalgamation were not to complete.

The discussion of the factors considered by the Independent Directors as set out above is not, and is not intended to be, exhaustive, but sets forth the material factors considered. In light of the variety of factors considered in connection with their evaluation of the Amalgamation and the complexity of these matters, the Independent Directors did not find it practicable to, and did not quantify or otherwise attempt to assign relative weights to the various factors considered in reaching their determination, nor did they undertake to make any specific determination as to whether any particular factor (or any aspect of any particular factor) was favourable or unfavourable to their final determination. Rather, the Independent Directors reached their conclusions and recommendation based on their evaluation of the entirety of the information presented, considered and analysed. In considering the factors set out above, individual Independent Directors may have ascribed differing importance to different factors.

Against this background, the Independent Directors have approved the terms of the Amalgamation and unanimously recommend that the Gulf Keystone Shareholders vote in favour of the Amalgamation Resolution.

5. Overview of RAK Petroleum and RAK Bermuda

RAK Petroleum

RAK Petroleum is an unlisted public company incorporated in the Ras Al Khaimah Free Zone, and was established in late 2005, funded by an initial capital of approximately AED 3 billion raised by private placement. RAK Petroleum has a further unissued authorised capital allocation of AED 2 billion to be utilised in future fundraisings. The vast majority of RAK Petroleum's issued share capital is held in the United Arab Emirates and Saudi Arabia.

RAK Petroleum was founded with the objective of initiating, participating, investing and developing energy related projects, assets, ventures and businesses in the highly prospective Gulf Cooperation Council markets and beyond. RAK Petroleum is strategically focused on developing into an international, integrated oil and gas company.

The RAK Petroleum board of directors is chaired by Mr Abdul Aziz Al Ghurair who is also the Chairman of Mashreq Bank psc and was recently elected Speaker of the House of the 14th Legislative Chapter of the Federal National Council in the United Arab Emirates.

RAK Bermuda

RAK Bermuda is a wholly owned subsidiary of RAK Petroleum that was incorporated as a Bermuda exempted company on 8 February 2007 for the purpose of implementing the Amalgamation.

6. Irrevocable undertakings to vote in favour of the Amalgamation Resolution

RAK Petroleum and RAK Bermuda have received irrevocable undertakings to vote in favour of the Amalgamation Resolution from the Independent Directors in respect of 20,841,144 Gulf Keystone Shares (representing approximately 8 per cent. of the Gulf Keystone Shares in issue).

In addition, all of the Directors, Ali Al-Qabandi (Gulf Keystone's Business Development Officer) and Ibrahim Al-Khaldi (Gulf Keystone's Chief Operating Officer) who hold Gulf Keystone Options have irrevocably undertaken to RAK Petroleum and RAK Bermuda to elect that, where applicable, Gulf Keystone Options held by them under the Gulf Keystone Share Option Plan will be cancelled prior to the Effective Date in return for the Cash Cancellation Consideration and where applicable, they will exercise their outstanding rights under the Gulf Keystone Executive Bonus Scheme and participate in and vote in favour of the Amalgamation, conditional upon completion of the Amalgamation and the documents required by law relating to the Amalgamation being filed with the Bermuda Registrar of Companies.

In addition, irrevocable undertakings to vote in favour of the Amalgamation Resolution have been received by RAK Petroleum and RAK Bermuda from:

- Gulf Keystone Petroleum¹ in respect of 40,000,000 Gulf Keystone Shares (representing approximately 14 per cent. of the Gulf Keystone Shares in issue);
- GIBCA² in respect of 20,000,000 Gulf Keystone Shares (representing approximately 7 per cent. of the Gulf Keystone Shares in issue);
- Ali Al-Qabandi in respect of 5,000,000 Gulf Keystone Shares (representing approximately 2 per cent. of the Gulf Keystone Shares in issue); and
- Ibrahim Al-Khaldi in respect of 5,152,222 Gulf Keystone Shares (representing approximately 2 per cent. of the Gulf Keystone Shares in issue)

1 Sheikh Sultan Bin Saqr Al Qassimi is a director; Todd Kozel, Ali Al-Qabandi and Ibrahim Al-Khaldi are directors and shareholders; and GIBCA is a shareholder of Gulf Keystone Petroleum;

2 Sheikh Sultan Bin Saqr Al Qassimi is a shareholder in, and a director of, GIBCA.

Accordingly, RAK Petroleum and RAK Bermuda have received irrevocable undertakings to vote in favour of the Amalgamation Resolution in respect of an aggregate of 90,973,366 Gulf Keystone Shares (representing approximately 33 per cent. of the Gulf Keystone Shares in issue).

All of the irrevocable undertakings will cease to be binding if a person other than RAK Petroleum, or a subsidiary or parent of RAK Petroleum, formally announces via a Regulatory Information Service a Competing Proposal or the Company has served confirmation in writing to RAK Petroleum of a Superior Proposal to acquire all of the Gulf Keystone Shares, other than any Gulf Keystone Shares already owned by the person making such offer, provided that the value of the consideration under such transaction represents, in the reasonable opinion of the Directors, an improvement of five per cent. or greater to the value of the Amalgamation Consideration and, within seven days of such announcement, RAK Petroleum does not formally announce a revised offer to acquire all of the Gulf Keystone Shares which is, in the reasonable opinion of the Independent Directors, on no less favourable terms.

7. Conditions precedent to Completion of the Amalgamation

The obligations of the Company, RAK Petroleum and RAK Bermuda to complete the Amalgamation are subject to the satisfaction of certain Conditions set out in the Implementation Agreement and incorporated into the Amalgamation Agreement. These Conditions include, *inter alia*:

- the approval of the Amalgamation Resolution by a simple majority of votes cast by the Gulf Keystone Shareholders voting in person or by proxy at the SGM, delivery to the Bermuda Registrar of Companies by or on behalf of Gulf Keystone and RAK Bermuda of all documentation and consents required by the Bermuda Registrar of Companies pursuant to the Companies Act to implement the Amalgamation and issue by the Bermuda Registrar of Companies of the Certificate of Amalgamation;
- Gulf Keystone having received and provided to RAK Petroleum:

- (i) the Minister's Confirmation; or
- (ii) a written confirmation from the Minister meeting all requirements of a Minister's Confirmation save only for omitting the express statement that the "Amalgamation is governed by Article 4 of the Decree",

or the 3 month period, commencing on the date of receipt by the Minister of the Minister Letter, for objection by the Minister to change of control under Article 4 of the Decree having expired without objection being made;

- Gulf Keystone having received and provided to RAK Petroleum SONATRACH's Confirmation;
- the GKN and GKS fields having been declared commercially exploitable in accordance with the Final Discovery Report by a valid and unanimous decision of the management committee (Conseil de Gestion) in accordance with the relevant provision of the Block 126a PSC and within the time limits set forth in the Block 126a PSC, as evidenced by the unanimously signed minutes of the relevant meeting of the management committee;
- RAK Petroleum not having terminated the Implementation Agreement due to an Algerian Material Adverse Change having occurred between the date of the Announcement and the passing of the Amalgamation Resolution;
- RAK Petroleum not having terminated the Implementation Agreement due to the aggregate number of Gulf Keystone Shares held by all Dissenting Shareholders amounting to 10 per cent. or more of the total issued share capital of Gulf Keystone prior to the SGM; and
- RAK Petroleum not having terminated the Implementation Agreement due to a breach of one or more of the conduct of business obligations undertaken by Gulf Keystone (as set out in Appendix II to this Announcement) by a member of the Gulf Keystone Group.

If such Conditions are not fulfilled or, where applicable, waived by RAK Petroleum in accordance with the terms of the Implementation Agreement on or before the Long Stop Date (or such later date as RAK Petroleum, RAK Bermuda and Gulf Keystone may agree), the Implementation Agreement and Amalgamation Agreement will terminate and the Amalgamation will not occur. If the Amalgamation does not complete, it is the Directors' current intention that Gulf Keystone will continue to trade and maintain its quotation on AIM.

8. Right of RAK Petroleum to match a Superior Proposal

Under the terms of the Implementation Agreement, RAK Petroleum has a right to match a Superior Proposal. Further details of the right to match are set out in Appendix I to this Announcement.

9. Financing of the Amalgamation Consideration and source of funds

The total cost required under the Amalgamation to effectively cancel all of the issued and to be issued share capital of Gulf Keystone, together with the Cash Cancellation Consideration, will be approximately £208 million, assuming no Gulf Keystone Shareholders successfully exercise their rights under section 106(6) of the Companies Act. RAK Petroleum will finance the Total Consideration from cash resources and a loan facility currently available to it for the purpose of financing this transaction. These funds have been and are deposited in an Escrow Account to satisfy the Total Consideration. The escrow arrangements are summarised in Appendix I to this Announcement.

10. Break Fee

Under the terms of the Implementation Agreement, the Company will pay to RAK Petroleum a termination fee of US\$4 million if: (a) a Competing Proposal (or any amendment, variation or revision of such Competing Proposal) is announced prior to the termination of the Implementation Agreement,

and such Competing Proposal or any other Competing Proposal becomes unconditional in all respects or is otherwise completed within six months of the termination of the Implementation Agreement; or (b) the Independent Directors withdraw or adversely modify their recommendation of the Amalgamation and the Amalgamation subsequently fails to complete, lapses, or is withdrawn.

