GULF KEYSTONE PETROLEUM LTD.

10 September 2018

Gulf Keystone Petroleum Ltd. (LSE: GKP)
(“Gulf Keystone”, “GKP” or “the Company”)

2018 Half Year Results Announcement

Record profit achieved and on track for production uplift at Shaikan

Gulf Keystone Petroleum, a leading independent operator and producer in the Kurdistan Region of Iraq (“Kurdistan” or “Kurdistan Region”) announces its results for the half year ended 30 June 2018.

Highlights to 30 June 2018 and post reporting period

Operational

- Gulf Keystone's operations in the Kurdistan Region of Iraq remained safe and secure throughout H1 2018 with plant uptime at Production Facility 1 ("PF-1") and Production Facility 2 ("PF-2") of over 99% during H1 2018 and one lost-time incident (the first for three years) in July 2018.
- Shaikan achieved gross average production of 31,861 bopd for H1 2018 and 31,399 bopd for July and August. Our guidance for the full year remains unchanged at 27,000-32,000 bopd.
- Cumulative production from Shaikan since inception exceeded 50 million barrels in June 2018. Production and well behaviour continues to match our expectations and increase our confidence in the Company’s geological model of the field.
- PF-2 was tied-in to the export pipeline and the export of crude oil via the pipeline commenced during July 2018, leading to reduced operating costs and HSSE risk.
- Agreement reached in June 2018 with Ministry of Natural Resources ("MNR") of the Kurdistan Regional Government ("KRG") and our partner, MOL Hungarian Oil & Gas plc ("MOL"), in relation to investment plans to increase production at Shaikan to 55,000 bopd during the second half of 2019.
- Construction work for the investment programme has started, equipment procurement and contract tendering are underway and overall activity is on schedule.
- The scope of work for the 55,000 bopd project has been expanded to include opportunities to accelerate the production increase and tie-in PF-1 to the export pipeline. While capex guidance for the original scope remains unchanged, the required capex for the project has been revised to between $200 million and $230 million gross to account for the acceleration of those additional opportunities.
- The revised Field Development Plan ("FDP") has been drafted and is being finalised prior to submission later in 2018.

Financial

- Record profit after tax of $26.7 million (H1 2017: profit after tax of $0.7 million).
- Continued disciplined cost control with underlying cash operating costs stable at $14.1m (H1 2017: $14.1m) and underlying cash operating costs per barrel of $3.0/bbl (H1 2017: $2.7/bbl).
- The Group has continued to receive regular oil sales payments since 1 September 2015, with cash receipts of $107 million net to GKP during the half year and $147 million net to GKP during the eight months to 31 August 2018.
- Net cash generated in operating activities of $61.2 million (H1 2017: $30.1 million).
- Cash balance of $219 million at 30 June 2018 and $240 million at 7 September 2018 against $100 million debt principal.
- Debt refinanced in July 2018, with $100 million Reinstated Notes redeemed and replaced by $100 million New Notes with five-year maturity and 10% interest rate.
- Signing the Crude Oil Sales Agreement in January 2018 was a key milestone for the Company

Corporate

- Jaap Huijskes appointed Non-Executive Chairman in April 2018.
- Martin Angle appointed Senior Independent Non-Executive Director in July 2018.

Outlook

- With construction work underway, the Company remains on track to increase production at Shaikan to 55,000 bopd in the second half of 2019.
- GKP plans to carry out workovers on SH-1 and SH-3 wells by the end of the year, subject to rig availability.
- The Company has begun work to tie-in PF-1 to the export pipeline which is anticipated to be complete mid-2019, leading to further reduced operating costs and HSSE risk.
- The Company continues to make progress with the MNR and MOL to achieve further contractual and commercial clarity in relation to amendments of the Shaikan PSC, which it anticipates being concluded during Q4 2018.

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

"It is pleasing to note that over the course of the year a number of key milestones have been achieved, leading to the recommencement of investment into Shaikan and the anticipated growth in production from the field.

The signing, and successful implementation, of the Shaikan crude oil export sales agreement at the start of the year paved the way for the commercial progress that has been achieved, including the investment plans but also regarding the amendment to the Shaikan PSC. Once the revised FDP is submitted to the MNR and there is clarity around the PSC, we look forward to providing further details to investors, including capital strategy.

Once again, Shaikan has continued to perform well from an operational perspective, and in line with our strategic priority, this has been achieved whilst maintaining our strong safety track record. With a clear path to future growth, underpinned by a healthy balance sheet and an outstanding asset, we can look to the future with confidence".

Enquiries:

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

or visit: www.gulfkeystone.com

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

Notes to Editors:

- Gulf Keystone Petroleum Ltd. (LSE: GKP) is a leading independent operator and producer in the Kurdistan Region of Iraq and the operator of the Shaikan field with current production capacity of 40,000 barrels of oil per day

- Further information on Gulf Keystone is available on its website www.gulfkeystone.com

Disclaimer

This announcement contains certain forward-looking statements that are subject to the risks and uncertainties associated with the oil & gas exploration and production business. These statements are made by the Company and its 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 risks and uncertainties, including both economic and business factors and/or factors beyond the Company's control or within the Company's control where, for example, the Company decides on a change of plan or strategy. 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.

GULF KEYSTONE PETROLEUM LIMITED

Half Year Report for the six months ended 30 June 2018

Chairman and CEO Statement

The first half of 2018 saw Gulf Keystone make significant progress and achieve a number of key milestones, which have enabled us to recommence investment into Shaikan and increase production from the field in the near-term. The period has also seen the Company continue to deliver operationally, demonstrated by our strong safety performance and solid first half production figures. The region has remained stable and the Company has also benefited from an improved oil price environment, with the average Brent crude oil price for the first half of the year being over $70 a barrel (H1 2017: $52/bbl). The resurgence in oil prices also played a role in the global investment community becoming increasingly positive on the prospects for the oil and gas sector.

Average gross production from the beginning of the year to 30 June 2018 was 31,861 bopd (H1 2017: 36,664 bopd), at the top end of our full year guidance for 2018 of 27,000-32,000 bopd. The Company's health, safety, security and environment ("HSSE") performance during the year has also been good, despite one lost time incident ("LTI") arising. This was the first in three years of uninterrupted production at Shaikan.

