GULF KEYSTONE PETROLEUM LTD.

27 August 2015

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

Half Year Report for the six months ended 30 June 2015

Gulf Keystone, an independent oil and gas exploration and production company and operator of the world class Shaikan field in the Kurdistan Region of Iraq, today announces its results for the six months ended 30 June 2015.

Operational highlights

Security situation and HSE performance

- All operations in the Kurdistan Region of Iraq remain safe and secure with no significant HSE incidents during the period

Shaikan (75% working interest; Operator)

Production

- Strong production performance resulted in gross production of 4.7 million barrels in the period to 30 June 2015, an increase of 102% on H1 2014
- A new daily production record of 45,000 barrels of oil per day (bopd) was established on 16 August 2015 with the current average daily production in excess of 40,000 bopd
- Plant availability at the Shaikan production facilities (PF-1 and PF-2) for 2015 to mid-August has averaged 98.2%, which should allow the Company to achieve its previously announced daily production average target of 30,000-34,000 bopd for Full-Year ("FY") 2015 and 36,000-40,000 bopd for H2 2015, subject to offtake, which continues to be variable

Sales and payments

- In line with the announced diversified marketing strategy aimed at achieving more flexibility, Shaikan production is currently being delivered to export markets through two principal routes. Approximately 20,000 bopd is delivered to the Turkish coast by truck and 20,000 bopd is delivered into the export pipeline
- Under a direct six month contract with a domestic off-taker established in mid-May 2015, the Shaikan crude oil delivered by truck to the Turkish coast has to date resulted in total cash receipts of US$19.3 million gross (US$15.4 million net to Gulf Keystone)
- In July 2015, at the request of the Kurdistan Regional Government's ("KRG") Ministry of Natural Resources ("MNR"), the Company commenced trucking Shaikan crude oil a distance of 120 km to Fyshkhabour on the Turkish border for injection into the export pipeline to Ceyhan in Turkey
- Further to the KRG statement on 3 August 2015 regarding expected regular payments from September 2015 for oil exports to the exporting international oil companies, Gulf Keystone anticipates regular payments for pipeline export sales to complement revenues from domestic offtake
- Export deliveries against the pre-payment of US$26 million gross (US$20.8 million net to Gulf Keystone) received for Shaikan crude oil sales in February, were completed in May 2015

Sheikh Adi (80% working interest; Operator)

- Appraisal report for the Sheikh Adi commercial discovery has been completed and work has commenced on a Field Development Plan

Financial highlights

- Cash and cash equivalents at 25 August 2015 of US$63.9 million, including US$32.5 million restricted to meet debt service obligations

- Revenues of US$30.1 million achieved for H1 2015 (1H14: US$18.7 million; FY14: US$38.6 million), an increase of 61% on H1 2014
- Loss after tax for H1 2015 of US$77.7 million (1H14: US$29.8 million; FY14: US$248.2 million)
- Unbooked revenues in the region of US$117 million from commencement of commercial production to 30 June 2015
- Total arrears net to Gulf Keystone of US$283 million as of 30 June 2015, including unbooked revenues and past costs due from the Shaikan Third Party and Government Options, subject to audit
- Cash spend on capital items in H1 2015 US$28.8 million, a reduction of 74% compared with H1 2014
- Placing of 85.9 million shares, raising gross proceeds of US$40.7 million in March 2015

- Book Equity Ratio Put Option, a restrictive condition, successfully removed in April 2015 from the US $250 million 13.0 per cent Guaranteed Notes due 2017

Corporate developments

- An active search process to appoint a number of Non-Executive Directors to the Board continues, led by Andrew Simon, Non-Executive Chairman

- Management team strengthened with the appointment of Nadhim Zahawi as Chief Strategy Officer

- Further to the Strategic Update of 25 February 2015, discussions are ongoing with a number of parties in relation to possible asset transactions or corporate sale

Outlook

- Continue safe and secure operations with the focus on achieving commercial sustainability of the business

- Continue to manage expenditure in a responsible and prudent manner and, in line with the KRG statement on 3 August 2015, anticipate the establishment of a regular payment cycle for all crude oil export sales from September 2015, with arrears being addressed from early 2016

- Following the establishment of a regular payment cycle for all oil sales and the arrears, progress from the current production levels of in excess of 40,000 bopd to the Shaikan Phase 1 development target of 100,000 bopd

- Complete the Strategic Review process

Jón Ferrier, Gulf Keystone's Chief Executive Officer, said:

"From an operational perspective Shaikan is continuing to perform strongly. However, there remain a number of challenges for producing operators in the region. Nevertheless, we are making good progress on all fronts at Gulf Keystone and are cautiously optimistic about the future. Chiefly, we are confident that our host government will be able to deliver on their recent pledge to establish a regular payment cycle for our crude from next month, and will start addressing the amount owed in arrears from 2016. Combined with revenue from our domestic off-taker agreement, this will provide us with the necessary means to recommence investment into the field and progress toward further increasing production, and subsequently value, for all stakeholders."

A live webcast of the presentation to analysts and investors will be available at 10:30am (BST) today on the Company's website www.gulfkeystone.com.

Enquiries:

Gulf Keystone Petroleum:	**+44 (0) 20 7514 1400**
Jón Ferrier, CEO	
Sami Zouari, CFO	
Anastasia Vvedenskaya, Head of Investor Relations	**+44 (0) 20 7514 1411**
Celicourt Communications:	**+44(0) 20 7520 9266**
Mark Antelme	
Jimmy Lea	

or visit: www.gulfkeystone.com

Notes to Editors:

- Gulf Keystone Petroleum Ltd. (LSE: GKP) is an independent oil and gas exploration and production company with operations in the Kurdistan Region of Iraq.
- Gulf Keystone Petroleum International (GKPI) holds Production Sharing Contracts for four exploration blocks in Kurdistan, the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel blocks.
- GKPI is the operator of the Shaikan block, which is a major commercial discovery, with a working interest of 75% and is partnered with MOL Kalegran Limited (a 100% subsidiary of MOL Hungarian Oil and Gas plc.) and Texas Keystone Inc., which have working interests of 20% and 5% respectively.
- Following the establishment of a regular payment cycle for all oil sales and arrears, Gulf Keystone plans to move into the large-scale phased development of the Shaikan field targeting 100,000 bopd of production capacity during Phase 1 of the Shaikan Field Development Plan.

Disclaimer

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

Chairman's Statement

Gulf Keystone has made significant progress on a number of its key objectives since the beginning of 2015, despite the continuing challenging conditions in the region where we operate, and a depressed oil price. The average price for oil has fallen approximately 57% compared with this time in 2014. Geopolitics and the oil price are issues over which we have little direct influence; however, in the areas under our control we have made progress notwithstanding the weak market environment. Despite the above-ground challenges, over the reporting period and since, we have consistently delivered an operational performance of which any company in the sector would be proud. Production has continued throughout the period; it is important to not lose sight of the fact that the Shaikan field continues to live up to its reputation as a world class asset.

There have been a number of changes in the leadership team. John Gerstenlauer, the previous CEO, left the business at the Annual General Meeting in July. John was instrumental in bringing our major asset, Shaikan, to a production rate of 40,000 bopd. We thank him for his considerable contribution over the last seven years. In June he was replaced by Jón Ferrier, an accomplished international oil company executive with considerable experience in the region, and specifically in the Kurdistan Region with Maersk Oil. He is already making a considerable impact on the business and I am delighted that he had the confidence in our future to join us. Jón will update you on recent developments in his management team.

