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**GULF KEYSTONE  
PETROLEUM LTD.**



**30 SEPTEMBER 2009**

**GULF KEYSTONE PETROLEUM LIMITED  
("GULF KEYSTONE" OR THE "COMPANY")**

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**FINANCIAL SUMMARY**

- Loss after tax \$5.6 million (1H08: \$18.2 million)
- Loss per share \$0.01 (1H08: \$0.07)
- Cash of \$16.7 million at 30 June 2009 (1H08: \$29.6 million)

**OPERATIONAL SUMMARY – FIRST HALF**

***Kurdistan***

- Shaikan-1 well spudded on 27 April 2009

***Algeria***

- HBH-6 appraisal well tested gas at 12.97 mmscf per day
- RM-2 appraisal well plugged and abandoned
- Further acquisition of 2D seismic and extended well test on RM-1 discovery

**OPERATIONAL SUMMARY – POST PERIOD END**

***Kurdistan***

- Significant oil discoveries at Shaikan-1 well, in the Sargelu, Alan, Mus and Butmah formations
- Appointment of independent E&P consultant, Dynamic Global Advisors, to assess Shaikan discoveries
- Gulf Keystone Petroleum International awarded interests in the Sheikh Adi and Ber Bahr Blocks
- Revised range of oil-in-place volumes of between 2.0 and 4.0 billion barrels

***Algeria***

- Strategic decision to suspend investment in its projects and undertake an exit from Algeria
- Assets held for sale, subject to approvals from the Algerian Government and the Company's partners BG North Sea Holdings plc ("BG") and Sonatrach
- Arbitration proceedings commenced against BG, the operator of the HBH Permit

**CORPORATE DEVELOPMENTS – FIRST HALF**

- Secured £30 million Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd
- £2.4 million (\$3.5 million) drawn down under SEDA facility in exchange for 16,149,465 new common shares
- Placing of 15,660,000 new common shares for gross proceeds of £2.28 million (\$3.3 million)

**CORPORATE DEVELOPMENTS – POST PERIOD END**

- Announcement of new strategic partner Etamic Limited ("Etamic")
- Placing of 75,600,000 new common shares for £6.8 million (\$11.3 million) before expenses

**Todd Kozel, Executive Chairman & Chief Executive Officer of Gulf Keystone said:**

*"2009 has already been a busy, and I am delighted to say, successful year. Although our exploration success and strong corporate progress has materialised in recent weeks, it was the culmination of much hard work throughout the first half.*

*I should like to thank everyone in Gulf Keystone and our industry partners for their efforts. We look forward to building on the outstanding exploration platform we have created in Kurdistan on behalf of our shareholders. I am very excited about our Company's future."*

**Enquiries**

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**Notes to Editors**

- Gulf Keystone Petroleum Ltd. (AIM: GKP) ("Gulf Keystone" or the "Company") is an independent oil and gas exploration company focused on exploration in the Kurdistan region of northern Iraq.
- The Company's shares have traded on the AIM market, since listing on 8 Sept 2004.
- Gulf Keystone Petroleum International ("GKPI") is a joint venture between the Company and Etamic, its strategic partner in Kurdistan. The JV holds Production Sharing Contracts ("PSCs") in four exploration blocks with a total area under licence of 1,702 square kilometres.
- On 6 Aug 2009, the Company announced that GKPI had made a significant discovery at the Shaikan-1 exploration well which spudded on 27 April 09. The well is located in the Shaikan Block, situated near the city of Dihok, approximately 85 kilometres North-West of Erbil and covers an area of 283 square kilometres. The Company is currently continuing its drilling to deeper targets at the same location.
- An independent E&P consultant Dynamic Global Advisors has been appointed to perform an independent assessment of discoveries made in the Shaikan-1 well.
- On 14 Jul 2009, the Company announced its intention to suspend investment and undertake an exit from its operations in Algeria in order to focus on Kurdistan.
- Gulf Keystone Petroleum Limited is registered in Hamilton, Bermuda with offices in Erbil, Kurdistan; Algiers, Algeria; and London, UK.

# **GULF KEYSTONE PETROLEUM LIMITED**

## **Executive Chairman and Chief Executive Officer's Statement**

### **Executive Chairman and Chief Executive Officer's Statement**

I am pleased to be able to report on the excellent progress made by Gulf Keystone during the first half of 2009, on events post period end and the near-term outlook for the Company.

#### **Kurdistan**

##### **Award of Two Production Sharing Contracts – Sheikh Adi & Ber Bahr**

On 20 July 2009, GKPI announced it had been awarded significant interests in two further Production Sharing Contracts ("PSCs") for the exploration, development and production of hydrocarbons in the Sheikh Adi and Ber Bahr Blocks of the Kurdistan Region of Northern Iraq.

Etamic, the Company's new strategic partner, successfully negotiated for the award of the Sheikh Adi PSC and the assignment of an interest in the Ber Bahr PSC to GKPI. GKPI proposed and it was agreed that Etamic secure the award of an 80% participating interest in Sheikh Adi and a 40% participating interest in Ber Bahr for GKPI in exchange for the issue of new shares in GKPI conferring Etamic a 50% equity interest in GKPI.