The Company made significant commercial progress in the first half of the year. The signing, and successful implementation, of the Shaikan crude oil export sales agreement dated 10 January 2018 ("Crude Oil Sales Agreement") was key for the business. This agreement enabled Gulf Keystone to move to a more transparent invoicing mechanism with the MNR.

In June, Gulf Keystone announced an agreement with its partner, MOL, and the MNR regarding investment plans to increase gross production capacity at Shaikan to 55,000 bopd in the second half of 2019. This is a landmark event for us and will see the Company invest a significant amount of capital into this asset to increase gross production to 55,000 bopd, before moving on to 75,000 and 110,000 bopd. The 55,000 bopd case, which is self-funded, will require investment of between $200 million and $230 million gross ($160 million and $184 million net by GKP). Capex guidance for 2018 remains unchanged at $91 million gross ($73 million net by GKP). The revised 55,000 bopd project scope accelerates production and reduces transportation costs through the installation of a second spur line, which we see as a compelling value enhancer for the business. Along with our partner, MOL, we plan to submit a revised FDP to the MNR later this year, which will set out the framework and details of how production increases beyond 55,000 bopd will be achieved. We expect to communicate this work plan and associated capex towards the end of the year.

Negotiations around the amendment to the Shaikan PSC are continuing. Progress on this matter has been made and we remain positive that these negotiations will conclude this year. Whilst this is an important workstream, it is key to note that investment in operational developments remains unaffected by those negotiations.

Gulf Keystone remains in a strong financial position, with a cash balance as at 7 September 2018 of $240 million. We remain committed to strong financial discipline and continue to explore new ways of optimising our cost base. Given the Company is set to recommence investment into Shaikan, this pursuit of cost optimisation in all facets of the business will remain a critical matter going forward.

In July 2018, the Company successfully concluded an important refinancing of the Company's existing $100 million Reinstated Notes. The Company's five year senior unsecured $100 million New Notes received strong investor demand, both from existing and new investors and was oversubscribed. The refinancing of this debt instrument will provide greater financial flexibility, which will be important in the development of the Shaikan field.

The Company continued to receive regular monthly payments during the period, with a total of $147.4 million net being paid to GKP during the eight months to 31 August 2018. From September 2015, Gulf Keystone has received total payments from the MNR of $429 million net to GKP. The normalising of the payment cycle is an important advancement and demonstrates the KRG's commitment to the country's oil industry.

During the period, we were pleased to welcome to the board Martin Angle, who brings extensive financial, commercial and boardroom experience to the Company. We would like to thank Philip Dimmock for his contribution to Gulf Keystone since joining the Board in 2015 and Keith Lough for his leadership of the Board during his tenure as Chairman, both of whom stepped off the Board earlier this year.

We fully appreciate the continued support of all our stakeholders during what has been a very important period in the Company's history. Alongside our partner, MOL, and our hosts, the KRG and the MNR, we remain excited about the next 12 to 18 months, as we stand poised to realise Shaikan's full potential over the coming years.

Jaap Huijskes
Chairman

Jón Ferrier
Chief Executive Officer

Operations Review

The first half of the year saw the Shaikan field perform in line with expectations and average output from 1 January to 30 June 2018 was 31,861 (H1 2017: 36,664) and to 31 August 2018 was 31,743 bopd. This strong performance to date comes in at the top end of our production guidance range for 2018 of 27,000-32,000 bopd. In June, the Company achieved an important production milestone at Shaikan, with cumulative production at the field exceeding 50 million barrels from inception to date, reinforcing our confidence in the Company's geological model.

Gulf Keystone, along with its partner, MOL, and the KRG's MNR has achieved an important agreement, in relation to investment plans to increase production at Shaikan, and the joint venture plans to submit an update to the FDP to the MNR later in 2018. The revised FDP will provide details of production to date, subsurface geological understanding, production forecasts and proposed plans for wells and facilities to develop the Jurassic, Triassic and Cretaceous reservoirs in the Shaikan block. The revised FDP will clearly set out the phased approach to increase output from the field to 55,000 bopd during the second half of 2019, before moving on to 75,000 and 110,000 bopd. The plans are in line with those presented in the 2017 Annual Report, albeit with an increase in the eventual plateau from 100,000 bopd mentioned previously to 110,000 bopd.

Since the agreement with MOL and the MNR was reached in June 2018, the operations team has been working hard to procure materials and equipment and put contracts in place for services required for the Company's workover and drilling programme. Civil works for the 55,000 bopd project commenced in August, with the construction of roads and drill pads and we anticipate that drilling can commence in Q1 2019, subject to rig availability. A tendering process for the rig is currently underway.

The scope of the 55,000 bopd project has been expanded to include opportunities to enhance production at the SH-1 and SH-3 wells, accelerating the ramp-up to 55,000 bopd and bring forward the pipeline tie-in of PF-1 to the export pipeline to reduce transportation costs. While the capex estimates for the original scope remain unchanged, the required capex has been revised to $200 million to $230 million gross (versus $175 million to $215 million gross previously) to account for those opportunities. Workovers to install electric submersible pumps in three of our wells are now likely to begin in Q1 2019, owing to equipment lead time on critical items.

The tie-in of the 400m spur pipeline from PF-2 to the Atrush export pipeline system was completed on 23 July 2018 and all production from PF-2 (c.14,500 bopd) is now being exported via this pipeline. Oil from PF-1 is currently being trucked to the DNO facility at Fishkhabour for export via Turkey. However, in the next month, we will cease trucking the oil to Fishkhabour and start to truck the oil within the Shaikan block from PF-2 to PF-1, where we are constructing a temporary unloading facility, so that the oil from PF-1 can be injected into the Atrush export pipeline system, along with the oil from PF-2. Additionally, we have recently agreed terms with KAR Group for the installation of a 16 kilometre pipeline from PF-1 into the export pipeline system. Work has started on this project and we anticipate completion mid-2019, which would result in all of Shaikan's production being exported by pipeline and the elimination of the trucking of crude oil, providing cost savings and HSSE benefits.