The last few months has also seen changes on your Board. The previous Chairman stepped down in March and a further four Non-Executive Directors have left the Board. An active search process to appoint a number of Non-Executive Directors to the Board continues. It is our intention to operate with a smaller, lower cost, but high quality Board with relevant oil industry, regional and corporate experience. I will continue to oversee the rebuilding of the Board and to provide stability and continuity for our stakeholders.

In keeping with our objective of achieving lower operating costs for the business and in line with our Remuneration Policy, we will be reducing the Non-Executive Directors' fees by 25% and reviewing the Executive Directors' salaries on a regular basis, under the leadership of our new CEO.

Finally, we are totally committed to rebuilding the trust of our shareholders and all other stakeholders in the business, especially in the current climate of the depressed share price. The wellbeing of all our stakeholders, our host Government, our hard working colleagues and our shareholders are all inextricably linked. I would like to thank the MNR for their support at what is a most demanding time for the region, our shareholders for their forbearance, as well as our highly dedicated employees both in the Kurdistan Region and the UK.

You have my and my Board's commitment to meeting all of our stakeholders' expectations.

Andrew Simon
Chairman

CEO's Review

Having joined Gulf Keystone in June this year, I am pleased to be able to present my first CEO review. With the benefit of three months in the job, I am very encouraged by what I have seen. The calibre of people both in London and in the Kurdistan office and field operations has greatly impressed me. At every level, across every department, there is the highest degree of professionalism and a "can do" approach which is ensuring the Company's steady progress despite the challenges we face. In addition, and as you will read, having now spent time on the ground, the operations are in good order and performing consistently.

My management team, consisting of Sami Zouari, CFO, who was appointed in early 2015, Tony Peart, Legal and Commercial Director, and John Stafford, Vice President Operations, has most recently been strengthened by the appointment of Nadhim Zahawi as Chief Strategy Officer. He brings a depth and breadth of regional knowledge that will be of great value to the Company as we move forward. Reporting to me, he will be responsible for evaluating and advising me and the Board on strategic options for the Company.

HSE and Operations

My chief priority is the welfare of our employees, contractors, partners and communities neighbouring our operations. This is not an area where there is any margin for complacency and we will continue to drive the highest industry standards in order to maintain safe and reliable operations. I am pleased to state that our HSE performance over the period has been strong with no significant HSE incidents occurring. Despite the regional instability, all of our operations remain safe and secure and, as expected, this dimension of our business will continue to be given the appropriate amount of care and attention from myself and my management team and Board colleagues.

Over the period we have seen strong production growth. This is despite the continuing and well reported adverse market conditions, which the whole industry currently faces. Our gross production in H1 2015 was 4.7 million barrels, representing an increase of 102% over the same period in 2014.

Plant availability at the Shaikan production facilities (PF-1 and PF-2) for 2015 to mid-August has averaged 98.2%, which should allow the Company to achieve its previously announced daily production average target of 30,000-34,000 bopd for FY 2015 and 36,000-40,000 bopd for H2 2015, subject to offtake, which continues to be variable.

Currently, daily production levels are in excess of 40,000 bopd and a new daily production record of 45,000 bopd was established on 16 August 2015.

The first third-party evaluation of the Company's Reserves, Contingent Resources and Prospective Resources for the Shaikan field and its other petroleum interests in the Kurdistan Region of Iraq was issued in March 2014. In light of the new reservoir data accumulated since March 2014, Gulf Keystone has commissioned ERC Equipoise Limited to update its Competent Person's Report. This report is currently planned to be finalised by the end of Q3 2015.

Sales and Payments

Whilst we continue to make important inroads towards the establishment of a regular payment cycle, the marketing of our crude has never been more important for the sustainability of our business. Through the continuing dialogues with the MNR, we have been able to adopt a diversified approach to our marketing strategy aimed at achieving as much flexibility as possible in selling and getting paid for every barrel we produce.

Export deliveries by truck, against a pre-payment of US$26 million gross (US$20.8 million net to Gulf Keystone), received for Shaikan crude oil sales in February, were completed in early May 2015. Current production, which is in excess of 40,000 bopd, is being delivered for export through two principal routes. Approximately 24,000 bopd is being delivered to the Turkish coast by truck and the remainder delivered for injection into the export pipeline.

Under a direct six month contract with a domestic off-taker established in mid-May 2015, the Shaikan crude oil delivered by truck to the Turkish coast has generated total cash proceeds of US$19.3 million gross (US$15.4 million net to Gulf Keystone) to date.

CEO's Review (continued)

In parallel and at the request of the MNR, in July 2015 the Company commenced trucking Shaikan crude oil a distance of 120 km to Fyshkhabour on the Turkish border for injection into the export pipeline to Ceyhan in Turkey. This marketing route is expected to prevail in the future on the assumption of better netbacks to the Company and subject to regular payments.

Further to the KRG statement on 3 August 2015 regarding expected regular payments from September 2015 for oil exports to the exporting international oil companies, we now anticipate a regular payment cycle for pipeline export sales to complement revenues from domestic offtake. During this extraordinary period, cash payments received for exports to date have not followed the strict terms of the Production Sharing Contract ("PSC"). We anticipate a future reconciliation against the terms of the PSC as revenue arrears are addressed.

The Company has estimated, subject to audit, arrears amounts outstanding of US$283 million at 30 June 2015. These amounts are comprised of US$117 million unbooked revenues, $76 million of past costs associated with the Shaikan Government Option and US$90 million past costs associated with the Shaikan Third party option. The KRG has indicated that it plans to address these arrears from 2016, payment of which will be the key to unlocking further investment and realising the potential of our assets.

Development Plans

Looking ahead, work has now commenced on an update to the Field Development Plan (FDP) for the Shaikan field, which was originally approved by the MNR in June 2013. This is driven by the recent production data and will mainly focus on the Jurassic reservoir and the Company's evolving understanding of its recovery mechanism. It is currently our expectation that this will lead to a revision in the location and a reduction of the number of required development wells.

We currently expect the Shaikan FDP update will be completed by the end of 2015 when it will be submitted to the MNR for review and their approval. Meanwhile, Front End Engineering and Design (FEED) work for the next stage of the Shaikan development is progressing to bring production from 40,000 bopd towards our Phase 1 development target of 100,000 bopd. The FEED will be followed by the award of an EPC tender once a regular payment cycle for oil sales has been established and arrears have been addressed.

Beyond Shaikan, work continues on the remainder of the Company's portfolio of operated assets. At Sheikh Adi, the appraisal report for this commercial discovery has been completed and submitted to the MNR. Work has now commenced on a Field Development Plan for the field, which is expected to be completed by the end of the year. This is a very exciting satellite development adjacent to Shaikan and its upside potential remains the focus of the current study.

Non-operated Assets

At Ber Bahr (40% working interest), Genel Energy plc, the operator, have plans to drill the first appraisal well on the block. This is expected to help refine resource estimates for the field and potential development concepts. These plans are subject to the establishment of a stable payment for export crude oil sales in 2016.

At Akri-Bijeel (20% working interest), MOL Hungarian Oil and Gas plc., the operator, have recently commissioned a CPR, which will inform the operator's future work programme on the block. As previously announced, we are progressing to an orderly exit of the Company's 20% working interest in the block.