11. London Stock Exchange delisting

Following the Amalgamation, Gulf Keystone Shares will cease to exist and, accordingly, Gulf Keystone has today applied to the London Stock Exchange for the cancellation of trading of Gulf Keystone Shares on AIM on the Effective Date.

On the basis that the Amalgamation, if approved by the passing of the Amalgamation Resolution, binds all Gulf Keystone Shareholders, Gulf Keystone has received a derogation from the London Stock Exchange from the requirement under Rule 41 of the AIM Rules to have the cancellation of trading of Gulf Keystone Shares on AIM approved by 75 per cent. of Gulf Keystone Shareholders voting in general meeting.

If the Amalgamation does not complete, it is the Directors' current intention that Gulf Keystone will continue to trade and maintain its quotation on AIM.

12. Dissenters' rights under section 106(6) of the Companies Act

Any Gulf Keystone Shareholder who is not satisfied that he has been offered fair value for his Gulf Keystone Shares and who does not vote in favour of the Amalgamation Resolution is entitled under the Companies Act, prior to 15 May 2007, to apply to the Court to appraise the fair value of his Gulf Keystone Shares. Within one month of the Court appraising the value of such Gulf Keystone Shares, if the value of the Amalgamation Consideration is less than that appraised by the Court, the Resulting Company must pay to such Dissenting Shareholder the value appraised by the Court.

Gulf Keystone Shareholders should note that, if they exercise their rights of dissent under section 106(6) of the Companies Act, and if the Amalgamation is effected, their Gulf Keystone Shares will be cancelled and they will be bound by the Amalgamation. Furthermore, pending appraisal by the Court of the fair value of their Gulf Keystone Shares, Dissenters will not receive any Amalgamation Consideration in respect of the cancellation of their Gulf Keystone Shares until such time as the Court has appraised the value of their Gulf Keystone Shares.

Gulf Keystone Shareholders should note that if they do not hold their Gulf Keystone Shares in their own name, for example, if a nominee holds their Gulf Keystone Shares on their behalf, they are not entitled to exercise their rights of dissent under section 106(6) of the Companies Act directly. Any Gulf Keystone Shareholders who do not hold Gulf Keystone Shares in their own name and who wish to pursue a dissent action under section 106(6) of the Companies Act, should speak with the nominee who holds the legal title to their Gulf Keystone Shares.

Gulf Keystone Shareholders who hold their interest in Gulf Keystone Shares through Depositary Interests and who wish to dissent must first convert their holding in Gulf Keystone Shares into certificated form. In order to convert their holding, Gulf Keystone Shareholders must request their broker to withdraw their position from CREST. The withdrawal process will be achieved by the input of a stock withdrawal message in CREST. A stock withdrawal will be deemed to constitute an instruction to the Depositary to cancel the Depositary Interests and effect a transfer of the Gulf Keystone Shares to the person specified in the instruction.

Failure by a Dissenting Shareholder to adhere strictly to the requirements of section 106(6) of the Companies Act may result in the loss of such Dissenting Shareholder's rights under that section.

13. Application of the City Code

The Amalgamation does not fall within the auspices of the City Code and is outside the jurisdiction of the Panel as Gulf Keystone is a company incorporated in Bermuda and controlled outside of the UK and hence is not a company to which the City Code applies. Accordingly, Gulf Keystone Shareholders should note that they do not have the benefit of the protections of the City Code.

14. Recommendation of the Independent Directors

In making their recommendation, the Independent Directors have considered a number of factors, including the circumstances regarding the background to and reasons for the recommendation of the Independent Directors, together with the advice of Hoare Govett and Tristone Capital.

Hoare Govett and Tristone Capital have acted as financial advisers to the Company in connection with the Amalgamation and Tristone Capital has provided the Independent Directors with an independent opinion in relation to the fairness of the value, from a financial point of view, of the Amalgamation Consideration to be received by the Gulf Keystone Shareholders (other than those Gulf Keystone Shareholders holding Excluded Shares). In providing their independent advice, Hoare Govett and Tristone Capital have taken into account the commercial assessments of the Independent Directors.

Based upon such advice and consideration, the Independent Directors have unanimously resolved to recommend that the Amalgamation Agreement be approved by the Gulf Keystone Shareholders and that the Amalgamation Consideration be confirmed as representing fair value for the Gulf Keystone Shares.

Accordingly, the Independent Directors unanimously recommend that all Gulf Keystone Shareholders vote in favour of the Amalgamation Resolution at the SGM, as they have irrevocably undertaken to do in respect of their own holdings of Gulf Keystone Shares representing approximately 8 per cent. of Gulf Keystone's existing issued share capital.

At the first Gulf Keystone Board meeting at which the approach of RAK Petroleum was discussed, held on 15 December 2006, Sheikh Sultan Bin Saqr Al Qassimi declared that he had beneficial and non-beneficial holdings amounting to approximately 2.0 per cent. of the issued share capital of RAK Petroleum. As a result of Sheikh Sultan Bin Saqr Al Qassimi's interests in RAK Petroleum, an independent committee of the Board was established, which consisted of all the Directors except Sheikh Sultan Bin Saqr Al Qassimi, to consider the approach by RAK Petroleum. Accordingly, Sheikh Sultan Bin Saqr Al Qassimi has not taken part in any decision relating to the recommendation of the Independent Directors to vote in favour of the Amalgamation Resolution or the formation of the opinion of the Independent Directors as to the fair value of Gulf Keystone Shares as set out above. Sheikh Sultan Bin Saqr Al Qassimi is a shareholder in, and director of, GIBCA which has provided an irrevocable undertaking to vote in favour of the Amalgamation Resolution in respect of 20,000,000 Gulf Keystone Shares (representing approximately 7 per cent. of the Gulf Keystone Shares in issue).

Sheikh Sultan Bin Saqr Al Qassimi is also a director of Gulf Keystone Petroleum (in which Todd Kozel is a shareholder) which has also provided an irrevocable undertaking to vote in favour of the Amalgamation Resolution in respect of 40,000,000 Gulf Keystone Shares (representing approximately 14 per cent. of the Gulf Keystone Shares in issue).

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Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for RAK Petroleum PCL and RAK Petroleum (Bermuda) Limited and for no-one else in connection with the transaction and will not be responsible to anyone other than RAK Petroleum PCL and RAK Petroleum (Bermuda) Limited for providing the protections afforded to clients of Goldman Sachs International or any advice in relation to the transaction nor any other matter referred to in this Announcement.

Hoare Govett Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Gulf Keystone Petroleum Limited and for no-one else in connection with the transaction and will not be responsible to anyone other than Gulf Keystone Petroleum Limited for providing the protections afforded to clients of Hoare Govett Limited or any advice in relation to the transaction nor any other matter referred to in this Announcement.

Tristone Capital Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for Gulf Keystone Petroleum Limited and for no-one else in connection with the transaction and will not be responsible to anyone other than Gulf Keystone Petroleum Limited for providing the protections afforded to clients of Tristone Capital Limited or any advice in relation to the transaction nor any other matter referred to in this Announcement.

This Announcement has been prepared for the purposes of complying with English and Bermuda law and information disclosed in them may not be the same as that which would have been prepared in accordance with the laws of jurisdictions outside England or Bermuda.

The distribution of this Announcement in jurisdictions other than the United Kingdom and Bermuda may be restricted by law and therefore persons into whose possession this Announcement comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of securities laws of any such jurisdictions.

The Amalgamation is subject to Bermuda law and is not subject to the rules of the City Code on Takeovers and Mergers and this Announcement has not been prepared for the purpose of complying with the City Code on Takeovers and Mergers.

Appendix I

TERMS AND CONDITIONS OF THE AMALGAMATION

1. Effect of the Amalgamation

The Amalgamation, which is being carried out pursuant to section 104 of the Companies Act, will be effected in accordance with the Amalgamation Agreement and the Implementation Agreement summarised in paragraphs 2 and 3 below. Subject to the passing of the Amalgamation Resolution at the SGM and the satisfaction or waiver (in accordance with the terms of the Implementation Agreement) of all other Conditions and the issuance of a Certificate of Amalgamation by the Bermuda Registrar of Companies, the Amalgamation will become effective on the Effective Date.

On the Effective Date:

- Gulf Keystone and RAK Bermuda will amalgamate and the Resulting Company will continue as an exempted company registered in Bermuda;
- each issued and outstanding Gulf Keystone Share will be cancelled and will cease to exist and each Gulf Keystone Shareholder as at the Amalgamation Record Date (other than those Gulf Keystone Shareholders holding Excluded Shares) will, subject to the rights of a Gulf Keystone Shareholder to dissent under section 106(6) of the Companies Act, be entitled to receive from RAK Petroleum in respect of each Gulf Keystone Share held, 74 pence in cash (subject to the terms of the Implementation Agreement); and
- RAK Petroleum will be the sole holder of all shares in the Resulting Company.