In summary, the Company remains on schedule to increase production at Shaikan to 55,000 bopd in the second half of 2019.

HSSE

Safe operations continue to be of the utmost importance to Gulf Keystone and remains a priority for the business, both for those working out in the field and for the communities that live close to our operations in the Kurdistan Region of Iraq. The Company achieved plant uptime of over 99% during the first half of the year, enabling the business to achieve output at the top end of guidance for 2018. Our safety performance during the period was good, with one LTI recorded in July 2018, the first for three years. As ever, we continue to invest significant time and resource in our safety training, to help ensure a safe working environment for all.

Stuart Catterall
Chief Operating Officer

Financial Review

Summary of key financial highlights

	Six months ended 30 June 2018 Unaudited	Six months ended 30 June 2017 Unaudited
Gross average production (bopd)[1]	**31,861**	36,664
Revenue	**116.2**	78.3
Cash receipts assured ($m)[1]	**116.2**	72.0
Offset of payables to the MNR ($m)[1]	**-**	6.3
Underlying cash operating costs ($m)[1]	**14.1**	14.1
Underlying cash operating costs per bbl ($/bbl)[1]	**3.0**	2.7
General and administrative expenses ($m)	**7.6**	9.7
Profit from operations ($m)	**26.6**	6.3
Finance costs ($m)	**(5.6)**	(5.9)
Profit after tax ($m)	**26.7**	0.7
Basic earnings per share (cents)	**11.65**	0.29
Additions to oil and gas properties ($m)	**6.9**	4.1
Cash and cash equivalents ($m)	**219**	119
Net increase in cash and cash equivalents ($m)	**58.5**	25.7

[1] *Gross average production, revenue categories, underlying cash operating costs and net debt are either non-financial or non-IFRS measures and are explained later in this section.*

Revenue and production

Following the signing of the Crude Oil Sales Agreement in January 2018, the Group has received payments for oil sold according to its revenue entitlements. A regular monthly payment cycle is now well-established.

During the six months ended 30 June 2018, gross liftings were 5.8 million barrels (H1 2017: 6.7 million barrels). Shaikan crude oil was sold into the export market by trucking it to the delivery point at Fishkhabour for injection into the export pipeline and into the domestic market by truck from the delivery point at the Shaikan field. By 30 June 2018, the Company had ceased sales into the domestic market. During July 2018, the Company commenced two new routes/channels for selling crude oil into the export market by injecting into its newly commissioned spur into the Atrush pipeline and by trucking approximately 130km from Shaikan to South Khurmala for injection into the export pipeline.

Throughout the half year ended 30 June 2018, the Group received six payments covering the seven months of oil sales from September 2017 to March 2018 and totalling $136.7 million gross ($107.3 million net). As at 30 June 2018, the Group also recognised revenue receivables amounting to $57.8 million (H1 2017: $48.0 million) on its balance sheet in relation to oil sales during the three months from April to June 2018.

Owing to historic uncertainty relating to the payment mechanism for sales to the export market, the Group recognises its revenues when the cash receipt is assured (see note 4). Based on this, revenues recognised in the six-month period to 30 June 2018 amounted to $116.2 million (H1 2017: $78.3 million) with $116.2 million (H1 2017: $72.0 million) for assured receipts and $nil (H1 2017: $6.3 million) recognised by offsetting payables to the MNR against amounts due for previously unrecognised revenue.

The Group's production is sold under its oil sales agreement with the KRG at a discount to the price of Brent crude oil. For the six months ended 30 June 2018, the average discount for quality and transportation costs was $22.8/bbl (H1 2017: $19.8/bbl) and the average realised price was $47.8/bbl (H1 2017: $31.8/bbl).

Financial Review continued

Operating costs, depreciation and expenses

Underlying cash operating costs (defined in the non-IFRS measures section on page 8) remained stable at $14.1 million (H1 2017: $14.1 million), resulting in underlying cash operating costs per bbl of $3.0 (H1 2017: $2.7).

DD&A charges on production and development assets amounted to $34.9 million (H1 2017: $41.1 million), with the decrease owing to the decline in production volumes.

General and administrative expenses during the period were $7.6 million (H1 2017: $9.7 million). The decrease has been generated through efforts to further increase efficiencies and reduce costs.

Impairment of property plant and equipment

Management carried out an impairment indicator review of the Group's oil and gas assets as at 30 June 2018 with no impairment indicators identified as at 30 June 2018.

Finance costs

Finance costs of $5.6 million (H1 2017: $5.9 million) are in respect of the Reinstated Notes.

Taxation

Substantially all of the Group's operations are in Kurdistan. No tax charge has been recognised for operations in Kurdistan as, under the terms of the Shaikan PSC, the KRG will settle Iraq tax obligations out of its share of profit oil. The Group's subsidiary presence in the UK gave rise to the tax credit for the period of $0.21 million (H1 2017: credit of $0.04 million).

Cash flow

Net cash generated in operating activities was $61.2 million (H1 2017: $30.1 million). The increase is mainly due to increased cash receipts for revenue.

Capex for the period amounted to $2.6 million (H1 2017: $4.4 million), leading to the net overall increase in cash and cash equivalents during the period of $58.5 million (H1 2017: $25.7 million increase).

Cash and cash equivalents totalled $219 million at 30 June 2018 (30 June 2017: $119 million; 31 December 2017: $160 million). Cash and cash equivalents at 7 September 2018 amounted to $240 million.

Corporate Activities

Shaikan PSC Amendment

The Group continues to negotiate with the KRG and MOL to amend the terms of the Shaikan PSC and expects to execute an amendment agreement during Q4 2018.

Completion of debt refinancing

During July 2018, the Company completed a debt refinancing transaction, whereby it issued $100 million of New Notes and redeemed in full the $100 million of Reinstated Notes. The key terms of the New Notes are summarised in note 16.

Algerian assets

The Group continues its work on an orderly exit from its Algerian interests.

