

**30 September 2004**

## **Gulf Keystone Petroleum Limited**

### **2004 Interim Results**

Gulf Keystone Petroleum Limited (“Gulf Keystone” or the “Company”), an independent oil exploration company operating in the Republic of Algeria, today announces its Interim Results for the period ending 30 June 2004.

#### **Highlights**

- Gulf Keystone began trading on the Alternative Investment Market on 8 September 2004 after raising £60 million (before expenses) from new investors
- The Company’s principle asset is a Production Sharing Contract with SONATRACH, the Algerian National Oil Enterprise, on the 5,891.07 km<sup>2</sup> Block 126 located in northern Algeria
- Exploration activities continued during the period with the drilling of exploratory well RDL-1
- A rig, capable of drilling to depths in excess of 4,000 metres has been contracted and is slated for a mid-December 2004 start on a work-over and drilling programme
- A rigless work-over and completion programme is also being conducted on GKN-1 that it is hoped will result in a production license being granted on a structure with an estimated 10 mmBOE net recoverable reserves

#### **Todd Kozel, President and Managing Director of Gulf Keystone said:**

“We are delighted with our successful fund raising and excited by the many opportunities offered by Block 126. The funds raised will enable us to drill additional wells, build necessary infrastructure, realise our reserve potential and further exploit the upside exploration potential of the Block.”

#### **Enquiries**

##### **Evolution Securities**

Rob Collins

**020 7071 4300**

##### **Citigate Dewe Rogerson**

Martin Jackson

George Cazenove

**020 7638 9571**

# **Gulf Keystone Petroleum Limited**

## **2004 Interim Results**

### **Chief Executive's Statement**

#### **Results**

During the six months ended 30 June 2004 the Company continued its exploration activities in Block 126, Algeria. The results reflect this ongoing exploration with \$2,240,076 being expensed to the income statement and \$7,786,649 of expenditure being capitalised under Oil and Gas properties. During the period the Company did not record any turnover. The main area of activity during this period was the drilling of an exploratory well RDL-1 on which further details are provided in the Company's AIM Admission Document which was published on 2 September 2004.

The key development for the Company occurred after the period end when the Company successfully completed the placing of 125,000,000 new Common Shares raising £60,000,000 and listed on AIM a market operated by the London Stock Exchange.

At Gulf Keystone, we are enthusiastic about our future and the many exciting opportunities we expect to be realised from Block 126 and beyond. This successful fund raising will benefit the company greatly by enabling us to drill additional wells, build necessary infrastructure, realise our reserve potential and further exploit the upside exploration potential of Block 126 and other assets in Algeria.

#### **Current and Future Operations**

Gulf Keystone has now executed a Letter of Intent for a minimum one-year contract with drilling contractor Saipem S.p.A. for Saipem's Drilling Rig 5832. The rig is capable of drilling to depths in excess of 4,000 metres and is slated for a mid-December start on a work-over and drilling program in Gulf Keystone's 5,891.07 km<sup>2</sup> Block 126 contract area in northern Algeria.

Initial operations for the rig involve a recompletion of SONATRACH's GKS-2 well, the discovery well on Gulf Keystone's GKS structure that has already tested at a combined rate of over 2,700 barrels of oil and 2.2 million cubic feet of gas per day. The rig will then be moved to Gulf Keystone's recently drilled GKS-3 confirmation well to re-drill and complete in the objective section that had better average porosity and oil saturations than the GKS-2 well, as indicated by well logs. Gulf Keystone is re-drilling the reservoir in order to employ a high volume completion technique to better stimulate the well that cannot be performed in the original well bore. It is expected that the successful completion of these two GKS wells will lead to Gulf Keystone's application for a full production licence for the GKS structure that is estimated to contain 29.6 million barrels of oil equivalent (BOE) recoverable reserves net to Gulf Keystone per Scott Pickford Limited's Competent Persons Report, a full version of which is published in the Company's AIM Admission Document.

After completing work on the GKS structure, it is intended that the rig will move to Gulf Keystone's third exploratory well on Block 126, the planned 3,100 metre RTB-W-1 test. This well is on the same structural feature as SONATRACH's Ras Toubm Field] that produced oil

from 1977 to 2001 in neighbouring Block 108, fifteen kilometres east of the RTB-W-1 location. Scott Pickford has estimated over 75 million BOE gross recoverable reserves from this RTB-W structure.