In accordance with the Companies Act, upon the Certificate of Amalgamation becoming effective:

- the amalgamation of Gulf Keystone and RAK Bermuda and their continuance as the Resulting Company shall become effective;
- the property of each of Gulf Keystone and RAK Bermuda as at the Effective Date shall continue to be the property of the Resulting Company;
- the Resulting Company shall continue to be liable for the existing obligations of each of Gulf Keystone and RAK Bermuda as at the Effective Date;
- an existing cause of action, claim or liability to prosecution of Gulf Keystone or RAK Bermuda as at the Effective Date shall be unaffected;
- a civil, criminal or administrative action or proceeding pending by or against Gulf Keystone or RAK Bermuda as at the Effective Date may be continued to be prosecuted by or against the Resulting Company;
- a conviction against, or ruling, order or judgment in favour of, or against, Gulf Keystone or RAK Bermuda as at the Effective Date may be enforced by or against the Resulting Company; and
- the Certificate of Amalgamation shall be deemed to be the certificate of incorporation of the Resulting Company; however, the date of incorporation of a company is its original date of incorporation and its amalgamation with another company does not alter its original date of incorporation.

2. Summary of the Implementation Agreement

The following summary of the material terms of the Implementation Agreement has been included to provide you with information regarding its material terms. This summary is not intended to provide you with any other factual information about the Company, RAK Petroleum or RAK Bermuda. Such information can be found elsewhere in this Announcement.

Conditions precedent to Completion of the Amalgamation

The obligations of the parties to effect the Amalgamation are subject to the following conditions precedent being satisfied on or before the Long Stop Date:

- the Amalgamation Resolution being passed by a simple majority of the votes cast by Gulf Keystone Shareholders voting in person or by proxy at the SGM;
- the delivery to the Bermuda Registrar of Companies of all documentation and consents required to implement the Amalgamation; and
- the issue by the Bermuda Registrar of Companies of the Certificate of Amalgamation.

The parties are not entitled to waive the above Conditions.

In addition, the obligations of RAK Petroleum and RAK Bermuda to effect the Amalgamation are further conditional on the satisfaction or waiver of the following conditions precedent on or before the Long Stop Date:

- Gulf Keystone having received and provided to RAK Petroleum:
 - (i) the Minister's Confirmation; or
 - (ii) a written confirmation from the Minister meeting all requirements of a Minister's Confirmation save only for omitting the express statement that the "Amalgamation is governed by Article 4 of the Decree",

or the 3 month period, commencing on the date of receipt by the Minister of the Minister Letter, for objection by the Minister to change of control under Article 4 of the Decree having expired without objection being made;
- the GKN and GKS fields having been declared commercially exploitable in accordance with the Final Discovery Report by a valid and unanimous decision of the management committee (Conseil de Gestion) in accordance with the relevant provision of the Block 126a PSC and within the time limits set forth in the Block 126a PSC, as evidenced by the unanimously signed minutes of the relevant meeting of the management committee;
- Gulf Keystone having received and provided to RAK Petroleum SONATRACH'S Confirmation;
- RAK Petroleum not having terminated the Implementation Agreement due to an Algerian Material Adverse Change having occurred between the date of the Announcement and the passing of the Amalgamation Resolution; RAK Petroleum not having terminated the Implementation Agreement due to the aggregate number of Gulf Keystone Shares held by all Dissenting Shareholders amounting to 10 per cent. or more of the total issued share capital of Gulf Keystone prior to the SGM; and
- the Gulf Keystone Group having complied with certain obligations in relation to the conduct of their business (full details of which are set out in Appendix II to this announcement).

Except as otherwise mentioned, RAK Petroleum may waive, in whole or in part, any of the above Conditions.

Each of Gulf Keystone, RAK Petroleum and RAK Bermuda shall use all reasonable endeavours with effect from the making of the Announcement to achieve fulfilment of the Conditions and the consummation of the Amalgamation by no later than the Long Stop Date (including without limitation to provide all information required by the Algerian Authorities in order to achieve the satisfaction of the Conditions set out in paragraphs 2(a), 2(b) and 2(c) of the Conditions.

The full text of the Conditions is set out in Appendix II to this Announcement.

Satisfaction of the SONATRACH Condition

At any time prior to the receipt of SONATRACH's Confirmation, Gulf Keystone may from time to time provide other evidence to RAK Petroleum that no right of pre-emption or right of approval with respect to an assignment under any of the PSCs applies to the Amalgamation, such evidence to include, but not be limited to:

- written confirmation from the Ministry or ALNAFT;
- oral confirmation from the Ministry, ALNAFT or SONATRACH; or

- such other evidence as may be provided by Gulf Keystone,

and within three days of its receipt of such evidence RAK Petroleum shall be entitled (but shall not be obliged) to waive the SONATRACH Condition in accordance with the Implementation Agreement.

The SONATRACH Condition shall be deemed to be satisfied if:

- during the period of 90 days from the date of receipt by SONATRACH of the SONATRACH Letter, SONATRACH has not exercised, or notified Gulf Keystone or RAK Petroleum of its ability to exercise, any right of pre-emption or right of approval with respect to an assignment under any of the PSCs; and if, and only if,
- the Condition set out in paragraph 2(a) of the Conditions has been satisfied by the receipt by the parties of the Minister's Confirmation in accordance with paragraph 2(a)(i) of the Conditions.

Break Fee

Gulf Keystone has agreed to pay RAK Petroleum the sum of US\$4,000,000 within five Business Days following RAK Petroleum's written demand in the following circumstances:

- if a Competing Proposal (or any amendment, variation or revision of such proposal) is announced prior to the termination of the Implementation Agreement and such Competing Proposal or any other Competing Proposal becomes unconditional in all respects or is otherwise completed within six months of the termination of the Implementation Agreement; or
- if the Independent Directors withdraw or adversely modify their recommendation of the Amalgamation in this Announcement or otherwise and the Amalgamation subsequently fails to complete, lapses or is withdrawn.

Non-solicitation

Gulf Keystone has undertaken to RAK Petroleum that prior to the SGM it shall not (and shall procure that the other members of the Gulf Keystone Group shall not) directly or indirectly solicit, initiate or encourage any Competing Proposal. However, prior to the SGM Gulf Keystone is not prevented from considering any unsolicited Competing Proposal, communicating or entering into discussions and/or negotiations with any third party in relation to any unsolicited Competing Proposal, disclosing information relating to the Gulf Keystone Group (subject to the provisions below) to such third party, liaising with and providing necessary assistance to such third party in relation to the production of documentation relating to such Competing Proposal or communicating with or making recommendations to Gulf Keystone Shareholders in respect thereof (subject to the 'Competing Proposals' provisions summarised below). Following the passing of the Amalgamation Resolution, Gulf Keystone must not, until the termination of the Implementation Agreement, directly or indirectly, enter into, solicit, consider, initiate, discuss or encourage any Competing Proposal.

Gulf Keystone has further undertaken to RAK Petroleum not to disclose any information about Gulf Keystone or any member of the Gulf Keystone Group to any third party in relation to a Competing Proposal other than:

- information that is in the public domain;
- following such third party entering into a confidentiality agreement in a form substantially similar to the confidentiality agreement between RAK Petroleum and Gulf Keystone; and
- after notifying RAK Petroleum of the existence of the Competing Proposal (but, except if the competing proposal is deemed or determined to constitute a Superior Proposal, not the identity of the third party) and undertaking to RAK Petroleum not to disclose any information to such third party which has not already been disclosed to RAK Petroleum.

Competing Proposals

If Gulf Keystone considers, or the Independent Directors determine (whether before or after the Announcement) that any Competing Proposal constitutes a Superior Proposal, Gulf Keystone shall give RAK Petroleum written notice of such determination, setting out the material details of such Competing Proposal (in particular the offer price (or equivalent consideration) contained in the Competing Proposal and the identity of the party making the Competing Proposal) and the reasons that led the Independent Directors to determine that it constitutes a Superior Proposal. Gulf Keystone must also confirm to RAK Petroleum that it has convened a meeting of the Independent Directors to consider whether or not to recommend the Superior Proposal to the Gulf Keystone Shareholders, such meeting to be held no sooner than midday on the eighth day after the date of receipt by RAK Petroleum of Gulf Keystone's written notice of the Superior Proposal.

Gulf Keystone and the Directors must not recommend any Competing Proposal (whether or not it is a Superior Proposal) until the first to occur of (i) the board meeting to consider whether or not to recommend the Superior Proposal; or (ii) the elapse of at least eight days after the date of the formal announcement via a Regulatory Information Service of a Competing Proposal whether or not it is a Superior Proposal (a "Competing Announcement").

If RAK Petroleum confirms in writing to the Independent Directors on or before the first to occur of (i) 5.00 p.m. on the day prior to the board meeting to consider whether or not to recommend the Superior Proposal; or (ii) 5.00 p.m. on the seventh day after the date of the Competing Announcement in relation to the Competing Proposal, that RAK Petroleum intends to increase the Amalgamation Consideration to a level which would, in the reasonable opinion of the Independent Directors (acting reasonably in accordance with their fiduciary duties), be equal or superior in terms of the financial value and terms and conditions offered to Gulf Keystone Shareholders in comparison to the Superior Proposal or Competing Proposal and is otherwise on terms and conditions which are, in the reasonable opinion of the Independent Directors (acting reasonably in accordance with their fiduciary duties), substantially equal to or not materially worse than those contained in the Superior Proposal or Competing Proposal (the "Revised Transaction"), the Independent Directors shall make a unanimous and unqualified recommendation of the Revised Transaction to the Gulf Keystone Shareholders and the Independent Directors shall not recommend the Superior Proposal or (as appropriate) the Competing Proposal set out in the Competing Announcement. For a Revised Transaction to be valid, RAK Petroleum must confirm to the Independent Directors that it is ready to be formally announced immediately via a Regulatory Information Service.