This strategic investment partnership is part of the planned expansion of Gulf Keystone's exploration portfolio in Kurdistan. This is consistent with the Company's stated intention to mitigate the risks of its exploration activity.

The PSCs have been acquired under more favourable terms than the Company's existing Shaikan and Akri-Bijeel blocks. Etamic will fund 50% of the costs to be incurred by GKPI on Sheikh Adi and Ber Bahr following the current drilling campaign on the two existing PSCs. Etamic will also contribute its share of GKPI's future exploration and development costs following the drilling of Shaikan-1 and Bijeel-1.

GKPI now holds PSCs in four exploration blocks in the highly prospective oil province of Kurdistan. Together these form one of the largest acreage positions in the region with a total area under licence of 1,702 square kilometres.

##### **Exploration drilling - Shaikan Block**

The Shaikan-1 well spudded on 27 April 2009 and has consequently encountered oil in the Sargelu, Alan, Mus and Butmah formations.

Post the period under review, on 6 August 2009, the Company reported that 21 to 22 API oil was tested at various rates between 5,000 to 8,000 barrels of oil per day over approximately a 60 metre zone. This provided Gulf Keystone with grounds for an oil-in-place estimate of between 1.5 and 3.0 billion barrels of oil encountered.

Dynamic Global Advisors, an independent E&P advisory, was appointed on 18 September 2009 to perform an independent assessment of discoveries made in the Company's Shaikan-1 well.

On 30 September 2009, the Company also reported that it had set the intermediate 9-5/8" casing at 2,275 meters on the Shaikan-1 exploration well, completing drilling of the Jurassic portion of the exploration well. These log results combined with knowledge gained from the previously announced interval has raised the estimation of the total barrels of oil in place by the Gulf Keystone internal technical team. Based upon the Company's own internal analysis, this data provides for a revised range of oil-in-place volumes for the Shaikan structure of between 2.0 and 4.0 billion barrels for the oil in place, encountered thus far.

As at 30 September 2009, drilling into the top of the Triassic formations has begun and the Company anticipates reaching a final drilling depth of 3,200 to 3,500 meters, subject to well results.

##### **Forward Work Programme**

## **GULF KEYSTONE PETROLEUM LIMITED**

Following the completion of the Shaikan-1 well, the rig will move to the Bijeel-1 well site and commence drilling on this prospect in 4Q 09. It is intended subsequently to bring in a workover rig to undertake an extended well test on the Shaikan-1 well.

The 2010 work programme is currently being formulated and remains subject to partner approval. However, it is expected that this will comprise a two to three well appraisal programme on Shaikan and an exploration well on Sheikh Adi. Sheikh Adi is on trend with Shaikan and a high grade target for 2010. The wells to be drilled in 2010 will evaluate the Shaikan discovery and Sheikh Adi.

In addition, plans for 2D and 3D seismic data acquisition are also being formulated for the Shaikan, Sheikh Adi and Ber Bahr PSCs.

Based on the preliminary work programme detailed above the current estimate of financing required for Gulf Keystone's share of activity for the remainder of 2009 and to the end of 2010 is \$88 million, which the Company intends to finance either by utilisation of the SEDA, further equity placings, the successful sale of the Company's Algerian assets or further farm-out transactions.

### **Algeria**

It is intended that the Company undertake an exit from Algeria and the assets are currently for sale. Any sale of its interests will be subject to approval by the Algerian governmental authorities and the Company's partners Sonatrach and BG North Sea Holdings Plc ("BG").

### **Hassi Ba Hamou ("HBH")**

During the half year two wells have been completed. The HBH-6 appraisal well tested gas at 12.97 mmscf per day. The RM-2 appraisal well was plugged and abandoned. Additionally, an extended well test of the RM-1 discovery was undertaken together with a 3D seismic acquisition campaign.

It is currently anticipated that subject to partner and governmental approvals and detailed project definition for both the HBH gas field and RM-1 discovery the project will be sanctioned in early 2010.

As announced on 14 July, the Company has suspended further investment in the HBH Permit and as a consequence, has opted not to pay certain due cash calls.

Arbitration proceedings commenced against BG, the operator of the HBH Permit, relating to breaches of the joint operating agreement ("JOA") by BG and the exercise of certain rights under the JOA. BG is claiming \$7.45 million relating to certain disputed cash calls.

### **GKN and GKS Field**

The GKN oil field remains shut-in and there has been limited activity on this acreage and on the proposed development of the GKS oil field during 2009.

### **Northern Blocks**

On Ben Guecha Block 108/ 128b the Company has served notice that it will not be completing the minimum work programme and as a consequence the exploration licence will expire and any outstanding bank guarantee will be released to Sonatrach.

### **Issue of Equity**

On 6 May 2009, the Company secured £30 million by way of a Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors, LLC. The SEDA enables Gulf Keystone, entirely at its own discretion for up to 36 months, to draw down funds in tranches in exchange for the issue of new equity on terms related to the prevailing market price at the time of each drawdown. To date, £2.4 million (\$3.5 million) has been drawn down from the facility and 16,149,465 new shares have been issued. A further 2,087,740 new common shares of \$0.01 each was issued in lieu of cash payments for fees due. The unused facility at the date of this report amounts to £27.6 million.