Concurrent with these drilling operations, Gulf Keystone is conducting a rigless work-over and completion program on the GKN-1 well that is hoped will result in a production licence being granted to Gulf Keystone for this structure that has an estimated 10 million BOE recoverable reserves net to Gulf Keystone (as detailed in Scott Pickford's Competent Persons Report). The results of the Production Logging Program run by Gulf Keystone in May 2004 indicated that many of the perforated intervals in the Turonian – Cenomanian Ras Toumb reservoir were not contributing flow to the well-bore. To increase total well production, the non-contributing perforated intervals will be selectively acidised to re-establish well-bore flow and increase production.

### **Strategy**

The company will pursue its strategy by conducting early work-over, re-completion drilling operations and 3D seismic acquisition and interpretation on Block 126. Furthermore, additional opportunities, both in Algeria and North Africa, will be evaluated with the objective of expanding the company's asset base.

# Gulf Keystone Petroleum Limited

## Balance Sheet (Unaudited)

Assets	30-Jun-04 \$	31-Dec-03 \$
Current assets:		
Cash and cash equivalents	2,930,616	6,974,728
Inventory	448,427	869,114
Other Current Assets	64,228	64,228
Total current assets	3,443,271	7,908,070
Property and equipment:		
Oil and gas properties	27,449,949	19,663,300
Furniture and equipment	72,966	72,966
Less depreciation, depletion, and amortization	(30,300)	(24,240)
Property and equipment, net	27,492,615	19,712,026
Seismic data	2,730,000	2,730,000
Total assets	33,665,886	30,350,096
<b>Liabilities and Stockholders' Deficiency</b>		
Current liabilities:		
Accounts Payable	950,847	8,372,841
Accrued liabilities	-	-
Due to Gulf Keystone Petroleum Company, LLC	473,725	560,830
Due to joint venture partner	2,500,000	2,500,000
Total current liabilities	3,924,572	11,433,671
Series A Preferred stock, \$1,000 par value, authorised 60,000 shares, issued 37,381 shares	37,564,500	24,493,475
Stockholders' deficiency:		
Common stock, no par value, authorised 2,000,000 shares; issued 900,000 shares	-	-
Retained deficiency	(7,823,186)	(5,577,050)
Total stockholders' deficiency	(7,823,186)	(5,577,050)
Total liabilities and stockholders' deficiency	33,665,886	30,350,096

**Gulf Keystone Petroleum Limited**

**Income Statement  
(Unaudited)**

**For the Six Months Ended 30 June 2004**

REVENUES	\$ -
Expenses	
General and administrative	(2,240,076)
Depreciation, depletion, and amortization	(6,060)
Total expenses	<u>(2,246,136)</u>
Interest income	<u>-</u>
Net loss	(2,246,136)
Retained deficiency beginning of period	<u>(5,577,050)</u>
Retained deficiency end of period	<u><u>(7,823,186)</u></u>

## Gulf Keystone Petroleum Limited

### Statement of Cash Flows (Unaudited)

For the Six Months Ended 30 June 2004

	\$
OPERATING ACTIVITIES	
Net Income (Loss)	(2,246,136)
Adjustments to reconcile Net Income to net cash provided by operations:	
Depreciation and Amortisation	6,060
Increase (decrease) in cash from changes in:	
Inventory	420,688
Prepaid management fees	-
Other Current Assets	-
Accounts Payable	(7,421,994)
Accrued liabilities	-
Due to Gulf Keystone Petroleum Company, LLC	(87,105)
Net cash provided by Operating Activities	<u>(9,328,488)</u>
INVESTING ACTIVITIES	
Office Furniture & Equipment	-
Oil and Gas Properties	<u>(7,786,649)</u>
Net cash provided by Investing Activities	(7,786,649)
FINANCING ACTIVITIES	
Series A Preferred Stock receipts	<u>13,071,025</u>
Net cash provided by Financing Activities	<u>13,071,025</u>
Net cash increase (decrease) for period	(4,044,112)
Cash at beginning of period	<u>6,974,728</u>
Cash at end of period	<u><u>2,930,616</u></u>

## **Gulf Keystone Petroleum Limited**

### **Notes to Financial Statements**

#### **1. Oil and Gas Properties**

The Company uses the full cost method of accounting for oil and gas properties. Under the full cost method of accounting, all productive and nonproductive costs directly identified with acquisition, exploration and development activities including certain payroll and other internal costs are capitalised. Depletion is based upon the ratio of current year revenues to expected total revenues, utilising current prices, over the life of production. As the Company has not yet commenced production from any of its well sites, no depletion expense has been recorded. If such capitalised costs exceed the sum of the estimated present value of the net future oil and gas revenues and the lower of cost or estimated value of unproved properties, an amount equivalent to the excess is charged to current depletion expense. Gains or losses on the sale or other disposition of gas and oil properties are normally recorded as adjustments to capitalised costs, except in the case of a sale of a significant amount of properties, which would be reflected in the income statement.