If no such confirmation of a Revised Transaction is made by RAK Petroleum, Gulf Keystone and the Directors may at their election recommend the Superior Proposal or (as applicable) the Competing Proposal set out in the Competing Announcement and withdraw their recommendation of the Amalgamation, whereupon the Implementation Agreement shall automatically terminate.

If a Competing Announcement is made or a notice of a Superior Proposal is served on RAK Petroleum by Gulf Keystone, less than eight days prior to the date of the SGM and a Revised Transaction is not announced by RAK Petroleum at least seven days prior to the date of the SGM, Gulf Keystone will be entitled to procure, and will if requested by RAK Petroleum in writing procure, that the SGM will be adjourned until the date which is seven days after the earlier of: (i) if a Revised Transaction has been announced via a Regulatory Information Service, the date of such announcement; (ii) the date of the board meeting to consider whether to recommend the Superior Proposal; or (iii) the eighth day after the date of the Competing Announcement, provided that the parties acknowledge that, under Bermuda law, unless a Revised Transaction constitutes simply an increase in the Amalgamation Consideration without any other material amendment to the terms of the Amalgamation, any Revised Transaction to be effected by way of an amalgamation will require the approval of Gulf Keystone Shareholders in a freshly convened special general meeting.

Gulf Keystone has undertaken to RAK Petroleum that it shall not offer or agree to any work fee, indemnity or inducement or break fee or other similar arrangement (a "Competing Break Fee") to any person other than RAK Petroleum provided that Gulf Keystone may offer or agree to provide a Competing Break Fee to a third party if:

- the relevant third party submits to Gulf Keystone a Competing Proposal or a Superior Proposal;
- RAK Petroleum fails to confirm a Revised Transaction;
- the relevant Competing Proposal or Superior Proposal is formally announced via a Regulatory Information Service; and
- the agreement to pay the Competing Break Fee will only become effective, and the Competing Break Fee will only be paid, on or after the formal announcement of the relevant Competing Proposal or Superior Proposal via a Regulatory Information Service and not prior to any such announcement.

Termination

The Implementation Agreement shall (unless the parties to the Implementation Agreement otherwise agree in writing) terminate prior to the Amalgamation becoming effective in accordance with its terms on the earliest to occur of:

- the date on which the Amalgamation lapses, terminates in accordance with its terms, is withdrawn or otherwise ceases to be capable of becoming effective, including if:
 - the Amalgamation Resolution is not passed by Gulf Keystone Shareholders at the SGM;
 - an Algerian Material Adverse Change occurs between the date of the Announcement and the passing of the Amalgamation Resolution and within the earlier of ten Business Days of RAK Petroleum becoming aware of the occurrence of an Algerian Material Adverse Change and the start time of the SGM, RAK Petroleum, by notice in writing to Gulf Keystone, exercises its right to terminate the Implementation Agreement, the Amalgamation Agreement and the Amalgamation due to the occurrence of such Algerian Material Adverse Change;
 - the aggregate number of Gulf Keystone Shares held by all Dissenting Shareholders exceeds 10 per cent. or more of the total issued share capital of Gulf Keystone and prior to 5.00 p.m. (Bermuda time) on the Business Day prior to the date of the SGM RAK Petroleum by notice in writing to Gulf Keystone terminates the Implementation Agreement, the Amalgamation Agreement and the Amalgamation due to such level of Dissenting Shareholders;
 - any of the matters set out in Appendix II to this Announcement occurs and following the board of directors of RAK Petroleum becoming actually aware of such matter (including all material details necessary for the board of directors of RAK Petroleum to properly assess and form an opinion on such matter), if RAK Petroleum decides to exercise its right to terminate the Implementation Agreement, the Amalgamation Agreement and the Amalgamation due to the occurrence of such matter, RAK Petroleum by notice in writing to Gulf Keystone exercises such termination right within one Business Day of making such decision; or
 - either:
 - (i) an Algerian Authority unequivocally and in writing denies any of the consents, waivers or approvals contemplated by paragraphs 2(a), 2(b) or 2(c) of the Conditions; or
 - (ii) the Minister (or another duly authorised Algerian Authority) provides a written consent, waiver or approval contemplated by paragraph 2(a) of the Conditions which does not constitute a Minister's Confirmation; or

- (iii) SONATRACH provides a written consent, waiver or approval contemplated by paragraph 2(b) of the Conditions which does not constitute a SONATRACH Confirmation; or
- (iv) an Algerian Authority imposes a cost, condition or charge in connection with the Amalgamation that in any respect diminishes the value of the Algerian Assets or that would increase the cost of the Amalgamation or the cost of exploitation of the Hydrocarbon Rights where such cost, condition or charge diminishes such value or increases such cost by an amount which, when taken together with any other cost, condition or charge imposed by any other Algerian Authority in connection with the Amalgamation is or may be more than 1 per cent. of the Total Consideration;

unless within ten Business Days of Gulf Keystone providing RAK Petroleum with a copy of such written communication from the Algerian Authority, or within such shorter period as exists between the date of receipt by RAK Petroleum of such communication and the date on which the parties would otherwise cause the Amalgamation to be consummated in accordance with the provisions of the Implementation Agreement, RAK Petroleum elects in accordance with the Implementation Agreement to waive the application of paragraphs 2(a), 2(b) or 2(c) of the Conditions (as applicable) in respect of such written communication, to the extent that it is capable of waiver;

- the Long Stop Date; or
- the announcement by Gulf Keystone and/or the Directors of the recommendation of a Competing Proposal or a Superior Proposal in accordance with the 'Competing Proposals' provisions outlined above.

RAK Petroleum shall also be entitled to terminate the Implementation Agreement, the Amalgamation Agreement and the Amalgamation by serving notice in writing on Gulf Keystone if the recommendation of the Independent Directors contained in this Announcement is withdrawn or modified adversely at any time prior to the SGM.

RAK Petroleum shall not be entitled to terminate the Implementation Agreement, the Amalgamation Agreement or the Amalgamation other than in accordance with the provisions outlined above.

If the Amalgamation Resolution is passed at the SGM, Gulf Keystone shall not be entitled to terminate the Implementation Agreement, the Amalgamation Agreement or the Amalgamation after the passing of the Amalgamation Resolution.

Obligations of Gulf Keystone and RAK Petroleum

Following notification by Gulf Keystone to RAK Petroleum that Conditions 1(a) and, unless waived by RAK Petroleum, 2(a), 2(b) and 2(c) have been satisfied, provided that RAK Petroleum has not terminated the Implementation Agreement and none of the matters specified in paragraph 2(f) of the Conditions has (unless waived by RAK Petroleum) occurred, Gulf Keystone and RAK Petroleum shall procure that their respective officers make the appropriate statutory declarations pursuant to section 108(3) of the Companies Act and file all documents required to consummate the Amalgamation with the Bermuda Registrar of Companies.

RAK Petroleum has undertaken from and after the Effective Time to cause the Resulting Company to:

- fulfil the existing obligations of the Gulf Keystone Group pursuant to indemnities provided or available to present and former directors and officers of Gulf Keystone or any member of the Gulf Keystone Group pursuant to the provisions of the articles, byelaws or similar governing documents of such companies and applicable law and to maintain directors' and officers' insurance coverage for the present and former directors and officers of Gulf Keystone and any member of the Gulf Keystone Group to the same level

as currently provided by the Gulf Keystone Group (including without limitation in relation to any run-off directors' and officers' insurance provisions); and

- honour and comply with the terms of all existing employment and consultancy contracts and directors' terms of engagement between members of the Gulf Keystone Group and the directors, officers, employees and consultants of the members of the Gulf Keystone Group (including in relation to any severance terms and notice provisions). The service agreements of Todd Kozel, Ibrahim Al Khaldi and Ali Al Qabandi will cease at the Effective Time and each of Todd Kozel, Ibrahim Al Khaldi and Ali Al Qabandi has entered into an individual waiver letter dated 12 April 2007 waiving any entitlement he may have for payment on cessation of employment.

RAK Petroleum has undertaken to Gulf Keystone that, subject only to completion of the Amalgamation, it will not change the terms of the Computershare appointment as paying agent and will use its reasonable endeavours to enforce its rights under such terms of appointment so as to ensure that Computershare complies with its obligations thereunder. RAK Petroleum has further undertaken to Gulf Keystone that, in accordance with the terms of the Computershare appointment as paying agent, it will:

- notify Computershare of the Record Time promptly once this has been determined;
- notify Computershare on the Effective Date that the Amalgamation has become effective in accordance with its terms; and
- provide to Computershare a list of the persons who hold Excluded Shares which list is prepared in good faith and in accordance with RAK Petroleum's knowledge of the identity of such persons.