Financial outlook

Following a record profit after tax of $26.7 million during the period, the Group will continue to work to sustain its strong liquidity position and continue its efforts to manage costs prudently whilst maintaining safe and secure operations. We kept our operating costs in H1 2018 stable at $14.1 million, the same as in H1 2017. We have commenced our investment in the Shaikan asset and we look forward to the increased production volumes that this investment will bring.

Sami Zouari
Chief Financial Officer

Non-IFRS measures

The Group uses certain measures to assess the financial performance of its business. Some of these measures are termed "non-IFRS measures" because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. These non-IFRS measures include financial measures such as revenue categories and underlying cash operating costs and non-financial measures such as gross average production (bopd).

The Group uses such measures to measure operating performance and liquidity, in presentations to the Board and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of its operating cash flow and liquidity. The Directors believe that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

The non-IFRS measures may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group's operating results as reported under IFRS. An explanation of the relevance of each of the non-IFRS measures and a description of how they are calculated is set out below. Additionally, a reconciliation of the non-IFRS measures to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations is set out below, where applicable. The Group does not regard these non-IFRS measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS.

Revenue categories

The Group's revenue recognition policy is detailed in note 2. The Group recognises revenues once the receipt of cash is assured and once it incurs costs payable to the MNR that can be offset against unrecognised revenue arrears.

Underlying cash operating costs

Underlying cash operating costs, in comparison with cost of sales, excludes depletion and amortisation of oil and gas assets, capacity building charge, production bonuses, and certain other cost of sales, such as the cost of transporting the KRG's share of the oil sales. Underlying cash operating costs, and underlying cash operating costs per bbl, are not measurements of performance under IFRS and prospective investors should not consider underlying cash operating costs as an alternative to cost of sales (as determined in accordance with IFRS) as a measure of the Group's underlying cash operating costs or any other measures of performance under IFRS.

The Directors believe that underlying cash operating costs, and underlying cash operating costs per bbl, are useful indicators of the operating costs incurred to produce oil from the Shaikan field.

	Six months ended 30 June 2018 Unaudited $'000	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Cost of sales	**81,905**	62,388	126,996
Depreciation of oil & gas properties	**(34,760)**	(41,079)	(79,785)
Transportation costs	**(4,211)**	-	(1,169)
Oil production costs	**42,934**	21,309	46,042
Production bonus	**(16,000)**	-	-
Capacity building payments	**(8,278)**	(7,200)	(17,200)
Costs of transporting GKP's share of oil	**(4,599)**	-	(1,277)
Underlying cash operating costs	**14,057**	14,109	27,565

Principal risks and uncertainties

The Board determines and reviews the key risks for the Group on a regular basis. The principal risks, and how the Group seeks to mitigate them, at half year are consistent with those detailed in the management of principal risks and uncertainties section of the 2017 Annual Report and Accounts. The principal risks are listed below:

Strategic	**HSSE and CSR**	**Operational**	**Financial**
Political, social and economic instability	HSSE risks	Field delivery risk	Liquidity and funding capability
Disputes regarding title or exploration and production rights	Gas flaring	Reserves	Export payment mechanism
Business conduct and anti-corruption	Security		Commodity prices
Export route availability	Corporate social responsibility risks		
Stakeholder expectations			

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
7 September 2018

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 2018 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 16. 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 Financial Reporting Council. 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 Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with 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 Financial Reporting Council 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 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 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
7 September 2018

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Income Statement
for the six months ended 30 June 2018

	Notes	**Six months ended 30 June 2018 Unaudited $'000**	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Continuing operations				
Revenue	4	116,171	78,308	172,372
Cost of sales	5	(81,905)	(62,388)	(126,996)
Gross profit		34,266	15,920	45,376
General and administrative expenses		(7,644)	(9,659)	(21,304)
Profit from operations		26,622	6,261	24,072
Interest income	4	1,450	80	702
Finance costs	6	(5,645)	(5,892)	(11,023)
Other gains	7	4,081	170	314
Profit before tax		26,508	619	14,065
Tax credit		208	37	61
Profit after tax		26,716	656	14,126
Profit per share (cents)				
Basic	8	11.65	0.29	6.16
Diluted	8	11.58	0.28	6.12

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2018

	Six months ended 30 June 2018 Unaudited $'000	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Profit for the period	26,716	656	14,126
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(298)	744	1,281
Total comprehensive income for the period	26,418	1,400	15,407

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Balance Sheet
as at 30 June 2018

	Notes	**30 June 2018 Unaudited $'000**	30 June 2017 Unaudited $'000	31 December 2017 Audited $'000
Non-current assets				
Intangible assets		**41**	82	63
Property, plant and equipment	10	**389,782**	452,295	417,473
Deferred tax asset		**599**	364	403
		390,422	452,741	417,939
Current assets				
Inventories		**17,515**	15,531	17,190
Trade and other receivables	11	**80,991**	51,624	61,710
Cash and cash equivalents		**219,025**	118,848	160,456
		317,531	186,003	239,356
Total assets		**707,953**	638,744	657,295
Current liabilities				
Trade and other payables	12	**(83,181)**	(51,532)	(57,038)
Provisions		**(4,155)**	(7,190)	(7,197)
		(87,336)	(58,722)	(64,235)
Non-current liabilities				
Other borrowings	13	**(97,380)**	(99,312)	(97,067)
Provisions		**(24,448)**	(24,200)	(24,107)
		(121,828)	(123,512)	(121,174)
Total liabilities		**(209,164)**	(182,234)	(185,409)
Net assets		**498,789**	456,510	471,886
Equity				
Share capital	14	**229,430**	229,430	229,430
Share premium account	14	**920,728**	920,728	920,728
Exchange translation reserve		**(3,316)**	(3,555)	(3,018)
Accumulated losses		**(648,053)**	(690,093)	(675,254)
Total equity		**498,789**	456,510	471,886