## **GULF KEYSTONE PETROLEUM LIMITED**

On 6 May 2009, the Company placed 14,660,000 new common shares of \$0.01 each at a price of £0.145 each, raising gross proceeds of approximately £2.1 million (\$3.1 million).

On 20 May 2009, the Company issued 1,000,000 new common shares of \$0.01 each at a price of £0.1539 each raising gross proceeds of £0.15 million (\$0.24 million).

On 3 August 2009, the Company issued 75,600,000 new common shares of \$0.01 each at a price of £0.09 each raising gross proceeds of £6.8 million (\$11.3 million) before expenses.

### **Financial overview**

Oil production in Algeria was shut in from early June 2008 to date and consequently revenue was nil during the period (1H 08 \$4.6 million) and cost of sales was also nil (1H 08 \$4.2 million).

No impairment charges were incurred in the period (1H 08 \$11.5 million).

General and administrative expenses during the period were \$6.0 million (1H 08 \$8.5 million). This reflects a foreign exchange gain during the period of \$0.2 million and across the board reduction in costs.

Interest revenue of \$0.5 million (1H 08 \$1.1 million) reflects reduced cash balances and in turn a lower interest rate earned on those deposits. Finance costs were \$0.1 million (1H 08 \$0.05 million).

The tax benefit of \$0.01 million (1H 08 \$0.3 million) is related to UK activities.

The Company reports a loss after taxation of \$5.6 million for the period (1H 08 \$18.2 million).

Net cash inflow from oil and gas production operations after general and administrative expenses was \$5.2 million (1H 08 outflow of \$2.2 million). This reflects cash receipts on oil sales in Algeria received in 2009 relating to 2008. Interest income was \$0.5 million (1H 08 \$0.8 million). Consequently, net cash generated from operating activities was \$5.8 million (1H 08 net cash used in operating activities \$1.4 million).

Capital expenditure of \$29.4 million (1H 08 \$57.3 million) relates mainly to exploration activities in the Kurdistan Region of Iraq and Algeria.

Issue of new common shares during the period raised \$6.8 million (1H 08 \$0.004 million).

Taking into account the net cash used in operating activities, capital expenditure and proceeds from the issue of shares the net cash outflow during the period was \$16.9 million (1H 08 \$58.7 million).

Cash and cash equivalents at the end of the period were \$16.7 million (1H 08 \$29.6 million).

As at 29 September 2009, the Company's cash balance was \$16.9 million. Based on the preliminary work programme detailed above the current estimate of financing required for Gulf Keystone's share of activity for the remainder of 2009 and to the end of 2010 is \$88 million. The Company intends to finance this requirement either by utilisation of the SEDA, further equity placings, the successful sale of the Company's Algerian assets or further farm-out transactions.

### **Outlook**

The discovery of multiple oil-bearing formations in the Shaikan-1 well has provided an early endorsement of the decision to focus Gulf Keystone's activities on Kurdistan. Gulf Keystone has taken several steps to strengthen its position in Kurdistan during 2009, and it now possesses an attractive portfolio of assets in the region, with opportunities emerging to build further.

We look forward to an active exploration and appraisal programme, subject to partner approval across our license positions. Following completion of the Shaikan well during the autumn of 2009, we plan to commence an extended well test with further appraisal wells on the block from mid 2010 onward. The

## **GULF KEYSTONE PETROLEUM LIMITED**

success of the Shaikan exploration well has also enhanced the prospectivity of our adjacent acreage, and we intend to drill the Bijeel-1 well between 4Q 2009 and 1Q 2010.

Our discoveries now provide a strong basis to secure long-term sustainable funding for our operating activities, and the Board is actively considering the most appropriate steps.

I am confident that in the coming months the company will exploit its established and growing potential in Kurdistan and secure value for shareholders.

**TF Kozel**

Executive Chairman  
& Chief Executive Officer

# GULF KEYSTONE PETROLEUM LIMITED

## Condensed Consolidated Income Statement for the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009 Unaudited \$'000	Six months ended 30 June 2008 Unaudited \$'000	Year ended 31 December 2008 Audited \$'000
<b>Continuing operations</b>				
Revenue		-	4,642	999
Cost of sales		-	(4,250)	(2,013)
<b>Gross profit/(loss)</b>		-	392	(1,014)
<b>Other operating expenses</b>				
Impairment of intangible exploration assets		-	(11,489)	(29,350)
Impairment of tangible oil and gas properties		-	-	(7,860)
Loss on change in fair value of financial asset		-	-	(6,455)
Loss on sale of tangible assets		(11)	-	-
General and administrative expenses		(5,989)	(8,468)	(16,417)
<b>Loss from operations</b>		<b>(6,000)</b>	<b>(19,565)</b>	<b>(61,096)</b>
Interest revenue		558	1,083	1,932
Finance costs		(139)	(51)	(105)
<b>Loss before tax</b>		<b>(5,581)</b>	<b>(18,533)</b>	<b>(59,269)</b>
Tax benefit	4	12	290	231
<b>Loss after tax</b>		<b>(5,569)</b>	<b>(18,243)</b>	<b>(59,038)</b>
<b>Loss per share (cents)</b>				
Basic	5	(1.48)	(6.55)	(18.61)
Diluted	5	(1.48)	(6.55)	(18.61)