Gulf Keystone and RAK Petroleum have also given undertakings to each other in connection with the operation of the Escrow Account. These are summarised below.

Consummation of the Amalgamation

The parties shall use all reasonable endeavours to procure that the Amalgamation becomes effective in accordance with its terms as soon as practicable following satisfaction or (as appropriate) waiver of all of the Conditions (save for the Conditions as to filing set out in full in paragraphs 1(b) and 1(c) of Appendix II to this Announcement).

Following satisfaction or (as appropriate) waiver of Conditions 1(a), 2(a), 2(b) and 2(c), subject to the execution of appropriate statutory declarations pursuant to section 108(3) of the Companies Act, Gulf Keystone, RAK Petroleum and RAK Bermuda are obliged to cause the Amalgamation to be consummated by filing all documents with the Bermuda Registrar of Companies in accordance with section 108 of the Companies Act and by jointly executing the irrevocable instructions to Mashreq Bank and by RAK Petroleum instructing Goldman Sachs International in accordance with the term of the Hedging Arrangements (see below).

Dissenting Shareholders and conduct of claims by Dissenting Shareholders

Gulf Keystone shall give RAK Petroleum (i) prompt notice upon it becoming aware of the existence of any Dissenting Shareholders, details of any applications made under section 106(6) of the Companies Act, copies of all pleadings and documents served in relation thereto and details of any attempted withdrawals of any such applications; and (ii) the opportunity to direct and conduct any and all negotiations and proceedings with respect to demands for appraisal under section 106(6) of the Companies Act at RAK Petroleum's cost and provided that Gulf Keystone is indemnified to its reasonable satisfaction against all costs and expenses which may be incurred in relation to such negotiations and proceedings. Gulf Keystone must not, except with the prior written consent of RAK Petroleum, voluntarily make any payment with respect to any applications under section 106(6) of the Companies Act, offer to settle or settle any such applications or approve any withdrawal of any such applications.

Covenants

The Implementation Agreement contains negative and positive covenants on the part of Gulf Keystone in relation to the conduct of its business.

With effect from the making of the Announcement, pending termination of the Implementation Agreement, Gulf Keystone has agreed, *inter alia*, that, save for any action (i) required to give effect to the Amalgamation; (ii) disclosed to RAK Petroleum prior to the date of the Implementation Agreement; (iii) in the ordinary course of business of Gulf Keystone; or (iv) required to carry out operations disclosed in Gulf Keystone's work programme and budget for the 2007 financial year, Gulf Keystone and the Gulf Keystone Group will:

- carry on its business in the same manner as it was operated prior to the date of the Implementation Agreement and use all reasonable endeavours to maintain its trade and trade connections;
- take all reasonable steps to preserve and protect its business and assets;
- continue to take all normal and reasonable steps to obtain (and inform RAK Petroleum when they have been obtained):
 - full release of the amount of US\$13.1 million held as cash collateral by Credit Agricole in respect of work commitments of Gulf Keystone under a hydrocarbon research contract between Gulf Keystone and SONATRACH;
 - approval and acceptance by SONATRACH and all relevant management committees of the costs submitted for 2005;
 - a completed environmental study in respect of the HBH block; and
 - approval by the management committees of the 2007 annual work programmes and budgets, in amounts materially consistent with Gulf Keystone's work programme and budget for the 2007 financial year;and inform RAK Petroleum when any of these have been obtained; and
- ensure that no member of the Gulf Keystone Group shall:
 - do any act or enter into any transaction or arrangement which may reasonably be expected to result in Gulf Keystone or any member of the Gulf Keystone Group being either resident for tax purposes in a jurisdiction other than its country of incorporation or Algeria or subject to tax in such jurisdiction;
 - take any action which is inconsistent with the provisions of the Implementation Agreement or Completion as contemplated by the Implementation Agreement other than where required by law;
 - do, allow or procure as far as it is reasonably able any act or omission which would constitute or give rise to a breach of a Condition or provision of the Implementation Agreement; or
 - agree, conditionally or otherwise, to do any of the foregoing.
- carry on its business in accordance with all applicable laws, regulations and other requirements having the force of law and in accordance with good oil field practice;
- consult with RAK Petroleum on a weekly basis in relation to developments in Gulf Keystone's business and operations and keep RAK Petroleum informed of any matters which, in the reasonable opinion of the Directors, are material to the business of the Gulf Keystone Group and promptly to consult with RAK Petroleum in relation to, and give full

details of, any material change in its business, expenditures, financial position and/or assets (together with any proposed new activities not contemplated in Gulf Keystone's work programme and budget for the 2007 financial year); and

- following the SGM and, if a notice of a Superior Proposal is served on RAK Petroleum, or a Competing Proposal is made, for the period between the time of service of such notice or making of such announcement and the time of the SGM and subject to the terms of an existing confidentiality agreement and to the extent permitted by law, allow RAK Petroleum to re-assess due diligence information previously provided by Gulf Keystone and provide RAK Petroleum with access to appropriate officers and senior management of Gulf Keystone.

Treatment of Share Options

The Board has determined that pursuant to the rules of the Gulf Keystone Share Option Plan and the Gulf Keystone Executive Bonus Scheme, Gulf Keystone Options may become exercisable conditional upon the Amalgamation becoming effective. Under the terms of the Implementation Agreement, Gulf Keystone must procure that no Gulf Keystone Option (whether or not then vested or exercisable) to subscribe for or purchase Gulf Keystone Shares or shares in any other member of the Gulf Keystone Group that is outstanding prior to the Record Time (being 6.00 p.m. (London Time) on the Business Day immediately prior to the Effective Date) shall subsist at the Record Time by taking all steps necessary to procure that all Gulf Keystone Options, if not exercised by the Record Time, lapse immediately upon the Record Time. The holders of Gulf Keystone Options may exercise their options conditionally up to the date of the SGM. Alternatively, the holders of Gulf Keystone Options granted under the Gulf Keystone Share Option Plan may accept the Cash Cancellation Consideration from RAK Petroleum for the surrender of such Gulf Keystone Options. The payment of any Cash Cancellation Consideration is conditional upon the Amalgamation becoming effective. All outstanding Gulf Keystone Options will lapse at the Record Time.

Costs

In the event the Amalgamation is not completed by the Amalgamation coming into effect by any way whatsoever (and save as otherwise stated in the Implementation Agreement) each party shall bear its own costs in relation to the Implementation Agreement and the transactions contemplated by it.

Escrow Arrangements

AED 1,544,193,764 (the "Escrow Amount") is being held by Mashreq Bank in the Escrow Account subject to the terms of the Escrow Letter. Mashreq Bank is instructed under the terms of the Escrow Letter to hold the Escrow Amount and any interest accruing thereon (the "Deposited Sum") in RAK Petroleum's name and to apply such amount in accordance with the provisions of the Escrow Letter.

The Escrow Letter provides that Mashreq Bank must only apply the Deposited Sum in accordance with the joint written instructions of RAK Petroleum and the Company to pay the Deposited Sum either to Goldman Sachs International or to RAK Petroleum, and if no such written instructions have been received by Mashreq Bank prior to 11 August 2007 (or such later date as RAK Petroleum and the Company may jointly notify Mashreq Bank in writing) Mashreq Bank shall pay to RAK Petroleum the Deposited Sum.

Under the terms of the Implementation Agreement, RAK Petroleum and the Company have undertaken to each other to jointly instruct Mashreq Bank to pay the Deposited Sum to Goldman Sachs International at the same time as filing the relevant documents to consummate the Amalgamation with the Bermudan Registrar of Companies and, in the event of the termination of the Implementation Agreement to pay the Deposited Sum to RAK Petroleum.

The Escrow Amount is the minimum amount necessary to be converted into the Total Consideration under the Hedging Arrangements entered into between RAK Petroleum and Goldman Sachs International. Under the Hedging Arrangements, conditional upon:

- delivery of the joint instructions of the Company and RAK Petroleum to Mashreq Bank under the Escrow Letter to transfer the Deposited Sum to Goldman Sachs International; or
- the transaction contemplated under the Implementation Agreement having completed,

RAK Petroleum has irrevocably instructed Goldman Sachs International to pay £208,318,720.60 (being the Total Consideration due under the Amalgamation) to Computershare on the 'settlement date', being a date to be notified by RAK Petroleum to Goldman Sachs International which must be no later than the Business Day after the satisfaction of the above condition precedent. Under the terms of the Implementation Agreement RAK Petroleum undertakes to the Company to provide such notification to Goldman Sachs International when the relevant documents are filed with the Bermudan Companies Registry.

3. Summary of the Amalgamation Agreement

The following summary of the material terms of the Amalgamation Agreement is qualified in its entirety by reference to the complete text of the Amalgamation Agreement, which is set out in the Circular which is being sent to Gulf Keystone Shareholders today.

Amalgamation

The Amalgamation Agreement is conditional on the passing of the Amalgamation Resolution and the obligations of RAK Petroleum and RAK Bermuda are further conditional on the satisfaction (or waiver by RAK Petroleum), on or before the Effective Date, of the Conditions (set out in full in Appendix II to this announcement).

