



**GULF KEYSTONE PETROLEUM LTD.**



# A Year of Transformation

# Introduction Highlights

Gulf Keystone is an independent AIM listed oil and gas company focused on the exploration, development and production of oil and gas in the Republic of Algeria and elsewhere in North Africa and the Middle East.



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جلف كيستون هي شركة نفط وغاز مستقلة ومسجلة في بورصة  
الإستثمارات البديلة بسوق لندن المالي، وتعمل في مجال إستكشاف  
وتطوير وإنتاج حقول النفط والغاز في الجمهورية الجزائرية  
الديمقراطية الشعبية وفي دول أخرى من شمال إفريقيا والشرق  
الأوسط.



BG joined SONATRACH and Gulf Keystone as  
a strategic partner in the HBH licence

£13.4 million raised in August 2006 via a placing  
of 21,600,000 new common shares

HBH seismic programme under way. Drilling  
operations expected to commence around the  
year end

Gazetting of Ben Guecha Blocks (108 and 128b)  
marking the formal commencement of the  
exploration period

Block 126a licence extension granted for finalisation  
of commerciality of GKN and GKS

Management and technical teams have been  
significantly strengthened during 2006

Well HEK-3 in Block 129 acid-fractured and tested  
at a stabilised rate of 1,040 bbl/day in April 2007

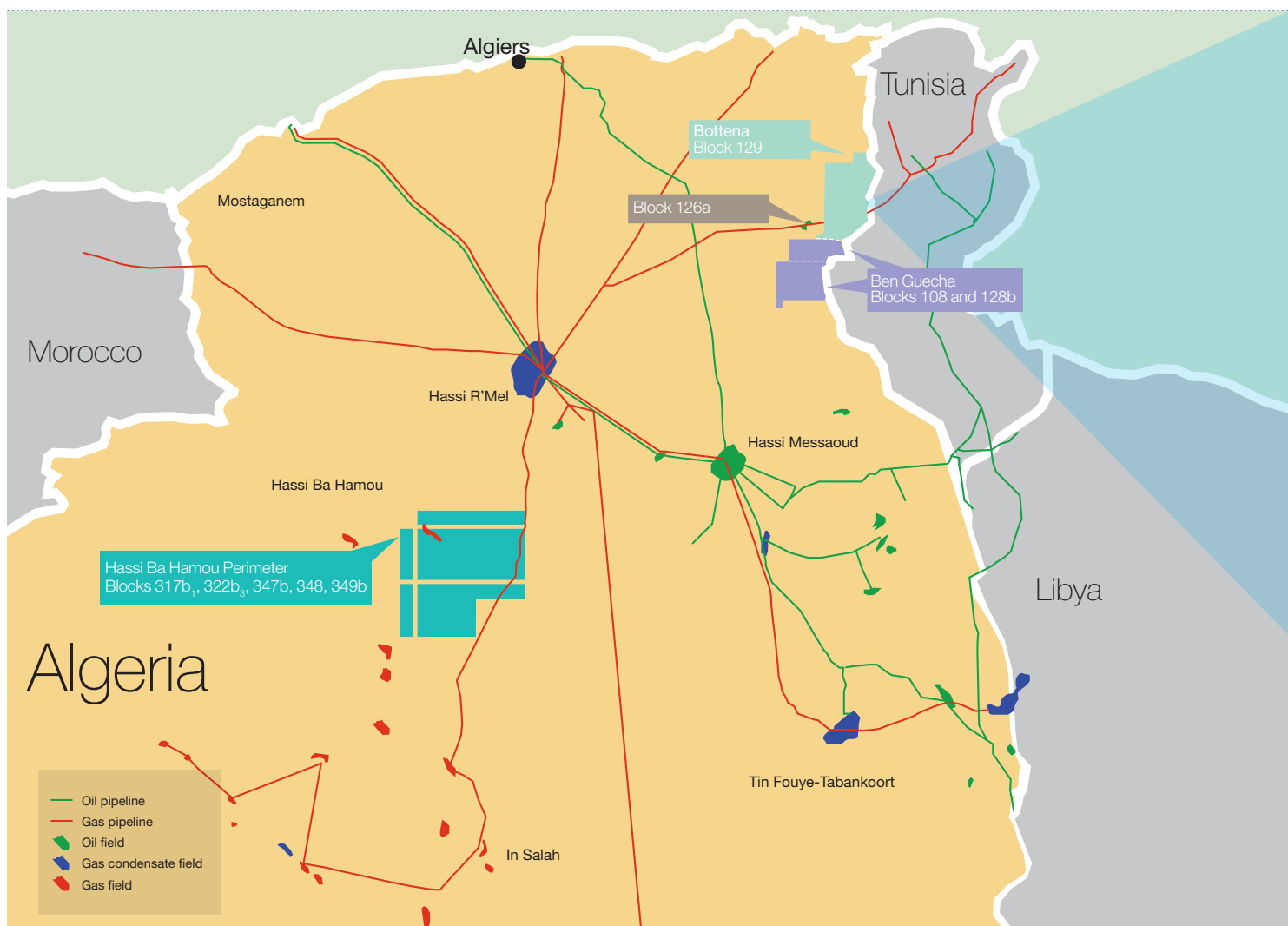
Left: Monument of the Martyrs, Algiers

Right: Field operations, Northern area

Front cover: Vibroseis trucks acquiring 2D seismic on HBH Concession

# Gulf Keystone At a Glance

The Company currently has exploration and appraisal rights over nine blocks totalling 27,621km<sup>2</sup> in the Republic of Algeria. Gulf Keystone has operated in Algeria since 2001 and has in depth knowledge of the country's local culture, political and operating environments.



## Deals

Farm out of HBH. *Turn to page 5*

## Operations

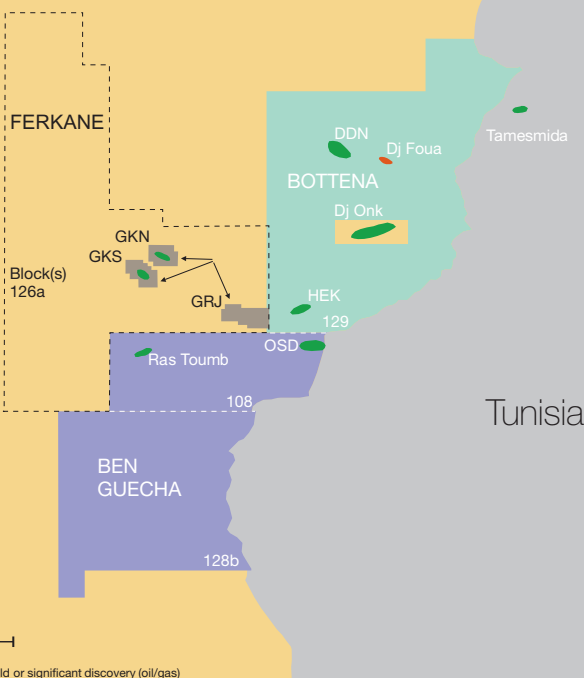
Commenced HBH 2D seismic acquisition.  
Acid fractured and flowed 1,040 bbl/d from well  
HEK-3 in April 2007 as part of two well test/  
work over programme. *Turn to page 8*

# £191m

Market capitalisation of £191m (based on 69 pence as at close 15 May 2007)



Algeria



## Hassi Ba Hamou Perimeter Blocks 317b, 322b, 347b, 348, 349b

The Hassi Ba Hamou Perimeter covers an area of 18,380km<sup>2</sup> and is located in the Béchar Oued Namous Basin in central Algeria. Gulf Keystone was awarded the contract which covers five Blocks (317b, 322b, 347b, 348, 349b) during Algeria's 6th International Bid Round in April 2005.

## Block 126a

Block 126a is located in the Ferkane area of the South Constantine basin in north eastern Algeria, approximately 500km from Algiers, near the Tunisian border. Gulf Keystone originally entered into a Production Sharing Contract with SONATRACH in 2001. The five year exploration period expired on 29 April 2006. A 15 month extension was then signed to facilitate the testing of well GRJ-2 and the granting of Commerciality for the oil discoveries GKN/GKS.

## Bottena Perimeter – Block 129

Block 129 is located in the Bottena Perimeter which covers an area of 4,368km<sup>2</sup> within the South Constantine Basin, to the east of Block 126a.

## Ben Guecha Permit – Blocks 108 and 128b

The permit covers an area of 4,641km<sup>2</sup> and is located in the South Constantine basin, adjacent to Block 108. The contract for Blocks 108 and 128b, which established a joint venture between SONATRACH and Gulf Keystone, resulted from direct negotiations which took place in April 2005 outside of Algeria's International Bid Rounds.

## The next phase – key deliverables

- Declaration of Commerciality for GKN/GKS oil discoveries
- Progress exploration and appraisal of Northern Blocks
- Evaluate 7th Algerian Bidding Round and other acquisition opportunities
- Explore and appraise HBH concession area
- Prudent capital management while fully appraising the existing portfolio

## Algeria in context People

Algeria is experiencing a significant economic upturn, in large part due to strong oil and natural gas export revenues. [Turn to page 11](#)

Further strengthening of the management team, in particular, the building of a strong technical team. [Turn to page 13](#)

# Chairman's Statement

The Company is now positioned with the resources to pursue an aggressive programme of activities across its Algerian portfolio over the next 18 months.



*Mr. Roger Wentworth Parsons*  
*Non-Executive Chairman*

2006 was a pivotal year for Gulf Keystone. Gazetting of the HBH Concession ("HBH") farm out, a successful placing of new shares and the building of a highly experienced management and technical team placed the Company in a strong position by the year end.

The subsequent completion of the transaction with the BG Group ("BG") in early 2007 significantly enhanced the Company's financial position and provided the Company with the resources to pursue an aggressive programme of activities across its Algerian asset portfolio over the next 18 months.

BG's farm-in to the HBH Concession represented a strategically important transaction for the Company, substantially enhancing the technical, operational and commercial capabilities of the joint venture partnership. Under the agreement, BG assumed the role as operator of the concession and earned a 36.75% interest in the joint venture, leaving Gulf Keystone and SONATRACH with 38.25% and 25% interests respectively.

Operationally, the Company has made important strides forward as it embarks on a new and intensive programme of exploration and appraisal activities. On the regionally extensive HBH Concession, located in Central Algeria and acquired in 2005, significant progress has already been made on the acquisition of a major 2D seismic survey which, together with a planned 3D survey over the existing HBH gas discovery, will form the basis for a six well exploration and appraisal drilling programme, to be initiated in late 2007.

In addition to the gas discovery already made on the HBH Concession, the Directors believe that this area holds considerable future exploration potential for gas. Algeria is very

well placed to exploit the international gas markets via pipelines into southern Europe and as Liquefied Natural Gas into northern Europe and other international markets. The Directors believe that BG's and SONATRACH's expertise in international gas commercialisation will play an important part in ensuring early development and commercialisation of gas from the HBH Concession.

In its northern, oil prone, licences the Company has made important progress in the exploration and appraisal of its portfolio of leads and prospects, and towards the development of its existing oil discoveries. On Block 126a, a significant volume of study work has been carried out in conjunction with our partner SONATRACH to finalise and optimise the first phase of development of the GKN and GKS oil discoveries. The reservoir complexity and the requirement, under new Algerian legislation, to develop a utilisation scheme for gas produced in association with oil in this remote area, has introduced significant delays in progressing this important project.

However, I am now pleased to be able to report that all the technical elements relating to this combined development of the GKN and GKS fields have now been agreed fully with our partner SONATRACH and we now simply await formal approval from the SONATRACH Executive Committee before proceeding with a joint Declaration of Commerciality, the pre-cursor to an immediate commencement of development operations.

Elsewhere on Block 126a, we were disappointed that it did not prove possible to access moveable hydrocarbons during our recent test of the GRJ-2 well and that well is presently being plugged and abandoned.



