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## **GULF KEYSTONE PETROLEUM LTD.**



**22 September 2016**

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

### **Half Year Report for the six months ended 30 June 2016**

Gulf Keystone Petroleum, an independent oil and gas exploration and production group and operator of the Shaikan field in the Kurdistan Region of Iraq, announces its results for the six months ended 30 June 2016.

#### **Operational highlights**

##### **Security situation and HSSE performance**

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

##### **Production and sales**

- Strong production performance resulted in gross production of 6.0 million barrels in the period to 30 June 2016 (H1 2015:4.7 million barrels), an increase of 28% on H1 2015
- Average daily gross production rates for the period were 33,000 bopd. Production was restricted in February and March 2016 due to lack of export pipeline availability. Production rates were otherwise strong, averaging between 36,000-40,000 bopd. The Group remains on track to meet its annual gross production guidance of between 31,000-35,000 bopd
- An updated Shaikan CPR was published on 31 August 2016 showing stable Proved plus Probable (2P) gross field oil Reserves of 622 MMstb and 2C Contingent Resources of 239 MMstb, both as at 30 June 2016
- All oil sales were made via the Kirkuk-Ceyhan export pipeline throughout the reporting period, ensuring higher realised prices, lower transportation costs and reduced HSSE exposure
- The Group's improved liquidity is expected to allow the implementation of the Group's near-term investment plan to maintain gross production at 40,000 bopd with the potential to increase to 55,000 bopd subject to MOL and MNR approvals, the continuation of the regular payment cycle from the MNR and a commercially acceptable investment environment

#### **Financial highlights**

- Balance sheet restructuring transaction ("Restructuring") announced on 14 July 2016. Subject to completion, the new capital structure will have significantly lower debt, reducing from over \$600 million (including unpaid interest due on 18 April 2016) to \$100 million post Restructuring, through the conversion of debt to equity  
Improved liquidity and cash position expected from capital raise of \$25 million through the Open Offer, removal of the debt service reserve account freeing up \$32.5 million of cash for general liquidity (subject to completion of the Restructuring), and regular payments from the MNR
- Restructuring is on track and expected to complete on or around 14 October 2016
  - resolution to increase authorised share capital approved by the shareholders at the Special General Meeting on 5 August 2016
  - 90% and 84% of the Guaranteed Noteholders and Convertible Bondholders, respectively, have agreed to the Restructuring under the Restructuring Agreement
  - prospectus in relation to Open Offer published on 31 August 2016

- Open Offer closed on 15 September 2016 raising the full amount of \$25 million (subject to the completion of the Restructuring)
- Positive cash flow of \$46.7 million generated from operations during the period. Cash and cash equivalents at 20 September 2016 of \$68 million
- Gross payments of \$97.5 million received in 2016 to date following the Kurdistan Regional Government (“KRG”) committing to a regular payment cycle to international oil companies
- Revenues of \$102.1 million recognised in 1H 2016 (H1 2015: \$30.1 million; FY2015: \$86.2 million). This includes \$51.2 million recognised in relation to a part of the previously unrecognised revenue arrears and \$50.9 million for H1 2016 liftings.
- Management of cost base with cash spend on capital items in H1 2016 of \$15.7 million, compared to \$52.2 million in FY2015. Gross operating costs per barrel of \$4/bbl (FY2015: \$5/bbl).
- Gross profit of \$25.8 million for the period due to recognition of revenue relating to prior years’ liftings
- Impairment of \$40.0 million following the relinquishment of the Sheikh Adi and Ber Bahr blocks
- Loss after tax for H1 2016 of \$59.9 million (H12015: \$77.7 million; FY2015: \$135.0 million)
- The Group’s share of unrecognised revenue arrears is estimated at \$28 million as at 30 June 2016 (net of payables to the MNR and May and June 2016 receivables, subject to audit and reconciliation).
- Subject to the execution of the Second Shaikan PSC Amendment, the Group estimates back-costs associated with the Government Participation Option of \$ 61 million net to GKP as at 30 June 2016

