

Not for release, publication or distribution in or into the United States or jurisdictions other than the United Kingdom and Bermuda where to do so would constitute a contravention of the relevant laws of such jurisdiction.

**GULF KEYSTONE
PETROLEUM LTD.**



12 September 2012

Gulf Keystone Petroleum Ltd. (AIM: GKP)
("Gulf Keystone" or "the Company")

Half Year Report for the six months ended 30 June 2012

Gulf Keystone, an independent oil and gas exploration and production company with operations in the Kurdistan Region of Iraq, today announces its results for the six months ended 30 June 2012.

HIGHLIGHTS

Operational – to 30 June 2012 and post period end

Shaikan (75% working interest; Operator)

- 83% increase in gross oil-in-place numbers (PMean) for the Shaikan discovery with a new range of 12.4 billion (P90) to 15.0 billion (P10) barrels, with a mean value of 13.7 billion barrels, following independent evaluation by Dynamic Global Advisors ("DGA") in July 2012
- Completion of the agreed five-well appraisal programme of the Shaikan field with the drilling of the Shaikan -4, -5 and -6 appraisal wells and testing of Shaikan -4 and -6
- Submission of the Declaration of Commercial Discovery for the Shaikan field with effect from 1 August 2012
- Spudding of Shaikan-8, the first post-appraisal well
- Ongoing work on the Shaikan Field Development Plan to be submitted within 180 days following the Declaration of Commercial Discovery
- Construction of two new early production facilities (PF -1 and -2, formerly known as EWT -1 and -2) is nearing completion, with the first unit due to become operational in January 2013 and the second by the end of the first quarter 2013
- Following completion of the preliminary design work, awaiting confirmation of the final route of the Shaikan export pipeline

Sheikh Adi (80% working interest; Operator)

- Sheikh Adi-2, the second exploration well on the block, spudded in May 2012 and has been drilled to a measured depth of 2,754 metres, with a plan to conduct a well testing programme across 7 target zones

Akri-Bijeel (20% working interest)

- Based on the Bekhme-1 exploration well's log data, DGA calculated a range of 2.5 billion (P90) to 5.4 billion (P10) barrels of gross oil-in-place resources for the Aqra/Bekhme anticline
- Bijell-3 well, spudded in January 2012 to appraise the Bijell discovery of 2.4 billion (P50) barrels of gross oil-in-place, as calculated by the operator of the block. The well is currently drilling at a measured depth of 4,974 metres and, given good preliminary results of the logs and cores, will be followed by a well testing programme
- An early production facility for the Bijell discovery is being constructed to be installed by the end of 2012

- Bakrman-1 exploration well spudded in May 2012 and is currently approaching the planned 7 inch casing point at 3,637 metres and, given good preliminary results of the logs and cores, will be followed by a well testing programme
- Gulak-1 exploration well spudded in July 2012 and is currently drilling in the upper Jurassic below a measured depth of 1,600 metres

Ber Bahr (40% working interest)

- Ber Bahr-1, the first exploration well on the block, was drilled to a total depth ("TD") of 3,930 metres and encountered a 300 metres oil column in the Jurassic. The well has been temporarily suspended while a work over rig is moved to the location to conduct a further well test with results expected in the fourth quarter 2012

Financial – as at 30 June 2012

- Loss after tax: \$31.4 million (1H11: \$10.3 million)
- Loss per share: 3.68 cents (1H11: 1.37 cents)
- Cash, cash equivalents and liquid investments of \$136.9 million as at 30 June 2012 (30 June 2011: \$137.6 million; 31 December 2011: \$237.6 million)

Corporate development

- The Nominations Committee of the Board was formed in February 2012 (Lord Guthrie, Chairman) and the Remuneration and Appointments Committee was renamed the Remuneration Committee (Mehdi Varzi, Chairman)
- Lord Truscott retired by rotation from his position as the Company's Non-Executive Director
- Mr Adnan Samarraï retired from his position as the Company's Country Manager moving to a senior position within the Ministry of Natural Resources of the Kurdistan Region of Iraq. Mr Umur Eminkahyagil, previously Development and Production Manager, has been appointed the Company's Country Manager in the Kurdistan Region of Iraq

OUTLOOK

- Complete and submit the Shaikan Field Development Plan by the end of January 2013, select development concept, and move to the large-scale staged development in 2013 with the goal of achieving 150,000 bopd by 2015 and full plateau production thereafter
- Commission the two Shaikan early production facilities to increase production to 30,000 – 40,000 bopd by mid-2013
- Confirm the final route and make a decision on the construction of an export pipeline to connect Shaikan's increasing production to international markets
- Explore undrilled horizons in the Shaikan block, with the Shaikan-7 well targeting the deeper Triassic and the Permian
- Continue aggressive exploration and appraisal of the Akri-Bijeel, Sheikh Adi and Ber Bahr blocks to prove up resource base
- Evaluate the ongoing process of the sale of the Company's 20% interest in the Akri-Bijeel block, taking into consideration forthcoming results of the three wells currently being drilled and planned early production from the Bijell discovery
- Successfully remove the uncertainty caused by the claims asserted by Excalibur
- Move from AIM to the premium segment of the Official List of the London Stock Exchange as part of establishing the Company as one of the major independent exploration and production players listed on the London Stock Exchange

Todd F Kozel, Executive Chairman and CEO of Gulf Keystone, commented:

"As an independent explorer and operator in the Kurdistan Region of Iraq, we are proud of our outstanding operating record to date with 15 wells drilled or currently being drilled across the four blocks and ambitious targets consistently being met. Since mid-July, we have announced another major upgrade of Shaikan's gross oil-in-place volumes following independent evaluation, completed a very successful appraisal programme of this world-class discovery and declared the field commercial."

Gulf Keystone is now in transition from the exploration and appraisal phase to the large-scale staged development and production of the Shaikan field, which will be both challenging and exciting”.

Following the release of Gulf Keystone’s results for the six months ended 30 June 2012, the management will be hosting a meeting with equity analysts. For details contact Pelham Bell Pottinger.

Copies of the presentation will be available on the Company’s website at www.gulfkeystone.com from 10.00 a.m. (UK time).