# 27,621 km<sup>2</sup>

27,621 km<sup>2</sup> (gross) average under licence in proven hydrocarbon bearing basins in Algeria



On Block 129, important progress has been made towards the evaluation and exploitation of exploration and appraisal opportunities on this licence. The Company has recently completed the workover and testing of well HEK-3, an oil discovery well drilled by SONATRACH in 2004. The Company is very pleased to have successfully re-entered well

HEK-3 and achieved what we believe to be a commercial rate of oil production.

The successful use of acid fracturing technology on this well, to optimise production performance from this complex reservoir, provides us with the encouragement to consider a wider use of this technology

within the HEK area and elsewhere within our northern licence areas.

Further activity on Block 129 in 2007 will be geared towards the development and ranking of prospects ahead of the next phase of exploration drilling.

## DEALS

Vibroseis trucks at HBH seismic camp

### *The introduction of BG Group into the HBH Contract*

- Introduction of BG as a strategic partner has allowed GKP and SONATRACH to accelerate the exploration, appraisal and commercialisation of HBH gas
- Gulf Keystone retains the largest working interest of 38.25%
- The expanded work programme is:
  - 2000km 2D seismic
  - 500km<sup>2</sup> 3D seismic
  - 6 exploration and/or appraisal wells



“Gulf Keystone and its partners have embarked on an aggressive exploration programme on the HBH Perimeter”

# 38.25%

GKP retained equity of 38.25% in the HBH Perimeter



# Chairman's Statement continued

With regard to the Ben Guecha contract, covering Blocks 108 and 128b, formal approval of the contract has now been given by the Algerian Council of Ministers. The announcement of this approval in January 2007 marked the commencement of the first three year period of this exploration contract and enabled Gulf Keystone to commence the detailed evaluation of these blocks.

The full evaluation of Blocks 108, 128b and 129 during 2007 is geared towards a three well exploration drilling programme on the northern blocks, presently scheduled for the first quarter of 2008.

I'm pleased to be able to report the further strengthening of Gulf Keystone's management team, in particular the building of a strong technical team. This has completed the building of the management and operational team, and at a time when the market for skilled and highly qualified upstream personnel is extremely tight, this places Gulf Keystone in a strong competitive position to develop further its business activities.

Financially, the Company is now in a strong position. This transformation of the Company's finances has resulted firstly from the HBH transaction with BG, which included both a significant cash component and a material carry of the Company's share of expenditure during the first exploration and appraisal stage. Secondly, the Company achieved a successful share placing in the middle of the year which further enhanced its financial position.

However, notwithstanding the success of Gulf Keystone in building its portfolio of assets within Algeria and developing the prospects of the Company going forward, the Directors believe that for a Company of

Gulf Keystone's size and resources in Algeria, there will continue to be material challenges in generating future cash flow and realising the full potential of the Company's portfolio, in a timely and predictable manner, given the regulatory and operational environment in which the Company is working.

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

In the face of these continuing challenges, the unsolicited approach by RAK Petroleum ("RAK") to acquire the whole of the issued and to be issued share capital of Gulf Keystone was considered carefully, and ultimately lead to the proposed acquisition of the Company by RAK which has been recommended, by the Board, for approval by the Shareholders at the Special General Meeting to be held on 22nd May, 2007. Further details as to the background of, and remaining conditions to, this proposed transaction with RAK may be found in the recently issued Circular to Shareholders.

I would like in conclusion to express my thanks to all those employed by the Company in London, Algeria and Bermuda for their unstinting efforts in building the Company to its present position and transforming its prospects going forward. As the Company goes forward to a new phase in conjunction with RAK Petroleum, I would also like to express my deepest gratitude to you the shareholders for your support since the Company's flotation in 2004.

**Roger Parsons**  
*Chairman*



# Chief Executive Officer's Statement

Local knowledge, local people.  
A strategic ingredient to our success.



*Todd Francis Kozel*  
*Chief Executive Officer*

I'm pleased to be able to report on the progress made by Gulf Keystone in its exploration and production business over the past year.

2006 has been a year of transformation for the Company. We commenced the year with a radically expanded portfolio of exploration and appraisal assets onshore Algeria, following significant success in the 6th Algerian International Licencing Round, and we set ourselves a number of important technical, financial and strategic objectives for the year, geared towards progressing, diversifying, and adding value to that portfolio of assets.

I am delighted to inform you that substantial progress has been made on a number of key fronts. Gulf Keystone commenced the year as operator, and a holder, of 100% of the working interest available to foreign partners in all of its Algerian Licence interests. A key objective was to embark on a portfolio management exercise with the objectives of spreading technical risk, crystallising elements of value from our existing portfolio, and introducing a strategic partner to make available, to the existing joint venture partnership, additional operational and commercial expertise. The introduction of

BG as a partner in the Hassi Ba Hamou Concession achieved many of our objectives in that regard.

A second core objective for the year was to initiate, and make solid progress on, the exploration and appraisal programmes for the newly acquired licences in both the northern, oil prone area of Algeria and the gas prone central area, and again I'm pleased to be able to report important progress on that front. I am disappointed that it has not, as yet, been possible to secure first production from our GKN and GKS oil discoveries in Block 126a. This has been due primarily to a change in Algerian legislation which now precludes gas flaring on future oil and gas developments, and which therefore required a solution to be found for any gas that will be produced in association with oil from the joint GKN and GKS oil development. Together with our partner SONATRACH, a solution to this challenge has now been found and agreed, which should enable us to progress towards the commencement of development operations.

A further key objective for the year was a re-financing of the Company to enable the Company to embark on an aggressive second phase of exploration and appraisal activities, and to expand further its upstream portfolio. A successful share placing in August 2006 and completion of the transaction with BG in January 2007 has transformed the financial position of the Company.

Finally, in order to maximise the competitive edge of the Company going forward, it was important to ensure that, during 2006, we completed the recruitment of a first rate technical and management team. That team is now in place and the Company is well positioned to move into the next phase of its development.

## **Hassi Ba Hamou Perimeter (Blocks 317b, 322b, 347b, 348, 349b)**

In August 2006, BG was introduced as a strategic partner to the HBH Concession. BG is a world class operator who brings highly complementary technical and operational expertise and is firmly focused on proving and commercialising the gas from this concession area. Under the agreement, BG has acquired 49% of Gulf Keystone's interest in HBH and has assumed the role of Operator. Gulf Keystone now holds a 38.25% interest, BG a 36.75% interest and SONATRACH a 25% interest in HBH.

The HBH Concession covers 18,380 km<sup>2</sup> in the Bechar Oued Namous Basin of Central Algeria, a gas prone area that includes the Hassi Ba Hamou gas discovery and a number of significant leads and prospects. The main reservoir targets lie at Devonian level where gas is contained in sandstones at average depths of between 750 and 1,000 metres.

In line with the significant prospectivity that we see within this concession, the partnership has embarked upon a materially expanded work programme including the acquisition of 2,000 line kms of 2D seismic, 500 km<sup>2</sup> of 3D seismic and the drilling of three appraisal wells and three exploration wells during the initial licence phase. Acquisition of the 2D seismic commenced in February 2007, and approximately 600 line kms have been completed to date. Early, field processed, seismic lines from the first phase of this acquisition programme are encouraging. The 500 km<sup>2</sup> 3D seismic survey will be focused on the existing HBH gas discovery, this started in May 2007. The first drilling on the block is scheduled for Q4 2007.

## **Northern Blocks**

Ben Guecha (Blocks 108/128b) –  
Gulf Keystone: 75% equity interest

# Chief Executive Officer's Statement

## continued

Bottena Perimeter (Block 129) –  
Gulf Keystone: 75% equity interest  
Block 126a – Gulf Keystone: 60% interest

Over the last year the Company has made considerable progress in its technical understanding of its north-eastern Algerian asset base. The geology of this tectonically active area is complex with hydrocarbons often residing in fractured carbonates with low matrix porosity. Commercial exploitation of such reservoirs requires specific techniques that are likely to include the acquisition of 3D seismic data, specialist testing and completion techniques, and, potentially, high angle or horizontal wells. In pursuit of this strategy, the Company has completed a two well workover and testing operation of potential oil discoveries in Blocks 129 (well HEK-3) and 126a (well GRJ-2).

In Block 129, the completion of the HEK-3 well test produced a large amount of good quality engineering data. This, combined with the produced volume of oil and the long flow and shut in periods, will provide valuable data for reservoir evaluation and field development study purposes. The well achieved a stabilised flow rate of 1040bopd. Production optimisation studies will be carried out to analyse options for further increasing well productivity with a view to the possible early development of this discovery. In this regard, consideration will be given to pump and/or gas lift options to further improve both the rate and delivery pressure of the well.

The Company carried out a test of well GRJ-2 located on Block 126a. Well GRJ-2 was drilled by Gulf Keystone in late 2005. The well encountered encouraging hydrocarbon indications, from both core and log data in Cenomanian / Turonian carbonates, the same reservoir interval that is producing in the GKN-1 well. At the time of drilling, the well was not

tested due to the lack of availability of suitable test equipment within Algeria.

During April/May 2007, Gulf Keystone tested two potential reservoir zones and performed an injectivity and step rate test followed by matrix acidisation (mini frac) in both zones. The aim of the test programme was to connect the fracture and/or the matrix permeability in the surrounding reservoir, and thereby access moveable hydrocarbons.

Whilst technically, operations were performed successfully, no hydrocarbons flowed into the wellbore under test. Although it is unlikely that there will be any further operations on the GRJ structure, we will, as part of our wider ongoing technical assessment of the northern blocks, now review all geological, geophysical and engineering data that was collected during this operation to establish the likely reasons for lack of commercial flow from this particular well.

### *HEK-3 well workover*

*Gulf Keystone's assets in Northern Algeria lie in a region known as the Constantine Basin. This area is structurally complex and the geology at the target levels is dominated by Cretaceous carbonate sequences.*

*These limestone reservoirs frequently have low matrix porosity and at times have been altered by complex diagenetic processes. Production from these reservoirs is considered to be significantly enhanced by natural fractures. Gulf Keystone recognises the importance of understanding these fractures – their distribution, orientation and possible contribution to hydrocarbon production. To this aim the Company has invested in acquiring and utilising key data such as core, image logs and production logging data. In addition, there are other techniques that can be utilised to enhance productivity from the subsurface; horizontal wells, specialist completion and testing techniques.*

*In April 2007 Gulf Keystone commenced workover operations on well HEK-3, an oil and gas discovery well drilled by SONATRACH in 2004. At that time, the well was tested over the Cretaceous, Coniacian limestone interval and achieved, post acidisation, flow of 184 barrels of oil over a 4 hour period, prior to the well being suspended. Gulf Keystone re-entered the well and tested the same zone, over the measured interval 2,439 to 2,446 metres, employing an acid fracturing technique to improve connectivity between the reservoir and the wellbore. After cleaning up the well, a stabilised flow rate of 1,040 barrels per day of 31 degrees API oil was achieved through a 32/64 inch choke. The well was flowed through a separator for a total of 4.5 days and over 3,500 barrels of oil were produced during this period. The crude contained little entrained gas and has an estimated gas/oil ratio of 93 scf/bbl.*



The second phase of the Block 126a exploration and appraisal licence ended in April 2006. However, a fifteen month licence extension was awarded by the Algerian authorities to facilitate completion of the process leading to the Declaration of Commerciality for the GKN/ GKS oil discoveries and the testing of well GRJ-2.

A comprehensive programme of exploration and appraisal activities is now planned for the northern blocks over the next two years. During

the remainder of 2007, the focus of activities in Block 129 will be on building and ranking an inventory of exploration leads and prospects utilising the 3D seismic survey that the Company has recently processed over the DDN area of the block, and pre-existing 2D seismic acquired by SONATRACH.