Outlook and Strategic Priorities

With plant availability at the Shaikan production facilities (both PF-1 and PF-2) currently averaging 98.2%, we remain on track to achieve the previously announced daily production average target of 30,000-34,000 bopd for FY 2015, and 36,000-40,000 bopd for 2H 2015.

We welcome the KRG's statement on 3 August 2015, following which the Company looks forward to the establishment of a regular payment cycle for all crude oil export sales from September 2015, and with arrears being addressed from early 2016. Meanwhile, we contain expenditure to that required for safe and reliable production operations and to develop concepts for future expansion.

The anticipated establishment of a regular payment cycle will help to strengthen the Company's financial position and, together with arrears payments, will unlock further investment.

CEO's Review (continued)

Upon the establishment of a regular payment cycle and arrears being addressed, we look forward to moving towards recommencing our investment programme in order to achieve our goal of 100,000 bopd at the end of Phase 1 of the Shaikan development. In the absence of a regular payment cycle Shaikan will not be able to move forward with further development and in the future, production will decline.

The strategic review process, launched in February 2015, continues. Discussions are on-going with a number of interested parties in relation to possible asset transactions or a corporate sale. We will issue further updates in due course.

In conclusion, since joining the Company, I have been clear on what my strategic priorities are: Safe and Reliable Operations; and the Commercial Sustainability of the business. My third priority is Effective Stakeholder Engagement, where increased efforts are principally focused on the Kurdistan Region – including the MNR, our industry partners and, of course, our shareholders.

I am pleased to be able to lead a strong and highly experienced team, fully aligned with shareholders and soon to be supported by an effective Board.

Jón Ferrier
Chief Executive Officer

Financial Review

The first half of 2015 has been a period of operational consolidation for Gulf Keystone as well as one of remaining patient on payment whilst our host government continues to address the difficult challenges it faces. The Group has focused its efforts on managing expenditure in a responsible and prudent manner alongside continuing a constant dialogue with the MNR. We welcome the announcement of the MNR on 3 August 2015 regarding the establishment of a regular payment cycle for crude oil export sales, and expect that once established, this regular payment cycle will make a significant difference to the Group's financial position and outlook.

Operating Results

Gross production for the first six months of 2015, all from the Shaikan field, totalled just over 4.7 million barrels with average daily production being 26,000 bopd. Gross liftings for the period were just under 4.7 million barrels, of which 3.8 million barrels were lifted for the export market and 0.9 million barrels lifted by a domestic off-taker.

In the absence of full pricing information and a lack of regular payments for export sales, the Group continues to recognise revenue on a cash receipts basis for sales to the export market. Consistent with year-end, revenue received from domestic offtake is recognised on an accruals basis. However, only 50% of gross sales proceeds have been recognised for sales from domestic offtake, consistent with the cash received by the Shaikan contractors and marginally (2.2%) below the PSC entitlement, net of royalty. Revenue realised for the period was $30.1 million (1H14: $18.7 million), of which, $20.8 million arose from export sales (1H14: $16.2 million) and $9.3 million from domestic offtake (1H14: $2.5 million). All revenues arise from the Shaikan field.

The realised price for domestic offtake was $25/bbl (2014: $42/bbl), whilst the price realised for export sales recognised has been estimated as $29/bbl. All prices are the price achieved at the Shaikan facility and stated after deductions for trucking and port storage costs as well as the discount to Brent associated with the quality of the Shaikan crude. Sales for the period have been recognised net of royalty with the KRG deemed to have taken the royalty "in-kind". Export revenues are recognised on a cash receipts basis and entitlement sales to a domestic offtaker are recognised at 50% of the gross sales proceeds. This policy has resulted in cumulative sales to 30 June 2015 in the region of $117 million being owed but not recognised, based on GKP's current 80% working interest in the field. The Directors regularly review the criteria for revenue recognition and, in the absence of a regular payment cycle, consider the current methodology appropriate. Further details on revenue, and the related judgements and assumptions, can be found in note 4 to the half year report.

Cost of Sales for the period was $62.6 million (1H14: $16.5 million). This includes production costs, any royalty costs and depreciation, depletion and amortisation (DD&A) charge on the Shaikan asset for the period. On a gross field basis, including unpaid production, cash operating costs per gross barrel excluding royalty, production and capacity payments due to the KRG were $6.5/bbl (FY2014: $7.0/bbl).

The DD&A charge relating to these assets for the period to 30 June 2015 was $31.4 million (FY2014: $38.4 million). Further details on cost of sales are to be found in note 5 to the half year report.

The Group's gross margin for the period was a $32.5 million loss (1H2014: $2.2 million profit) and will continue to be variable whilst export sales are recognised on a cash receipts basis.

General and administrative expenses during the period were $17.9 million (1H14: $23.5 million). The decrease in administrative expenses of $5.6 million results from a decrease in travel and other costs. This decrease is partially offset by an increase in advisors costs associated with the guaranteed bond consent solicitation process and an increase in Erbil office administrative and overhead costs in the income statement for the period, consistent with lower capital expenditure. There was an impairment charge of $3.6 million in relation to Akri-Bijeel as described further in note 11 to the half year report.

Non-operating results

Other gains of $2.5 million (1H14: $0.8 million loss) comprise foreign exchange gains associated with the GBP:USD exchange rate movements. Interest revenue remains low in accordance with prevailing rates. Finance costs of $25.6 million (1H14: $6.0 million) relate to the accretion charge on the decommissioning provision (1H15: $0.3 million, 1H14: $0.2 million), interest payable in respect of the convertible bonds of $13.6 million (1H14: $13.3 million) and interest payable in respect of the guaranteed bonds of $21.0 million (1H14: $8.3 million), offset by capitalisation of borrowing costs associated with qualifying assets under development of $9.3 million (1H14: $15.8 million). Capitalised borrowing costs have decreased significantly during 1H 2015 due to reduced capital activity during 1H 2015 following the successful attainment of 40,000 bopd production capacity. The cash coupon paid on the convertible bonds in 1H15 amounted to $10.2 million (1H14: $10.2 million) and on the guaranteed bonds $16.3 million (1H2014: $nil).

Financial Review continued

The tax expense of $0.5 million (1H14: $1.7 million) is related to UK activities and comprises $0.4 million of corporate income tax and $0.1 million change in the deferred tax asset associated with share-based payments.

The results for the first half of 2015 show an increased loss after tax of $77.7 million (1H14: $29.8 million) reflecting the increase in operating costs associated with increased production and the increase in bond interest discussed above.

Cash flow

Net cash outflow from operating activities after general and administrative expenses was $6.5 million (1H14: $21.3 million inflow). The loss from operations of $54.1 million (1H14: $21.3 million) was adjusted for non-cash expenditure of $36.9 million (1H14: $11.7 million), which included share-based payment, depreciation and amortisation charges and impairment of the Akri-Bijeel asset. The working capital adjustments totalled to a $10.7 million cash inflow (1H14: $30.9 million outflow) increasing the operational cash inflow.