# GULF KEYSTONE PETROLEUM LIMITED

## Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2009

	Six months ended 30 June 2009 Unaudited \$'000	Six months ended 30 June 2008 Unaudited \$'000	Year ended 31 December 2008 Audited \$'000
Loss for the period	(5,569)	(18,243)	(59,038)
<b>Other comprehensive income</b>			
Net foreign currency translation differences	6	(139)	(211)
Income tax	-	-	-
<b>Other comprehensive profit/(loss) for the period, net of tax</b>	<b>6</b>	<b>(139)</b>	<b>(211)</b>
<b>Total comprehensive loss for the period</b>	<b>(5,563)</b>	<b>(18,382)</b>	<b>(59,249)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the parent	(5,563)	(18,382)	(59,249)
Minority interest	-	-	-
<b>Total comprehensive loss for the period</b>	<b>(5,563)</b>	<b>(18,382)</b>	<b>(59,249)</b>



# GULF KEYSTONE PETROLEUM LIMITED

## Condensed Consolidated Balance Sheet as at 30 June 2009

	Notes	30 June 2009 Unaudited \$'000	30 June 2008 Unaudited \$'000	31 December 2008 Audited \$'000
<b>Non-current assets</b>				
Intangible assets	6	123,309	67,464	95,520
Property, plant and equipment	7	15,621	21,753	15,713
Financial asset		-	6,455	-
		<b>138,930</b>	<b>95,672</b>	<b>111,233</b>
<b>Current assets</b>				
Inventories		5,846	4,936	5,922
Trade and other receivables		1,382	11,874	7,857
Deferred tax asset	4	19	84	-
Cash and cash equivalents		16,722	29,593	33,606
		<b>23,969</b>	<b>46,487</b>	<b>47,385</b>
<b>Total assets</b>		<b>162,899</b>	<b>142,159</b>	<b>158,618</b>
<b>Current liabilities</b>				
Trade and other payables		21,137	24,808	18,515
Tax liabilities	4	7	151	-
		<b>21,144</b>	<b>24,959</b>	<b>18,515</b>
<b>Non-current liabilities</b>				
Trade and other payables		14,857	-	14,857
Provisions		2,985	1,106	2,846
		<b>17,842</b>	<b>1,106</b>	<b>17,703</b>
<b>Total liabilities</b>		<b>38,986</b>	<b>26,065</b>	<b>36,218</b>
<b>Net assets</b>		<b>123,913</b>	<b>116,094</b>	<b>122,400</b>
<b>Equity</b>				
Share capital	8	3,071	1,870	2,765
Share premium account	8	211,443	159,063	204,919
Share option reserve		5,136	4,468	4,890
Exchange translation reserve		(178)	(112)	(184)
Accumulated losses		(95,559)	(49,195)	(89,990)
<b>Total equity</b>		<b>123,913</b>	<b>116,094</b>	<b>122,400</b>

# GULF KEYSTONE PETROLEUM LIMITED

## Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2009

	Attributable to equity holders of the Group					Total equity \$'000
	Share capital \$'000	Share premium account \$'000	Share option reserve \$'000	Accumulated losses \$'000	Exchange translation reserve \$'000	
Balance as at 1 January 2008	1,866	159,063	3,988	(30,952)	27	133,992
Net loss for the period	-	-	-	(18,243)	-	(18,243)
Other comprehensive loss	-	-	-	-	(139)	(139)
Total comprehensive loss	-	-	-	(18,243)	(139)	(18,382)
Share-based payment expense	-	-	480	-	-	480
Share conversion and issue	4	-	-	-	-	4
Balance at 30 June 2008 (unaudited)	1,870	159,063	4,468	(49,195)	(112)	116,094
Net loss for the period	-	-	-	(40,795)	-	(40,795)
Other comprehensive loss	-	-	-	-	(72)	(72)
Total comprehensive loss	-	-	-	(40,795)	(72)	(40,867)
Share-based payment expense	-	-	422	-	-	422
Share conversion and issue	895	45,856	-	-	-	46,751
Balance at 31 December 2008 (audited)	2,765	204,919	4,890	(89,990)	(184)	122,400
Net loss for the period	-	-	-	(5,569)	-	(5,569)
Other comprehensive income	-	-	-	-	6	6
<b>Total comprehensive (loss) / income</b>	-	-	-	<b>(5,569)</b>	<b>6</b>	<b>(5,563)</b>
Share-based payment expense	-	-	246	-	-	246
Share conversion and issue	306	6,524	-	-	-	6,830
<b>Balance at 30 June 2009 (unaudited)</b>	<b>3,071</b>	<b>211,443</b>	<b>5,136</b>	<b>(95,559)</b>	<b>(178)</b>	<b>123,913</b>