The award of the Block 108/128b licence which was negotiated and agreed during 2005, was ratified in January 2007 by publication in the

Algerian official gazette. Publication marks commencement of the first (three year) exploration and appraisal phase of the licence. Preliminary analysis has already been made of the 3D seismic survey acquired by the Company in the region of the Ras Toubm oil field in Block 108 and, as further pre-existing seismic and well data is acquired from SONATRACH, following this licence award, so the pace of evaluation of these blocks will accelerate.

Preparation for HEK-3 workover and well test

*We are pleased to have successfully re-entered well HEK-3 and achieved what we believe to be a commercial rate of oil production. Moreover, the successful use of acid fracturing technology on this well, to optimise production performance from this complex reservoir, provides us encouragement to consider a wider use of this technology within the HEK area and also within our northern licence areas (Ferkane and Ben Guecha blocks). Production optimisation studies will be carried out to analyse options for further increasing well productivity with a view to the possible early development of this discovery.*

## HEK-3 – First acid fracture in the Constantine Basin





# Chief Executive Officer's Statement

## continued

The above detailed evaluation of Blocks 108, 128b and 129 is geared towards a three well drilling programme, currently planned for the first quarter of 2008.

### GKN/GKS oil development

In late 2006, new legislation necessitated a revision to the field development plan for the GKN Field and the GKS oil discovery. The revised Phase 1 development plan now includes the injection and storage of gas produced in association with oil, at the nearby Ras Toubb Field. The GKN Field currently produces approximately 1,000 bopd from a single well. On entering the Exploitation Phase of the licence, the Company will take over production from the GKN Field and bring the GKS-2 discovery into production. This latter well produced, under test, at a rate of 4,586 barrels of oil and 4.61 million cubic feet of gas per day in 2005. In addition, Phase 1 of the combined GKN/GKS development calls for the acquisition of 3D seismic data over the two structures, to firm up the reservoir morphology, and the drilling of two further development wells. Plans for Phases 2 and 3 of the GKN/GKS development will depend on data acquired during the first phase.

All discussions with our partner SONATRACH relating to the technical, operational and environmental plans for Phase 1 of the GKN/GKS development have now been completed. Commencement of the Exploitation Phase of the licence now awaits formal approval from SONATRACH and gazetting by the competent authorities.

### Management

2006 has seen a strong focus on building the optimum technical and management team to run and grow our business. During the year, the Company recruited seven additional technical staff in the key disciplines; geology,

geophysics, engineering and economics. The Company also completed the building of its Executive team with a Finance Director, a group Commercial/Legal Director and an EVP of Exploration and Technical. We believe that this is a particularly strong achievement given the background of an unprecedented skills shortage within the industry.

### Financial

Following the successful share placing in August 2006 and completion of the HBH deal in January 2007, Gulf Keystone is on a solid financial footing. The Company reports a profit for the year after taxation of US\$46.3 million (2005 loss US\$40.8 million). At the end of the year, the Company had cash and cash equivalents of US\$59.3 million (2005 US\$51.4 million) and trade and other receivables US\$60 million (2005 US\$3.4 million). The increase in profit and the trade and other receivables was primarily a result of the HBH farm out transaction. The conditions of this transaction were fully satisfied prior to the end of 2006 hence the transaction has been accounted for as a 2006 event. However, the outstanding cash consideration contained within trade receivables was paid by BG during January 2007 following legal completion of the deal. The Company has US\$21.6 million (2005 US\$34.7 million) of cash guarantees in place for the Company's Algerian work programme. The Company had trade and other payables of US\$10.8 million (2005 US\$8.5 million). This included US\$5 million of short term debt that was repaid shortly after the year end.

**Todd Francis Kozel**  
*Chief Executive Officer*



*European gas demand continues to grow with indigenous production in permanent decline. It is estimated that European gas demand will grow by some 100bcm between 2005 and 2010 from 582bcm to 678bcm.*

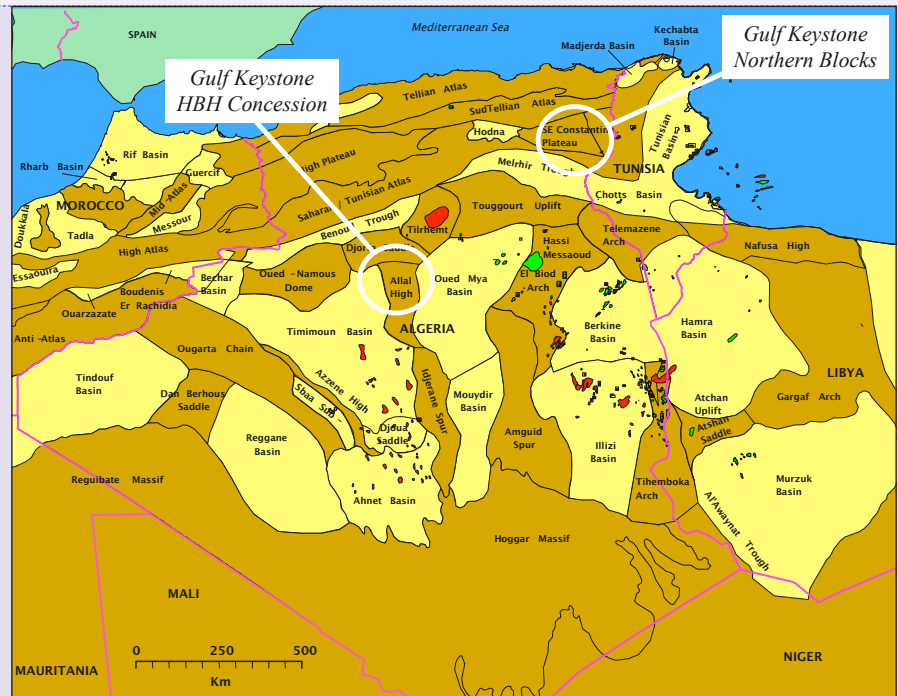
*Algeria is uniquely placed to take advantage of Europe's increasing supply squeeze, being relatively under explored compared to other countries that supply Europe, and having the second largest proven resource base available to supply Europe with piped gas and LNG.*

# 3<sup>rd</sup>

Algeria is the third largest gas supplier to Europe



Separation facilities at Ras Toubm.



Algeria is a relatively under-explored world class oil and gas province which is on the doorstep of one of the largest markets in the world; Europe.

Currently Algeria is the third largest supplier of gas to Europe and represents a significant resource base for the European gas market. In 2005 Algeria exported approximately 37bcm of piped gas and 23bcm of LNG to Europe.

Pipeline expansion projects on both the Transmed and Magreb pipelines, and a new export pipeline to Spain (Medgaz) and LNG expansion at Skikda should assist Algeria's ambitions to increase its export capacity.

Source: EIA, BP Statistical review, Brokers notes

Algeria is experiencing a significant economic upturn, in large part due to strong oil and natural gas export revenues. The country has proven oil reserves of 11.8 billion barrels of oil and 160 trillion cubic feet of gas (the eighth largest in the world, Source EIA 2007).

Around 60% of Algeria is occupied by sedimentary basins, an essential prerequisite for the accumulation of hydrocarbon source rocks and their subsequent maturation. Only 24% of the area has been licensed and there are only

35 foreign oil companies in country working alongside SONATRACH (Source IHS Energy). The majority of these companies are large independents (>\$500 million US market capitalisation) or major oil and gas companies.

Algeria is a relatively under-explored world class oil and gas province which is on the doorstep of one of the largest markets in the world; Europe. Gulf Keystone has an enviable position in this significant developing oil and gas province.

# Corporate and Social Responsibility

The Board of Gulf Keystone bases its actions on the principles of openness, integrity and accountability. Gulf Keystone respects countries' traditions and cultures.

Our goal is to be a partner of choice, a competent and responsible operator, a Company known for making a positive contribution to those with whom we interact.

## Economic dealings

The Company strives to conduct business to high ethical standards, and is committed to conducting its business in an open and honest manner. Gulf Keystone seeks to be fair in our relationships and dealings with our counterparties. Gulf Keystone strives to build strong relationships with our business partners, host governments, and within the local communities in which we operate.

## Social responsibility

We are sensitive to the diverse cultures with whom we interact and we aim to make a positive contribution to the communities in which we operate.

Gulf Keystone values its diverse workforce, and is committed to providing a workplace free of discrimination where all employees are afforded opportunities and are rewarded upon merit and ability.

Gulf Keystone is committed to protecting the health and safety of our employees and our contractors. The safety of the Company's employees, contractors and those in the local communities where we operate is of paramount importance.

## Environmental performance

Gulf Keystone is focused on minimising the environmental impact of its operations. Gulf Keystone is committed to meeting the legal and regulatory requirements governing environmental practices within all countries in which it operates.

Negrine Mountains, Northern Algeria







## PEOPLE

Top: Base camp construction at GRJ-2  
Bottom: GKP Technical team

### Strong technical and management team

Our business offers exciting and challenging opportunities to our staff who are based in Algeria and London. Over the past few years our Company has grown and developed and we now have 54 employees.

#### Technical team

Gulf Keystone firmly believes that its in-house technical capabilities are a key differentiator in today's extremely competitive environment. For this reason, the Company has employed a world class technical team, all of whom work on a full time basis for the Company. Our core technical team is based in London and this presently comprises four geologists, two geophysicists and an engineer. In total, our technical team has over 200 years of combined experience in some of the world's most prolific oil and gas producing arenas. Furthermore, we have recently supplemented our Algerian office with technical staff who have considerable experience in Algeria. We believe that the core skills required in our business include a solid understanding of geology, geophysics, engineering and operations. These skills are in very short supply but absolutely essential for our Company to deliver value from our Algerian assets and future new ventures.

In addition we have a strong operations team in Algeria who are in control of our drilling/testing and seismic operations as well as in country partner and governmental liaison. We also have excellent relationships with key contractors for specialist support as and when required.

#### Directors and senior management

Our executive management team have extensive experience and expertise in the oil and gas sector. This includes, but is not limited to, experience of running international E&P operations, corporate finance and accounting, commercial and legal and also both small and large Company experience.

Our directors provide a wealth of experience and contacts within the international E&P arena, in particular the Middle East and North Africa.



# Directors and Senior Management Team



**Mr. Roger Wentworth Parsons**

*Non-Executive Chairman*

From 1988 to 1999, Mr. Parsons was Chief Executive of Rea Brothers Group Plc., a publicly quoted banking and financial services Company. He retired from full-time employment in 1999 when Rea Brothers was sold. Prior to 1988, he had spent 25 years in international banking, first with Citibank and subsequently with Grindlays Bank PLC. He has served as a director of both public and private companies in the UK, United States and Greece. He is currently a director of Hoegh Capital Partners Advisors Limited, and chairman of Helesi PLC, an AIM listed Company.



**Todd Francis Kozel**

*Chief Executive Officer*

Mr. Kozel co-founded the Company where he serves as a director. In 1988, Mr. Kozel founded Texas Keystone, Inc., an independent oil and gas exploration, development and production Company, headquartered in Pittsburgh, USA. Mr. Kozel served as Texas Keystone's President from 1995 to 2004 and has served as a director since 1988. Mr. Kozel also co-founded Falcon Drilling Company LLC, an American independent drilling and oilfield services Company, in 2001 and serves on its Board of Directors.



**James William Guest**

*President*

Mr Guest, a geologist by background, has 32 years experience in the international oil & gas industry. He joined Shell in 1975 and held a variety of exploration, production and commercial positions in the Far East, West Africa and Europe before joining the Board of Monument Oil and Gas plc ('Monument') in 1990. During the 1990's, Monument developed into one of the UK's largest independent exploration and production companies. Mr Guest held the position of Technical Director and latterly Business Development Director up to the time of Monument's sale in 1999. Since then, he has held a variety of independent advisory and senior management roles in the upstream sector, joining the Board of Gulf Keystone as a non-executive Director in May 2004.