The Amalgamation shall become effective and the Certificate of Amalgamation shall be issued by the Registrar of Companies in Bermuda on the Effective Date.

Conversion and Cancellation of Gulf Keystone Shares

On the Effective Date:

- each common share in the capital of RAK Bermuda in issue on the Business Day preceding the Effective Date shall be converted into one validly issued and fully paid common share in the Resulting Company;
- each Gulf Keystone Share in issue on the Business Day preceding the Effective Date shall be cancelled and converted into a right to receive the Amalgamation Consideration (or such other sum as may be determined under the Implementation Agreement) from RAK Petroleum instead of securities of the Resulting Company; and
- each Gulf Keystone Share held by a Dissenting Shareholder in issue on the Business Day preceding the Effective Date shall be cancelled and converted into a right only to receive the value thereof as appraised by the Court under section 106(6) of the Companies Act.

Undertakings

Gulf Keystone, RAK Petroleum and RAK Bermuda undertake to do, execute and perform such further acts, documents and things within their respective powers as may be necessary to effect the Amalgamation, including: (i) holding all necessary meetings of their shareholders; (ii) passing all necessary resolutions of their directors; (iii) procuring that their subsidiaries pass all necessary resolutions of their shareholders and directors; and (iv) filing all necessary notices or other documents.

Appendix II

CONDITIONS PRECEDENT TO COMPLETION OF THE ACQUISITION

1. The Amalgamation will become effective on all of the following events having occurred on or before the Long Stop Date:
 - (a) the Amalgamation Resolution being passed by a majority of the Gulf Keystone Shareholders voting in person or by proxy at the SGM;
 - (b) the delivery to the Bermuda Registrar of Companies by or on behalf of Gulf Keystone and RAK Bermuda of all documentation and consents required by the Bermuda Registrar of Companies pursuant to the Companies Act to implement the Amalgamation;
 - (c) the issue by the Bermuda Registrar of Companies to RAK Bermuda or its advisers of the Certificate of Amalgamation, pursuant to the Companies Act;

2. The obligations of RAK Petroleum and RAK Bermuda to effect the Amalgamation are further conditional on:
 - (a) Gulf Keystone having received and provided to RAK Petroleum:
 - (i) the Minister's Confirmation, or
 - (ii) a written confirmation from the Minister meeting all requirements of a Minister's Confirmation save only for omitting express statement that the "Amalgamation is governed by Article 4 of the Decree",

or the 3 month period, commencing on the date of receipt by the Minister of the Minister Letter, for objection by the Minister to change of control under Article 4 of the Decree having expired without objection being made
 - (b) Gulf Keystone having received and provided to RAK Petroleum SONATRACH's Confirmation;
 - (c) the GKN and GKS fields having been declared commercially exploitable in accordance with the Final Discovery Report by a valid and unanimous decision of the management committee (Conseil de Gestion) in accordance with the relevant provision of the Block 126a PSC and within the time limits set forth in the Block 126a PSC, as evidenced by the unanimously signed minutes of the relevant meeting of the management committee;
 - (d) RAK Petroleum not having terminated this agreement (pursuant to Clause 11.1(a)(ii)) due to an Algerian Material Adverse Change having occurred between the date of the Announcement and the passing of the Gulf Keystone Amalgamation Resolution;
 - (e) RAK Petroleum not having terminated this agreement (pursuant to Clause 11.1(a)(iii)) due to the aggregate number of Gulf Keystone Shares held by all Dissenting Shareholders amounting to 10 per cent. or more of the total issued share capital of Gulf Keystone;
 - (f) no member of the Gulf Keystone Group having since 13 April 2007, except with the prior written consent of RAK Petroleum (which consent may be granted or withheld at RAK Petroleum's absolute discretion);
 - (i) incurred expenditure other than:
 - (A) expenditure which is incurred in accordance with good oil field practice and which is in the ordinary course of business including, for the avoidance of doubt, advisers costs in relation to the Amalgamation; or
 - (B) expenditure in relation to work or activities set out in the Gulf Keystone 2007 work programme and budget; or

- (C) expenditure incurred in conducting operations required under the PSCs or to safeguard life or property in the event of emergency; or
 - (D) expenditure incurred with the prior written consent of RAK Petroleum (which consent shall not be unreasonably withheld or delayed);
- (ii) issued or agreed to issue, or authorised or proposed the issue of, additional shares of any class, or securities convertible into or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities (save for options granted or offered pursuant to current employment contracts and current offers of employment as disclosed to RAK Petroleum prior to the date of this agreement, and for any Gulf Keystone Shares allotted upon exercise of options granted under the Gulf Keystone Share Schemes or between Gulf Keystone and wholly-owned members of the Gulf Keystone Group and disclosed to RAK Petroleum before the date hereof);
 - (iii) recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus in respect of shares, dividend or other distribution, whether payable in cash or otherwise;
 - (iv) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or made any other change to any part of its share capital;
 - (v) waived or compromised or settled any material claim;
 - (vi) (other than in respect of a member that is dormant and was solvent at the relevant time) taken any corporate action or had any order made or legal proceedings started or threatened against it (other than where such threat is frivolous or vexatious) for its winding-up (voluntary or otherwise), dissolution or reorganisation or for the appointment of any receiver, administrator, administrative receiver, trustee or similar officer of all or any of its assets and revenues or any analogous proceedings or similar event having occurred in any jurisdiction or any analogous person having been appointed in any jurisdiction;
 - (vii) been unable, or admitted in writing that it is unable, to pay its debts or having stopped or suspended (or threatened to stop or suspend) payment of its debts when due generally or ceased or threatened to cease carrying on all or a substantial part of its business;
 - (viii) made any alteration to its bye-laws or constitutional documents or discontinued Gulf Keystone from Bermuda;
 - (ix) made, committed to make, authorised, proposed or announced an intention to propose any change in its loan capital or issued or authorised the issue of any debentures (other than in the ordinary course of business or between Gulf Keystone and/or any of its wholly-owned subsidiaries) or incurred or increased any indebtedness or contingent liability to a material extent not envisaged under the Gulf Keystone 2007 work programme and budget;
 - (x) acquired, disposed of, transferred, mortgaged, charged or created any security interest over any material asset or any right, title or interest in any material asset (including shares and trade investments) or (except in relation to the Amalgamation or in accordance with the terms of this agreement), implemented, authorised, effected, proposed or announced its intention to implement, authorise, effect or propose any merger, demerger, reconstruction, amalgamation, scheme or acquisition in relation to any body corporate (in each case other than in the ordinary course of business);

- (xi) entered into, varied, terminated or authorised or become bound by any contract, commitment, arrangement or transaction other than in the ordinary course of business which is of a long-term, onerous or unusual nature or magnitude or which results or might reasonably be expected to result in any material adverse restriction of the scope of business currently carried on by any member of the Gulf Keystone Group or which involves or might reasonably be expected to involve an obligation of such a nature or magnitude, in each case which is material. For the avoidance of doubt the contracting by BG Group as operator of the HBH PSC of a drilling rig to drill approximately six wells in 2007/2008, and the contracts placed by Gulf Keystone for the equipment and services required to test the GRJ-2 well shall be deemed to be in the ordinary course of business;
- (xii) entered into or made an offer (which remains open for acceptance) to enter into, or materially changed the terms of, any agreement, contract, commitment or arrangement with, or paid, awarded any bonuses, pensions or benefits to, any of the directors, officers or senior executives of any member of the Gulf Keystone Group (or any connected party of any such director, officer or senior executive) save for the provision of run-off directors' and officers' insurance for the Directors and management; or
- (xiii) entered into any contract, agreement or commitment or passed any resolution or made any offer (which remains open for acceptance) with respect to, or proposed or announced any intention to effect or propose, any of the transactions, matters or events referred to in this condition 2(f).

For the purposes of these Conditions in Appendix II:

"**Disclosed**" shall mean (i) fairly disclosed in any of the documents, papers or information made available to RAK Petroleum, any member of the wider RAK Petroleum Group or any of the RAK Petroleum's financial or legal adviser by Gulf Keystone and its financial and legal advisers prior to the date hereof or (ii) disclosed by being publicly announced through a Regulatory Information Services prior to the date hereof or (iii) disclosed in the annual report and accounts of Gulf Keystone for the year ended 31 December 2005;

"**subsidiary undertaking**", "**associated undertaking**" and "**undertaking**" have the meanings given by the UK Companies Act 1985;

"**substantial interest**" means a direct or indirect interest in 10 per cent. or more of the equity or voting capital of an undertaking;

"**the wider RAK Petroleum Group**" means RAK Petroleum and its subsidiary undertakings, associated undertakings and any other undertakings in which RAK Petroleum and/or such undertakings (aggregating their interests) have a substantial direct or indirect interest.