#### **2. Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **3. Taxes**

Bermuda currently imposes no taxes on corporate income or capital gains.

#### **4. Preferred Stock**

The Company has issued a total of 37,564.5 Series A Preferred Shares for \$37,564,500 (\$1,000 per share).

Each holder of a Series A Preferred Share shall have the right, at the option of the holder, at any time and from time to time after the earlier of 30 June 2003 and the tenth day immediately prior to the record date for determining the shareholder entitled to participate in the distribution of the assets legally available for distribution to the shareholders following a liquidation event, and until the earlier of 31 December 2005 and the liquidation record date, to convert such share into a number of fully paid and non assessable, nonvoting common shares at a conversion rate that is equal to the base liquidation value divided by \$1,000.

All outstanding Series A Preferred Shares shall be redeemed on 31 December 2005 if such Series A Preferred Shares have not been converted into nonvoting common shares or common shares with full voting rights at a price per share equal to the base liquidation value of such shares on said date.

In the event that the Company shall be liquidated, dissolved or wound up, the holders of the Series A Preferred Shares shall be entitled to receive an aggregate amount equal to \$1,000 in cash per share. If upon any liquidating event the net assets of the Company shall be insufficient to pay the holders of all outstanding Series A Preferred Shares, the proceeds shall be distributed ratably among the holders of the Series A Preferred Shares.

## **5. Commitments and Contingencies**

On 28 February 2001, Gulf Keystone UAE entered into a Contract for the Exploration, Evaluation and Exploitation of Hydrocarbons between SONATRACH and Gulf Keystone Petroleum Company, LLC concerning the Ferkane Perimeter (Block 126) (the Contract). The Contract was subsequently transferred to Gulf Keystone Algeria.

In accordance with Article 7 of the Contract, the Company agreed to acquire 600 kilometres of seismic data and drill two exploration wells. The exploration and evaluation phase of the Contract consists of a three-year period, with an option to extend for two more years upon SONATRACH's request. If extended, the Company will acquire an additional 600 kilometres of seismic data and drill one exploration well. The cost of performing the minimum work program is estimated to be \$15 million for the first period and \$9 million for the second.

In accordance with Article 7.5 of the Contract, 500 seismic kilometres 2D were performed by SONATRACH during 2000 and were acquired by the Company. The compensation for the data acquired was \$2.7 million. The Company paid \$230,000 of the cost at acquisition. The remaining \$2.5 million will come as a deduction from the performance cost and shall be repaid in the event a discovered deposit is declared commercially exploitable. However, if no commercially exploitable deposits are discovered, the Company does not owe SONATRACH for the data acquired. As of 30 June 2004, the Company has recorded a \$2.7 million seismic data asset and reflected a liability of \$2.5 million to SONATRACH representing the remaining amount due upon commercial declaration.

Additionally, in accordance with Article 15 of the Contract, the rate of participation of the investors in the financing of the investment costs for exploration, evaluation, development, exploitation and operating costs is set at 40 per cent. for SONATRACH and 60 per cent. for Gulf Keystone Algeria. However, in the absence of the discovery of a commercially exploitable deposit, the Company may not claim any reimbursement or compensation. As of 30 June 2004, potentially reimbursable petroleum costs, from SONATRACH, in the event that commercially exploitable deposits are discovered, total \$10,979,980.

## **6. Related Party Transactions**

The Company entered into an agreement with Texas Keystone, Inc. (TKI) in which the Company pays a fee to TKI for professional, management and administrative services. The fee for administrative services is equal to TKI's actual cost of providing the administrative



services plus 10 per cent., the fee for professional services is equal to the then hourly rates charged by TKI to third parties for such services, and the Company shall reimburse TKI for reasonable out-of-pocket expenses. The TKI fees totaled \$610,478 for the first six months of 2004.

#### **7. Subsequent Event**

On 8 September 2004 the company placed 125,000,000 new common shares and these common shares and all the existing common shares were admitted to trading on AIM a market operated by the London Stock Exchange. The proceeds from this placement, before expenses, were GBP £60,000,000 (approximately US \$104,400,000). The proceeds from this placement will be used for the continuing development of Block 126. Simultaneously with the placement of new shares the Series A Preferred Shares were converted into common shares at a ratio of 1,000 common shares for each one share of Series A shares.