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2018

	Notes	**Share capital $'000**	**Share premium account $'000**	**Exchange translation reserve $'000**	**Accumulated losses $'000**	**Convertible bond reserve $'000**	**Total equity $'000**
Balance at 1 January 2017 (audited)		229,430	920,728	(4,299)	(692,090)	-	453,769
Net profit for the period		-	-	-	656	-	656
Other comprehensive income for the period		-	-	744	-	-	744
Total comprehensive income for the period		-	-	744	656	-	1,400
Share-based payment charge		-	-	-	1,341	-	1,341
Balance at 30 June 2017 (unaudited)		229,430	920,728	(3,555)	(690,093)	-	456,510
Net profit for the period		-	-	-	13,470	-	13,470
Other comprehensive income for the period		-	-	537	-	-	537
Total comprehensive income for the period		-	-	537	13,470	-	14,007
Share-based payment charge		-	-	-	1,369	-	1,369
Balance at 31 December 2017 (audited)		229,430	920,728	(3,018)	(675,254)	-	471,886
Net loss for the period		-	-	-	26,716	-	26,716
Other comprehensive loss for the period		-	-	(298)	-	-	(298)
Total comprehensive (loss)/income for the period		-	-	(298)	26,716	-	26,418
Share-based payment charge		-	-	-	485	-	485
Balance at 30 June 2018 (unaudited)		**229,430**	**920,728**	**(3,316)**	**(648,053)**	**-**	**498,789**

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2018

	Note	**Six months ended 30 June 2018 Unaudited $'000**	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Operating activities				
Cash generated in operations	9	**64,708**	35,148	85,300
Interest received		**1,450**	80	702
Interest paid	13	**(5,000)**	(5,111)	(10,111)
Net cash generated in operating activities		**61,158**	30,117	75,891
Investing activities				
Purchase of intangible assets		**-**	-	-
Purchase of property, plant and equipment		**(2,635)**	(4,397)	(8,856)
Net cash used in investing activities		**(2,635)**	(4,397)	(8,856)
Financing activities				
Net increase in cash and cash equivalents		**58,523**	25,720	67,035
Cash and cash equivalents at beginning of period		**160,456**	92,870	92,870
Effect of foreign exchange rate changes		**46**	258	551
Cash and cash equivalents at end of the period being bank balances and cash on hand		**219,025**	118,848	160,456

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2018

1. General information

The Company is incorporated in Bermuda (registered address: Cumberland House, 9th Floor, 1 Victoria Street, Hamilton, Bermuda). The Company's common shares are listed on the Official List of the United Kingdom Listing Authority and are traded on the London Stock Exchange's Main Market for listed securities. The Company serves as the holding company for the Group, which is engaged in oil and gas exploration and production, operating in the Kurdistan Region of Iraq.

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 2017.

The condensed Group financial statements for the six months period ended 30 June 2018 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 IFRSs, 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 2017. The condensed Group interim financial statements for the six months ended 30 June 2018 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 Company's Board of Directors on 7 September 2018. 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 2017 does not constitute the Group's financial statements for that year, but it is derived from those accounts. The auditor's report on these accounts was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter.

The nature of the critical accounting judgements and key sources of estimation uncertainty made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2018 are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2017.

Adoption of new and revised accounting standards

As of 1 January 2018, a number of accounting standard amendments and interpretations became effective, as noted in the 2017 Annual Report and Accounts (pages 74 and 75). The adoption of these amendments and interpretations has not had a material impact on the financial statements of the Group for the six months ended 30 June 2018.

The following new accounting standards are in issue:

- IFRS 9 Financial Instruments, effective from 1 January 2018
- IFRS 15 Revenue from contracts with customers, effective from 1 January 2018
- IFRS 16 Leases, effective from 1 January 2019

The Group has implemented IFRS 9 and IFRS 15 from 1 January 2018 and is currently evaluating the impact of adopting IFRS 16 from 1 January 2019.

<u>IFRS 9 Financial Instruments</u>

The Group adopted IFRS 9 Financial Instruments with effect from 1 January 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets, as well as new rules for hedge accounting. It replaces the old standard of IAS 39 in its entirety.

2. Accounting policies (continued)

IFRS 9 Financial Instruments (continued)

The Group has performed an assessment of potential impact of adopting IFRS 9 based on the financial assets and financial liabilities as at the date of initial application of IFRS 9 (1 January 2018) and has concluded that the adoption of IFRS 9 did not have an impact on the financial statements of the Group, other than in relation of expected credit losses for the payment assured trade receivables where the effect was insignificant.

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 with effect from 1 January 2018. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a five-step approach to revenue recognition:

- step 1: identify the contract(s) with a customer;
- step 2: identify the performance obligations in the contract;
- step 3: determine the transaction price;
- step 4: allocate the transaction price to the performance obligations in the contract; and
- step 5: recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

- sales of crude oil, and
- transportation services provided to third parties in relation to the transport of their share of the crude oil.

The Group has performed an assessment of the impact of adopting IFRS 15 based on the revenue relationships as at the date of initial application of IFRS 15 (1 January 2018) and has concluded that the adoption of IFRS 15 did not have a material quantitative impact on the financial statements of the Group.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group plans to adopt IFRS 16 for the year ending 31 December 2019. No decision has been made about whether to use any of the transitional options in IFRS 16.

The Group has performed a preliminary assessment of the potential impact of adopting IFRS 16 based on the current leases and has concluded that the adoption of IFRS 16 will not have a material impact on the financial statements of the Group. The Group will perform a further assessment of the potential impact of adopting IFRS 16 as at 31 December 2018.

2. Accounting policies (continued)

Going concern

The Group continues to closely monitor and manage its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios. The Group has $240 million of free cash at 7 September 2017. The Group's forecasts, taking into account the risks applicable to the Group, show that the Group will be able to have sufficient financial headroom for the twelve months from the date of approval of the half year financial statements.

Based on the analysis performed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the half year financial statements.

Sales revenue and interest income

The recognition of revenue, particularly the recognition of revenue from export sales of crude oil, is considered to be a key accounting judgement.