# GULF KEYSTONE PETROLEUM LIMITED

## Condensed Consolidated Cash Flow Statement for the six months ended 30 June 2009

	Notes	Six months ended 30 June 2009 Unaudited \$'000	Six months ended 30 June 2008 Unaudited \$'000	Year ended 31 December 2008 Audited \$'000
<b>Operating activities</b>				
Cash generated by/(used in) operations	9	5,194	(2,213)	(12,516)
Tax paid		-	-	(145)
Interest received		558	784	1,632
<b>Net cash generated by/(used in) operating activities</b>		<b>5,752</b>	<b>(1,429)</b>	<b>(11,029)</b>
<b>Investing Activities</b>				
Proceeds on disposal of property, plant and equipment		15	-	-
Purchase of intangible assets		(29,343)	(57,086)	(85,331)
Purchase of property, plant and equipment		(116)	(175)	(1,734)
<b>Net cash used in investing activities</b>		<b>(29,444)</b>	<b>(57,261)</b>	<b>(87,065)</b>
<b>Financing activities</b>				
Proceeds on issue of share capital		6,830	4	46,755
<b>Net cash generated by financing activities</b>		<b>6,830</b>	<b>4</b>	<b>46,755</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(16,862)</b>	<b>(58,686)</b>	<b>(51,339)</b>
Cash and cash equivalents at beginning of period		33,606	88,286	88,286
Effect of foreign exchange rate changes		(22)	(7)	(3,341)
<b>Cash and cash equivalents at end of the period being bank balances and cash on hand</b>		<b>16,722</b>	<b>29,593</b>	<b>33,606</b>

# GULF KEYSTONE PETROLEUM LIMITED

## Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2009

### 1. General information

Gulf Keystone Petroleum Limited (the "Company") was incorporated and registered in Bermuda on 29 October 2001 as an exempted company limited by shares. The common shares of the Company were admitted to trading on the Alternative Investment Market ("AIM") on 8 September 2004. The Company maintains its registered office in Bermuda. In 2008 the Company established a Level 1 American Depositary Receipt programme in conjunction with the Bank of New York Mellon which has been appointed as the depositary bank.

This consolidated interim financial information of Gulf Keystone Petroleum Limited for the six months ended 30 June 2009, comprises the Company and its subsidiaries (together the "Group"). The interim report was authorised for issue by the directors on 30 September 2009. The financial information has not been audited or reviewed by auditors.

The financial information for the year ended 31 December 2008 does not constitute the Company's Annual Report for that year, but it is derived from those accounts and is consistent with the accounting policies described therein. The auditors have reported on those accounts and their opinion was unqualified.

### 2. Accounting policies

The annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRSs"). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting'.

The same accounting policies, presentation methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

#### *IAS 1: Revised Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements. The adoption of the revised standard has not impacted the financial position or performance of the Group.

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### 3. Segment information

For management purposes, the Group is organised into four business segments which are based on their principal activities and function. The chief operating decision maker is the Executive Chairman and Chief Executive Officer. He is assisted by the Chief Operating Officer, the Finance Director and the Vice President of Operations as well as the Country Managers in Kurdistan and Algeria.

The accounting policies of the reportable segments are consistent with the Group's accounting policies which can be found in the 31 December 2008 Annual Report and Accounts.

Each segment is described in more detail below:

- Algeria: the Algerian segment consists of Block 126a, which includes the GKN and GKS oil fields, the HBH Perimeter which includes Blocks 317b1, part 347b, 348 and 349b and includes the HBH gas field and the Algiers office which provides support to the operations in Algeria.
- Kurdistan: the Kurdistan segment consists of the Shaikan, Akri-Bijeel, Sheikh Adi and Ber Bahr Blocks and the Erbil office which provides support to the operations in Kurdistan.

# GULF KEYSTONE PETROLEUM LIMITED

## Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2009 continued

### 3. Segment information continued

- United Kingdom: the UK segment provides geological, geophysical and engineering services to the Gulf Keystone Group.
- The Corporate segment manages activities that serve more than one segment. It represents all overhead and administration costs incurred that cannot be directly linked to one of the above segments.

30 June 2009	Algeria	Kurdistan	United Kingdom	Corporate	Elimination	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>						
Inter-segment sales	-	-	1,255	-	(1,255)	-
<b>Total revenue</b>	-	-	<b>1,255</b>	-	<b>(1,255)</b>	-
<b>Gross profit/(loss)</b>	-	-	<b>1,255</b>	-	<b>(1,255)</b>	-
Loss on sale of tangible assets	-	(11)	-	-	-	<b>(11)</b>
<b>General and administrative expenses</b>						
Allocated general and administrative expenses	(2,093)	(523)	(1,214)	(2,875)	904	<b>(5,801)</b>
Depreciation and amortisation expense	(44)	(58)	(85)	(1)	-	<b>(188)</b>
<b>Total general and administrative expenses</b>	<b>(2,137)</b>	<b>(581)</b>	<b>(1,299)</b>	<b>(2,876)</b>	<b>904</b>	<b>(5,989)</b>
<b>(Loss) / profit from operations</b>	<b>(2,137)</b>	<b>(592)</b>	<b>(44)</b>	<b>(2,876)</b>	<b>(351)</b>	<b>(6,000)</b>
Interest revenue	-	-	-	558	-	<b>558</b>
Finance costs (finance charge unwinding)	(139)	-	-	-	-	<b>(139)</b>
<b>(Loss)/profit before tax</b>	<b>(2,276)</b>	<b>(592)</b>	<b>(44)</b>	<b>(2,318)</b>	<b>(351)</b>	<b>(5,581)</b>
Tax benefit	-	-	12	-	-	<b>12</b>
<b>(Loss)/profit after tax</b>	<b>(2,276)</b>	<b>(592)</b>	<b>(32)</b>	<b>(2,318)</b>	<b>(351)</b>	<b>(5,569)</b>
<b>Capital expenditure</b>						
Opening net book value	74,087	36,922	214	10	-	<b>111,233</b>
Additions	16,860	11,054	-	-	-	<b>27,914</b>
Disposals	-	(26)	-	-	-	<b>(26)</b>
Foreign currency translation differences	-	-	(3)	-	-	<b>(3)</b>
Depreciation charge	(44)	(58)	(85)	(1)	-	<b>(188)</b>
<b>Closing net book value</b>	<b>90,903</b>	<b>47,892</b>	<b>126</b>	<b>9</b>	<b>-</b>	<b>138,930</b>
Total assets	95,832	50,414	1,790	134,432	(119,569)	<b>162,899</b>
Total liabilities	(103,177)	(53,662)	(513)	(101)	118,467	<b>(38,986)</b>