The working capital adjustments represent an increase in operating payables following the increase in production during 1H 2015 compared to 1H 2014, and a decrease in receivables primarily attributable to the receipt of outstanding court costs of $2.1 million related to the Excalibur litigation as well as movements in partner working capital accounts and inventory. A tax refund was received in the UK Company for 1H 2015 of $0.6 million relating to prior periods (1H14: $nil), while interest received was negligible (1H14: $0.1 million). Net cash outflow from operating activities after tax and interest, including the $26.5 million semi-annual coupon payments for the guaranteed and convertible bonds, was $32.3 million (1H14: $11.2 million inflow).

Cash used in investing activities totalled $28.8 million (1H14: $109.7 million), which comprises $3.4 million spent on intangible assets (1H14: $52.4 million) and $25.5 million (1H14: $57.3 million) spent on property, plant and equipment. Spend on property plant and equipment primarily relates to expenditure on the Shaikan asset, where additions include the drilling of the Shaikan-11 well as well as completion of flowline tie-in and minor plant works including facility debottlenecking projects. The Company has not funded the Akri-Bijeel project during 2015.

Intangible expenditure primarily comprises additions to Sheikh Adi and Ber Bahr assets and includes continued geological and geophysical activities as well as the preparation of the Sheikh-Adi appraisal report and commencement of work on the development plan. Further information on oil and gas assets can be found in notes 9 to 11 to the half year report.

The Company raised $40.7 million before issue costs from a private placement of 85.9 million shares in March 2015 at a placing price of 32p per share, which became unconditional on 8 April 2015 following the successful completion of the consent solicitation to remove the book equity ratio (see Corporate Activities).

The net overall decrease in cash and cash equivalents during the period was $21.8 million (1H14: $141.7 million increase). Foreign exchange gains on cash balances were $1.5 million (1H14: $0.1 million loss). Cash and cash equivalents totalled $67.5 million at 30 June 2015 (30 June 2014: $223.5 million; 31 Dec 2014: $87.8 million). As at 25 August 2015, cash and cash equivalents totalled $63.9 million. Included within these cash and cash equivalent figures is restricted cash of $32.5 million relating to the Debt Service Reserve Account (see Corporate Activities).

Corporate Activities

In March 2015, the Company launched a consent solicitation to remove the book equity ratio term within the guaranteed bonds' Trust Deed, which was successfully completed on 8 April 2015. In addition, the Company agreed with the guaranteed note holders the following terms: (i) to retain the Company's Debt Service Reserve Account at one year of scheduled interest payments for the guaranteed notes (instead of stepping down to six months of interest payments in October 2015); (ii) to grant a security interest in favour of the holders of the guaranteed notes and the convertible bonds over the shares of Gulf Keystone Petroleum International Limited; and (iii) to reduce certain of the Company's grace periods under the Trust Deed for certain events of default and including additional notifications to the Trustee; and (iv) to begin a dialogue with a committee of holders of the guaranteed bonds if and when the Company's cash balance drops below US$50 million (including amounts in the Debt Service Reserve Account) for a period of five consecutive business days.

Following the issue of 85.9 million new Common Shares of US$ 0.01 each in the Company at a placing price of 32p per share, adjustments have been made to the conversion price of the convertible bonds and the outstanding 40 million warrants issued with the guaranteed notes. The adjusted conversion price of the convertible bonds is $4.34 (initial conversion price: $4.39) and for the warrants the adjusted conversion price is $1.68 (initial conversion price: $1.70).

Financial Review continued

In 2011, as part of the Group's forward strategy to rationalise its asset portfolio, the Board resolved to sell the Group's 20% working interest in the Akri-Bijeel block. The Company has received limited enquiries from interested parties during 1H 2015 relating to the sale of Akri-Bijeel and has determined that the criteria to classify the asset as held for sale are no longer met at 30 June 2015. The Group continues to progress towards an orderly exit of this project. Further details are given in note 11 to the consolidated financial statements.

The Company awaits the attention of Sonatrach to resume an orderly exit from its previous operations in the Ferkane Permit of Algeria.

Financial Strategy and Outlook

The KRG and Gulf Keystone continue to operate under difficult circumstances, facing significant macro geo-political challenges, including the low oil price. We continue to work closely with the KRG, our host and partner, on ensuring the best course possible through this period for the benefit of all stakeholders, with the priority being for the Company to establish a regular payment cycle for Shaikan production; regular receipt of payments is paramount to the on-going survival of the business and maintaining our liquidity with further details of material uncertainties in relation to the going concern basis of accounting provided in note 2 to the half year report.

The successful share placement strengthened the Company's financial position in the first half of 2015, while discussions with interested parties in relation to possible asset transactions or a sale of the Company were, and are, on-going. We continue to work on several mid to long term funding alternatives and ensure we are doing everything possible to maintain and enhance our liquidity in the near term. Allied to this, and as can be seen in our cash expenditure for the period, we are working to manage our cost base prudently and responsibly.

Sami Zouari
Chief Financial Officer

Mary Hood
Deputy Chief Financial Officer

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on Gulf Keystone's business and that may result in failure to meet shareholder expectations and to achieve strategic targets for growth, loss of financial standing and reputation. Not all of these risks are wholly within the Company's control and the Company may be affected by risks which are not yet manifest or reasonably foreseeable. The Board determines and reviews the key risks for the Group on a regular basis and consider them remain unchanged from those published in the 2014 Annual Report and Accounts. For all the known risks facing the business, Gulf Keystone attempts to minimise the likelihood and mitigate the impact.

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

- political and regional risk;
- liquidity and credit risk;
- capital availability;
- meeting shareholder expectations;
- organisational capability;
- risks associated with infrastructure and export market;
- business conduct and bribery act;
- field delivery risk including a successful delivery of the Shaikan Field Development Plan;
- health, safety environment and security; and
- prohibition on flaring and undeveloped options for monetising natural gas discoveries

Further information detailing the possible impact of these risks and the ways in which these risks are mitigated is provided on pages 32 to 35 of the 2014 Annual Report and Accounts.

Responsibility statement

The Directors confirm that to the best of their knowledge:

(a) the condensed set of financial statements, which has been prepared in accordance with IAS 34 "Interim Financial Reporting", gives a true and fair view of the assets, liabilities, financial position and loss of the Group as a whole as required by DTR 4.2.4R;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months of the year and a description of principal risks and uncertainties for the remaining six months of the year; and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Jón Ferrier
Chief Executive Officer
26 August 2015

GULF KEYSTONE PETROLEUM LIMITED

Independent Review Report to Gulf Keystone Petroleum Limited

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Emphasis of matter- Going Concern

In forming our conclusion on our review of the condensed financial statements, we have considered the adequacy of the disclosure made in note 2 to the condensed financial statements concerning the Group's ability to continue as a going concern. The Group's only producing asset is its interest in the Shaikan Block in Kurdistan and to date it has not been able to establish a stable and reliable pattern of cash receipts from export deliveries made from this field. If there are no further cash receipts in respect of export deliveries, the directors expect the Group to require additional funding at the time the next coupon payments fall due under the Group's bonds in October 2015. These conditions, along with the other matters explained in note 2 to the condensed financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The condensed financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. Our review conclusion is not qualified in respect of this matter.

Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

26 August 2015

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Income Statement
for the six months ended 30 June 2015

	Notes	**Six months ended 30 June 2015 Unaudited $'000**	Six months ended 30 June 2014 Unaudited $'000	Year ended 31 December 2014 Audited $'000
Continuing operations				
Revenue	4	**30,092**	18,700	38,560
Cost of sales	5	**(62,620)**	(16,506)	(81,845)
Gross (loss)/profit		**(32,528)**	2,194	(43,285)
Other operating expenses				
Impairment loss	11	**(3,610)**	-	(144,119)
General and administrative expenses		**(17,920)**	(23,500)	(39,034)
Loss from operations		**(54,058)**	(21,306)	(226,438)
Interest revenue	4	**25**	59	73
Other gains and losses		**2,473**	(795)	103
Finance costs	6	**(25,620)**	(6,015)	(19,812)
Loss before tax		**(77,180)**	(28,057)	(246,074)
Tax expense		**(513)**	(1,717)	(2,129)
Loss after tax		**(77,693)**	(29,774)	(248,203)
Loss per share (cents)				
Basic	7	**(8.50)**	(3.42)	(28.51)
Diluted	7	**(8.50)**	(3.42)	(28.51)

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2015

	Six months ended 30 June 2015 Unaudited $'000	Six months ended 30 June 2014 Unaudited $'000	Year ended 31 December 2014 Audited $'000
Loss for the period	**(77,693)**	(29,774)	(248,203)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(50)	1,121	(987)
Total comprehensive loss for the period	**(77,743)**	(28,653)	(249,190)

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Balance Sheet
as at 30 June 2015

	Notes	**30 June 2015 Unaudited $'000**	30 June 2014 Unaudited $'000	31 December 2014 Audited $'000
Non-current assets				
Intangible assets	9	**306,984**	256,963	276,290
Property, plant and equipment	10	**591,661**	571,754	593,604
Deferred tax asset		**710**	3,109	732
		899,355	831,826	870,626
Current assets				
Assets held for sale	11	**-**	132,374	8,587
Inventories		**21,108**	22,188	22,854
Trade and other receivables	12	**10,558**	5,021	16,380
Cash and cash equivalents		**67,526**	223,509	87,835
		99,192	383,092	135,656
Total assets		**998,547**	1,214,918	1,006,282
Current liabilities				
Trade and other payables	13	**(120,760)**	(109,220)	(103,985)
Provisions		**(10,840)**	(7,197)	(7,197)
Liabilities directly associated with assets classified as held for sale	11	**-**	(2,264)	(8,587)
Current tax liabilities		**-**	(1,037)	-
		(131,600)	(119,718)	(119,769)
Non-current liabilities				
Convertible bonds	14	**(306,762)**	(299,910)	(303,278)
Guaranteed bonds	14	**(228,825)**	(219,657)	(224,071)
Provisions		**(28,407)**	(16,880)	(19,559)
		(563,994)	(536,447)	(546,908)
Total liabilities		**(695,594)**	(656,165)	(666,677)
Net assets		**302,953**	558,753	339,605
Equity				
Share capital	15	**9,781**	7,975	8,922
Share premium account	15	**834,619**	796,099	796,099
Share option reserve		**51,731**	57,844	51,017
Convertible bonds reserve		**13,030**	18,684	15,834
Exchange translation reserve		**(309)**	1,849	(259)
Accumulated losses		**(605,899)**	(323,698)	(532,008)
Total equity		**302,953**	558,753	339,605

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2015

		Attributable to equity holders of the Group						
	Notes	Share Capital $'000	Share premium account $'000	Share option reserve $'000	Exchange translation reserve $'000	Accumulated losses $'000	Convertible bond reserve $'000	Total equity $'000
Balance at 1 January 2014 (audited)		7,975	796,099	33,486	728	(297,409)	21,488	562,367
Net loss for the period		-	-	-	-	(29,774)	-	(29,774)
Other comprehensive income/(loss) for the period		-	-	-	1,121	-	-	1,121
Total comprehensive income/(loss) for the period		-	-	-	1,121	(29,774)	-	(28,653)
Transfer relating to share based payments		-	-	(681)	-	681	-	-
Share-based payment charge		-	-	2,894	-	-	-	2,894
Deferred tax on share-based payment transactions		-	-	(17)	-	-	-	(17)
Issue of warrants			-	22,162	-	-	-	22,162
Convertible bond equity amortisation		-	-	-	-	2,804	(2,804)	-
Balance at 30 June 2014 (unaudited)		7,975	796,099	57,844	1,849	(323,698)	18,684	558,753
Net loss for the period		-	-	-	-	(218,429)	-	(218,429)
Other comprehensive income/(loss) for the period		-	-	-	(2,108)	-	-	(2,108)
Total comprehensive income/(loss) for the period		-	-	-	(2,108)	(218,429)	-	(220,537)
Transfer relating to share-based payments		-	-	(8,216)	-	8,216	-	-
Share-based payment charge		-	-	1,991	-	-	-	1,991
Deferred tax on share-based payment transactions		-	-	(602)	-	-	-	(602)
Share conversion issue		947	-	-	-	(914)	-	33
Own shares held by EBT[1]		-	-	-	-	(33)	-	(33)
Convertible bond equity amortisation		-	-	-	-	2,850	(2,850)	-
Balance at 31 December 2014 (audited)		8,922	796,099	51,017	(259)	(532,008)	15,834	339,605
Net loss for the period		-	-	-	-	(77,693)	-	(77,693)
Other comprehensive income/(loss) for the period		-	-	-	(50)	-	-	(50)
Total comprehensive income/(loss) for the period		-	-	-	(50)	(77,693)	-	(77,743)
Transfer relating to share-based payments		-	-	(998)	-	998	-	-
Share-based payment charge		-	-	1,645	-	-	-	1,645
Deferred tax on share-based payment transactions		-	-	67	-	-	-	67
Share conversion issue		859	38,520	-	-	-	-	39,379
Convertible bond equity amortisation		-	-	-	-	2,804	(2,804)	-
Balance at 30 June 2015 (unaudited)		**9,781**	**834,619**	**51,731**	**(309)**	**(605,899)**	**13,030**	**302,953**

[1] Employee Benefit Trust ("EBT").

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2015

	Notes	**Six months ended 30 June 2015 Unaudited $'000**	Six months ended 30 June 2014 Unaudited $'000	Year ended 31 December 2014 Audited $'000
Operating activities				
Cash (used)/generated in operations	8	**(6,469)**	21,309	(760)
Tax received/(paid)		**599**	-	(210)
Interest received		**25**	59	103
Bond coupon payments		**(26,496)**	(10,156)	(36,563)
Net cash (used)/generated in operating activities		**(32,341)**	11,212	(37,430)
Investing activities				
Purchase of intangible assets		**(3,357)**	(52,341)	(86,822)
Purchase of property, plant and equipment		**(25,480)**	(57,322)	(110,623)
Net cash used in investing activities		**(28,837)**	(109,663)	(197,445)
Financing activities				
Proceeds on issue of share capital		**39,379**	-	-
Proceeds on issue of other borrowings		**-**	240,114	240,114
Net cash generated by financing activities		**39,379**	240,114	240,114
Net (decrease)/increase in cash and cash equivalents		**(21,799)**	141,663	5,239
Cash and cash equivalents at beginning of period		**87,835**	81,972	81,972
Effect of foreign exchange rate changes		**1,490**	(126)	624
Cash and cash equivalents at end of the period being bank balances and cash on hand*		**67,526**	223,509	87,835

*Cash and cash equivalents include an amount of $32.5 million held in the Debt Service Reserve Account.