**Jon Cooper**  
*Finance Director*

Jon is an experienced finance professional with advisory experience in the oil and gas industry. Prior to joining Gulf Keystone, Jon spent 9 years at Dresdner Kleinwort Wasserstein, where he worked as a Director in the Oil and Gas Corporate Finance Team most recently covering Russia and Central and Eastern Europe. During this time Jon worked on mergers and acquisitions, public offerings and as strategic adviser to a wide range of companies including Gazprom, Lukoil, OMV, PKN Orlen, Unocal, Petronas and Harvest Natural Resources. Jon qualified as a Chartered Accountant with KPMG, has a B.Eng in Mechanical Engineering and PhD in Biomedical Engineering.



**Sheikh Sultan Bin Saqr Al-Qassimi**  
*Non-Executive Director*

Sheikh Sultan Al-Qassimi co-founded Gulf Keystone. He is also a co-founder of GIBCA, an industrial, construction and investment group in the United Arab Emirates. Sheikh Sultan has served as a director of several public joint stock companies, amongst which are Dubai Investment (PJSC) and Union Insurance (PJSC) and is currently a director

and chairman of the Executive Committee of the United Arab Bank (PJSC). Amongst his achievements are the establishment, along with others, of the United Arab Emirates, The Banks Association and The National Contractors Association. He was awarded the title Gulf Chief Executive Officer of 1993, (which includes The Kingdom of Saudi Arabia and Kuwait) and is an active member of, and often represents his country in, its economic delegations.



**Iain Patrick**  
*Director of Commercial & Legal Affairs (Gulf Keystone UK Ltd)*

Iain Patrick is Director of Commercial & Legal Affairs of Gulf Keystone Petroleum (UK) Limited. Iain has 25 years experience in the international oil and gas industry. After qualifying as a lawyer in 1980, Iain worked in legal and commercial positions for several oil companies in the UK and the Netherlands before joining Monument Oil and Gas plc in 1988 where he was Commercial Director until the sale of the Company in 1999. In this role Iain was responsible for acquisitions and disposals of assets in over twenty countries, including Algeria. Iain then co-founded PWX Limited, a consultancy providing business development support to a number of oil and gas companies, prior to joining Gulf Keystone in March 2006.



**Ali Al-Qabandi (CPA, ICPA)**  
*Business Development Officer*

Mr Al-Qabandi co-founded Gulf Keystone. Mr Al-Qabandi held numerous executive positions and committee chairmanships for the Kuwait Oil Company, which he joined in 1979. Most recently, Mr. Al-Qabandi served as the Executive Assistant Managing Director of Planning and Finance for the Kuwait Oil Company ("KOC") and a director of the Kuwait National Petroleum Company. Mr. Al-Qabandi also served as Chairman of the Corporate Information Implementation Project, a Board member of Kuwait Gulf Oil Company (KGOC), a Board member of United Oil Projects (UOP), Chairman of the KOC Profit Center Committee and was a Member of the Strategic Planning Steering Committee, the Review of KOC Organisation Committee, the Cost Optimisation Steering Committee and Field Development Steering Committee.



# Directors and Senior Management Team continued



**Ibrahim A. Al-Khaldi**  
*Chief Operating Officer*

Mr. Al-Khaldi co-founded Gulf Keystone. Prior to joining Gulf Keystone, Mr. Al-Khaldi served as Business Development Manager for the Middle East and North Africa for Baker Atlas, a subsidiary of Baker Hughes Inc., one of the world's largest oil services companies. Prior to joining Baker Atlas, Mr. Al-Khaldi served as a general field engineer for Western Atlas International Inc., an oil services Company and a predecessor Company to Baker Atlas, and was responsible for assignments to Europe, Africa, the Middle East, the Far East, South America and North America.



**Chris Garrett**  
*VP Operations*

Chris's background is in geology and geophysics and he spent 12 years overseas working in the USA and Middle East. He brings to Gulf Keystone over 29 years of oilfield experience gained with Core Laboratories and Western Geophysical and latterly with Baker Hughes and Randall & Dewey. Mr. Garrett joined Gulf Keystone in November 2004 as Managing Director of the UK entity and Operations Manager for Algeria. Previously he worked for Randall & Dewey and Baker Hughes in a number of roles ranging from international exploration and operations management through to property and prospect evaluation.



**David Mackertich**  
*EVP Exploration and Technical*

David is an exploration geologist with 19 years experience. He started his career with the British Geological Survey as a Seismic interpreter (UK DT I) prior to joining Amerada Hess. David worked as a geologist in the UK North Sea where he was involved with the discovery of the Perth, Telford, Flora and Fergus fields. He was posted overseas to Denmark and then Malaysia with Hess. In both overseas locations he was heavily involved with the discovery of commercial oil fields which are presently in production (South Arne, Cendor). David joined Gulf Keystone in August 2006. David has a degree in Geology, an M.Sc in Petroleum Geology and an MBA.

# Directors' Report

The Directors submit their report and the consolidated financial statements of Gulf Keystone Petroleum Limited (the "Group") for the year ended 31 December 2006.

Gulf Keystone Petroleum Limited is a public Company, incorporated in Bermuda, and quoted on the Alternative Investment Market of the London Stock Exchange.

## Principal activities

The principal activity of the Group during the year was that of an oil and gas exploration group operating in the Republic of Algeria.

## Results and dividends

The Group profit after tax for the year was US\$46.3 million (2005 net loss of US\$40.8 million). The Directors do not recommend a dividend for the year (2005 US\$ nil).

## Review of the business and future developments

A review of the business is given on pages 4 to 10 of this document.

## Post balance sheet events

On 13 January 2007 the Group repaid in full its outstanding debts to GIBCA Limited and Falcon Partners Trust, both related parties, who had provided an unsecured debt facility in aggregate of US\$5 million at an interest rate of 7% and for a term of up to 12 months.

On 13 April 2007 the Board of Directors of Gulf Keystone, RAK Petroleum and RAK Bermuda, a wholly owned subsidiary of RAK Petroleum, announced the terms of a recommended acquisition of Gulf Keystone by RAK Petroleum to be effected by way of an Amalgamation of Gulf Keystone with RAK Bermuda. Under the terms of the proposed Amalgamation, Gulf Keystone shareholders will receive for each Gulf Keystone Share 74 pence in cash. For the Amalgamation to take effect, the Amalgamation Agreement must, inter alia, be approved by a simple majority of votes cast by Gulf Keystone Shareholders voting in person or by proxy at a general meeting. Accordingly, the Directors are convening the Special General Meeting ("SGM") for the purposes of considering and, if thought fit, passing the Amalgamation Resolution. The SGM will take place at 1.00pm on 22 May 2007. The obligations of the Company, RAK Petroleum and RAK Bermuda to complete the Amalgamation are subject to the satisfaction of certain Conditions set out in the Implementation Agreement and incorporated into the Amalgamation Agreement.

During April 2007, Gulf Keystone performed a successful workover on HEK-3 achieving a stabilised flow rate of 1,045 barrels oil per day. Also during April 2007, Gulf Keystone performed well test operations on GRJ-2, no hydrocarbons flowed into the well bore under test and this well is being plugged and abandoned.

## Directors

The following Directors have held office during the year.

RW Parsons – Chairman<sup>1</sup>

TF Kozel – CEO

Sheikh Sultan Bin Saqr Al-Qassimi – Non-Executive Director<sup>1</sup>

JW Guest – President

CA Brown – CFO (resigned 6 April 2006)

JR Cooper – Finance Director (appointed 6 April 2006)

<sup>1</sup> Members of the Audit Committee, Remuneration and Appointments Committee and Directors' Remuneration Committee.

# Directors' Report continued

## Directors' interests in shares and options

Directors' interests in the shares of the Company, including family interests, were as follows:

	At 31 December 2006 Number of Common Shares	At 1 January 2006 Number of Common Shares
TF Kozel	20,050,000	20,050,000
RW Parsons	300,000	300,000
JW Guest	698,614	20,000
Sheikh Sultan Bin Saqr Al-Qassimi	—	—
JR Cooper	126,533	—
CA Brown	—	10,000

In addition to the above interests:

1. TF Kozel is a shareholder in Gulf Keystone Petroleum Company LLC ("Gulf UAE") which owns 40,000,000 Common Shares.
2. Sheikh Sultan Bin Saqr Al-Qassimi is a shareholder in GIBCA Limited which owns 20,000,000 Common Shares. GIBCA Limited is also a shareholder in Gulf UAE which, as stated above, owns 40,000,000 Common Shares.

Directors' interests in share options of the Company, including family interests, as at 31 December are disclosed on page 22.

## Substantial shareholdings

Other than the Directors' interests shown above, the Company has been notified of the following substantial interests as at 31 March 2007:

	Number of Common Shares	Percentage of issued share capital
Chase Nominees Limited	35,955,942	12.99
HSBC Global Custody Nominee (UK) Limited	20,000,000	7.22
Vidacos Nominees Limited	10,463,531	3.78
Credit Suisse (MM)	10,428,769	3.77
Evolution Securities Nominees Ltd	10,036,000	3.63
Pershing Keen Nominees Limited	9,737,664	3.52
Nortrust Nominees Limited	8,457,167	3.06

## Going concern

The Directors have considered the factors relevant to support a statement on going concern. They have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements. In common with many exploration companies, the Group raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods. Further funding is raised as and when required. When any of the projects move to development, specific financing may be required to enable development to take place.

## Annual General Meeting 2007

In light of the RAK Petroleum's pending takeover of Gulf Keystone and the Special General Meeting to vote on their proposed transaction scheduled for the 22 May in Bermuda, notice has not been given for the third Annual General Meeting of the Company. In the event that the necessary conditions precedent for the RAK takeover are not fulfilled or waived, Gulf Keystone will provide notice of an AGM to approve the annual report and accounts, to appoint Deloitte & Touche LLP as auditors and to reappoint Directors as necessary.

By order of the Board

**Todd Kozel**

Director

15 May 2007



# Corporate Governance

## Principles of Corporate Governance

Although not required to, the policy of the Board is to manage the affairs of the Group in accordance with the principles underlying the Combined Code on Corporate Governance insofar as is appropriate given the circumstances of the Group.

## The Board

The Group is led and controlled by a Board comprising the Chief Executive Officer, one Non-Executive Chairman, one Non-Executive Director and two Executive Directors.

There are no matters specifically reserved to the Board for its decision, although all board meetings are held on a regular basis outside of the UK and effectively no decision of any consequence is made other than by the Directors. All Directors participate in the key areas of decision-making, including the appointment of new directors, through the Appointments Committee.

The Board is responsible to shareholders for the proper management of the Group. A statement of Directors' responsibilities in respect of the financial statements is set out on page 24. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information.

There is no agreed formal procedure for the Directors to take independent professional advice at the Group's expense, however, independent professional advice is made available where considered appropriate.

All Directors submit themselves for re-election at the Annual General Meeting at regular intervals. There are no specific terms of appointment for Non-Executive Directors.

During 2006, ten scheduled board meetings were held. Four took place in Zurich, one in Algiers and five in Athens.

## Board Committees

The following committees, which have written terms of reference, deal with specific aspects of the Group's affairs.

### 1. The Remuneration and Appointments Committee

The Remuneration and Appointments Committee is responsible for making recommendations to the Board on the Company's framework of Executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors and for other senior members of management. The Board itself determines the remuneration of the Non-Executive Directors. The committee comprises the Non-Executive Directors. It is chaired by the Chairman and is advised, as necessary, by a leading firm of recruitment consultants. Details of the Directors' remuneration are set out on pages 21 to 23.

### 2. The Audit Committee

The Audit Committee comprises the two Non-Executive Directors and is chaired by Roger Parsons. Its prime tasks are to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgement and estimation. The Committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. The Committee assesses the performance of the external auditors as well as their independence and objectivity.

The external auditors confirm their independence each year in writing to the Committee.

The Committee, which meets at least three times per year, provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Chief Executive Officer and Finance Director.

# Corporate Governance continued

## Internal control

The Board acknowledges its responsibility for establishing and monitoring the Group's systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

The key procedures that have been established and which are designed to provide effective control are as follows:

Management Structure – The Board meets regularly to discuss all issues affecting the Group.