Appendix III

DEFINITIONS

The following definitions apply throughout this Announcement unless the context otherwise requires:

"AED"	United Arab Emirates Dirham;
"AIM"	the AIM Market of the London Stock Exchange;
"AIM Rules"	the AIM Rules published by the London Stock Exchange from time to time;

“ALNAFT”	L’Agence Nationale pour la Valorisation des Ressources en Hydrocarbures;
“Algerian Assets”	the Hydrocarbon Rights and petroleum or natural gas reserves and resources, and other assets of Gulf Keystone in Algeria;
“Algerian Authorities”	SONATRACH, ALNAFT, the Algerian Ministry of Energy and Mines, the Council of Ministers, the President, and any other agency, office, department or instrumentality of the Government of Algeria or any political subdivision thereof;
“Algerian Material Adverse Change”	any event, occurrence, or change of circumstance specifically relating to Algeria (excluding, for the avoidance of doubt, the reports or results from any currently planned well testing being carried out by Gulf Keystone) which individually or together with other events, occurrences or circumstances in Algeria, has or is reasonably likely to have a material adverse effect on Gulf Keystone’s Algerian business or on the Algerian Assets (such as (i) war or terrorism, (ii) official written notification of a change in the fiscal regime applicable to the Algerian Assets which represents a material adverse change to the laws and decrees as published in Algeria at the date of the Implementation Agreement or (iii) RAK Petroleum having become aware of any Materially Adverse Information regarding the validity, ownership, or scope of the Hydrocarbon Rights or Gulf Keystone’s currently pending application for the declaration of commerciality in respect of the GKN and GKS fields);
“Amalgamation”	the amalgamation of Gulf Keystone and RAK Bermuda under the provisions of the Companies Act and pursuant to the terms of the Amalgamation Agreement and the Implementation Agreement;
“Amalgamation Agreement”	the conditional agreement dated 12 April 2007 between the Company, RAK Petroleum and RAK Bermuda as summarised in Appendix I to this Announcement;
“Amalgamation Consideration”	the cash consideration to be paid by RAK Bermuda to Gulf Keystone Shareholders upon Completion, being 74 pence in cash per Gulf Keystone Share (without interest, subject to applicable withholding of all taxes, levies or other governmental charges), or such other amount as may be determined in accordance with the terms of the Implementation Agreement as described in Appendix I to this Announcement;
“Amalgamation Record Date”	5.00 p.m. (Bermuda time) on the Business Day prior to the Effective Date;
“Amalgamation Resolution”	the proposed resolution of the Gulf Keystone Shareholders to approve the terms of the Amalgamation Agreement in accordance with section 106 of the Companies Act;
“Announcement”	this announcement made by Gulf Keystone via a Regulatory Information Service relating to the Amalgamation;
“bcf”	billion standard cubic feet of gas;

"Block 108/128b PSC"	Contrat pour la recherche, d'appréciation et l'exploitation d'hydrocarbures entre Sonatrach et Gulf Keystone sur le périmètre Benguecha (Blocs 108/128b), dated 23 April 2005;
"Block 126a PSC"	Contrat pour la recherche, d'appréciation et l'exploitation d'hydrocarbures entre Sonatrach et Gulf Keystone sur le périmètre Ferkane (Bloc 126), dated 28 February 2001, as amended by Amendments No. 1 and No. 2 thereto;
"Block 129 PSC"	Contrat pour la recherche, d'appréciation et l'exploitation d'hydrocarbures entre Sonatrach et Gulf Keystone sur le périmètre Bottena (Bloc 129), dated 23 April 2005;
"Board" or "Directors"	the directors of the Company;
"Business Day"	any day other than a Saturday or Sunday on which banks are open for business in London, UK and Hamilton, Bermuda;
"Cash Cancellation Consideration"	the amount, before any relevant taxes and social security contributions have been withheld, to be paid to each holder of Gulf Keystone Options for each Gulf Keystone Option granted under the Gulf Keystone Share Option Plan cancelled, a cash sum equal to the Amalgamation Consideration per Gulf Keystone Share less the exercise price per share of that Gulf Keystone Option;
"certificated form"	not in uncertificated form (that is, not in CREST);
"Certificate of Amalgamation"	the certificate to be issued by the Bermuda Registrar of Companies evidencing the Amalgamation pursuant to section 104 of the Companies Act;
"Circular"	the circular to Gulf Keystone Shareholders, including the Notice of SGM;
"City Code"	the City Code on Takeovers and Mergers;
"Closing Price"	the closing middle market price of a Gulf Keystone Share as derived from the Daily Official List on any particular day;
"Companies Act"	the Companies Act 1981 (Bermuda) as amended;
"Competing Proposal"	a proposed: (i) offer for, or scheme of arrangement of, or amalgamation of Gulf Keystone or any transaction which would result in a change of control of Gulf Keystone in each case; (ii) sale, merger, business combination, amalgamation, demerger or liquidation (or similar transaction or arrangement) in respect of the whole or a material part of the business or assets of the Gulf Keystone Group; or (iii) transaction involving a takeover or acquisition by any member of the Gulf Keystone Group (by public offer, scheme of arrangement, amalgamation, merger or otherwise) of another company or business, the consideration for which is Gulf Keystone Shares and completion of which would result in a change of control of Gulf Keystone; in each case by any person or persons who is not a member of the RAK Petroleum CL Group and for these purposes "proposed"

	shall include an approach with a view to making a proposal with regard to the same;
“Completion”	the completion of the Amalgamation;
“Conditions”	the conditions precedent to Completion as set out in Appendix II to this Announcement and “Condition” means one or more of them as the context may require;
“Contingent Resources”	those quantities of petroleum which are estimated to be potentially recoverable from discovered accumulations but which are currently not demonstrated to be commercially recoverable;
“Court”	the Supreme Court of Bermuda;
“CREST”	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the CREST Regulations;
“CREST Regulations”	the UK Uncertificated Regulations 2001 (SI 2001No. 01/3755), as amended;
“CRESTCo”	CRESTCo Limited, the operator of CREST;
“Decree”	Décret n° 87-158 du 21 juillet 1987 relatif aux modalités d’identification et de contrôle des sociétés étrangères candidates à l’association pour la prospection, la recherche et l’exploitation des hydrocarbures liquides, p. 767. (N° JORA : 030 du 22-07-1987), as amended, issued by the President of Algeria;
“Depository”	Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE, in its capacity as depository pursuant to a depository agreement entered into with the Company in connection with the Amalgamation;
“Depository Interests”	the depository interests representing Gulf Keystone Shares held through CREST established pursuant to the deed poll dated 24 April 2004 executed by Computershare Investor Services PLC;
“Dissenting Shareholder” or “Dissenter”	a registered Gulf Keystone Shareholder who, in connection with the Amalgamation Resolution, has (a) not voted in favour of the Amalgamation Resolution and (b) has applied to the Court pursuant to section 106(6) of the Companies Act in strict compliance with the provisions thereof to appraise the fair value of the Gulf Keystone Shares held by that Gulf Keystone Shareholder;
“Effective Date”	the date that the Amalgamation becomes effective in accordance with the terms of the Amalgamation Agreement, which, subject to satisfaction or (as appropriate) waiver of the Conditions, is anticipated to be no later than 11 August 2007;
“Effective Time”	the time on the Effective Date that the Amalgamation becomes effective;

“Escrow Account”	the bank account operated by Mashreq Bank on the instruction of the Company and RAK Petroleum in which the Amalgamation Consideration and the Cash Cancellation Consideration (including the amount of interest accruing to such sum (less tax)) is held in RAK Petroleum’s and Gulf Keystone’s name pursuant to the provisions of the Escrow Letter;
“Escrow Letter”	an escrow letter from Gulf Keystone and RAK Petroleum addressed to Mashreq Bank dated 12 April 2007;
“Excluded Shares”	(i) any Gulf Keystone Shares that are owned by RAK Petroleum, RAK Bermuda or any other direct or indirect subsidiary of RAK Petroleum (not held on behalf of, or as security for obligations owed by, third parties), (ii) any Gulf Keystone Shares that are owned by any direct or indirect subsidiary of Gulf Keystone (not held on behalf, or as security for obligations owed by, third parties) and (iii) any Gulf Keystone Shares held by Dissenting Shareholders;
“Final Discovery Report”	the Final Discovery Report dated January 2007 as disclosed, as amended and finally submitted to the management committee (Conseil de Gestion);
FSMA”	“the United Kingdom’s Financial Services and Markets Act 2000;
“GIBCA”	GIBCA Limited, a shareholder in Gulf Keystone Petroleum and of which Sheikh Sultan Bin Saqr Al Qassimi is both a director and shareholder;
“GKN and GKS fields”	the Guerguit el Kihal Nord and Guerguit el Kihal Sud oil fields in Algeria, forming part of the contract area of the Block 126a PSC, as more specifically identified in the Final Discovery Report;
“gross”	the remaining recoverable reserves from the licence; “Gulf Keystone” or the “Company” Gulf Keystone Petroleum Limited, a company incorporated and registered in Bermuda under the Companies Act with registered number 31165;
“Gulf Keystone Executive Bonus Scheme”	the Gulf Keystone Executive Bonus Scheme;
“Gulf Keystone Group”	the Company, its subsidiary and any subsidiary undertakings;
“Gulf Keystone Options”	the options to acquire Gulf Keystone Shares outstanding under the Gulf Keystone Share Option Plan and the Gulf Keystone Executive Bonus Scheme;
“Gulf Keystone Petroleum”	Gulf Keystone Petroleum Co. LLC a company in which Todd Kozel, Ali Al-Qabandi and Ibrahim Al-Khaldi are directors and shareholders and in which GIBCA is a shareholder and Sheikh Sultan Bin Saqr Al Qassimi is a director;
“Gulf Keystone Shares”	the common shares of par value US\$0.01 each in the capital of Gulf Keystone;