Under the Production Sharing Contract for the Shaikan block between the KRG and Gulf Keystone Petroleum International Limited ("GKPI") and Texas Keystone Inc. and Kalegran Limited (a subsidiary of MOL) signed on 6 November 2017 as amended by subsequent agreements ("Shaikan PSC"), all oil is sold to the KRG, who in turn resell the oil either for export in the pipeline at Fishkhabour or by trucking it to domestic customers. The selling price is determined in accordance with the principles of the Shaikan PSC, based on the Brent crude price less a quality discount and transportation costs. As the payment mechanism for sales is developing within the Kurdistan Region of Iraq, the Group currently considers that revenue can best be reliably measured when the cash receipt is assured. The assessment of whether cash receipt is reasonably assured is based on management's evaluation of the reliability of the KRG's payments to the international oil companies operating in the Kurdistan Region of Iraq. In January 2018, the Group signed the Crude Oil Sales Agreement, which specifies the delivery point, pricing, KRG's contribution to transportation costs and payment terms relating to export sales of crude oil and it is effective from 1 October 2017 until 31 December 2018.

The value of sales revenue is determined after taking account of the following:

- The point of sale for export sales from 15 November 2017 onwards is the point that the crude oil is unloaded into the export pipeline at Fishkhabour;
- The point of sale for export sales prior to 15 November 2017 and for domestic sales is at the Shaikan facility;
- GKP recognises revenue for its share of the revenue on a cash-assured basis and these amounts of recognised revenue may be lower than the Company's entitlement under the Shaikan PSC, giving rise to unrecognised revenue amounts;
- From 15 November 2017 onwards, the group has performed transportation services in respect of the KRG's share of export oil sales. It recharges all of these transportation costs at nil mark-up to the KRG and these recharged transportation costs are recognised as revenue; and
- Under the Shaikan PSC and the bilateral agreement between GKPI and the MNR dated 16 March 2016 ("Bilateral Agreement"), the Group is entitled to offset certain costs (including capacity building payments and production bonuses) against amounts owed by the KRG to GKPI. In these instances, the group recognises revenue and a reduction in the liability to the KRG.

To the extent that revenue arises from test production during an evaluation programme, an amount is charged from evaluation costs to cost of sales so as to reflect a zero net margin.

Income tax arising from the Company's activities under its production sharing contract is settled by the KRG on behalf of the Company. However, the Company is not able to measure the amount of income tax that has been paid on its behalf and, therefore, the notional income tax amounts have not been included in revenue or in the tax charge.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective rate of interest applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Oil and gas assets

The Group's accounting policy for oil and gas assets is the successful efforts basis.

3. Segment information

For the purposes of resource allocation and assessment of segment performance, the Group is organised into three regional business units – Algeria, Kurdistan and the United Kingdom. These geographical segments are the basis on which the Group reports its segmental information. The chief operating decision maker is the Chief Executive Officer. He is assisted by the Chief Financial Officer and senior management team.

The accounting policies of the reportable segments are consistent with the Group's accounting policies.

Each segment is described in more detail below:

- Kurdistan Region of Iraq: the Kurdistan segment consists of the Shaikan block and the Erbil office, which provides support to the operations in Kurdistan, as well as segmental information relating to the previously held Akri-Bijeel, Sheikh Adi and Ber Bahr blocks;

- United Kingdom: the UK segment provides geological, geophysical and engineering services to other segments of the Group; and

- Algeria: the Algerian segment consists of the Algiers office and the Group's previously-discontinued operations in Algeria.

The Corporate segment 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 2018 (unaudited)	**Algeria $'000**	**Kurdistan $'000**	**United Kingdom $'000**	**Corporate $'000**	**Elimination $'000**	**Total $'000**
Revenue						
Oil sales	-	111,960	-	-	-	111,960
Transportation revenue	-	4,211	-	-	-	4,211
Inter-segment sales	-	-	2,659	-	(2,659)	-
Total revenue	-	116,171	2,659	-	(2,659)	116,171
Profit/ (loss) before tax	3,658	31,819	40	(8,797)	(212)	26,508
Tax credit	-	-	208	-	-	208
Profit/ (loss) after tax	3,658	31,819	248	(8,797)	(212)	26,716
Total assets	26	635,868	13,478	55,451	3,130	707,953

30 June 2017 (unaudited)	Algeria $'000	Kurdistan $'000	United Kingdom $'000	Corporate $'000	Elimination $'000	Total $'000
Revenue						
Oil sales	-	78,308	-	-	-	78,308
Inter-segment sales	-	-	2,578	-	(2,578)	-
Total revenue	-	78,308	2,578	-	(2,578)	78,308
Profit/ (loss) before tax	20	13,095	(398)	(11,788)	(310)	619
Tax credit	-	-	37	-	-	37
Profit/ (loss) after tax	20	13,095	(361)	(11,788)	(310)	656
Total assets	20	553,739	13,794	66,582	4,609	638,744

3. Segment information continued

31 December 2017 (audited)	Algeria $'000	Kurdistan $'000	United Kingdom $'000	Corporate $'000	Elimination $'000	Total $'000
Revenue						
Oil sales	-	171,203	-	-	-	171,203
Transportation revenue	-	1,169	-	-	-	1,169
Inter-segment sales	-	-	4,337	-	(4,337)	-
Total revenue	-	172,372	4,337	-	(4,337)	172,372
(Loss)/profit before tax	(63)	39,885	(2,419)	(22,430)	(908)	14,065
Tax expense	-	-	61	-	-	61
(Loss)/profit after tax	(63)	39,885	(2,358)	(22,430)	(908)	14,126
Total assets	31	582,192	14,105	57,335	3,632	657,295

4. Revenue

	Six months ended 30 June 2018 Unaudited $'000	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Oil sales	**111,960**	78,308	171,203
Transportation revenue	**4,211**	-	1,169
	116,171	78,308	172,372
Interest income	**1,450**	80	702
	117,621	78,388	173,074

The Group accounting policy for revenue recognition is set out in the Accounting Policies above, with revenue recognition on a cash-assured basis. Transportation revenue is the revenue that is receivable for transportation services provided by the Group in respect of the KRG's share of export oil sales.

During the six months period ended 30 June 2018, the cash-assured values recognised as oil sales and transportation revenue were the group's share of the invoiced revenue amounting to $116.2 million (H1 2017: $72.0 million) and cost offset revenue amounting to $nil (H1 2017: $6.3 million). The oil sales price was calculated using the monthly Brent price less an average discount of $22.8 (H1 2017: $19.9) per barrel for quality and transportation costs.