Investment Appraisal – The Group has a clearly defined framework for investment appraisal and approval is required by the Board where appropriate.

The Board regularly reviews the effectiveness of the systems of internal control and considers the major business risks and the control environment. No significant control deficiencies have come to light during the year and no weakness in internal financial control has resulted in any material losses, contingencies or uncertainties which would require disclosure as recommended by the guidance for Directors on reporting on internal financial control.

The Board considers that in light of the control environment described above, there is no current requirement for a separate internal audit function.

## Relations with shareholders

The President, Chief Executive Officer and Finance Director are the Company's principal spokespeople with investors, fund managers, the press and other interested parties. Each of the Non-Executive Directors are available to attend meetings with major shareholders (without the Executive Directors present), if requested by such major shareholders. At the Annual General Meeting, private investors are given the opportunity to question the Board.

This year's Annual General Meeting has not been scheduled due to the pending takeover of the Group by RAK Petroleum.

# Report of the Remuneration and Appointments Committee

## Remuneration and Appointments Committee

The Company has established a Remuneration and Appointments Committee. The members of the Committee were Messrs Parsons and Sheikh Sultan Bin Saqr Al-Qassimi.

In determining certain Directors' remuneration for the year, the Committee consulted the Chief Executive Officer, Todd Kozel, about the Committee's proposals. The Committee was provided with information supplied by the Curzon Group, a specialist recruitment Company, with regard to structuring Directors' remuneration packages and search for suitable candidates; the Curzon Group did not provide any other services to the Group.

Details of the remuneration of each Director are set out on page 22.

## Remuneration policy

The policy of the Committee is to reward Executive Directors in line with the current remuneration of Directors in comparable businesses, taking into consideration the advice of independent benefit consultants in order to recruit, motivate and retain high quality executives within a competitive market place.

There are two main elements of the remuneration packages for executive directors and senior management:

- Basic annual salary (including directors' fees) and benefits; and
- Share option and bonus share incentives.

There are no pension arrangements in the Group.

The Directors have share options granted to them under the terms of the Share Option Scheme which is open to other qualifying employees. The exercise of options under the Scheme is based upon the satisfaction of conditions relating to the share price and length of employment. The conditions vary from grant to grant.

## Directors' contracts

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

Todd Kozel, James William Guest and Jon Cooper have service contracts with the Company. These can be terminated by either side on 12 months' notice for Todd Kozel and six months for Jon Cooper. James William Guest's can be terminated by the Company on six months' notice (12 months upon a change of control) or on three months on the employee's side.

## Non-Executive Directors

The fees of Non-Executive Directors are determined by the Board as a whole having regard to the commitment of time required and the level of fees in similar companies.



# Report of the Remuneration and Appointments Committee continued

## Directors' emoluments

	Salary US\$	Bonus Shares US\$	Fees US\$	2006 Total US\$	2005 Total US\$
TF Kozel	675,000	–	–	675,000	675,000
RW Parsons	–	–	141,000	141,000	81,000
JW Guest	510,185	806,221	–	1,316,406	99,724
Sheikh Sultan Bin Saqr Al-Qassimi	–	–	45,000	45,000	45,000
JR Cooper	284,258	150,326	–	434,584	–
CA Brown	220,062	–	–	220,062	186,823
	1,689,505	956,547	186,000	2,832,052	1,087,547

## Directors' interests in options

Directors' interests in share options of the Company, including family interests, as at 31 December 2006 were as follows:

	Date of grant	Number of options over Common shares	Exercise Price (British Pence)	Option exercise period
TF Kozel	20 August 2005	2,650,000	48p	20 August 2005 – 19 August 2014
RW Parsons	20 August 2005	50,000	48p	20 August 2005 – 19 August 2014
JW Guest	20 August 2005	50,000	48p	20 August 2005 – 19 August 2014
JW Guest	5 January 2006	2,100,000	66p	5 January 2006 – 30 December 2015
Sheikh Sultan Bin Saqr Al-Qassimi	20 August 2005	500,000	48p	20 August 2005 – 19 August 2014
JR Cooper	29 September 2006	1,200,000	59.75p	29 September 2006 – 28 September 2009
CA Brown	11 May 2006	400,000	60.5p	14 May 2006 – 05 October 2007

The above options were all held as at 31 December 2005 except for those of Jon Cooper which were granted in the year and Caroline Brown's reduced from 1,200,000 as at December 2005.

For the majority of Directors in employment, the exercise of an option is subject to the following vesting conditions being satisfied:

- (a) on or after the share price of Common Shares reaching 96p, an option shall be exercisable in respect of one-third of total shares under option;
- (b) on or after the price of the Common Shares reaching 144p, an option shall be exercisable in respect of further third of total shares under option; and
- (c) on or after the price of the Common Shares reaching 192p, an option shall be exercisable in respect of 100 per cent of the shares under option.

There were no share options exercised during the year.

On 5 January 2006, James William Guest was awarded the right to subscribe for a further 2,100,000 Common shares with an exercise price of 66p and an exercise period between 5 January 2006 and 30 December 2015. The options are exercisable in two tranches of 1,050,000. The first vesting date is 31 December 2008 and the second 31 December 2009, subject to continued employment.

Caroline Brown's exercisable share options reduced to 400,000 on 6 April 2006.

Jon Cooper's options were granted on 29 September 2006. They are exercisable after three years provided the Company's closing share price on any day after the Date of Grant is at a level which is no less than 133% of the option price that is 79.5p.

Upon a change of control the above conditions fall away for all options, and all options become exercisable.

There have been no other changes in Directors' interests in share options in the year.

### Bonus shares

The Group granted bonus share payments to certain employees pursuant to Gulf Keystone's Executive Bonus Scheme, subject to continuing employment. These bonus shares are awarded over a period of three years but measured at fair value at the date of grant. JW Guest was the one exception to this in 2006 as his grant was awarded over a two year period. The number and value of shares granted are as follows:

#### Director' Bonuses

	2006 Number of shares	2005 Number of shares	2006 Total US\$	2006 Total US\$
TF Kozel	—	—	—	—
RW Parsons	—	—	—	—
JW Guest	678,614	—	806,221	—
Sheikh Sultan Bin Saqr Al Qassimi	—	—	—	—
JR Cooper	126,533	—	150,326	—
	805,147	—	956,547	—

The awards are included in the directors' emoluments on page 22.

JW Guest's award includes entitlement for both 2005 and 2006 and certain other contractual rights, including a percentage of salary to be taken in shares instead of cash.

The market price of the shares at 31 December 2006 and 31 December 2005 was 70.25p and 61.5p respectively and the range during 2006 was 73p to 46p.

### Approved

#### R.W. Parsons

Chairman of the Remuneration and Appointments Committee

15 May 2007

# Directors' Responsibilities in the Preparation of Financial Statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

The Directors are required by the IAS Regulation to prepare the group financial statements under IFRSs (IFRSs).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with applicable laws. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# Independent Auditors Report to the Members of Gulf Keystone Petroleum Limited

We have audited the Group financial statements which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Summary of Significant Accounting Policies and the related notes 1 to 25.

This report is made solely to the Company's members, as a body. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the accounting policies as set out in the Summary of Significant Accounting Policies.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Report of the Remuneration and Appointments Committee, the Chairman's Statement, the Chief Executive Officer's statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended and the financial statements have been properly prepared in accordance with the accounting policies set out in the Summary of Significant Accounting Policies.

**Deloitte and Touche LLP**  
Chartered Accountants  
London  
15 May 2007

# Consolidated Income Statement

## for the year ended 31 December 2006

	Notes	2006 US\$'000	2005 US\$'000
Continuing operations			
Other income/(expense):			
Gain on sale of assets	24	61,103	—
Impairment of intangible exploration assets	9	—	(35,145)
General and administrative expenses		(16,589)	(7,719)
Profit/(Loss) from operations	3	44,514	(42,864)
Interest revenue	5	2,160	2,213
Interest expense	22	(229)	—
Profit/(Loss) before tax		46,445	(40,651)
Tax expense	6	(136)	(135)
Profit/(Loss) after tax for the year	17	46,309	(40,786)
Profit/(Loss) per share (cents)			
Basic	7	17.69	(16.08)
Diluted		16.74	(16.08)

# Consolidated Balance Sheet

## as at 31 December 2006

	Notes	2006 US\$'000	2005 US\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	26,782	25,594
Intangible assets (2005 restated – note 9)	9	19,955	16,851
Financial asset	12	5,597	–
		<b>52,334</b>	<b>42,445</b>
<b>Current assets</b>			
Inventories	11	4,711	3,472
Trade and other receivables	12	59,999	3,386
Cash and cash equivalents	12	59,328	51,439
		<b>124,038</b>	<b>58,297</b>
<b>Total assets</b>		<b>176,372</b>	<b>100,742</b>
<b>Current liabilities</b>			
Trade and other payables	13	10,835	8,491
Tax liabilities	6	136	135
Provisions	14	2,050	2,050
<b>Total liabilities (2005 restated – note 9)</b>		<b>13,021</b>	<b>10,676</b>
<b>Net assets</b>		<b>163,351</b>	<b>90,066</b>
<b>Equity</b>			
Share capital	15	1,853	1,638
Share premium account	15	159,063	135,349
Share option reserve	16	3,535	502
Exchange translation reserve	16	(43)	(57)
Accumulated losses	17	(1,057)	(47,366)
<b>Total equity</b>		<b>163,351</b>	<b>90,066</b>

The financial statements were approved by the board of directors and authorised for issue on 15 May 2007 and are signed on its behalf by:

**Todd Kozel**  
Chief Executive Officer

**Jon Cooper**  
Finance Director



# Consolidated Statement of Changes in Equity

## for the year ended 31 December 2006

	Attributable to equity holders of the Group						
	Share Capital US\$'000	Share premium US\$'000	Share based Payment reserve US\$'000	Convertible warrants US\$'000	Accumulated Deficit US\$'000	Exchange Translation Reserve US\$'000	Total Equity US\$'000
Balance as at 1 January 2005	1,626	135,349	108	12	(6,580)	–	130,515
Share based payment expense	–	–	394	–	–	–	394
Exchange differences arising on translation of overseas operations	–	–	–	–	–	(57)	(57)
Warrants subscribed	12	–	–	(12)	–	–	–
Net profit for the year	–	–	–	–	(40,786)	–	(40,786)
<b>Balance at 1 January 2006</b>	<b>1,638</b>	<b>135,349</b>	<b>502</b>	<b>–</b>	<b>(47,366)</b>	<b>(57)</b>	<b>90,066</b>
Share based payment expense	–	–	3,033	–	–	–	3,033
Exchange differences arising on translation of overseas operations	–	–	–	–	–	14	14
Share conversion and issue	215	23,714	–	–	–	–	23,929
Net profit for the year	–	–	–	–	46,309	–	46,309
<b>Balance at 31 December 2006</b>	<b>1,853</b>	<b>159,063</b>	<b>3,535</b>	<b>–</b>	<b>(1,057)</b>	<b>(43)</b>	<b>163,351</b>

# Consolidated Cash Flow Statement

## for the year ended 31 December 2006

	Notes	2006 US\$'000	2005 US\$'000
<b>Operating activities</b>			
Cash used in operations	18	(13,418)	(13,932)
Interest received		2,160	2,213
<b>Net cash used in operating activities</b>		<b>(11,258)</b>	<b>(11,719)</b>
<b>Investing activities</b>			
Purchase of intangible assets		(3,166)	(25,863)
Purchase of property, plant and equipment		(1,401)	(804)
<b>Net cash used in investing activities</b>		<b>(4,567)</b>	<b>(26,667)</b>
<b>Financing activities</b>			
Interest paid		(229)	—
Proceeds on issue of share capital		23,929	—
<b>Net cash generated in financing activities</b>		<b>23,700</b>	<b>—</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,875</b>	<b>(38,386)</b>
Cash and cash equivalents at beginning of year		51,439	89,882
Effect of foreign exchange rate changes		14	(57)
<b>Cash and cash equivalents at end of the year being bank balances and cash</b>		<b>59,328</b>	<b>51,439</b>

# Consolidated Financial Statements

## Summary of Significant Accounting Policies

### General Information

The Company is incorporated in Bermuda and it is quoted on the Alternative Investment Market of the London Stock Exchange. The Company serves as the holding Company for the Group, which is engaged in oil and gas exploration, operating in the Republic of Algeria.

### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared under the historical cost accounting rules, except for the valuation of share options and contingent deferred consideration, and on a going concern basis. The principal accounting policies adopted are set out below.

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 7	Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
IFRS 8	Operating Segments
IFRIC 8	Scope of IFRS 2 Share-based Payment
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS-2 Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards come into effect for periods commencing on or after 1 January 2007 (IFRS 8: 1 January 2008).

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. The Group uses the purchase method of accounting for the acquisition of subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those of the Group.

All intra-Group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the shorter of the period to the next rent review date and the lease term.

### Foreign currencies

The functional and presentation currency of the Company is US Dollars.

Transactions in currencies other than US Dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period.

On consolidation, the assets and liabilities of the Group's operations which use functional currencies other than the US Dollar are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for each month in the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.



## Taxation

The tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year earned in the United Kingdom by the Group's subsidiary. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Property, plant and equipment other than oil and gas interests

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life as follows:

Fixtures and equipment	20% straight line
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## Intangible assets other than oil and gas

Intangible assets, other than oil and gas assets, have finite useful lives and are measured at cost and amortised over their expected useful economic lives as follows:

Computer software	33% straight line
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## Intangible and tangible non-current assets – oil and gas interests

The Group adopts the full cost method of accounting for its oil and gas interests. Under the full cost method of accounting all costs relating to the exploration for and development of oil and gas exploration and evaluation interests, whether productive or not, are accumulated and capitalised as non-current assets within geographic costs pools. Exploration and evaluation costs are generally classified as intangible non-current assets during the exploration and evaluation phase and are carried forward where activities in an area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, and subject to there being no impairment.

Costs dealt with in this way include seismic data, licence acquisition costs, technical work, exploration and appraisal drilling, general technical support and directly attributable administrative and overhead costs.

Exploration and evaluation costs are transferred to property, plant and equipment upon declaration of commerciality and amortised, together with development costs, over the life of the area, generally the field.

Upon cessation of exploration on each licence, or otherwise when an impairment of an exploration and evaluation asset arises, an impairment test is performed for the pool and any balance of unsuccessful exploration and evaluation costs carried forward in the pool is amortised over the life of the pool.

Depreciation, depletion and amortisation is provided under the unit of production method which uses the estimated remaining commercial reserves and the net book value and any further anticipated costs to develop such reserves.

# Consolidated Financial Statements

## Summary of Significant Accounting Policies continued

### Impairment of tangible and intangible non-current assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, or group of assets, is estimated in order to determine the extent of the impairment loss (if any). For exploration and evaluation assets, the group of assets considered is the pool. For other assets where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs, generally the field.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

### Disposals of oil and gas interests

The difference between the fair value of the consideration receivable and the carrying value of the relevant proportion of the oil and gas asset disposed of is first applied to reduce any unsuccessful exploration and evaluation cost carried in the pool, with any excess gain recognised in the income statement.

### Carry of expenditures and farm-in arrangements

Where the Group enters into a commercial agreement which includes carry of expenditures or a farm-in, the arrangement is accounted for according to its commercial substance. Generally, in the case of a farm-in, the substance is that the counterparty has acquired a share, or a greater share, of the underlying oil and gas reserves and the arrangement is treated as a partial disposal. Where the substance is that the counterparty has acquired a right, or a conditional right to be reimbursed by the Group out of future production, a liability is recognised at the time the obligation arises. In the case of a carry, a liability is recognised when the obligation is probable and is no longer conditional upon factors under the Group's control.

### Inventories

Inventories relate to materials acquired for use in exploration activities. These are valued at the lower of cost and net realisable value.

### Warrants

Proceeds in respect of convertible warrants subscribed are shown as a reserve, and upon issue of the shares, the proceeds are transferred to share capital.

### Capitalisation of interest

Any interest payable on funds borrowed to for the purpose of obtaining a qualifying asset will be capitalised as a cost of that asset. However, any associated interest charge from funds borrowed principally to address a short term cash flow shortfall during the suspension of development activities shall be expensed in the period.

### Financial instruments

The Group's financial instruments comprise of cash and borrowings together with various items such as other receivables and trade payables, which arise directly from its operations. The main purpose of these financial instruments is to provide working capital.

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

#### Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

#### Contingent deferred consideration

Contingent deferred consideration embedded in certain asset sale contracts is treated as a financial instrument and recognised immediately at its fair value and then reviewed on a periodic basis until the contractual rights to the cash flows from the financial asset expire. Movements in the fair value are taken to the income statement.

#### Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### Borrowings

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

#### Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

#### Decommissioning provision

The decommissioning provision represents management's best estimate of the Group's liability for restoring the sites of drilled wells to their original status, discounted where the effect is material.

#### Share-based payments

The Group has applied the requirements of IFRS 2 to bonus shares and share option schemes allowing certain employees within the Group to acquire or receive shares of the Company. For all grants of bonus shares and share options, the fair value as at the date of grant is calculated using an appropriate option pricing model and the corresponding cost is recognised over the expected life of the option. The fair value of the bonuses granted is recognised as an employee expense with a corresponding increase in equity. The fair value of the bonuses granted is measured using the standard methodology applied by the Company taking into account the terms and conditions upon which the bonuses were granted.

#### Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.



# Consolidated Financial Statements

## Summary of Significant Accounting Policies continued

### Decommissioning costs

The Group has estimated that decommissioning costs for wells will now be US\$550,000 per well discounted to money of the day. It has provided for this amount for GKS-3, RDL-1, GRJ-1, GRJ-2 and GKS-3. The total amount provided in the balance sheet as at 31 December 2006 at net present value is US\$2,050,000.

### Impairment review of GKN and GKS

The Group employs an economist to calculate the net present value of GKN and GKS based on, and with sensitivities associated with, a gross production profile of 4 thousand barrels per day, an oil price of US\$45 - US\$60bbl and a discount rate of 10%. The positive net present value from this model exceeded the carrying value as at 31 December 2006 of US\$26.8 million which was, therefore, retained as tangible assets.

### Contingent deferred consideration from HBH sale

As part of the HBH agreement with the BG group ("BG"), if gas reserves of the HBH field are agreed (in accordance with the agreement) to be greater than 800 bcf BG will pay the Group an additional US\$4,000,000 for every 100 bcf over 800 bcf from a minimum of 900 bcf up to a maximum of 1,300 bcf. The Group estimates, based on an independent review of potential reserves that the Group will receive US\$8,000,000 contingent deferred income, which discounted to money of the day at 10% per annum results in an estimated receivable contingent deferred income of US\$5,597,000 at 31 December 2006.

### Carry value of intangible exploration and evaluation assets

The outcome of ongoing exploration, and therefore whether the carrying value of intangible exploration and evaluation assets will ultimately be recovered, is inherently uncertain. Management makes the judgments necessary to implement the Group's policy with respect to exploration and evaluation assets and considers these assets for impairment at least annually with reference to indicators in IFRS6.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

## 1 Presentation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements are presented in US Dollars since that is the currency in which the majority of the Group's transactions are denominated.

## 2 Business and geographical segments

For management purposes, the Group is currently organised into two legal entities– Gulf Keystone Petroleum Limited and its subsidiary Gulf Keystone Petroleum (UK) Limited.

The principal activities of Gulf Keystone Petroleum Limited are the exploration and production of Oil and Gas principally in Algeria.

The principal activities of Gulf Keystone Petroleum (UK) Limited are to provide geologic, geophysical and engineering services to its parent Company.

Given that all the services provided by Gulf Keystone Petroleum (UK) Limited were for the parent Company, Gulf Keystone Petroleum Limited, they are not shown as separate geographical segments. Accordingly, the Group only has one geographical segment, Algeria. There is only one business segment, being the Group's principal activity.

## 3 Profit/(loss) from operations

Profit/(loss) from operations has been arrived at after charging:

	2006 US\$'000	2005 US\$'000
Depreciation of property, plant and equipment		
– owned assets	212	142
Amortisation of intangible assets	64	27
Impairment of intangible exploration assets	–	35,145
Staff costs (see note 4)	8,160	3,347
Auditors' remuneration for audit services (see below)	105	123
Operating lease rentals	610	532
Exchange difference	157	33

Amounts payable to Deloitte & Touche LLP, and the previous auditors, in respect of both audit and non-audit services

	2006 US\$'000	%	2005 US\$'000	%
Audit services				
– annual audit	94	53	114	71
– annual audit of UK subsidiary	11	6	9	6
	105	59	123	77
Other assurance services				
– Interims	24	13	23	14
Tax services				
– compliance services	49	28	5	3
Other services				
– IFRS advice	–	–	8	5
– VAT advice	–	–	2	1
	178	100	161	100

Audit and non-audit services payable in 2005 and in respect of the interims for 2006 were to Baker Tilly.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2006

## 4 Staff costs

The average monthly number of employees (including executive directors) for the year was as follows:

	2006 Number	2005 Number
Office and management	14	8
Exploration staff	35	27
	49	35

Their aggregate remuneration comprised:

	2006 US\$'000	2005 US\$'000
Wages and salaries	3,823	2,592
Social security costs	1,304	361
Share based payment	3,033	394
	8,160	3,347

## 5 Investment revenue

	2006 US\$'000	2005 US\$'000
Interest on bank deposits	2,160	2,213

## 6 Tax expense

	2006 US\$'000	2005 US\$'000
Provision for UK corporation tax	60	135
Provision for deferred UK corporation tax	76	—
Tax attributable to the Company and its subsidiaries	136	135

Under current Bermuda laws, the Group is not required to pay taxes in Bermuda on either income or capital gains. The Group has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes at least until the year 2016.

Any corporate tax liability in Algeria is settled out of its share of oil under the terms of the Production Sharing Contracts and would therefore not be reflected in the tax charge for the year. In December 2006 the Algerian Government announced the introduction of a windfall tax. The tax applies to all foreign operators in Algeria producing hydrocarbons (gas or liquids) in association with SONATRACH. The tax is only applied to any profits generated when the average price of a barrel of oil is greater than US\$30 in the month concerned. In GKP's forecast production range the windfall tax will only be applied at 5% of GKP's share of production from Algeria. Additionally, as GKP had no production in 2006, the windfall tax does not impact the 2006 accounts.

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 30% of the estimated assessable profit for the year of the UK subsidiary.

Deferred tax is provided for due to the temporary differences which give rise to such a balance in jurisdictions subject to income tax.

The charge for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2006 US\$'000	2005 US\$'000
Profit/(Loss) before tax	46,445	(40,651)
Tax at the domestic tax rate 0% (2005 0%)	—	—
Tax on the profits of the UK subsidiary 30% (2005 30%)	(60)	(135)
Deferred tax on the profits of the UK subsidiary 30%	(76)	—
Tax expense and effective tax rate for the year	(136)	(135)

## 7 Earnings per share

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

### Earnings

	2006 US\$'000	2005 US\$'000
Profit/(Loss) for the purposes of basic and diluted loss per share	46,309	(40,786)

### Number of shares

	2006 Number	2005 Number
Weighted average number of ordinary shares for the purposes of basic profit/(loss) per share	261,769,050	253,677,757
Adjustments for:		
– bonus shares	1,669,707	–
– share options	13,240,500	–
Weighted average number of ordinary shares for the purposes of diluted profit/(loss) per share	276,679,257	253,677,757

There is a dilutive effect from the options and bonus shares issued by the Company.