Enquiries:

Gulf Keystone Petroleum: **+44 (0) 20 7514 1400**
Todd Kozel, Executive Chairman and
Chief Executive Officer
Ewen Ainsworth, Finance Director

Strand Hanson Limited **+44 (0) 20 7409 3494**
Simon Raggett / Rory Murphy / James Harris

Mirabaud Securities LLP **+44 (0) 20 7878 3362**
Peter Krens

Pelham Bell Pottinger **+44 (0) 20 7861 3232**
Mark Antelme / Henry Lerwill

or visit: www.gulfkeystone.com

John Gerstenlauer, the Company’s Chief Operating Officer, who has 33 years of relevant experience within the sector and meets the criteria of a qualified person under the AIM note for mining, oil and gas companies, has reviewed and approved the technical information contained in this announcement. Mr. Gerstenlauer is a member of the Society of Petroleum Engineers.

Notes to Editors:

- Gulf Keystone Petroleum Ltd. (AIM: GKP) is an independent oil and gas exploration and production company focused on exploration in the Kurdistan Region of Iraq.
- Gulf Keystone Petroleum Limited is registered in Hamilton, Bermuda with further offices in Erbil, Kurdistan (Iraq), Algiers, Algeria and London, UK.
- Gulf Keystone Petroleum International (GKPI) holds Production Sharing Contracts (PSCs) for four exploration blocks in Kurdistan, including the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel blocks, and is the operator of the Shaikan and Sheikh Adi PSCs.
- Shaikan is a major discovery with independently audited gross oil-in-place volumes of between 12.4 billion barrels to 15 billion barrels calculated on the P90 to P10 basis, with a mean value of 13.7 billion barrels.
- The Company’s shares have traded on the AIM market of the London Stock Exchange since listing on 8 September 2004.

Disclaimer

This announcement contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this announcement but such statements should be treated with caution due to inherent uncertainties, including both economic and business factors, underlying such forward-looking information. This announcement has been prepared solely to provide additional information to shareholders to assess the Group’s strategies and the potential for those strategies to succeed. This announcement should not be relied on by any other party or for any other purpose.

Not for release, publication or distribution, directly or indirectly, in or into the United States or jurisdictions other than the United Kingdom and Bermuda where to do so would constitute a contravention of the relevant laws of such jurisdiction. This announcement (and the information contained herein) does not contain or constitute an offer of securities for sale, or solicitation of an offer to purchase securities, in the United States or jurisdictions other than the United Kingdom and Bermuda where to do so would constitute a contravention of the relevant laws of such jurisdiction. The securities referred to herein have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States unless the securities are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. No public offering of the securities will be made in the United States.

GULF KEYSTONE PETROLEUM LIMITED

Executive Chairman and Chief Executive Officer's Statement

Welcome to this brief overview of the key achievements of Gulf Keystone Petroleum Limited ("Gulf Keystone" or "the Company") since 31 December 2011.

The Company has continued to make progress in building on its world class position in the Kurdistan Region of Iraq, one of the last remaining frontier oil and gas provinces. Our asset portfolio in the region consists of four on-trend blocks with majority operated working interests in the Production Sharing Contracts ("PSCs") for the Shaikan and Sheikh Adi blocks and further non-operated working interests in the Akri-Bijeel and Ber Bahr blocks. Taking into account the latest resource estimates for the Shaikan discovery, the preliminary resource evaluation of Sheikh Adi, as well as current resource estimates for the Bijell discovery (on the Akri-Bijeel block) and the Ber Bahr block issued by their respective operators, today Gulf Keystone has a share of gross mean oil-in-place resources of at least 19 billion barrels, representing an increase of at least 3 billion barrels since May 2012, when we announced our results for 2011.

Shaikan alone is one of the largest discoveries by gross oil-in-place volumes among its peers in the Kurdistan Region of Iraq and one of the largest onshore exploration fields in the world today. Since the discovery was announced in August 2009, several independently audited additions have been made to Shaikan's multi-billion barrels discovered resource, with the latest announced by the Company in July 2012. The revised gross oil-in-place volumes, as calculated by Dynamic Global Advisors ("DGA"), independent, Houston-based exploration consultants, are a P90 value of 12.4 billion barrels to a P10 value of 15.0 billion barrels of oil-in-place, with a mean value of 13.7 billion barrels. This upgrade, representing an 83% increase of the estimated gross mean oil-in-place resources announced in April 2011, shows a much narrower distribution of the Shaikan resource estimates, with the P90 value having increased by 4.4 billion barrels.

This most recent significant resource upgrade is particularly important as it marked the completion of the five-well appraisal programme agreed with the Ministry of Natural Resources of the Kurdistan Region of Iraq. After completing the Shaikan -5 and -6 appraisal wells in the summer, Gulf Keystone is now in transition from the exploration and appraisal phase to the large-scale staged development and production phase, regulated by the PSC relating to the Shaikan block. The Company entered this transition phase in August 2012 by declaring the Shaikan field a commercial discovery, which is the first step towards commercial development of the field, demonstrating the robust nature of the project. The Declaration of Commercial Discovery will be followed by an Appraisal Report and, subsequently, by a Field Development Plan.

As part of the transition phase, the Company will soon be putting in place two early production facilities, which will enable us to produce up to 40,000 barrels of oil per day ("bopd") by mid-2013 and contribute to the first large-scale production target of 150,000 bopd by 2015. Gulf Keystone has a clear vision regarding a future pipeline to transport and export future Shaikan production, subject to confirmation of the final route of the pipeline, which is dependent on a number of important decisions by the Kurdistan Regional Government regarding the overall regional pipeline outlook and further exports of crude from the region.

In parallel to completing the Shaikan appraisal programme, exploration and appraisal drilling has continued across the Akri-Bijeel, Sheikh Adi and Ber Bahr blocks. As an independent explorer and operator in the Kurdistan Region of Iraq, we are proud of our outstanding operating and safety record to date, with 15 wells drilled or currently being drilled across the four blocks and ambitious targets being set for the future. At the Akri-Bijeel block alone, three wells are currently being drilled and their outcome is expected to bolster the value contributing to the Company's decision to seek a buyer for the 20% working interest in the block.

GULF KEYSTONE PETROLEUM LIMITED

Executive Chairman and Chief Executive Officer's Statement continued

As previously announced, we remain committed to undertaking the move from AIM, where we remain one of the largest quoted companies today, to the premium segment of the Official List of the London Stock Exchange. Whilst work has been ongoing in this regard, to achieve such a move as soon as practicable, no discussions have as yet been held with the UK Listing Authority regarding the Company's eligibility for the premium segment, due to the emphasis of matter in the independent auditor's report on the consolidated financial statements for the year ended 31 December 2011. As a result, it is intended that the move from AIM will likely take place during 2013, subject to meeting the eligibility criteria. A further update will be issued in due course.