# GULF KEYSTONE PETROLEUM LIMITED

## Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2009 continued

### 3. Segment information continued

30 June 2008	Algeria	Kurdistan	United Kingdom	Corporate	Elimination	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>						
Oil sales	4,350	-	-	-	-	<b>4,350</b>
Inter-segment sales	-	-	1,874	-	(1,874)	-
Other revenue	137	-	155	-	-	<b>292</b>
<b>Total revenue</b>	<b>4,487</b>	-	<b>2,029</b>	-	<b>(1,874)</b>	<b>4,642</b>
<b>Cost of sales</b>						
Production costs	(1,869)	-	-	-	-	<b>(1,869)</b>
Oil and gas properties depreciation expense	(2,381)	-	-	-	-	<b>(2,381)</b>
<b>Total cost of sales</b>	<b>(4,250)</b>	-	-	-	-	<b>(4,250)</b>
<b>Gross profit/(loss)</b>	<b>237</b>	-	<b>2,029</b>	-	<b>(1,874)</b>	<b>392</b>
Impairment of intangible exploration assets	(11,489)	-	-	-	-	<b>(11,489)</b>
<b>General and administrative expenses</b>						
Allocated general and administrative expenses	(2,638)	(229)	(2,192)	(4,229)	1,013	<b>(8,275)</b>
Depreciation and amortisation expense	(87)	(14)	(92)	-	-	<b>(193)</b>
<b>Total general and administrative expenses</b>	<b>(2,725)</b>	<b>(243)</b>	<b>(2,284)</b>	<b>(4,229)</b>	<b>1,013</b>	<b>(8,468)</b>
<b>(Loss) / profit from operations</b>	<b>(13,977)</b>	<b>(243)</b>	<b>(255)</b>	<b>(4,229)</b>	<b>(861)</b>	<b>(19,565)</b>
Interest revenue	-	15	8	1,060	-	<b>1,083</b>
Finance costs (finance charge unwinding)	(51)	-	-	-	-	<b>(51)</b>
<b>Loss before tax</b>	<b>(14,028)</b>	<b>(228)</b>	<b>(247)</b>	<b>(3,169)</b>	<b>(861)</b>	<b>(18,533)</b>
Tax benefit	-	-	290	-	-	<b>290</b>
<b>(Loss)/profit after tax</b>	<b>(14,028)</b>	<b>(228)</b>	<b>43</b>	<b>(3,169)</b>	<b>(861)</b>	<b>(18,243)</b>
<b>Capital expenditure</b>						
Opening net book value	39,640	25,969	480	4	-	<b>66,093</b>
Additions	30,331	6,879	-	-	-	<b>37,210</b>
Impairment write off	(11,489)	-	-	-	-	<b>(11,489)</b>
Foreign currency translation differences	-	-	(23)	-	-	<b>(23)</b>
Depreciation charge	(2,468)	(14)	(92)	-	-	<b>(2,574)</b>
<b>Closing net book value</b>	<b>56,014</b>	<b>32,834</b>	<b>365</b>	<b>4</b>	<b>-</b>	<b>89,217</b>
Total assets	79,277	35,570	3,123	132,755	(108,566)	<b>142,159</b>
Total liabilities	(92,708)	(37,090)	(860)	(190)	104,783	<b>(26,065)</b>