“Gulf Keystone Shareholders”	the holders of Gulf Keystone Shares from time to time (including persons who hold an interest in Gulf Keystone Shares by way of a holding of Depository Interests in CREST);
“Gulf Keystone Share Option Plan”	the Gulf Keystone Share Option Plan;
“Gulf Keystone Share Schemes”	the Gulf Keystone Share Option Plan and the Gulf Keystone Executive Bonus Scheme;
“Hedging Arrangements”	foreign currency exchange arrangements which have been entered into between RAK Petroleum and Goldman Sachs International pursuant to which AED can, and will at the appropriate time, be converted into pounds Sterling at pre-arranged exchange rates and under which the minimum amount of pounds sterling into which the Escrow Amount (as defined in the Escrow Letter) can, and will at the appropriate time, be converted into is an amount equal to the Total Consideration;
“HBH PSC”	Contrat pour la recherche, d’appréciation et l’exploitation d’hydrocarbures entre Sonatrach et Gulf Keystone sur le périmètre Hassi Ba Hamou, dated 23 April 2005, as amended by Amendment No. 1 thereto;
“Hoare Govett”	Hoare Govett Limited, Nominated Adviser to Gulf Keystone;
“Hydrocarbon Rights”	the exploration, production and other contractual and legal rights, privileges, licences, permits and/or authorities granted to Gulf Keystone or which Gulf Keystone has announced via a Regulatory Information Service as having been granted to Gulf Keystone in respect of the PSCs and the related licences granted or to be granted to SONATRACH or ALNAFT (insofar as the foregoing licences may affect Gulf Keystone’s rights under the PSCs);
“Implementation Agreement”	the conditional agreement dated 12 April 2007 between the Company, RAK Petroleum and RAK Bermuda as summarised in Appendix I to this Announcement;
“Independent Directors”	the Directors other than Sheikh Sultan Bin Saqr Al Qassimi;
“London Stock Exchange”	London Stock Exchange Plc;
“Long Stop Date”	11.59 p.m. Bermuda time on 11 August 2007 or such later date as the Company, RAK Petroleum and RAK Bermuda may agree;
“MMbbls”	million barrels;
“Materially Adverse Information”	information as to adverse facts, circumstances, or occurrences that (i) Gulf Keystone was or becomes under a duty to announce via a Regulatory Information Service in accordance with the AIM Rules but has not so announced prior to the date hereof or (ii) would constitute a lawfully executed preemptive purchase by or a material challenge by the Algerian Authorities to the validity, ownership or scope of the Hydrocarbon Rights or (iii) would materially

	adversely affect the Resulting Company;
“Minister”	the Algerian minister in charge of hydrocarbons, within the meaning of the Decree;
“Minister’s Confirmation”	a written confirmation, in reply to the Minister Letter, from the Minister affirming that the Amalgamation is a transaction governed by Article 4 of the Decree and approving, or affirming no objection to, the Amalgamation, such confirmation having been provided without being subject to any condition or charge that in any respect diminishes the value of the Algerian Assets or that would increase the cost of the Amalgamation or the cost of exploitation of the Hydrocarbon Rights unless such condition or charge only diminishes such value or increases such cost by an amount which, taken together with any other condition, cost or charge imposed by an Algerian Authority in connection with the Amalgamation, is 1 per cent. or less of the Total Consideration;
“Minister Letter”	the letter duly submitted by Gulf Keystone to the Minister in conformity with, and accompanied by information required by, Articles 2 and 3 of the Decree, seeking approval of the Amalgamation in accordance with Article 4 of the Decree, the absence of preemption, and commencing the 3 month period contemplated by Article 4 of the Decree, in a form and manner approved in writing by each of RAK Petroleum and Gulf Keystone acting in good faith and in a timely manner;
“Ministry”	the Algerian Ministry of Energy and Mines;
“Notice of SGM”	the notice of the SGM set out in the Circular;
“Panel”	the Panel on Takeovers and Mergers;
“Placing Price”	62 pence per Gulf Keystone Share paid by investors in the placing by the Company of 21,600,000 new Gulf Keystone Shares on 17 August 2006;
“prospect”	a specific undrilled hydrocarbon trap that has been sufficiently defined to allow volumes and risks to be estimated;
“Proved plus Probable oil reserves” or “2P”	those reserve volumes that are estimated to have a 50 per cent. or more chance of being extracted;
“Proved oil reserves” or “1P”	those reserve volumes that are estimated to have a 90 per cent. chance of being extracted;
“PSCs”	the Block 126a PSC, the HBH PSC, Block 129 PSC, and the Block 108/128b PSC;
“RAK Bermuda”	RAK Petroleum (Bermuda) Limited, a wholly-owned subsidiary of RAK Petroleum, incorporated and registered in Bermuda under the Companies Act with registered number 39567;
“RAK Bermuda Resolution”	the resolution of RAK Petroleum as sole shareholder of RAK Bermuda to approve the Amalgamation Agreement

	pursuant to section 106 of the Companies Act;
“RAK Petroleum”	RAK Petroleum Public Company Limited, a company incorporated under the laws of the United Arab Emirates;
“RAK Petroleum Group”	RAK Petroleum and its subsidiaries and subsidiary undertakings;
“Regulatory Information Service”	the service approved by the London Stock Exchange for the distribution of AIM announcements and included within the list maintained on the website of the London Stock Exchange;
“reserves”	those quantities of petroleum which are estimated to be commercially recoverable from discovered accumulations;
“Resulting Company”	the company resulting from the Amalgamation and continuing following the Effective Time;
“RPS Energy”	RPS Energy Limited a multi-disciplinary international consultancy providing technical advice on the global energy sector;
“SGM” or “Special General Meeting”	the special general meeting of Gulf Keystone Shareholders to be held at the offices of Cox Hallett Wilkinson, Milner House, 18 Parliament Street, Hamilton, Bermuda at 1.00 p.m. (Bermuda time) on 22 May 2007 to consider and, if thought fit, approve, the Amalgamation Resolution and to transact such other business as may properly come before the SGM, and any valid adjournments or postponements thereof;
“SONATRACH”	La Société nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures, Algeria’s national oil development enterprise, founded in 1963;
“SONATRACH Condition”	the Condition set out in paragraph 2(b) of Appendix II;
“SONATRACH’s Confirmation”	a written confirmation, in response to the SONATRACH Letter, from SONATRACH that no right of pre-emption or right of approval with respect to an assignment under any of the PSCs applies to the Amalgamation, such confirmation having been provided without being subject to any condition or charge that in any respect diminishes the value of the Algerian Assets or that would increase the cost of the Amalgamation or the cost of exploitation of the Hydrocarbon Rights unless such condition or charge only diminishes such value or increases such cost by an amount which, taken together with any other condition, cost or charge imposed by an Algerian Authority in connection with the Amalgamation, is 1 per cent. or less of the Total Consideration;
“SONATRACH Letter”	the letter duly submitted by Gulf Keystone to SONATRACH notifying SONATRACH of the Amalgamation in accordance with the notification clauses in the PSCs and seeking SONATRACH’s support, in a form and manner approved in writing by each of RAK Petroleum and Gulf Keystone acting in good faith and in a timely

manner;

“Superior Proposal”	means a bona fide Competing Proposal which the Independent Gulf Keystone Directors consider, in their sole discretion, acting reasonably and in accordance with their fiduciary duties and after consultation with their legal and financial advisers, is ready to be formally announced immediately via a Regulatory Information Service and capable of being completed in accordance with its terms taking into account all financial, regulatory and other aspects of such proposal (including the ability of the proposing party to consummate the transaction contemplated by such proposal) and which, if consummated, in the opinion of the Independent Gulf Keystone Directors, in their sole discretion, acting reasonably and in accordance with their fiduciary duties, would be a superior offer in terms of financial value and terms and conditions to the Gulf Keystone Shareholders in comparison with the Amalgamation and which the Independent Gulf Keystone Directors are therefore minded to recommend to Gulf Keystone Shareholders;
“Total Consideration”	£208,318,720.60;
“Tristone Capital”	Tristone Capital Limited;
“UK Listing Authority” or “UKLA”	the Financial Services Authority acting in its capacity as competent authority for the purposes of Part VI of the FSMA;
“UK” or United Kingdom”	the United Kingdom of Great Britain and Northern Ireland; and
“USA” or “United States”	the United States of America, its territories and possession, any state of the United States of America, the District of Columbia and any other areas in its jurisdiction.

CURRENCY

Unless otherwise indicated, all references to “\$”, “US\$”, “dollars” or “U.S. dollars” in this Announcement are references to United States dollars, “£” or “pounds” refers to British pounds sterling and “AED” refers to United Arab Emirates dirham.

TIMES

Unless otherwise indicated, all references to times are to Bermuda time.