Gulf Keystone continues vigorously to dispute and contest the allegations and claims asserted by Excalibur Ventures LLC ("Excalibur") in December 2010. The trial in the English Commercial Court of all the claims asserted by Excalibur will commence on 8 October 2012.

Our success to date has been driven by the high calibre team whose interests are fully aligned with shareholders. Since November 2006 and until September 2012, our team effort in the Kurdistan Region of Iraq was led by Mr Adnan Samarraï, a highly experienced geologist who very early on could see the great potential of Shaikan and whose contribution was instrumental in unlocking this value for Gulf Keystone, our shareholders and the Kurdistan Region of Iraq. As of 1 September 2012, Adnan has retired from his position as the Company's Country Manager moving to a senior position within the Ministry of Natural Resources of the Kurdistan Region of Iraq. I would like to thank Adnan on behalf of the Company and our shareholders and welcome Mr Umur Eminkahyagil, previously Development and Production Manager, who has been appointed the Company's Country Manager.

Todd F. Kozel

Executive Chairman and Chief Executive Officer

GULF KEYSTONE PETROLEUM LIMITED

Chief Operating Officer's Review

Shaikan (75% working interest; Operator)

Shaikan Declaration of Commercial Discovery

In the middle of 2012, Gulf Keystone's operations at the world-class discovery of Shaikan in the Kurdistan Region of Iraq entered an entirely new phase. The Company completed the field's appraisal programme as had been agreed with the Ministry of Natural Resources, with the completion of the Shaikan -5 and -6 appraisal wells and the testing of Shaikan-6. Following this important development, Gulf Keystone and its partners under the PSC, relating to the Shaikan block, submitted a Declaration of Commercial Discovery with effect from 1 August 2012 to the Shaikan Block Management Committee under Clause 12.6 (a) of the PSC.

The Declaration of Commercial Discovery is the first step in the process of the Company's transition from the exploration and appraisal phase to the large-scale staged development of the field in 2013. The next milestone in this process will be the submission of a detailed appraisal report to the Ministry of Natural Resources, which will be followed by the Shaikan Field Development Plan ("FDP"). The Shaikan FDP is to be submitted within 180 days following the Declaration of Commercial Discovery. Once all required approvals for the Shaikan FDP have been obtained, the Company will move into the first phase of field development, aiming to meet the target of 150,000 bopd of production by 2015 and to achieve full plateau production thereafter.

Completion of appraisal programme

The five-well appraisal programme of the Shaikan field proved to be extremely effective. As a result of the appraisal drilling and testing, the initial mean gross oil-in-place numbers for the Shaikan discovery increased significantly from 2.8 billion barrels, as independently estimated by DGA in October 2009, to the most recent, independently audited, estimate of 13.7 billion barrels announced in July 2012. The new range of the gross oil-in-place volumes for the Shaikan field, as calculated by DGA, is between 12.4 billion (P90) to 15.0 billion (P10) barrels.

This remarkable increase of 10.9 billion barrels equates to just over 2.7 billion barrels of added oil-in-place for each of the four deep appraisal wells drilled (Shaikan-3 was a shallow step-out appraisal well drilled near the Shaikan-1 discovery well). The revised P90 gross oil-in-place volumes, recognised as reasonably certain, are even more impressive with an increase from 1.0 billion barrels, after the Shaikan-1 discovery was made, to the current estimate of 12.4 billion barrels. An important detail to keep in mind, when considering these figures, is that the current P90 number of 12.4 billion barrels of gross oil-in-place is only one billion barrels short of the P10 gross oil-in-place estimate announced in November 2011.

It is almost unprecedented to achieve such upward movement in resource estimates as a result of a relatively modest appraisal programme and clearly emphasises the size of the Shaikan field and our significantly improved understanding of it. This most recent DGA report reflected the completion of the successful appraisal programme undertaken by the Company.

Moving forward, Shaikan-8, the first post-appraisal well, has recently spudded in the vicinity of the Shaikan-1 and -3 wells/producers. Shaikan-8 is being drilled with the Weatherford 842 rig to a planned TD of 1,883 metres. In addition, as previously announced we plan to spud Shaikan-7 during 2013, a deep exploration well, to gain insight into the deep horizons in the mid to lower Triassic and the Permian, which have as yet not been explored.

GULF KEYSTONE PETROLEUM LIMITED

Chief Operating Officer's Review continued

Production and transport infrastructure

The construction of two new early production facilities (PF -1 and -2, formerly known as EWT -1 and -2) in Calgary, Canada remains on track. PF-1, which will replace the existing Shaikan Extended Well Test facility (EWT-1), is planned for completion by the end of 2012 and will serve the existing producers Shaikan -1 and -3, which will be joined by Shaikan-4 later in 2013. PF-2 will become operational by the end of the first quarter 2013 and will be tied to the Shaikan -2, -5 and -6 wells. These new facilities will give Gulf Keystone the capability to produce up to 40,000 barrels per day of export quality crude oil by mid-2013.

As the Ministry of Natural Resources of the Kurdistan Region of Iraq continues to develop and optimise the oil transport infrastructure plans for the export of crude oil from the Kurdistan Region of Iraq, Gulf Keystone has completed the preliminary design work on the future Shaikan oil pipeline. Once the oil pipeline infrastructure plans have been finalised, including the final route for the Shaikan oil pipeline tie-in, Gulf Keystone will be prepared to move forward as quickly as possible with the construction of the Shaikan segment.

Sheikh Adi (80% working interest; Operator)

Sheikh Adi-2, the second exploration well on the block, spudded in May 2012. The well is being drilled 1.45 km to the north of Sheikh Adi-1, which the Company believes to be a more optimal location, looking for a well-developed system of natural fractures similar to Shaikan. Our aim is to support and define further the existing gross oil-in-place estimates with a range of between 1.0 billion (P90) and 3.0 billion (P10) barrels, as independently estimated by DGA following the drilling of Sheikh Adi-1. Sheikh Adi-2 was drilled to a measured depth 2,754 metres where a 7 inch liner has been set. As a consequence of good preliminary results from the logs and cores, the Company plans to conduct a well testing programme across 7 target zones.