# GULF KEYSTONE PETROLEUM LIMITED

## Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2009 continued

### 3. Segment information continued

31 December 2008	Algeria	Kurdistan	United Kingdom	Corporate	Elimination	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>						
Oil sales	999	-	-	-	-	999
Inter-segment sales	-	-	2,864	-	(2,864)	-
<b>Total revenue</b>	<b>999</b>	<b>-</b>	<b>2,864</b>	<b>-</b>	<b>(2,864)</b>	<b>999</b>
<b>Cost of sales</b>						
Production costs	(125)	-	-	-	-	(125)
Oil and gas properties depreciation expense	(1,888)	-	-	-	-	(1,888)
<b>Total cost of sales</b>	<b>(2,013)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,013)</b>
<b>Gross profit/(loss)</b>	<b>(1,014)</b>	<b>-</b>	<b>2,864</b>	<b>-</b>	<b>(2,864)</b>	<b>(1,014)</b>
Impairment of intangible exploration assets	(29,350)	-	-	-	-	(29,350)
Impairment of tangible oil and gas properties	(7,860)	-	-	-	-	(7,860)
Loss on change in fair value of financial asset	(6,455)	-	-	-	-	(6,455)
<b>General and administrative expenses</b>						
Allocated general and administrative expenses	(3,219)	(1,045)	(3,378)	(10,655)	2,260	(16,037)
Depreciation and amortisation expense	(132)	(66)	(182)	-	-	(380)
<b>Total general and administrative expenses</b>	<b>(3,351)</b>	<b>(1,111)</b>	<b>(3,560)</b>	<b>(10,655)</b>	<b>2,260</b>	<b>(16,417)</b>
<b>Loss from operations</b>	<b>(48,030)</b>	<b>(1,111)</b>	<b>(696)</b>	<b>(10,655)</b>	<b>(604)</b>	<b>(61,096)</b>
Interest revenue	-	27	14	1,891	-	1,932
Finance costs (finance charge unwinding)	(105)	-	-	-	-	(105)
<b>Loss before tax</b>	<b>(48,135)</b>	<b>(1,084)</b>	<b>(682)</b>	<b>(8,764)</b>	<b>(604)</b>	<b>(59,269)</b>
Tax benefit	-	-	231	-	-	231
<b>(Loss)/profit after tax</b>	<b>(48,135)</b>	<b>(1,084)</b>	<b>(451)</b>	<b>(8,764)</b>	<b>(604)</b>	<b>(59,038)</b>
<b>Capital expenditure</b>						
Opening net book value	39,640	25,969	480	4	-	66,093
Additions	73,677	11,019	1	6	-	84,703
Impairment write off	(37,210)	-	-	-	-	(37,210)
Foreign currency translation differences	-	-	(85)	-	-	(85)
Depreciation charge	(2,020)	(66)	(182)	-	-	(2,268)
<b>Closing net book value</b>	<b>74,087</b>	<b>36,922</b>	<b>214</b>	<b>10</b>	<b>-</b>	<b>111,233</b>
Total assets	84,700	43,071	1,879	144,485	(115,517)	158,618
Total liabilities	(105,344)	(42,078)	(615)	(282)	112,101	(36,218)

# GULF KEYSTONE PETROLEUM LIMITED

## Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2009 continued

### 4. Taxation

Under current Bermuda laws, the Group is not required to pay taxes in Bermuda on either income or capital gains.

Any corporate tax liability in Algeria is settled out of Sonatrach's share of oil under the terms of the Production Sharing Contracts and is therefore not reflected in the tax charge for the year.

In Kurdistan, the Group is subject to corporate income tax on its income from petroleum operations. The rate of corporate income tax is currently 40% for all taxable profits in excess of 9 million Iraqi Dinars (equivalent to \$7,577 at the 30 June 2009 exchange rate). However, any corporate income tax arising from petroleum operations will be paid from the Kurdistan Regional Government of Iraq's share of petroleum profits.

The tax currently payable is based on taxable profit for the year earned in the United Kingdom by the Group's subsidiary. UK corporation tax is calculated at 28% of the estimated assessable profit for the year of the UK subsidiary.

### 5. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

	<b>Six months ended 30 June 2009 \$'000</b>	Six months ended 30 June 2008 \$'000	Year ended 31 December 2008 \$'000
<b>Loss</b>			
Loss for the purposes of basic and diluted loss per share	<b>(5,569)</b>	(18,243)	(59,038)
	<b>30 June 2009 Number</b>	30 June 2008 Number	31 December 2008 Number
<b>Number of shares</b>			
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>375,604,421</b>	278,364,660	317,323,197
Adjustments for:			
-bonus shares	<b>n/a</b>	n/a	n/a
-share options	<b>n/a</b>	n/a	n/a
Weighted average number of ordinary shares for the purposes of diluted loss per share	<b>375,604,421</b>	278,364,660	317,323,197

### 6. Intangible assets

The additions to oil and gas exploration and evaluation costs in the year include the drilling of the Shaikan-1 exploration well, preparation for the drilling of the Akri-Bijeel-1 exploration well in Kurdistan and drilling of the HBH-6 and RM-2 appraisal wells in Algeria.

### 7. Property, plant and equipment

During the period, the Group spent approximately \$115,000 on plant and equipment, including motor vehicles, for the new office in Kurdistan and \$1,000 on plant and equipment in Algeria.

### 8. Share capital

Share capital as at 30 June 2009 amounted to \$214.5 million. During the period, 34.9 million new shares were issued. One million shares were issued as part of the Company's bonus share scheme, increasing the value of share capital by \$9,859; 18.2 million new shares were issued as part of the Standby Equity Distribution Agreement ("SEDA") increasing the value of share capital by \$3.4 million; and 15.7 million new shares were issued to private investors, increasing the value of share capital by \$3.4 million.