## 8 Property, plant and equipment

	Oil and gas properties US\$'000	Fixtures and equipment US\$'000	Total US\$'000
<b>At 1 January 2005</b>			
Cost	–	119	119
Accumulated depreciation	–	(36)	(36)
Net book value	–	83	83

### Year ended 31 December 2005

Opening net book value	–	83	83
Additions	–	804	804
Transfer from intangible assets	24,849	–	24,849
Depreciation charge	–	(142)	(142)
Closing net book value	24,849	745	25,594

### At 31 December 2005

Cost	24,849	923	25,772
Accumulated depreciation	–	(178)	(178)
Net book value	24,849	745	25,594

### Year ended 31 December 2006

Opening net book value	24,849	745	25,594
Additions	1,233	167	1,400
Depreciation charge	–	(212)	(212)
Closing net book value	26,082	700	26,782

### At 31 December 2006

Cost	26,082	1,090	27,172
Accumulated depreciation	–	(390)	(390)
Net book value	26,082	700	26,782

In 2005, US\$24.8 million was transferred from oil and gas exploration and evaluation costs to oil and gas properties within property, plant and equipment during the year. This transfer was triggered by the SONATRACH and Gulf Keystone Petroleum Limited joint venture management committee i) recognising the potential commerciality of the GKN field, which in turn is expected to lead to confirmation of commerciality by Sonatrach and then in turn to the Ministry of Energy and Mining in Algeria endorsing a production license and; ii) the anticipated declaration of commerciality of GKS and subsequent recommendation via SONATRACH to the Ministry of Energy and Mining in Algeria for the award of an early production license. The additions in 2006 represent the continuing expenditures on these assets.



# Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2006

## 9 Intangible assets

	Exploration and evaluation costs US\$'000	Computer software US\$'000	Total US\$'000
<b>At 1 January 2005</b>			
Cost and net book value	41,708	–	41,708
<b>Year ended 31 December 2005</b>			
Opening net book value	41,708	–	41,708
Additions (restated)	35,008	156	35,164
Transferred to tangible assets	(24,849)	–	(24,849)
Impairment write off	(35,145)	–	(35,145)
Amortisation charge	–	(27)	(27)
Closing net book value	16,722	129	16,851
<b>At 31 December 2005</b>			
Cost (restated)	51,867	156	52,023
Accumulated amortisation	(35,145)	(27)	(35,172)
Net book value	16,722	129	16,851
<b>Year ended 31 December 2006</b>			
Opening net book value	16,722	129	16,851
Additions	3,330	61	3,391
Disposal of HBH	(223)	–	(223)
Amortisation charge	–	(64)	(64)
Closing net book value	19,829	126	19,955
<b>At 31 December 2006</b>			
Cost	54,974	217	55,191
Accumulated amortisation	(35,145)	(91)	(35,236)
Net book value	19,829	126	19,955

The expiry of the exploration license on Block 126a in April 2006 and the Group's decision only to focus on the GKN, GKS and GRJ fields within Block 126a triggered an impairment test under IFRS 6 and IAS 36 for Block 126a's group of cash generating units. This led to a US\$35.1 million write off in 2005.

The additions to oil and gas exploration and evaluation costs in the period relate to the wells in the GRJ field on Block 126a (see note 25) that was granted a licence extension until July 2007 and expenditures on the Group's other Bottena and Ben Guecha blocks whose exploration licences expire late in 2008 and early 2010 respectively.

The amortisation charge of US\$64,452 (2005 US\$26,556) has been included in general and administrative expenses.

### Restatement of prior year exploration and evaluation costs

Under the terms of various of the Group's production sharing agreements, SONATRACH is entitled to receive an amount of any future production to the value of US\$11.8m as cost recovery for past exploration expenditures. However, if no commercially exploitable deposits are discovered, the Group does not owe SONATRACH for the data acquired. In prior years, such obligations had been recorded as liabilities with the associated cost included in non-current assets. In these financial statements, the Group has restated non-current assets to derecognise this liability, on the basis that these amounts are more appropriately regarded as an integral part of the future production attributable to SONATRACH under the production sharing contract.

### Disposal of 36.75 per cent interest in HBH

In August 2006, Gulf Keystone announced the introduction of BG North Sea Holdings Limited, a subsidiary of BG Group Plc, as strategic partner in the Hassi Ba Hamou Perimeter exploration, appraisal and exploitation contract. Under the joint venture agreement ("JV"), BG has acquired 49 per cent of Gulf Keystone's interest in HBH and assumed the role of Operator. Gulf Keystone holds a 38.25 per cent interest, BG a 36.75 per cent interest and SONATRACH a 25 per cent interest in HBH. In accordance with Article 14 of the HBH 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 25 per cent for SONATRACH, 38.25 per cent for Gulf Keystone and 36.75 per cent for BG. However, in the absence of the discovery of a commercially exploitable deposit, the JV partners may not claim any reimbursement or compensation from SONATRACH. As part of the joint venture agreement, BG carries Gulf Keystone for up to US\$30 million of its share of exploitation expenditures on the block, which is repayable from Gulf Keystone's share of future production. As a result of the benefit of the cost carry under the HBH sale agreement, the Group carries no intangible assets on HBH, other than the expenditures incurred prior to entering the transaction with BG.

## 10 Subsidiary

Details of the Company's subsidiary at 31 December 2006 is as follows:

Name of subsidiary	Place of incorporation interest	Proportion of ownership power held %	Proportion of voting %	Principal activity
Gulf Keystone Petroleum (UK) Limited	UK	100	100	Geological, geophysical and engineering services

## 11 Inventories

	2006 US\$'000	2005 US\$'000
Exploration materials	4,711	3,472

## 12 Financial Assets

### Non-current financial asset

This balance represents US\$5,597,000 of contingent deferred consideration from the same agreement that is required to be recorded at fair value in accordance with IAS 39. This amount is recorded as a financial asset and represents the estimated fair value of potential future "bonus" payments in respect of the approved commercial reserves attributable to the HBH field upon development. The timing of payment of this amount is uncertain but it has been included in non-current assets.

### Trade and other receivables

	2006 US\$'000	2005 US\$'000
Disposal of HBH	55,000	–
Recoverable from BG	2,014	–
Prepayments for inventories	1,175	1,921
Prepaid insurance, rent and deposit for the UK office	997	1,359
Other prepayments	813	106
	59,999	3,386

The US\$55,000,000 receivable from the BG Group is part of the HBH agreement (this was received in January 2007). Additionally, as part of the agreement, BG is carrying the Company for up to US\$30 million of its expenditures on the HBH production sharing contract. No value is attributed to the group's share of these costs until such time as repayment of such amounts becomes unconditional, whereupon these costs will be recognised and capitalised as non-current assets. Prior to completion of the agreement, however, Gulf Keystone incurred US\$2,013,997 of costs which are recoverable from BG, therefore, a receivable from BG to cover Gulf Keystone's expenditure on BG's behalf is included in current assets.

The deposit for the UK office of US\$458,000 is receivable after more than one year (2005 US\$458,000).

The directors consider that the carrying amount of trade and other receivables approximates to their fair value and no amounts are provided against them.

Cash and cash equivalents comprise of cash and short-term deposits held by the Group. The carrying amount of these assets approximates to their fair value. Certain restrictions relating to cash balances are explained in note 19.

# Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2006

## 13 Trade and other payables

With the exception of the amount due to the joint venture partner, trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The directors consider that the carrying amount of trade payables approximates to their fair value.

	2006 US\$'000	2005 US\$'000
Due within one year:		
Trade payables	1,483	630
Amounts owed to related parties (see note 22)	5,050	–
Accrued expenses	4,302	7,861
	10,835	8,491

## 14 Provisions

	Decommissioning provision US\$'000
At 1 January 2006	2,050
At 31 December 2006	2,050

Of this provision for well abandonment for 5 wells, the expenditure is expected to be incurred within the next 2 years for 3 wells and after the productive life of the remaining wells.

## 15 Share Capital

	2006 US\$'000	2005 US\$'000
Authorised:		
500,000,000 Common shares of US\$0.01 each	5,000	5,000
50,000,000 Non-voting shares US\$0.01 each	500	500
60,000 Series A Preferred share of US\$1,000 each	60,000	60,000
	65,500	65,500

	Common shares		Share capital US\$'000	Share premium US\$'000
	Shares No	Amount US\$'000		
Issued and fully paid:				
Balance 1 January 2005	252,564,500	136,975	1,626	135,349
Warrant exercise	1,167,640	12	12	–
Balance 31 December 2005	253,732,140	136,987	1,638	135,349
Share issue August 2006	21,600,000	23,929	215	23,714
Bonus scheme shares October 2006	148,000	–	–	–
Bonus scheme shares December 2006	1,274,968	–	–	–
Balance 31 December 2006	276,755,108	160,916	1,853	159,063

Under warrant instruments dated 31 August 2004, warrants were granted in connection with the AIM flotation entitling the holders to subscribe for 1,167,640 Common shares at a subscription price of US\$0.01 per Common share. The warrants were exercised in full on 18 February 2005.

In August 2006 21,600,000 new Common shares were placed at 62p per Common share to finance continuing exploration and development activities.

In October 2006 148,000 Common shares were issued as part of the Company share bonus scheme.

In December 2006 a further 1,274,968 Common shares were issued as part of the Company share bonus scheme.

## 15 Share capital (continued)

### Rights attached to share capital

The holders of the Common shares have the following rights:

### Common shares

The holders of the Common shares (subject to the other provisions of the Bye-laws) are:

- (i) Entitled to one vote per share;
- (ii) Entitled to receive notice of, and attend and vote at, general meetings of the Company;
- (iii) Entitled to dividends or other distributions; and
- (iv) In the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for a reorganisation or otherwise or upon a distribution of capital, entitled to receive the amount of capital paid up on their Common shares and to participate further in the surplus assets of the Company only after payment of the Series A Liquidation Value (as defined in the Bye-laws) on the Series A Preferred Shares.

## 16 Other reserves

	Share bonus and share option reserve US\$'000	Exchange translation reserve US\$'000
Balance at 1 January 2005	108	–
Currency Exchange difference	–	(57)
Employee share options charge	394	–
Balance at 31 December 2005	502	(57)
Currency Exchange difference		
Employee share bonus and share options charge	3,033	14
Balance at 31 December 2006	3,535	(43)

## 17 Accumulated Deficit

	US\$'000
Balance at 1 January 2005	(6,580)
Net loss for the year	(40,786)
Balance at 1 January 2006	(47,366)
Net profit for the year	46,309
Balance at 31 December 2006	(1,057)

## 18 Reconciliation of profit/(loss) from operations to net cash used in operating activities

	2006 US\$'000	2005 US\$'000
Profit/(loss) from operations	44,514	(42,864)
Adjustments for:		
Depreciation of property, plant and equipment	212	142
Amortisation of intangible assets	64	27
Impairment of intangible exploration assets	–	35,145
Share based payment expense	3,033	394
Increase in inventories	(1,239)	(987)
Increase in provision	–	2,050
Increase in receivables	(62,210)	(2,961)
Increase/(decrease) in payables	2,208	(4,878)
Net cash (used)/generated in operating activities	(13,418)	(13,932)



# Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2006

## 19 Bank guarantees

As part of the contractual terms of the Algerian contracts, the Group has given bank guarantees to SONATRACH of US\$21.6 million. These are cash backed guarantees which effectively reduce the free cash available that the Group has on its balance sheet. The US\$21.6 million total is comprised of US\$6 million for the Bottena ("129 Contract") work programme and US\$15.6 million for the Ben Guecha ("108/128b Contract") work programme. These guarantees are for the exploration and evaluation work programmes stipulated in the contracts and are reduced as the work programmes are completed. A previous guarantee of US\$13.1 million for the Hassi Be Hamou (Blocks 317b, 322b3, 347b, 348 and 349b) work programme was replaced by a BG guarantee as part of the JV agreement.