5. Cost of Sales

	Six months ended 30 June 2018 Unaudited $'000	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Oil production costs	**42,934**	21,309	46,042
Depreciation of oil & gas properties	**34,760**	41,079	79,785
Transportation costs	**4,211**	-	1,169
	81,905	62,388	126,996

Oil production costs represent the Group's share of gross production expenditure for the Shaikan field for the period and include capacity building charges of $8.3 million (H1 2017: $7.2 million) and Shaikan PSC production bonus of $16.0 million (H1 2017: $nil). All costs are included, with no deferral of costs associated with unrecognised sales in accordance with the Group's revenue policy. Production and depreciation, depletion and amortisation ("DD&A") costs related to revenue arrears recognised in 2017 have been charged to the income statement in prior periods when the oil was lifted.

A unit-of-production method, based on full entitlement production, commercial reserves and costs for Shaikan full field development, has been used to calculate the DD&A charge for the period. Commercial reserves are proven and probable ("2P") reserves, estimated using standard recognised evaluation techniques. Production and reserves entitlement associated with unrecognised sales in accordance with the Group's revenue policy have been included in the DD&A calculations.

Transportation costs are the costs incurred on the transportation services provided by the Group in respect of the KRG's share of export oil sales. The costs of transporting the Group's share of export oil sales are included in oil production costs.

6. Finance costs

	Six months ended 30 June 2018 Unaudited $'000	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Reinstated notes interest capitalised (Note 13)	**5,285**	5,537	10,309
Unwinding of discount on provisions	**360**	355	714
	5,645	5,892	11,023

7. Other gains

	Six months ended 30 June 2018 Unaudited $'000	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Exchange gains	**344**	170	42
Other gains	**3,737**	-	272
	4,081	170	314

.
During the six months ended 30 June 2018, following agreement with the operator, other gains consisted of the release of $3.0 million of the decommissioning liability relating to the Algerian licence and $0.7 million reduction in accruals for costs of exiting the Algerian project.

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2018 continued

8. Profit per share

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

	Six months ended 30 June 2018 Unaudited $'000	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Profit/ (loss)			
Profit/ (loss) after tax for the purposes of basic and diluted loss per share	**26,716**	656	(14,126)
Weighted average number of shares used:			
Basic ('000)	**229,317**	229,232	229,317
Diluted ('000)	**230,761**	230,964	230,912

The average number of ordinary shares in issue excludes shares held by Employee Benefit Trustee ("EBT") and the Exit Event Trustee.

The diluted number of ordinary shares outstanding including share options is calculated on the assumption of conversion of all potentially dilutive ordinary shares. During the six months period to 30 June 2018, there were 460,000 (H1 2017: 460,000; FY 2017: 460,000) share options that were excluded from the calculation of diluted earnings, because they were anti-dilutive.

9. Reconciliation of profit from operations to net cash generated in operating activities

	Six months ended 30 June 2018 Unaudited $'000	Six months ended 30 June 2017 Unaudited $'000	Year ended 31 December 2017 Audited $'000
Profit from operations	**26,622**	6,261	24,072
Adjustments for:			
Depreciation of property, plant and equipment	**34,924**	41,293	80,163
Amortisation of intangible assets	**22**	24	47
Other gains or losses	**694**	-	(11)
Share-based payment expense	**485**	1,293	2,710
(Increase)/ decrease in inventories	**(325)**	440	(1,219)
Reversal of provisions	**-**	(271)	-
(Increase)/decrease in receivables	**(19,236)**	(10,109)	(20,125)
Increase/(decrease) in payables	**21,522**	(3,783)	(337)
Net cash generated by operations	**64,708**	35,148	85,300
Income tax received	**-**	-	-
Net cash generated in operating activities	**64,708**	35,148	85,300

10. Property, plant and equipment

The net book value at 30 June 2018 includes property, plant and equipment relating to the Shaikan block with a carrying value of $389.1 million (30 June 2017: $451.6 million; FY 2017: $416.9 million). The remainder of the balance, with a carrying value of $0.7 million (30 June 2017: $0.7 million; FY 2017: $0.6 million), comprises fixtures and equipment.

The additions to the Shaikan asset amounting to $6.9 million during the period include the costs of various studies and production facilities improvement projects.

Associated with production, a DD&A charge of $34.8 million on property, plant and equipment relating to the Shaikan block (30 June 2017: $41.1 million; FY 2017: $196.5 million) has been included within cost of sales (note 5). A depreciation charge of $0.1 million on fixtures and equipment (30 June 2017: $0.2 million; FY 2017: $0.4 million) has been included in general and administrative expenses.

11. Trade and other receivables

	30 June 2018 Unaudited $'000	30 June 2017 Unaudited $'000	31 December 2017 Audited $'000
Trade receivables	**77,109**	48,000	57,887
Other receivables	**3,190**	3,335	3,261
Prepayments and accrued income	**692**	289	562
	80,991	51,624	61,710

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

12. Trade and other payables

	30 June 2018 Unaudited $'000	30 June 2017 Unaudited $'000	31 December 2017 Audited $'000
Trade payables	**2,859**	2,478	2,687
Other payables	**38,189**	26,769	26,168
Accrued expenses	**42,133**	22,285	28,183
	83,181	51,532	57,038

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

In accordance with the Bilateral Agreement, the Group received payments during 2016 from the MNR in excess of entitlements under the Shaikan PSC amounting to $16.2 million and the amount of the Sheikh Adi PSC bonus that was payable on the declaration of commerciality was reduced to $10.0 million. Both of these liabilities are included in other payables, but these liabilities form part of the ongoing Shaikan PSC amendment negotiations and it is likely that they will be offset against unrecognised revenue arrears, because, under the Shaikan PSC and the Bilateral Agreement, the Group is entitled to offset certain costs against amounts owed by the KRG to GKPI. In these instances, the Group recognises revenue that has previously been unrecognised and a reduction in the liability to the KRG.