# GULF KEYSTONE PETROLEUM LIMITED

## Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2009 continued

### 9. Reconciliation of loss from operations to net cash generated by/(used in) operating activities

	Six months ended 30 June 2009 \$'000	Six months ended 30 June 2008 \$'000	Year ended 31 December 2008 \$'000
Loss from operations	(6,000)	(19,565)	(61,096)
Adjustments for:			
Depreciation of property, plant and equipment	178	2,497	2,176
Amortisation of intangible assets	10	77	92
Impairment of intangible exploration assets	-	11,489	29,350
Impairment of tangible oil and gas properties	-	-	7,860
Loss on change in fair value of financial asset	-	-	6,455
Stock write off	24	-	4
Foreign exchange loss	(247)	70	3,099
Share based payment expense	246	480	902
Loss on sale of tangible assets	11	-	-
Decrease / (increase) in inventories	52	590	(400)
(Increase) / decrease in receivables	6,475	(6,127)	(1,519)
Increase / (decrease) in payables	4,445	8,276	561
<b>Net cash generated by/(used in) operating activities</b>	<b>5,194</b>	<b>(2,213)</b>	<b>12,516</b>

### 10. Guarantees

#### *Cash backed guarantees*

As part of the contractual terms of the Algerian contracts, the Group has given bank guarantees to Sonatrach of \$15.6 million. Included within the cash balance at 30 June 2009 are cash backed guarantees which effectively reduce the free cash available that the Group has on its balance sheet. The Company is required to keep a minimum cash balance sufficient to cover the bank guarantees at all times. The guarantee relates to the Ben Guecha ("108/128b Contract") exploration and evaluation work programme stipulated in the contract and is reduced as the work programme is completed.

#### *Other guarantees*

The Group has provided a guarantee of \$3.75 million to the Federal Government of the Republic of Iraq to state it will meet the minimum financial commitment and/or the minimum exploration obligations as required under the terms of the Shaikan PSC. The guarantee is reduced as the work programme is completed.

### 11. Related party transactions

#### *Transactions with related parties*

Transactions between the Company and its subsidiaries are disclosed below.

During the year the parent Company entered into the following transactions with its subsidiary, Gulf Keystone

	Six months ended 30 June 2009 \$'000	Six months ended 30 June 2008 \$'000	Year ended 31 December 2008 \$'000
Purchases of services in year	1,255	2,006	2,864
Amounts owed to related parties at year end	-	201	-

These amounts relate to the provision of geological, geophysical and engineering services by Gulf Keystone Petroleum (UK) Limited.

# GULF KEYSTONE PETROLEUM LIMITED

## Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2009 continued

### 11. Related party transactions continued

#### *Texas Keystone Inc.*

Texas Keystone Inc is a related party of the Group because Mr Todd Kozel, a director of the Company, is also a director of Texas Keystone, Inc. ("TKI").

On 21 December 2007, GKPI entered into a Joint Operating Agreement ("the Agreement") for the Shaikan Block in Kurdistan in which TKI holds a 5% participating interest. TKI initially led the pursuit of opportunities in the Kurdistan region and participated in the successful signature of the Production Sharing Contract for the Shaikan Block. In return for this and TKI's continuing participation, GKPI was liable to pay for TKI's share of the costs of the Exploration Work Programme and all costs ancillary to the Joint Operations up until the drilling of the first exploration well. TKI elected not to participate in the drilling of the Shaikan-1 well and by failing to exercise this election agreed to assign its interest under the contract to GKPI. Consequently TKI holds its interest in trust for GKPI pending transfer of its interest which is subject to the approval of the Kurdistan Regional Government.

No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

### 12. Subsequent events

On 14 July 2009, the Company announced its intention to seek a buyer for its interest in the Hassi Ba Hamou Permit (the "Permit"), in Central Algeria. The sale of its interests which would be subject to approvals from the Algerian Government and the Company's partners, Sonatrach and BG North Sea Holdings Limited ("BG").

Given the significant near-term upside potential of Gulf Keystone's interests in Kurdistan, it is the Company's considered view that shareholders' interests would be best served by the Company focusing its resources entirely on its Kurdistan operations. Gulf Keystone has therefore suspended further investment in the Permit and, as a consequence, has opted not to pay certain due cash calls in respect of the Permit. The Company has commenced arbitration proceedings against BG relating to certain breaches by BG, as operator, under the JOA. The Company also contends that certain rights and remedies which BG is seeking to rely on are unenforceable.

On 20 July 2009, the Company announced the award of two new exploration contracts in Kurdistan – Sheikh Adi and Ber Bahr – and a new strategic investment partner, Etamic Limited ("Etamic"). In return for a 50% equity interest in Gulf Keystone Petroleum International Limited ("GKPI"), the holding company for the Kurdistan assets, Etamic secured interests in the Sheikh Adi and Ber Bahr Blocks. GKPI now holds an interest of 80% and 40% in each block respectively.

On 3 August 2009, the Company successfully completed a placing of 75.6 million new common shares of \$0.01 each at a placing price of £0.09 per share raising gross proceeds of approximately £6.8 million (\$11.3 million).

It was further announced that an additional 133,513 new common shares of \$0.01 were issued to employees under the Company's Executive Bonus Scheme, including an issue to Director, Ewen Ainsworth, of 54,233 shares.

### 13. Further information

An electronic version of the Interim Financial Statements has been posted on the Group's website [www.gulfkeystone.com](http://www.gulfkeystone.com). Hard copies are available by writing to Gulf Keystone Petroleum Limited, C/- Gulf Keystone Petroleum (UK) Limited, 16 Berkeley Street, London, W1J 8DZ.