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2015

1. General information

The condensed Group financial statements for the six months period ended 30 June 2015, comprising Gulf Keystone Petroleum Ltd and its subsidiaries (together, “the Group”), have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting”, as adopted by the European Union and the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority (FCA) in the United Kingdom as applicable to interim financial reporting.

Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as adopted by the European Union, have been omitted or condensed as is normal practice and are to be read in conjunction with the Group’s financial statements for the year ended 31 December 2014. The condensed Group interim financial statements for the six months ended 30 June 2015 have not been audited, but have been reviewed by the Company’s external auditor and their report to the Company is attached. The condensed interim financial statements were approved by the Board of Directors on 26 August 2015. An electronic version of the half year report has been posted on the Group’s website www.gulfkeystone.com. Hard copies are available by writing to Gulf Keystone Petroleum Limited, c/o Gulf Keystone Petroleum (UK) Limited, 6th Floor, New Fetter Place, 8-10 New Fetter Lane, London, EC4A 1AZ, UK.

The financial information for the year ended 31 December 2014 does not constitute the Group’s financial statements for that year, but it is derived from those accounts. The auditors have reported on those accounts and their report was not modified but drew attention by way of emphasis of matter over the uncertainty of the Group’s ability to continue as a going concern.

2. Accounting policies

Basis of preparation

The Annual Report and Accounts of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in this condensed set of financial statements as applied by the Group in its Annual Report and Accounts for the year ended 31 December 2014.

Going concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman’s Statement and Chief Executive Officer’s Review. The financial position of the Group as at 30 June 2015 and its cash flows and liquidity position are included in the Financial Review.

At 25 August 2015, the Group’s cash balance, including $32.5 million of restricted cash relating to the Debt Service Reserve Account (see note 14), is $63.9 million. To enhance its capital resources, the Group issued 85.9 million shares during March 2015 raising net proceeds of $39.3 million. Operationally, the Group reached its stated production target of 40,000 bopd in December 2014 and production for 1H 2015 has averaged 26,000 bopd.

In 2014 and 2015 to-date, the Group has continued to achieve revenues from domestic sales and to lift oil for export, receiving cash of $38.3 million during 2015 to date. While the payments for domestic revenues have been received regularly, the inflow of cash from export sales has been inconsistent throughout the period with the Group not receiving its full entitlement to date in line with the Production Sharing Contract. The process for receiving consistent payments in a timely manner is in the process of being established. The Group sees this matter as its main priority and continues to engage the Kurdistan Regional Government with this intent.

Based on the Group’s on-going operational and capital requirements, if the Group was to receive its entitlement revenues, including arrears, in full, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. However, due to the lack of regular revenue receipts to date, the Directors believe that additional financing may be required over and above existing capital resources and expected operating cash flow from production in order to fund the Group’s current capital and operating expenditure and commitments in the upcoming 12-month period.

Existing cash resources may be enhanced over the next 12 months from the date of this report by the exercise of the Shaikan Government Option and/or the Shaikan Third Party Option under the terms of the Shaikan PSC. The Group may also enter into joint venture agreements with third parties, issue new Common Shares, sell assets, or execute a combination of the aforementioned financing options, to maintain or adjust its capital structure.

Whilst the Directors believe that one or more of the above events are likely to occur, including the establishment of a regular payment cycle, if none of these events occur and there are no additional receipts for oil sent for export

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2015 continued

2. Accounting policies continued

subsequent to the date of this report, the Directors would expect the Group to require additional working capital at the time the next coupon payments fall due under the Group's bonds in October 2015. Owing to the criticality of cash receipts from export revenues to the Group's ability to continue as a going concern, the Directors consider that whilst a stable and reliable payment process for export sales is not yet fully established, a material uncertainty exists that casts significant doubt over the Group's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business. These interim financial statements do not include any adjustments that might be required if they were to be prepared on a basis other than that of a going concern.

Changes in accounting policy

As of 1 January 2015, a number of new standards and interpretations became effective, as noted in the 2014 Annual Report and Accounts (page 84). The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group for the six months ended 30 June 2015.

3. Segment information

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

The operations of the Group comprise one class of business, oil and gas exploration, development and production and the sale of hydrocarbons and related activities. The reportable segments in accordance with IFRS 8 are therefore the three geographical regions that the Group operates within as described below:

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

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

30 June 2015 (unaudited)	**Algeria $'000**	**Kurdistan Region $'000**	**United Kingdom $'000**	**Corporate $'000**	**Elimination $'000**	**Total $'000**
Revenue						
Oil sales	-	30,092	-	-	-	**30,092**
Inter-segment sales	-	-	4,528	-	(4,528)	**-**
Total revenue	**-**	**30,092**	**4,528**	**-**	**(4,528)**	**30,092**
(Loss)/profit before tax	**(420)**	**(41,043)**	**1,086**	**(45,327)**	**8,524**	**(77,180)**
Tax expense	-	-	(513)	-	-	**(513)**
(Loss)/profit after tax	**(420)**	**(41,043)**	**573**	**(45,327)**	**8,524**	**(77,693)**
Total assets	**58**	**879,674**	**18,059**	**1,273,952**	**(1,173,196)**	**998,547**

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2015 continued

3. Segment information continued

30 June 2014 (unaudited)	Algeria $'000	Kurdistan Region $'000	United Kingdom $'000	Corporate $'000	Elimination $'000	Total $'000
Revenue						
Oil sales	-	18,700	-	-	-	18,700
Inter-segment sales	-	-	5,575	-	(5,575)	-
Total revenue	-	18,700	5,575	-	(5,575)	18,700
(Loss)/profit before tax	(3,541)	(3,991)	3,726	(38,423)	14,172	(28,057)
Tax expense	-	-	(1,717)	-	-	(1,717)
(Loss)/profit after tax	(3,541)	(3,991)	2,009	(38,423)	14,172	(29,774)
Total assets	74	1,028,639	25,393	1,305,026	(1,144,214)	1,214, 918

31 December 2014 (audited)	Algeria $'000	Kurdistan $'000	United Kingdom $'000	Corporate $'000	Elimination $'000	Total $'000
Revenue						
Oil sales	-	38,560	-	-	-	38,560
Inter-segment sales	-	-	10,661	-	(10,661)	-
Total revenue	-	38,560	10,661	-	(10,661)	38,560
(Loss)/profit before tax	(3,928)	(189,250)	844	(77,894)	24,154	(246,074)
Tax expense	-	-	(2,129)	-	-	(2,129)
(Loss)/profit after tax	(3,928)	(189,250)	(1,285)	(77,894)	24,154	(248,203)
Total assets	52	946,312	21,074	1,271,385	(1,232,542)	1,006,282

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2015 continued

4. Revenue

During the period to 30 June 2015, the Company sold Shaikan oil direct to a domestic offtaker and on the export market. Revenue from domestic offtake sales for the period to 30 June 2015 amounted to $9.3 million (30 June 2014: $2.5 million, 31 Dec 2014: $10.4 million) and revenue from export sales amounted to $20.8 million (30 June 2014: $16.2 million, 31 Dec 2014: $28.2 million). Revenue for commercial sales is recognised in line with the terms of the Shaikan PSC, the applicable sales contracts and the Group's accounting policy. At present, the Group is receiving, and recognising as revenue, 50% of the cash proceeds from any domestic offtake sales agreement.