13. Other borrowings

On 14 October 2016, the Company issued $100 million of guaranteed notes ("Reinstated Notes"). The unsecured Reinstated Notes are guaranteed by Gulf Keystone Petroleum International Limited, one of the Company's subsidiaries, and their key terms are summarised as follows:

- maturity date is 18 October 2021. At any time prior to maturity, the Reinstated Notes are redeemable in part or full at par and can therefore be refinanced without any prepayment penalty;
- the Company has the option to defer its interest payments until the maturity of the Reinstated Notes in PIK at 13% or pay in cash at 10% until 18 October 2018. From 19 October 2018, the Company is mandatorily liable to pay interest in cash at 10%;
- the aggregate principal amount of the Reinstated Notes shall be increased by the amount of such PIK interest on the date such interest is due and interest will accrue on the increased principal amount from such date; and
- the Company will be permitted to raise up to $45 million of additional indebtedness at any time on market terms to fund capital and operating expenditure.

The liabilities associated with Reinstated Notes are presented in the following tables:

	30 June 2018 Unaudited $'000	30 June 2017 Unaudited $'000	31 December 2017 Audited $'000
Liability at the beginning of the period	**99,084**	98,886	98,886
Interest charged during the period	**5,285**	5,537	10,309
Interest paid during the period	**(5,000)**	(5,111)	(10,111)
Liability at the end of period	**99,369**	99,312	99,084

Liability reported in:

	30 June 2018 Unaudited $'000	30 June 2017 Unaudited $'000	31 December 2017 Audited $'000
Current liabilities	**1,989**	-	2,017
Non -current liabilities	**97,380**	99,312	97,067
	99,369	99,312	99,084

The Reinstated Notes are actively traded on the Luxembourg Stock Exchange and the fair value at the prevailing market price as at the close of business on the reporting date was:

	Market price	**30 June 2018 $'000**
Reinstated Notes	**$1.00689**	100,689

As of 30 June 2018, the Group's remaining contractual liability comprising principal and interest based on undiscounted cash flows at the maturity date of the Reinstated Notes is as follows:

	30 June 2018 Unaudited $'000	30 June 2017 Unaudited $'000	31 December 2017 Audited $'000
Within one year	**10,000**	-	10,000
Within two to five years	**125,000**	157,033	130,000
	135,000	157,033	140,000

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2018 continued

14. Share capital

	Common shares		Share	Share
	No. of shares	Amount	capital	premium
	000	$'000	$'000	$'000
Issued and fully paid				
Balance 1 January 2018 (audited)	229,430	1,150,158	229,430	920,728
Balance 30 June 2018 (unaudited)	**229,430**	**1,150,158**	**229,430**	**920,728**

15. Contingent Liabilities

The Group has a contingent liability of $27 million (2016: $27 million) in relation to the proceeds from the sale of test production in the period prior to the approval of the Shaikan Field Development Plan in July 2013. The Shaikan PSC does not appear to address expressly any party's rights to this pre-Development Plan petroleum. This suggests strongly that there must have been some other agreement, understanding or arrangement between GKP and the KRG as to how this pre-Development Plan petroleum would be lifted and sold. The sales were made based on sales contracts with domestic offtakers which were approved by the KRG. The Group believes that the receipts from these sales of pre-Development Plan petroleum are for the account of the Contractor (GKP and MOL), rather than the KRG and accordingly recorded them as test revenue in prior years. However, the KRG has requested a repayment of these amounts and the Group is currently involved in negotiations to resolve this matter. The Group has received external legal advice and does not consider that a probable material payment is payable to the KRG. This contingent liability forms part of the ongoing Shaikan PSC amendment negotiations and it is likely that it will be settled as part of those negotiations.

16. Events after the balance sheet date

During July 2018, the Company completed a debt refinancing transaction, whereby it issued $100 million of New Notes and redeemed in full the $100 million of Reinstated Notes. The unsecured New Notes are guaranteed by Gulf Keystone Petroleum International Limited and Gulf Keystone Petroleum (UK) Limited, two of the Company's subsidiaries, and their key terms are summarised as follows:

- maturity date is 25 July 2023;
- at any time prior to maturity, the New Notes are redeemable in part or full with a prepayment penalty; and
- the interest rate is 10% per annum with semi-annual payment dates.

GULF KEYSTONE PETROLEUM LIMITED

GLOSSARY (See also the glossary in the 2017 Annual Report and Accounts)

Bilateral Agreement	the bilateral agreement between GKPI and the MNR dated 16 March 2016
bopd	barrels of oil per day
capex	any expenditure or obligation in respect of expenditure which, in accordance with accounting principles applied by the Company in the preparation of its audited accounts, is treated as capital expenditure (and including the capital element of any expenditure or obligation incurred in connection with any finance lease)
CPR	Competent Persons Report
Crude Oil Sales Agreement	the Shaikan crude oil export sales agreement dated 10 January 2018
CSR	corporate social responsibility
FDP	Field Development Plan
First Shaikan Amendment	First amendment to the Shaikan PSC executed on 1 August 2010.
Group	Gulf Keystone Petroleum Limited and its subsidiaries
HSSE	health, safety, security and environment
KRG	Kurdistan Regional Government
LTI	lost time incident
MNR	Ministry of Natural Resources of the Kurdistan Regional Government
MOL	MOL Hungarian Oil and Gas Plc
New Notes	the $100 million unsecured, guaranteed notes issued on 25 July 2018 by GKP with a maturity date of 25 July 2023
PF-1	Production Facility 1
PF-2	Production Facility 2
PSC	production sharing contract
Reinstated Notes	the $100 million unsecured, guaranteed notes issued on 14 October 2016 by GKP with a maturity date of 18 October 2021 that were redeemed in full by GKP during July 2018
Second Shaikan Amendment	the second proposed amendment to the Shaikan PSC formally implementing the terms of the Bilateral MNR Agreement (including the First Shaikan Amendment)
Shaikan PSC	the Production Sharing Contract for the Shaikan block between the Kurdistan Regional Government of Iraq and Gulf Keystone Petroleum International Limited and Texas Keystone Inc. and Kalegran Limited (a subsidiary of MOL) signed on 6 November 2017 as amended by subsequent agreements