Akri-Bijeel (20% working interest)

In the first half of 2012, significant progress has been made in the extensive exploration and appraisal programme of the massive Akri-Bijeel block by the operator, Kalegran Ltd., a 100 per cent subsidiary of MOL Hungarian Oil and Gas Plc.

- Based on the results of the Bekhme-1 exploration well testing programme, in January 2012 DGA issued an independent evaluation of estimated petroleum resources for the Aqra/Bekhme anticline. Whilst recognising the fact that no hydrocarbons had been produced to surface, the report indicated a significant range of between 2.5 billion barrels and 5.4 billion barrels of gross oil-in-place volumes calculated on the P90 to P10 basis. Further evaluation will be required to determine whether the oil is commercially recoverable.
- The first well to appraise the Bijell discovery, which the operator estimates to hold 2.4 billion barrels of gross oil-in-place (P50), spudded in January 2012. Bijell-3 is currently drilling at a measured depth of 4,974 metres and its success would increase the aerial extent of the Bijell discovery. Preliminary results from the logs and cores are good and will be followed by a well testing programme.
- Bakrman-1, the third exploration well to be drilled on the block, spudded in May 2012, 32 km to the north-west of the Bijell-1 discovery well and 25 km to the north-west of the Bijell-3 appraisal well. Bakrman-1 is exploring an entirely new structure in the western portion of the Akri-Bijeel block, a large anticline that appears to be on trend with the nearby Atrush discovery, immediately to the north of Shaikan. The well is currently approaching the planned 7-inch casing point at 3,637 metres. Preliminary results from the logs and cores are encouraging and will be followed by a well testing programme.

GULF KEYSTONE PETROLEUM LIMITED

Chief Operating Officer's Review continued

Akri-Bijeel (20% working interest) continued

- Gulak-1, the fourth exploration well to be drilled on the block, spudded in July 2012, 28.3 km to the east-southeast from the Bijell-3 appraisal well. It is the first well to be drilled to target the Gulak anticline at the extreme eastern end of the block. The well is currently drilling in the upper Jurassic below a measured depth of 1,600 metres.
- The operator's extensive appraisal programme is scheduled to continue with the drilling of three additional wells in 2012-2013 (Bijell-2, Qalati-1 and Qandagul-1).
- Early production facilities for the Bijell-1 discovery well are scheduled for completion by the operator later in 2012.

Ber Bahr (40% working interest)

Ber Bahr-1, the first exploration well to be drilled on the block, completed drilling and initial testing in May-June 2012. The well was drilled to a TD at 3,933 metres in the Chia Zairi formation. The well encountered a 300 metre oil column in the Jurassic with matrix porosity of 17%. Two drill stem tests over the interval failed to flow and yielded inconclusive results, with evidence of perforations plugged with heavy oil. The well has been temporarily suspended while a work over rig is moved to the location to conduct a further well test. According to Genel Energy plc, the operator, further evaluation with the right flow test equipment is required to determine the commercial viability of the well with results expected in the fourth quarter of 2012.

Algeria

In line with the Company's decision to undertake a gradual strategic exit from Algeria, in order to focus on our extensive operations in the Kurdistan Region of Iraq, our remaining limited activities in Algeria will focus on an orderly exit from the small GKN/GKS oil fields in the Ferkane area.

Looking forward

The period since 31 December 2011 has seen Gulf Keystone, once again, adding billions of barrels of gross oil-in-place to the Company's resource base. We have reached a major milestone with the submission of the Declaration of Commercial Discovery for the Shaikan field. Exploration and appraisal activity across the Akri-Bijeel, Sheikh Adi and Ber Bahr blocks continues to provide the potential for significant additional oil resources upside. At the same time, at the world-class Shaikan discovery our emphasis has moved from exploration and appraisal towards development and production.

JB Gerstenlauer

Chief Operating Officer

GULF KEYSTONE PETROLEUM LIMITED

Financial Review

Operating results

The Group has made further sales of crude oil from the Shaikan -1 and -3 production facility during the first half of 2012. These sales have generated revenues net to the Group of \$15.5 million (1H11: \$1.6 million). The Group's net entitlement to sales during 1H 2012 was 367,881 barrels (1H11: 37,203 barrels) and the average price realised was \$42.06 per barrel (1H11: \$44.23 per barrel). Operating costs, excluding inventory movements, depreciation, depletion and amortisation costs and share based payment charges were \$28.07 per barrel (1H11: \$29.59 per barrel).

All of the above production was achieved between January and May 2012. The Company is currently awaiting guidance from the Kurdistan Regional Government on further oil sales and continues to work on the Shaikan FDP. The Shaikan FDP is due for submission to the Shaikan Block Management Committee within 180 days of the Declaration of Commercial Discovery, which took effect on 1 August 2012.

As the Group is still in the early stages of producing oil from the Shaikan field and production rates are variable, revenue continues to be shown in the income statement with an equal and offsetting amount against cost of sales and a nil gross profit. An amount equal to the revenue is credited to intangible assets against exploration and evaluation costs reducing the net book value in the balance sheet.

Non-operating results

General and administrative expenses during the period were \$34.1 million (1H11: \$16.6 million). The increase in administrative costs of \$17.5 million results from a significant increase in the operational activities in the Kurdistan Region of Iraq as the Company's projects expand and mature. Furthermore, the Company saw an increase in advisors' fees incurred in relation to the Group's defence against the claim made by Excalibur Ventures LLC ("Excalibur"). The costs associated with the share bonus awards and the options awarded under the Company Share Options Plan and Long Term Incentive Plan went up from \$8.4 million as at 30 June 2011 to \$10.7 million as at 30 June 2012.

Other gains of \$4.1 million (1H11: \$6.0 million) comprise foreign exchange gains of \$3.7 million (1H11: \$5.5 million), a mark-to-market valuation gain on forward exchange contracts entered into to mitigate the risk associated with converting sterling to U.S. dollars (1H12: \$0.7 million; 1H11: \$0.5 million) and a revaluation of the Standby Equity Distribution Agreement derivative from an asset of \$0.3m to nil following the expiry of the agreement.

Interest revenue has increased to \$0.8 million (1H11: \$0.4 million) due to a higher average cash, cash equivalents and liquid investment balance during the period and wider use of long term deposits to maximise the returns to the Company.