In arriving at the value of sales revenue, management have used the following assumptions:

- Point of sale is the Shaikan facility;
- Export revenue is recognised on a cash receipts basis, whilst sales to any domestic offtaker are recognised on an accruals basis;
- Cash is received and revenue is recognised for all sales for the period, net of royalty, royalty is taken "in-kind" by the KRG;
- Cash receipts by GKPI as the operator represent the non-governmental contractors' share of revenue; and
- Company's current working interest in the Shaikan block is 80%.

The price achieved on domestic sales to 30 June 2015 was $25.2/bbl (2014: $42/bbl). The estimated realised price for export sales recognised for the first half of the year was $28.6/bbl. In estimating the price for export sales, management has estimated deductions for trucking and port storage costs as well as the discount to Brent received based on available information.

	Six months ended 30 June 2015 Unaudited $'000	Six months ended 30 June 2014 Unaudited $'000	Year ended 31 December 2014 Audited $'000
Oil Sales	**30,092**	18,700	38,560
Interest revenue	**25**	59	73
	30,117	18,759	38,633

5. Cost of Sales

	Six months ended 30 June 2015 Unaudited $'000	Six months ended 30 June 2014 Unaudited $'000	Year ended 31 December 2014 Audited $'000
Production costs	**31,199**	10,118	41,784
Royalty costs	**-**	408	1,671
Depreciation of oil & gas properties	**31,421**	5,980	38,390
	62,620	16,506	81,845

Production costs represent the Group's share of gross production costs for the period together with any consolidation adjustments; all costs are included with no deferral of costs associated with unpaid production.

A unit of production method, based on full entitlement production for the period, commercial reserves and costs for the Shaikan field full development, has been used to calculate the depreciation, depletion and amortisation (DD&A) charge for the period. Commercial reserves are proven and probable ("2P") reserves together with, where considered appropriate, a risked portion of "2C" contingent resources, estimated using standard recognised evaluation techniques.

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2015 continued

6. Finance costs

	Six months ended 30 June 2015 Unaudited $'000	Six months ended 30 June 2014 Unaudited $'000	Year ended 31 December 2014 Audited $'000
Interest payable in respect of convertible bonds	**13,583**	13,285	26,866
Interest payable in respect of guaranteed bonds	**20,969**	8,277	29,066
Unwinding of discount on provisions	**325**	249	534
Capitalised finance costs	**(9,257)**	(15,796)	(36,654)
	25,620	6,015	19,812

7. Loss per share

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

	Six months ended 30 June 2015 Unaudited $'000	Six months ended 30 June 2014 Unaudited **$'000**	Year ended 31 December 2014 Audited $'000
Loss			
Loss after tax for the purposes of basic and diluted loss per share	**(77,693)**	(29,774)	(248,203)

	30 June 2015 Number (000s) Unaudited	**30 June 2014 Number (000s) Unaudited**	31 December 2014 Number (000s) Audited
Number of shares			
Weighted average number of common shares for the purposes of basic loss per share	**913,539**	869,517	870,578
Adjustments for:			
-bonus shares	n/a	n/a	n/a
-share options	n/a	n/a	n/a
-warrants	n/a	n/a	n/a
-ordinary shares held by the Employee Benefit Trust	n/a	n/a	n/a
-ordinary shares held by the Exit Event Trustee	n/a	n/a	n/a
-convertible bonds	n/a	n/a	n/a
Weighted average number of common shares for the purposes of diluted loss per share	**913,539**	869,517	870,578

The Group followed the steps specified by IAS 33 in determining whether potential common shares are dilutive or anti-dilutive. It was determined that all of the potential common shares including bonus shares, share options, warrants, convertible bonds and common shares held by the Employee Benefit Trust ("EBT") and the Exit Event Trustee have an anti-dilutive effect on loss per share. As a result, there is no difference between basic and diluted earnings per share.

As at 30 June 2015, 37.3 million share options (30 June 2014: 36.8 million, 31 Dec 2014: 35.8 million), 40.0 million warrants (30 June 2014: 40.0 million, 31 Dec 2014: 40.0 million), 10.0 million common shares held by the Exit Event Trustee (30 June 2014: 10.0 million, Dec 2014: 10.0 million), 8.7 million common shares held by the Employee Benefit Trust (30 June 2014: 9.4 million, 31 Dec 2014: 10.3 million) and 74.9 million common shares (30 June 2014: 74.0 million, 31 Dec 2014: 74.0 million) to be issued if the bonds are converted at the adjusted conversion price of $4.34 (initial conversion price: $4.39) were excluded from the loss per share calculation as they were anti-dilutive.

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2015 continued

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

	Six months ended 30 June 2015 Unaudited $'000	Six months ended 30 June 2014 Unaudited $'000	Year ended 31 December 2014 Audited $'000
Loss from operations	**(54,058)**	(21,306)	(226,438)
Adjustments for:			
Depreciation of property, plant and equipment	**31,768**	6,278	39,019
Amortisation of intangible assets	**17**	89	111
Increase in Algerian decommissioning provision	**-**	3,013	3,012
Impairment of the Akri-Bijeel asset	**3,610**	-	144,119
Share-based payment expense	**1,500**	2,301	3,971
Decrease/(increase) in inventories	**1,746**	(1,534)	(2,200)
Decrease in receivables	**2,885**	28,680	21,291
Increase in payables	**6,063**	3,788	16,355
Net cash (used)/generated in operating activities	**(6,469)**	21,309	(760)

9. Intangible assets

The net book value at 30 June 2015 includes intangible assets relating to Ber Bahr $76.5 million (30 June 2014: $65.0 million, 31 Dec 2014: $74.2 million) and Sheikh Adi $230.4 million (30 June 2014: $191.9 million, 31 Dec 2014: $202.1 million). The remainder of the balance, with a carrying value of $0.3 million (30 June 2014: $0.1 million, 31 Dec 2014: 0.5 million), is comprised of computer software.

The additions to oil and gas exploration and evaluation costs in the year include the recognition of the PSC capacity building and signature bonus obligations on the Sheikh Adi licence following the Declaration of Commerciality and submission of the appraisal report for the block, and continuing geological studies together with capitalised administration costs over the Ber Bahr block.

10. Property, plant and equipment

The net book value at 30 June 2015 includes property, plant and equipment relating to the Shaikan block, which has a carrying value of $589.7 million (30 June 2014: $570.1 million, 31 Dec 2014: $591.9 million). The remainder of the balance, with a carrying value of $2.0 million (30 June 2014: $1.6 million, 31 Dec 2014: $1.7 million) is comprised of fixtures and equipment.

Additions to property, plant and equipment were $29.8 million, of which $29.2 million related to the Shaikan block. Additions include construction work on the Shaikan production facilities, enhancing the operational capacity of PF-1 and PF-2 as well as the completion of work associated with the tie-in of wells to these production facilities and the drilling and tie-in of the Shaikan-11 well.

Associated with production, a depreciation, depletion and amortisation charge of $31.4 million was recognised on the Shaikan oil and gas properties (30 Jun 2014: $6.0 million; 31 Dec 2014:$38.4 million), which has been included within cost of sales. A depreciation charge of $0.3 million was recognised on fixtures and equipment (30 Jun 2014: $0.3 million, 31 Dec 2014: $0.6 million), which has been included in general and administrative expenses.