## 20 Operating lease arrangements

The Group as a lessee:

	2006 US\$'000	2005 US\$'000
Minimum lease payments under operating leases recognised as expense for the period	610	532

At the balance sheet date, the Group had outstanding total commitments under non-cancellable operating leases, which fall due as follows:

	2006 \$'000	2005 \$'000
Within one year	531	590
In the second to fifth years inclusive	805	1,147
	1,336	1,737

Operating lease payments represent rentals payable by the Group for certain of its office properties in the UK and Algeria and residential properties in Algeria. The UK lease is for ten years with a break clause at year 5. The Algerian properties are leased for two years or less.

## 21 Share based payments

	2006 US\$'000	2005 US\$'000
Bonus shares charge	2,184	—
Share options charge	849	502
	3,033	502

### Equity settled share option plan

The Group plan provides for a grant price equal to the closing market price of the Group shares on the date of grant. The vesting period is generally 10 years for options granted before August 2006 and 3 years for options granted after that. If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

The weighted average contractual life relating to the share options outstanding at the year end was 6 years.

	2006 Options	Weighted average exercise price	2005 Options	Weighted average exercise price
Outstanding at 1 January	6,991,500	53.8p	5,700,000	48p
Granted during the year	7,249,000	61.5p	1,891,500	69.5p
Forfeited during the year	(1,000,000)	65.6p	(600,000)	48p
Outstanding at 31 December	13,240,500	57.2p	6,991,500	53.8p
Exercisable at 31 December	1,997,167	51.9p	2,263,833	52.9p

The potential amalgamation with RAK Petroleum (see note 25) would cause all exercisable options to vest automatically.

## 21 Share based payments (continued)

	2006	2005
Weighted average share price	61.64	69.5p
Weighted average exercise price	61.64	69.5p

The inputs into the stochastic (Monte-Carlo) valuation model are as follows:

Expected volatility was determined by using the average of a peer Group of similar oil and gas companies over a seven year period for grants before 2006 and over a five year period after that. This was thought more instructive than the limited nature of the Company's history. The expected volatility was calculated as 46%/45.8% for the September 2004 and May 2005 grants and 43.5%/43.1% for the September 2005 and October 2005 grants respectively. The expected volatility for the January 2006 grant was 55% and 36.5%/36.6% for the grants in September 2006 and October 2006 respectively.

The expected term at the September 2004 and May 2005 grants respectively was seven to nine years and is calculated as five to nine years for the September 2005 and October 2005 grants respectively. The later grants are exercisable after three years.

The risk free rate was 4.94% and 4.48% for the September 2004 and May 2005 grants respectively and 4.2% and 4.3% for the September 2005 and October 2005 grants respectively. The risk free rate for the January 2006 grant was 4.7% and between 4.1% and 4.2% for the grants in September 2006 and October 2006.

The Company has made no dividend payments to date and as there is no expectation of making payments in the immediate future, this variable has been set at zero for all grants.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price (pence)	Options (in thousands) 2006	Options (in thousands) 2005
19 August 2014	48.0	5,100	5,100
05 October 2007	60.5	400	1,200
29 September 2015	85.0	492	592
11 October 2015	86.5	0	100
30 December 2015	66.0	2,100	–
29 September 2009	59.8	4,799	–
18 October 2009	59.0	350	–

### Bonus shares

The Group issues bonus shares to certain employees for nil consideration. These share-based payments are measured at fair value at the date of grant. The fair value of the shares granted is recognised as an employee expense with a corresponding increase in equity. The fair value of the shares granted is the market price on the date of the award and is charged to the income statement over the vesting period taking into account the terms and conditions upon which the shares were granted.

Expiry date	Bonus Shares
As at 1 January 2005	–
Issued October 2006	444,000
Issued December 2006	2,648,675
As at 31 December 2006	3,092,675

# Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2006

## 22 Related party transactions

### Transactions with related parties

Transactions between the Company and its subsidiaries and associates are disclosed below.

On 9 June 2006 the Group signed loan agreements with GIBCA Limited and Falcon Partners Trust, both related parties, to provide an unsecured debt facility drawn down in aggregate by US\$5 million at an interest rate of 7% and for a term of 12 months. Sheikh Sultan Al-Qassimi is a shareholder in GIBCA Limited and TF Kozel has a relationship with the Falcon Partners Trust. On 13 January 2007 the Group repaid in full these loans on the completion of the BG deal (see note 24). The interest expense paid and accrued for in the year was US\$228,693.

During the year the parent Company entered into the following transactions with its subsidiary:

	2006 US\$'000	2005 US\$'000
Purchases of services in year	4,276	2,636
Amount owed by related parties at year end	–	510

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

During the year, Group companies entered into the following transactions with related parties which are not members of the Group.

	Texas Keystone Inc.	
	2006 US\$'000	2005 US\$'000
Purchase of services in year	–	942
Amounts owed to related parties at the year end	–	336

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"). The Company entered into an agreement with TKI in which the Group 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 reimbursement of reasonable out-of-pocket expenses.

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

### Remuneration of key management personnel

The remuneration of the directors, and other key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Report of the Remuneration and Appointment Committee on pages 21 to 23.

	2006 US\$'000	2005 US\$'000
Short-term employee benefits	3,462	1,718
Share based payment – Options	849	366
Share based payment – Bonus shares	2,185	–
	6,496	2,084

## 23 Financial instruments

The main risks arising from the Group's activities are interest rate risks, exchange rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments should be undertaken.

### Foreign exchange risk

The operating currencies of the Group are Sterling, Algerian Dinars and US Dollars. The Group does not hedge against the effects of movement in exchange rates. The risks are monitored by the Board on a regular basis.

### Interest rate risk

The Group's policy on interest rate management is agreed at Board level and is reviewed on an ongoing basis. The current policy is to maintain a certain amount of funds in the form of cash for short term liabilities and have the rest on relatively short term deposits, usually one month notice to maximise returns and accessibility.

### Interest rate profile of financial assets

The interest rate risk profile of the Group's financial assets, except for trade and other receivables, as at 31 December 2006 was:

	Fixed rate US\$'000	Floating rate US\$'000	Non-interest bearing US\$'000	Total US\$'000
US Dollars	–	58,962	100	59,062
GBP	138	–	–	138
Algerian Dinars	–	–	128	128
	<b>138</b>	<b>58,962</b>	<b>128</b>	<b>59,328</b>

Of which:

Cash at bank and in hand	138	58,962	128	59,328
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31 December 2005	Fixed rate US\$'000	Floating rate US\$'000	Non-interest bearing US\$'000	Total US\$'000
US Dollars	–	50,429	–	50,429
GBP	95	61	–	156
Algerian Dinars	–	–	854	854
	<b>95</b>	<b>50,490</b>	<b>854</b>	<b>51,439</b>

Of which:

Cash at bank and in hand	95	50,490	854	51,439
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Floating rate instant access deposits in US Dollar and Sterling accounts earn interest at prevailing bank rates. Funds held in Algeria are non interest bearing. Funds in Sterling held in the UK are on a fixed rate of 2% gross.



# Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2006

## 23 Financial instruments (continued)

### Liquidity risk

It is the Group's policy to finance its business by means of internally generated funds and external share capital. In common with many exploration companies, the Group raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods. Further funding is raised as and when required. When any of the Group's projects move to the development stage, specific financing may be required to enable development to take place.

### Fair value

There is no material difference between the fair value of financial assets and their book value at the balance sheet date.

### Credit Risk

Following receipt of the HBH receivable from BG Group in January 2007 (note 24), the Group's principle financial assets are bank balances and cash. The Group has no significant credit risk.

## 24 Gain on sale of assets

The gain on sales of assets was principally comprised of funds received from the farm in deal with BG for a 36.75% interest in the HBH block of US\$55,000,000. Against that consideration the cost of sales (the amount of previously invested by Gulf Keystone on HBH) were calculated as US\$657,583 (the carrying value of that interest in the Group's balance sheet, of US\$222,899 and costs incurred of US\$434,683). Additionally, Gulf Keystone recorded a contingent deferred consideration of US\$5,597,000 (note 12). The remainder of the gain recorded was for the sale of surplus stock (US\$163,735) and the temporary loan to a third party of a drilling rig under contract to Gulf Keystone (US\$1,000,000).

## 25 Subsequent events

On 13 April 2007 the board of directors of Gulf Keystone, RAK Petroleum and RAK Bermuda, a wholly owned subsidiary of RAK Petroleum, announced the terms of a recommended acquisition of Gulf Keystone by RAK Petroleum to be effected by way of an amalgamation of Gulf Keystone with RAK Bermuda. Under the terms of the proposed amalgamation Gulf Keystone shareholders will receive amalgamation consideration of 74 pence per Gulf Keystone share, which are to be cancelled pursuant to the amalgamation. The total consideration on a fully diluted basis including the cash cancellation consideration for in the money Gulf Keystone options and amounts due under the Gulf Keystone Executive bonus scheme is approximately £208 million (US\$412 million).

On 13 January 2007 the Group repaid in full its outstanding debts to GIBCA Limited and Falcon Partners Trust, both related parties, who had provided an unsecured debt facility in aggregate of US\$5 million at an interest rate of 7% and for a term of up to 12 months.

On 7th April 2007 Gulf Keystone commenced workover operations on well HEK-3 an oil and gas discovery well drilled by SONATRACH in 2004. At that time, the well was tested over the Cretaceous, Coniacian limestone interval and achieved, post acidisation, flow of 184 barrels of oil over a 4 hour period, prior to the well being suspended. Gulf Keystone re-entered the well and tested the same zone, over the measured interval 2,439 to 2,446 metres, employing an acid fracturing technique to improve connectivity between the reservoir and the wellbore. After cleaning up the well, a stabilised flow rate of 1,040 barrels per day of 31 degrees API oil was achieved through a 32/64 inch choke.

During April Gulf Keystone performed well test operations on well GRJ-2, no hydrocarbons flowed into the wellbore under test and this well is being plugged and abandoned. Whilst final expenditures on the GRJ field are forecast to be around US\$24 million, as at 31 December 2006 expenditures of US\$18.9 million are included in intangible assets. In accordance with the Group's accounting policies for intangible oil and gas interests, these amounts will be subject to an impairment test in 2007.

# Directors and Advisers

## Directors

Roger Parsons – Non-Executive Chairman  
Todd Kozel – Chief Executive  
Sheikh Sultan Bin Saqr Al-Qassimi – Non-Executive Director  
James William Guest – President  
Jonathan Cooper – Finance Director

## Secretary

Juliet Evans  
Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

## Registered office

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

## UK solicitor

Memery Crystal  
44 Southampton Buildings  
London  
WC2A 1AP

## Algerian solicitor

Thompson & Knight  
Cabinet Yassine  
Parc Paradou  
Rue no 3  
Villa 4.5, Hydra  
Algiers, Algeria

## Registrar

Computershare Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

## Joint broker

Tristone Capital  
28 Grosvenor Street  
London  
W1K 4QR

## Nominated adviser and joint broker

Hoare Govett Limited  
250 Bishopsgate  
London  
EC2M 4AA

## Bankers

Bank of N.T. Butterfield & Son Limited  
65 Front Street  
PO Box HM 195  
Hamilton HMAX  
Bermuda

Credit Agricole (Suisse) S.A.  
Lintheschergasse 15  
CH-8023  
Zurich

HSBC  
79 Piccadilly  
W1J 8EU

## Auditors

Deloitte & Touche LLP  
London

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# Notes

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HBH photographs courtesy of BG Group

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**GULF KEYSTONE PETROLEUM LTD.**

**Algeria**

Gulf Keystone Petroleum Ltd  
Villa 42B Cité Des PTT  
Hydra  
Algiers Algeria

**UK**

Gulf Keystone Petroleum (UK) Ltd  
16 Berkeley Street  
Mayfair  
London W1J 8DZ UK

**Bermuda**

Gulf Keystone Petroleum Ltd  
Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

[www.gulfkeystone.com](http://www.gulfkeystone.com)