Finance costs of \$0.3 million (1H11: \$0.2 million) relate to the accretion charge on the decommissioning provision. The tax expense of \$1.9 million (1H11: tax benefit of \$0.03 million) is related to UK activities.

The results for the first half of 2012 show an increased loss after tax of \$31.4 million (1H11: \$10.3 million) reflecting the increase in administrative expenses discussed above.

Cash flow

Net cash outflow from oil and gas operations after general and administrative expenses was \$18.5 million (1H11: \$16.5 million). The loss from operations of \$34.1 million was adjusted for the non-cash expenditure of \$12.2 million (1H11: \$8.7 million) which included share-based payments, provision for overdue receivables, depreciation and amortisation. The working capital adjustments totalled to a \$3.4 million cash inflow (1H 2011: \$8.6 million outflow) reducing the operational cash outflow. The working capital movements, such as increase in inventories and payables, are in line with the increase in drilling activities as well as higher general and administrative expenses. The decrease in receivables is attributable to the receipt of the amounts due for 2011 oil sales. Tax paid in 1H 2012 was \$0.8 million (1H11: \$0.3 million) and interest received was \$0.8 million (1H11: \$0.4 million). Net cash outflow from operating activities after tax and interest was \$18.4 million (1H11: \$16.4 million).

GULF KEYSTONE PETROLEUM LIMITED

Financial Review continued

Cash flow continued

Cash used in investing activities totalled \$64.4 million, which comprises \$86.5 million spent on intangibles assets (1H11: \$63.9 million), \$1.0 million (1H11: \$0.3 million) spent on property, plant and equipment offset by a reduction in liquid investments of \$23.1 million (1H11: \$7.0 million). The majority of the \$86.5 million spent on intangible assets relates to the Group's exploration activities in the Kurdistan Region of Iraq, including the drilling of Shaikan -5 and -6 appraisal wells, Shaikan-4 well testing programme, early production facilities construction and upgrade, Shaikan development plan costs as well as the drilling of Ber Bahr-1, Bijell-3, Bekhme-1, Bakrman-1 and Sheikh Adi-2 exploration wells. The expenditure on property, plant and equipment reflects the expansion of the Kurdistan office.

A total of \$1.1 million has been raised through the exercises of the warrants previously granted and options under the Company's share option plan.

The net overall decrease in cash and cash equivalents during the period was \$81.7 million (1H11: \$72.6 million increase). Foreign exchange gains on cash balances were \$4.0 million (1H11: \$5.7 million).

Cash and cash equivalents totalled \$130.4 million at 30 June 2012 (31 December 2011: \$208.1 million; 30 June 2011: \$134.4 million). Inclusive of liquid investments, cash, cash equivalents and liquid investments totalled \$136.9 million (31 December 2011: \$237.6 million; 30 June 2011: \$137.6 million).

Corporate activities

The Group continues vigorously to dispute and contest the allegations and claims asserted by Excalibur in December 2010. The trial date in the English Commercial Court of all the claims asserted by Excalibur has been set for 8 October 2012. Further details are given in note 8 to the half year report.

As reported in the 2011 Annual Report and Accounts, discretionary grants of 10.0 million common shares were made by the Gulf Keystone Employee Benefit Trust ("EBT") to Directors and employees under the 2011 Executive Bonus Scheme.

Option grants over 650,000 common shares have been made to new employees during the period.

As part of the Group's bonus share scheme, 11.0 million common shares were issued, including 10.2 million to the EBT, to satisfy the awards made under the 2009, 2010 and 2011 Executive Bonus Schemes that were deemed to have vested.

A further 10.0 million common shares were issued to the Exit Event Trustee following the recommendation of the Remuneration committee to make cash-settled awards to certain Executive Directors and employees conditional on the occurrence of an Exit Event. In March 2012, the Independent Directors of the Company approved Exit Event Awards equivalent to the value of 2.0 million common shares. The Exit Event Trustee will hold the remaining 8.0 million common shares to satisfy any future Exit Event Awards.

The Company issued 0.3 million shares in response to options exercised under the Group's Share Option Plan and 0.8 million shares in response to a warrant exercise. The total number of shares in issue at the date of this report is 876.2 million, of which 12.9 million are held by the EBT and 10.0 million are held by the Exit Event Trustee.

At the Annual General Meeting in Paris on 19 July 2012, approval was obtained to increase the authorised share capital of the Company by \$1.0 million from \$70.0 million to \$71.0 million by the creation of 100 million new common shares of \$0.01 each ranking *pari passu* in all respects as one class of shares with the existing common shares of \$0.01 each in the capital of the Company.

GULF KEYSTONE PETROLEUM LIMITED

Financial Review continued

Outlook

The Group, together with its partners, carries on its exploration and appraisal programmes on the prospects identified in the Sheikh Adi, Akri Bijeel and Ber Bahr blocks aimed at unlocking significant value across all Company's licence interests. The Shaikan FDP is due for submission to the Shaikan Block Management Committee at the latest in January 2013 and, once approved, will start a new exciting phase of the Company's development.

Gulf Keystone continues to have a strong balance sheet, with cash and cash equivalents totalling \$130.4 million as at 30 June 2012, and the appraisal programme being funded through existing resources and oil sales revenues. The Group has a number of alternative financing options to enable it to commence development and is currently in active discussions with debt providers. Gulf Keystone expects to recover past costs of over \$55 million (as at 31 August 2012) if and when the Third Party Interest in the Shaikan and Akri-Bijeel PSCs is awarded by the Kurdistan Region Government. In addition, on the approval of the FDP, the Kurdistan Region Government may elect to exercise their back-in option to the Shaikan PSC. The timings of the third party and the Kurdistan Region Government's back-ins, however, remain uncertain.

The Group is evaluating the ongoing process of the sale of the Company's 20% interest in the Akri-Bijeel block as the forthcoming results of the three wells currently being drilled and planned early production from the Bijell discovery are to be taken into consideration.

The Group continues to effect an orderly exit from its Algerian operations and continues the discussions with Sonatrach regarding the exit from Block 126a (GKN and GKS oilfields under the Ferkane Permit).

The Group's work on the upgrade of the existing production facility and a second production facility is ongoing and is expected to be completed in early 2013. These facilities will allow Gulf Keystone to produce up to 40,000 bopd by mid 2013.