### **Corporate developments**

- The Group continues to work towards the execution of the Second Shaikan PSC Amendment implementing the terms of the Bilateral MNR Agreement
- Mr Keith Lough appointed Non-Executive Chairman in July 2016
- As disclosed in the 2015 Annual Report, the Group relinquished the Sheikh Adi Block and terminated the Sheikh Adi PSC in March 2016
- The relinquishment of the Ber Bahr Block is being finalised
- Mr Tony Peart retired from his position as the Company's Legal and Commercial Director after 8 years with Gulf Keystone effective 6 September 2016

### **Outlook**

- Continued safe and secure operations with the focus on achieving commercial sustainability
- Additional liquidity and regular revenue receipts will allow the Group to finance its ongoing operations and near-term investment plans
- Completion of the Restructuring

### **Jón Ferrier, Chief Executive Officer, said:**

*“Upon completion of the Restructuring we will be able to effectively relaunch Gulf Keystone. We will benefit from an enhanced balance sheet, a well understood field which continues to perform above expectations and a clear path to significantly increasing production and growing value over time.*

*With a regular payment schedule, Gulf Keystone will be in the strongest position it has been in for a number of years and faces the future with renewed confidence.”*

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

**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.

This results announcement is not an offer of securities for sale. The company does not intend to register any of its securities in the United States or to conduct a public offering in the United States or any other jurisdiction. Copies of this communication are not being, and should not be, distributed in or sent into the United States.

**GULF KEYSTONE PETROLEUM LIMITED**  
**Half Year Report for the six months ended 30 June 2016**

**Chairman and CEO Statement**

The foundation of GKP is the Shaikan Field and it is extremely heartening to be able to update the market with the news of another period of solid operational performance. Maintaining a safe working environment remains the Group's number one priority and in the reporting period the Group achieved an LTI frequency rate of 0.96, an improvement of 86% over the previous reporting period. The Group is on track to meet its full year production guidance with gross production for the six months to 30 June averaging 33,000 bopd despite a month-long temporary suspension of crude oil exports through the Kirkuk-Ceyhan pipeline in February and March. At the period end, we were pleased to be able to announce a significant operational milestone with cumulative production from the field having reached 25 million barrels. The Group's production continued to be exported through the Kirkuk-Ceyhan pipeline, maximising netbacks and reducing HSSE exposure.

The recent update of the Competent Persons' Report, once again prepared by ERC Equipoise, reported that GKP's net working interest Shaikan 2P Reserves have increased from 348 million barrels of oil to 360 million barrels, now calculated on a 58% working interest basis subject to the execution and consummation of the Second Amendment to the Shaikan Production Sharing Contract, as envisaged by the Bilateral MNR Agreement between the Company and the MNR announced on 17 March 2016. In addition, no unexpected changes in reservoir behaviour have been observed, demonstrating the stable and predictable performance of the field.

Much of the Board's activity over the period has related to the ongoing restructuring of the Company's balance sheet and it is encouraging to be nearing the end of the process and on the cusp of benefitting from a viable capital structure for GKP.

Upon completion of the Restructuring, we will be able to effectively relaunch Gulf Keystone. The Group will benefit from an enhanced balance sheet, a well understood field which continues to perform with consistency and where we see a clear path to significantly increasing production and value over time. With a regular payment schedule, Gulf Keystone will be in the strongest position it has been in for a number of years.

GKP has now received payment for Shaikan crude oil export sales since September 2015 and gross payments of \$97.5 million have been received in 2016 to date. As at the date of this Report, the Company has not yet received the expected payments for the months of July and August from the MNR. The Company has not yet received an explanation from the MNR for the delay. The Company understands that other Independent Oil Companies operating in the Kurdistan Region of Iraq have also not received payments for those periods. The historic uncertainty around payments has been a significant issue for the Group and with continuing regional geopolitical and oil price challenges remains a concern. As we said before, a regular payment cycle will remove uncertainty and afford GKP the ability to plan for the next phases of Shaikan development.

We would like to take the opportunity to acknowledge the ongoing support of all of our stakeholders. We remain grateful to our hosts, the Kurdistan Region, its Government and people, for their continued partnership. Finally, we would like to thank the GKP team for their unwavering professionalism throughout this time.