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2015 continued

11. Akri-Bijeel Contingent Liabilities

In 2011, as part of the Group's forward strategy to rationalise its asset portfolio, the Board resolved to sell the Group's 20% working interest in the Akri-Bijeel block. The Group appointed Joint Corporate Advisers responsible for coordinating the sale and this process has been ongoing since that date with the operator, MOL, announcing in November 2014 that the field development plan had been agreed with the MNR. However, the Company has received limited enquiries from interested parties during 1H 2015 relating to the sale of Akri-Bijeel. Following from this, and taking into consideration the $144.1 million impairment of the Akri-Bijeel asset recorded at 31 December 2014, a prolonged period of lower oil prices and the on-going challenges faced by Kurdistan Region of Iraq, management has determined that the criteria to classify the asset as held for sale are no longer met at 30 June 2015.

Discussions are ongoing with MOL over the 2014 and 2015 work programme and budget and there is an amount of $27.6 million, which represents part of 2014 and 2015 billed expenditure, which the Company considers it is not obliged to pay. Accordingly, this amount has not been recognised in these financial statements. An impairment of $3.6 million (2014: $144.1 million) has been recognised in 1H 2015 associated with the write off of the remaining intangible asset as at 31 December 2014 and additions to the decommissioning provision during 1H 2015. The Akri-Bijeel project at 30 June 2015 is represented by a decommissioning provision of $3.6 million within current provisions. The Group continues to progress towards an orderly exit of this project.

12. Trade and other receivables

	30 June 2015 Unaudited $'000	30 June 2014 Unaudited $'000	31 December 2014 Audited $'000
Trade receivables	**6,732**	**1,367**	4,890
Other receivables	**2,703**	**1,441**	8,877
Corporation tax receivable	**200**	**-**	339
Prepayments and accrued income	**923**	**2,213**	2,274
	10,558	**5,021**	16,380

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

13. Trade and other payables

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

	30 June 2015 Unaudited $'000	30 June 2014 Unaudited $'000	31 December 2014 Audited $'000
Trade payables	**11,069**	13,009	13,885
Other creditors	**1,056**	3,401	669
Accrued expenses	**108,635**	92,810	89,431
	120,760	109,220	103,985

Accrued expenses include interest payable of $4.1 million (30 June 2014: $4.1 million; 31 Dec 2014: $4.3 million) in respect of convertible bonds and $6.6 million (30 June 2014: $6.6 million; 31 Dec 2014: $6.6 million) in respect of the guaranteed notes (see note 14).

14. Long term borrowings

The Group has in issue convertible debt securities issued in 2012 and 2013 consisting of $325 million convertible loan notes due October 2017 carrying a coupon of 6.25% payable on a biannual basis (the "convertible bonds") and debt securities issued in April 2014 consisting of $250 million three-year senior unsecured loan notes, carrying a coupon of 13% per annum payable on a biannual basis (the "guaranteed bonds"). The guaranteed bonds are guaranteed by Gulf Keystone Petroleum International Ltd and have a maturity date of 18 April 2017. Issued with the guaranteed bonds were freely tradeable and detachable warrants relating to 40 million common shares in the Company. Each warrant entitles the holder, subject to certain conditions, to purchase a common share in the Company on payment of the exercise price. The warrants expire on 18 April 2017. The bonds and warrants are listed on the Luxembourg Stock Exchange.

Guaranteed bonds consent solicitation

On 8 April 2015, the Company successfully completed a consent solicitation to remove the book equity ratio covenant from the Trust Deed constituting the guaranteed bonds and from the conditions contained therein. In addition, the Company agreed to the following terms: (i) retaining the Company's Debt Service Reserve Account at one year of scheduled interest payments for the guaranteed notes (instead of stepping down to six months of interest payments in October 2015); (ii) granting a security interest in favour of the holders of the guaranteed notes and the convertible bonds over the shares of Gulf Keystone Petroleum International Limited; and (iii) reducing certain of the Company's grace periods under the Trust Deed for certain events of default and including additional notifications to the Trustee; and (iv) beginning a dialogue with a committee of holders of the guaranteed bonds if and when the Company's cash balance drops below US$50 million (including amounts in the Debt Service Reserve Account) for a period of five consecutive business days.

Adjustment of conversion price

Following the issue of 85.9 million new Common Shares of US$ 0.01 each in the Company at a placing price of 32p per share (see note 15), adjustments have been required to the conversion price of the convertible bonds and the warrants. The adjusted conversion price of the convertible bonds is $4.34 (initial conversion price: $4.39) and for the warrants the adjusted conversion price is $1.68 (initial conversion price: $1.70).

The liabilities associated with both the convertible and guaranteed bonds are presented in the following tables:

	30 June 2015 Unaudited $'000	30 June 2014 Unaudited $'000	31 December 2014 Audited $'000
Liability at the beginning of the period	**538,221**	300,900	300,900
Liability of new bonds at issue	**-**	217,952	217,952
Interest charged during the period			
- on convertible bonds	**13,583**	13,285	26,866
- on guaranteed bonds	**20,969**	8,277	29,066
Interest paid during the period			
- on convertible bonds	**(10,156)**	(10,156)	(20,313)
- on guaranteed bonds	**(16,340)**	-	(16,250)
Liability at the end of period	**546,277**	530,258	538,221

Liability reported in:

	30 June 2015 Unaudited $'000	30 June 2014 Unaudited $'000	31 December 2014 Audited $'000
Interest payable in current liabilities	**10,690**	10,691	10,872
Non-current liabilities	**535,587**	519,567	527,350
	546,277	530,258	538,222

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2015 continued

14. Long term borrowings (continued)

As the Notes are actively traded on the Luxembourg Stock Exchange, it is considered more appropriate to disclose fair value at the prevailing market price as at the close of business on the reporting date:

	Market price	30 June 2015 $'000
Convertible bonds	**$0.51**	165,542
Guaranteed bonds	**$0.79**	197,188
		362,730

Assuming that both the guaranteed and convertible bonds are not purchased and cancelled, redeemed or converted prior to their respective maturity dates, the Group's remaining contractual liability comprising principal and interest, based on undiscounted cash flows at the maturity date of the bonds are as follows.

	30 June 2015 Unaudited $'000	30 June 2014 Unaudited $'000	31 December 2014 Audited $'000
Within one year	**52,813**	52,813	52,813
Within two to five years	**637,969**	690,781	664,375
	690,782	743,594	717,188

15. Share capital

On 31 March 2015, the Company raised gross proceeds of US$40,693,235 through a placing of 85,900,000 new Common Shares of US$ 0.01 each in the Company at a placing price of 32p per share. The placing became unconditional on 8 April 2015 following the successful guaranteed bonds consent solicitation (see note 14).

The Placing Shares represent 8.78 per cent. of the enlarged issued share capital of the Company. The Placing Shares were fully paid and rank pari passu in all respects with the existing Common Shares including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

	Common shares		**Share**	**Share**
	No. of shares	**Amount**	**capital**	**premium**
	000	**$'000**	**$'000**	**$'000**
Issued and fully paid				
Balance at 1 January 2015	892,238	805,021	8,922	796,099
Share placement	85,900	40,693	859	39,834
Issue costs on share placement	n/a	(1,314)	-	(1,314)
Balance 30 June 2015	**978,138**	**844,400**	**9,781**	**834,619**