As the Company continues to deliver its strategy through declaring the commercial viability of the Shaikan field, working towards the submission of the Shaikan FDP, as well as continuing to actively explore and appraise Sheikh Adi, Akri Bijeel and Ber Bahr prospects, there remains a wealth of excellent opportunities for increasing shareholder value.

KE Ainsworth
Finance Director

GULF KEYSTONE PETROLEUM LIMITED

Principal risks and uncertainties

Gulf Keystone's business may be impacted by various risks leading to, among other possible impacts, failure to meet shareholder expectations and to achieve strategic targets for growth, loss of financial standing and reputation. Not all of these risks are wholly within the Company's control and the Company may be affected by risks which are not yet manifest or reasonably foreseeable.

Getting risk management right is an essential component to achieving our strategic objectives and protecting our assets, personnel and reputation. A critical part of the risk management process is to assess the impact and likelihood of risks occurring so that appropriate mitigation plans can be developed and implemented.

We regularly consider our risk profile and update the Group's risk register. For all the known risks facing the business, Gulf Keystone attempts to minimise the likelihood and mitigate the impact.

The Group has identified its principal risks for the next 12 months as being:

- meeting shareholder expectations;
- loss of key staff and succession planning;
- political and regional risk;
- business conduct and bribery act;
- field delivery risk;
- health, safety environment and security;
- capital availability;
- foreign currency, liquidity and credit risk.

Further information detailing the possible impact of these risks and the ways in which these risks are mitigated is provided on pages 24 to 25 of the 2011 Annual Report and Accounts. There have been no significant changes in any of the principal risks and uncertainties since year end.

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Income Statement for the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 Unaudited \$'000	Six months ended 30 June 2011 Unaudited \$'000	Year ended 31 December 2011 Audited \$'000
Continuing operations				
Revenue	3	15,472	1,645	6,919
Cost of sales		(15,472)	(1,645)	(6,919)
Gross profit		-	-	-
Other operating expenses				
Impairment of assets held for sale		-	-	(10,000)
General and administrative expenses		(34,061)	(16,559)	(60,350)
Loss from operations		(34,061)	(16,559)	(70,350)
Other gains and losses		4,064	5,991	5,791
Interest revenue		805	418	1,239
Finance costs		(254)	(227)	(473)
Loss before tax	3	(29,446)	(10,377)	(63,793)
Tax benefit/(expense)		(1,915)	31	1,437
Loss after tax		(31,361)	(10,346)	(62,356)
Loss per share (cents)				
Basic	4	(3.68)	(1.37)	(8.01)
Diluted	4	(3.68)	(1.37)	(8.01)

Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2012

		Six months ended 30 June 2012 Unaudited \$'000	Six months ended 30 June 2011 Unaudited \$'000	Year ended 31 December 2011 Audited \$'000
Loss for the period		(31,361)	(10,346)	(62,356)
Foreign currency translation differences		89	235	(250)
Total comprehensive loss for the period		(31,272)	(10,111)	(62,606)

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Balance Sheet as at 30 June 2012

	Notes	30 June 2012 Unaudited \$'000	30 June 2011 Unaudited \$'000	31 December 2011 Audited \$'000
Non-current assets				
Intangible assets	5	454,755	288,066	360,005
Property, plant and equipment		2,339	4,167	4,295
Deferred tax asset		5,613	3,488	7,977
		462,707	295,721	372,277
Current assets				
Assets held for sale	9	44,923	10,441	35,840
Inventories		18,856	16,726	17,233
Trade and other receivables		8,984	7,755	8,594
Liquid investments		6,428	3,211	29,528
Cash and cash equivalents		130,437	134,364	208,103
Derivative financial instruments		1,893	1,082	1,838
Current tax receivable		-	34	-
		211,521	173,613	301,136
Total assets		674,228	469,334	673,413
Current liabilities				
Trade and other payables		(79,158)	(34,996)	(58,199)
Derivative financial instruments		(349)	-	(358)
Current tax liabilities		(1,612)	-	(712)
		(81,119)	(34,996)	(59,269)
Non-current liabilities				
Provisions		(5,456)	(7,168)	(8,070)
		(5,456)	(7,168)	(8,070)
Total liabilities		(86,575)	(42,164)	(67,339)
Net assets		587,653	427,170	606,074
Equity				
Share capital	6	7,848	6,708	7,627
Share premium account	6	791,480	594,496	790,435
Share option reserve		45,852	29,856	34,065
Exchange translation reserve		(472)	(76)	(561)
Accumulated losses		(257,055)	(203,814)	(225,492)
Total equity		587,653	427,170	606,074

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2012

	Attributable to equity holders of the Group					Total equity \$'000
	Share capital \$'000	Share premium account \$'000	Share option reserve \$'000	Exchange translation reserve \$'000	Accumulated losses \$'000	
Balance at 1 January 2011 (audited)	6,628	593,470	20,468	(311)	(193,414)	426,841
Share-based payment expense	-	-	10,117	-	-	10,117
Deferred tax on share-based payment transactions	-	-	(729)	-	-	(729)
Share issue	80	1,026	-	-	-	1,106
Foreign currency translation differences	-	-	-	235	-	235
Own shares held	-	-	-	-	(54)	(54)
Net loss for the period	-	-	-	-	(10,346)	(10,346)
Balance at 30 June 2011 (unaudited)	6,708	594,496	29,856	(76)	(203,814)	427,170
Transfer relating to share-based payments	-	-	(30,332)	-	30,332	-
Share-based payment expense	-	-	32,423	-	-	32,423
Deferred tax on share-based payment transactions	-	-	2,118	-	-	2,118
Share issue	919	195,939	-	-	-	196,858
Foreign currency translation differences	-	-	-	(485)	-	(485)
Own shares held	-	-	-	-	-	-
Net loss for the period	-	-	-	-	(52,010)	(52,010)
Balance at 31 December 2011 (audited)	7,627	790,435	34,065	(561)	(225,492)	606,074
Share-based payment expense	-	-	13,922	-	-	13,922
Deferred tax on share-based payment transactions	-	-	(2,135)	-	-	(2,135)
Share issue	221	1,045	-	-	-	1,266
Foreign currency translation differences	-	-	-	89	-	89
Own shares held	-	-	-	-	(202)	(202)
Net loss for the period	-	-	-	-	(31,361)	(31,361)
Balance at 30 June 2012 (unaudited)	7,848	791,480	45,852	(472)	(257,055)	587,653