**Keith Lough**  
Non-Executive Chairman

**Jón Ferrier**  
Chief Executive Officer

**GULF KEYSTONE PETROLEUM LIMITED**  
**Half Year Report for the six months ended 30 June 2016**

**Financial Review**

**Operating Results**

Gross production from the Shaikan field for the first six months of 2016 totalled 6.0 million barrels with average daily production being 33,000 bopd. Production was restricted in February and March 2016 due to lack of export pipeline availability. Production rates were otherwise strong, averaging between 36,000-40,000 bopd. The Group remains on track to meet its annual gross production guidance of between 31,000-35,000 bopd.

Gross liftings for the period were also 6.0 million barrels, all of which was trucked to Fishkhabour for injection into the export pipeline. The Group's production is sold under its oil export arrangements with the KRG at a field-specific quality discount to the price of Brent crude oil and after transportation costs.

The Group received regular payments from the MNR for oil sales during the period as well as a contribution towards revenue arrears. As there continued to be uncertainty relating to the payment mechanism for sales to the export market, the Group considered that revenue can be reliably measured, and therefore recognized, when the cash receipt is assured (see note 2).

Revenues of \$102.1 million, all from export sales, were recognised in the six month period to 30 June 2016 (H12015: export sales \$20.8 million; domestic sales \$9.3 million; FY2015: export sales \$68.8 million; domestic sales \$17.4 million), including \$2.0 million received from the MNR in respect of revenue arrears under the 5% top-up mechanism announced by the MNR in February 2016, and \$49.2 million recognised by offsetting payables to the MNR against amounts due for previously unbooked revenue. Revenue has been recognised for all 2016 liftings to 30 June 16 and totals \$50.9 million, all generated from sales to the export market. \$12.5 million was included in receivables at 30 June 2016. Unrecognised revenue arrears at 30 June 2016 are estimated at \$28 million (31 December 2015 \$44 million) on a diluted basis (based on the implementation of the Second Shaikan Amendment in the manner envisaged by the MNR Agreement).

The realised price for export sales lifted in 2016 has been estimated as \$20/bbl (2015: export sales \$29/bbl; domestic sales \$25/bbl). All prices are based on delivery at the Shaikan facility but are stated after deductions for trucking costs and pipeline tariff as well as the discount to Brent associated with the quality of the Shaikan crude oil. Sales for the period have been recognised net of royalty, with the KRG deemed to have taken the royalty "in-kind". In line with the discussions with the MNR, the Group assumed a \$14.7 per barrel quality discount and \$5.7 per barrel transportation cost for export sales. This remains subject to audit and the establishment of a retroactive quality bank for Kurdistan crude oil. 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 \$76.2 million (H12015:\$62.6 million). This includes production costs and depreciation, depletion and amortisation (DD&A). On a gross field basis, production costs per gross barrel excluding production bonus and capacity payments due to the KRG were \$4/bbl (FY2015: \$5/bbl). The DD&A charge for the period to 30 June 2016 was \$43.8 million (FY2015: \$74.1 million), including amortization of \$3.9 million (H12015:nil) on exploration and evaluation assets.

The Group generated a gross profit for the period of \$25.8 million (H12015: \$32.5 million loss) driven primarily by the recognition of revenue arrears. Gross margin may continue to be variable until the revenue arrears are recognised in full.

**Other operating expenses**

Management carried out an impairment review of the Group's oil and gas assets as at 30 June 2016 in view of the continuing short to medium-term low oil price environment and the Group's decision to relinquish the Sheikh Adi exploration block. In line with the Group's modified full cost accounting policy, unsuccessful exploration assets are retained on the balance sheet and assessed for impairment based on the overall Kurdistan cost pool which includes the Shaikan producing asset. Following the review, an impairment of \$40.0 million was required on the Group's assets. See note 10 for further details of the remaining amounts capitalised with respect to these assets. H12015 included an impairment charge of \$3.6 million in relation to Akri-Bijeel.

General and administrative expenses during the period were \$14.8 million (H12015: \$17.9 million). The decrease has been generated through a cost review and efforts to increase efficiencies and reduce costs, partially offset by an increase in the cost of advisors and other costs associated with the Restructuring.