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Cash Flow Statement for the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 Unaudited \$'000	Six months ended 30 June 2011 Unaudited \$'000	Year ended 31 December 2011 Audited \$'000
Operating activities				
Cash used in operations	7	(18,456)	(16,505)	(24,236)
Tax paid		(751)	(331)	(665)
Interest received		806	418	1,239
Net cash used in operating activities		(18,401)	(16,418)	(23,662)
Investing activities				
Purchase of intangible assets		(86,499)	(63,944)	(152,508)
Purchase of property, plant and equipment		(977)	(261)	(612)
Decrease/(increase) in liquid investments		23,100	6,966	(19,351)
Net cash used in investing activities		(64,376)	(57,239)	(172,471)
Financing activities				
Proceeds on issue of share capital		1,063	1,047	197,905
Net cash generated by financing activities		1,063	1,047	197,905
Net (decrease)/increase in cash and cash equivalents				
		(81,714)	(72,610)	1,772
Cash and cash equivalents at beginning of period		208,103	201,268	201,268
Effect of foreign exchange rate changes		4,048	5,706	5,063
Cash and cash equivalents at end of the period being bank balances and cash on hand		130,437	134,364	208,103

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2012

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 AIM Market on 8 September 2004. The Company maintains its registered office in Bermuda. In 2008 the Company established a Level 1 American Depositary Receipt ("ADR") programme in the United States in conjunction with the Bank of New York Mellon which has been appointed as the depository bank. The ADRs trade under the symbol "GFKSY", where each ADR represents 20 ordinary shares listed on the AIM market under the symbol "GKP". During April 2010 Gulf Keystone upgraded this ADR programme and began trading on the OTCQX International.

This half year financial report of Gulf Keystone Petroleum Limited for the six months ended 30 June 2012 has not been audited or reviewed by auditors and was approved by the Directors on 11 September 2012. An electronic version of the half year report has been posted on the Group's website www.gulfkeystone.com. Hard copies are available by writing to Gulf Keystone Petroleum Limited, c/o Gulf Keystone Petroleum (UK) Limited, 16 Berkeley Street, London, W1J 8DZ, United Kingdom.

The financial information for the year ended 31 December 2011 does not constitute the Company's financial statements for that year, but it is derived from those accounts. The auditors have reported on those accounts and their report was not modified but drew attention by way of emphasis to the uncertain outcome of legal proceedings.

2. Accounting policies

Basis of preparation

The condensed set of financial statements included in this half year financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in this condensed set of financial statements as applied by the Company in its Annual Report and Accounts for the year ended 31 December 2011. The Annual Report and Accounts of the Company are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Executive Chairman and Chief Executive Officer's Statement and Chief Operating Officer's Review. The financial position of the Group and its cash flows are described in the Financial Review.

The Group is currently dependent upon its existing financial resources and early production revenues from its operations in the Kurdistan Region of Iraq. As the Group moves to develop the Shaikan field, it is likely to require additional finance through debt financing, fund raisings, farm-out or sale of its oil and gas interests or other methods. The Group has a number of financing possibilities which the Directors believe the Group will be able to pursue if required. Gulf Keystone is currently in active discussions with debt providers. However, the possibility remains that the Group's operations, and the availability of additional finance, could be significantly affected by adverse exploration and appraisal results, geopolitical events in the region, macroeconomic conditions or other risks.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2012 continued

2. Accounting policies continued

Going concern continued

Based on the forecasts and projections prepared at the time of preparation of this half year report and after making enquiries, the Directors have a reasonable expectation that the Group, subject to its financing plans, will have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors continue to adopt the going concern basis in preparing this half year report.

3. Segment information

There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss during the period. The accounting policies of the reportable segments are consistent with the Group's accounting policies, which are described in the Group's latest annual financial statements.

For the purposes of resource allocation and assessment of segment performance, the Group is organised into three business segments based on geography as described below:

- Algeria - the Algiers office and the Group's operations in Algeria.
- Kurdistan Region of Iraq - the Group's operations in the Kurdistan Region, comprising the Shaikan, Akri-Bijeel, Sheikh Adi and Ber Bahr Blocks and the Erbil office.
- United Kingdom - the United Kingdom office, which provides geological, geophysical and engineering services to the Group.

Corporate manages activities that serve more than one segment and represents all overhead and administration costs incurred that cannot be directly linked to one of the above segments.

	Algeria	Kurdistan	United	Corporate	Elimination	Total
30 June 2012 (unaudited)	\$'000	Region	Kingdom	\$'000	\$'000	\$'000
		\$'000	\$'000			
Revenue						
Oil sales	-	15,472	-	-	-	15,472
Inter-segment sales	-	-	7,658	-	(7,658)	-
Total revenue	-	15,472	7,658	-	(7,658)	15,472

(Loss)/profit before tax	(1,425)	(2,107)	2,582	(28,843)	347	(29,446)
---------------------------------	----------------	----------------	--------------	-----------------	------------	-----------------

Total assets	1,667	528,648	76,482	813,022	(745,591)	674,228
---------------------	--------------	----------------	---------------	----------------	------------------	----------------

	Algeria	Kurdistan	United	Corporate	Elimination	Total
30 June 2011 (unaudited)	\$'000	\$'000	Kingdom	\$'000	\$'000	\$'000
			\$'000			
Revenue						
Oil Sales	-	1,645	-	-	-	1,645
Inter-segment sales	-	-	3,821	-	(3,821)	-
Total revenue	-	1,645	3,821	-	(3,821)	1,645

(Loss)/profit before tax	(899)	(297)	(223)	(9,163)	205	(10,377)
---------------------------------	--------------	--------------	--------------	----------------	------------	-----------------

Total assets	15,104	329,040	20,028	628,688	(523,526)	469,334
---------------------	---------------	----------------	---------------	----------------	------------------	----------------

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2012 continued

3. Segment information continued

31 December 2011 (audited)	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
Revenue						
Oil sales	-	6,919	-	-	-	6,919
Inter-segment sales	-	-	15,166	-	(15,166)	-
Total revenue	-	6,919	15,166	-	(15,166)	6,919
(Loss)/profit before tax	(13,480)	(2,172)	(3,735)	(50,393)	5,988	(63,793)
Total assets	2,863	426,002	92,217	823,943	(671,612)	673,413

4. Loss per share

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

	Six months ended 30 June 2012 Unaudited \$'000	Six months ended 30 June 2011 Unaudited \$'000	Year ended 31 December 2011 Audited \$'000
Loss			
Loss for the purposes of basic and diluted loss per share	(31,361)	(10,346)	(62,356)
	30 June 2012 Number (000s) Unaudited	30 June 2011 Number (000s) Unaudited	31 December 2011 Number (000s) Audited
Number of shares			
Weighted average number of common shares for the purposes of basic loss per share	851,361	752,929	778,858
Adjustments for:			
-bonus shares	n/a	n/a	n/a
-share options	n/a	n/a	n/a
-warrants	n/a	n/a	n/a
-ordinary shares held by the Employee Benefit Trust	n/a	n/a	n/a
-ordinary shares held by the Exit Event Trustee	n/a	n/a	n/a
Weighted average number of common shares for the purposes of diluted loss per share	851,361	752,929	778,858

There is no difference between basic and diluted earnings per share as the Group was loss making in each period and hence the effect of bonus shares, share options, warrants and ordinary shares held by the Employee Benefit Trust and the Exit Event Trustee is anti-dilutive. As at 30 June 2012, 42.1 million share options (2011: 41.8 million), 10.5 million un-issued bonus shares (2011: 21.5 million), 1.0 million warrants (2011: 1.7 million), 10.0 million shares held by the Exit Event Trustee (2011: nil) and 12.9 million shares held by the Employee Benefit Trust (2011: 8.8 million) were excluded from the loss per share calculation.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2012 continued

5. Intangible assets

Additions to oil and gas exploration and evaluation costs in the period were \$94.9 million and included the drilling of Shaikan -5 and -6 appraisal wells, Shaikan-4 well testing programme, early production facilities construction and upgrade, Shaikan development plan costs as well as the drilling of the Ber Bahr-1 and Sheikh Adi-2 exploration wells. Exploration and evaluation costs include intangible assets relating to: Shaikan \$294.5 million (2011: \$220.0 million); Sheikh Adi \$108.6 million (2011: \$102.1 million) and Ber Bahr \$51.1 million (2011: \$37.4 million). Additions to other intangible assets (computer software) were \$0.2 million.

6. Share capital

Share capital and share premium as at 30 June 2012 amounted to \$799.3 million (2011: \$798.1 million). During the period, 11.3 million common shares were issued to satisfy awards made under the Company's bonus share scheme and an exercise of options under the Company's Share Option Plan, 0.8 million common shares were issued following an exercise of warrant and a further 10.0 million common shares were issued to the Exit Event Trustee who was appointed to hold and, subject to the occurrence of an Exit Event, to sell sufficient common shares to satisfy the Exit Event Awards. Further details can be found in note 21 in the 2011 Annual Report and Accounts.

7. Reconciliation of loss from operations to net cash used in operating activities

	Six months ended 30 June 2012 Unaudited \$'000	Six months ended 30 June 2011 Unaudited \$'000	Year ended 31 December 2011 Audited \$'000
Loss from operations	(34,061)	(16,559)	(70,350)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	242	195	412
Amortisation of intangible assets	96	28	117
Impairment loss on assets held for sale	-	-	10,000
Share-based payment expense	10,662	8,444	34,637
Provision for overdue receivables	1,212	-	-
Increase in inventories	(1,623)	(2,303)	(2,810)
Decrease/(increase) in receivables	927	(4,092)	(4,897)
Increase/(decrease) in payables	4,089	(2,218)	8,655
Net cash used in operating activities	(18,456)	(16,505)	(24,236)

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2012 continued

8. Contingent liabilities

In December 2010, Excalibur commenced legal action against Gulf Keystone and two of its subsidiaries (the "Companies") and Texas Keystone Inc. asserting certain contractual and non-contractual claims against the Companies and, in particular, claiming that Excalibur is entitled to an interest of up to 30% in the Companies' blocks in the Kurdistan Region of Iraq. The operations in the Kurdistan Region of Iraq comprise the substantial majority of the Group's overall petroleum operations.

In July 2011, Excalibur also confirmed in the English Commercial Court in London that it was content that all its claims against the Companies should be determined in the English Commercial Court in London. The trial date in the English Commercial Court of all the claims asserted by Excalibur has been set for 8 October 2012.

In April 2012 and further to the decision of the English Commercial Court in London, a payment of £6,000,000 has been made into Court by Excalibur as security for the costs of the Companies of defending the legal action commenced by Excalibur in December 2010. Excalibur has also made a payment of £3,500,000 into Court as security for the costs of Texas Keystone Inc..

The Companies continue vigorously to dispute and contest the allegations and claims asserted by Excalibur.

Due to the uncertain outcome of the legal proceedings and the wide range of potential financial outcomes the ultimate outcome of the legal case cannot presently be reliably estimated, and consequently no provision for any liability that may result has been made in the financial statements.

9. Asset held for sale

In 2011, as part of the Group's forward strategy to rationalise its asset portfolio, the Board resolved to sell the Group's 20% working interest in the Akri-Bijeel block. The Group subsequently appointed Joint Corporate Advisers responsible for co-ordination of and advice on the sale and this process is on-going.

The Akri-Bijeel intangible asset of \$44.9 million (2011: \$35.8 million) that is included within the Kurdistan operating segment was classified as an asset held for sale on 31 December 2011. The value of the asset held for sale as at 30 June 2012 includes \$5.4 million (2011: \$5.5 million) that relates to a prepayment balance to the operator.

Additions to Akri-Bijeel exploration and evaluation costs in the period were \$9.1 million and included the drilling of Bijell-3 well, Bekhme-1 well and Bakrman-1 well.

10. Subsequent events

On 10 August 2012, Gulf Keystone announced that Gulf Keystone Petroleum International Limited (Operator), Kalegran Ltd. and Texas Keystone Inc., collectively being the Contractor under the Production Sharing Contract relating to the Shaikan Block in the Kurdistan Region of Iraq dated 6 November 2007, have submitted a Declaration of Commercial Discovery with effect from 1 August 2012 to the Shaikan Block Management Committee under Clause 12.6 (a) of the PSC.

The Contractor intends to submit its Field Development Plan to the Shaikan Block Management Committee within 180 days following the submission of the Declaration of Commercial Discovery, being no later than the end of January 2013.