**Non-operating results**

Other gains of \$5.0 million (H12015: \$2.5 million) primarily comprise foreign exchange gains associated with GBP:USD exchange rate movements of \$1.0 million (H12015: \$2.5 million) and a \$3.7 million gain from the release of

**GULF KEYSTONE PETROLEUM LIMITED**  
**Half Year Report for the six months ended 30 June 2016**

**Financial Review** continued

a provision related to Akri Bijeel following the execution of the Akri Bijeel JOA Termination Agreement with no further liabilities payable by the Group.

Finance costs of \$35.7 million (H12015: \$25.6 million) include interest payable in respect of the convertible bonds of \$13.9 million (H12015: \$13.6 million), interest payable in respect of the guaranteed bonds of \$21.9 million (H12015: \$21.0 million), offset by the capitalisation of borrowing costs associated with qualifying assets under development of \$0.4 million (H12015: \$9.3 million). Capitalised borrowing costs have decreased significantly during H1 2016 due to reduced capital activity during H1 2016. The cash coupon amounts payable in April 2016 on the convertible bonds of \$10.2 million and on the guaranteed bonds of \$16.3 million were not paid. See the Corporate Activities section below for further details (H12015: \$10.2 million and \$16.3 million paid).

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 PSC, the KRG will settle Iraq tax obligations out of its share of profit oil. The Group's head office presence in the UK gave rise to the tax charge for the period of \$0.3 million (H12015: \$0.5 million).

The results for the first half of 2016 show a loss after tax of \$59.9 million (H12015: \$77.7 million) primarily reflecting the positive gross margin offset by the impairment charge and lower capitalised interest.

**Cash flow**

Net cash inflow from operations was \$46.7 million (H2015: \$6.5 million outflow). The loss from operations of \$28.9 million (H12015: \$54.1 million) was adjusted for non-cash expenditure of \$84.9 million (H12015: \$36.9 million), which included depreciation and amortisation charges, impairment expense and share-based payment expense. Working capital adjustments resulted in a \$9.2 million cash outflow (H12015: \$10.7 million inflow).

No bond coupon payments were made during the period (H12015: \$26.5 million) as the amounts due will be equitised as part of the Restructuring, and the net cash inflow from operating activities after tax and interest, was \$46.9 million (H12015: \$32.3 million outflow).

Cash used in investing activities totalled \$15.7 million (H12015: \$28.8 million), which comprised \$1.4 million spent on intangible assets (H12015: \$3.4 million) and \$14.3 million (H12015: \$25.5 million) spent on the Shaikan asset including the completion of the production flare stack, debottlenecking projects and geological, geophysical and reservoir engineering studies.

The net overall increase in cash and cash equivalents during the period was \$31.3 million (H12015: \$21.8 million decrease). Cash and cash equivalents totalled \$74.7 million at 30 June 2016 (30 June 2015: \$67.5 million; 31 Dec 2015: \$43.6 million).

**Corporate Activities**

- The Company announced a restructuring plan on 14 July 2016. Subject to completion, the Company's debt will be reduced from over \$600 million to \$100 million and additional capital of \$25 million will be raised. Unpaid interest on the existing debt will be equitised. Further details can be found on the Group's website at [www.gulfkeystone.com](http://www.gulfkeystone.com)
- The Group continues to work towards the execution of the draft Second Shaikan Amendment implementing the terms of the Bilateral MNR Agreement. The Bilateral MNR Agreement was signed on 16th March 2016 by the MNR and Gulf Keystone Petroleum International Limited ("GKPI") (and thus binds these two parties but not MOL). It has two principal purposes, namely to:
  1. record the agreement and mutual understanding of MNR and GKPI in relation to certain aspects of the Shaikan PSC, including (inter alia):
    - a) MNR's approval of the proposed assignment and transfer to GKPI of the entire 5% participating interest in the Shaikan PSC currently held by Texas Keystone International Limited;
    - b) MNR and GKPI's intention to implement the Shaikan Third Party Option so that (i) a 7.5% participating interest in the Shaikan PSC in aggregate shall be allocated in favour of GKPI and MOL pro rata to their respective participating interests; and (ii) a 7.5% carried interest in the Shaikan PSC shall be allocated to MNR;

**GULF KEYSTONE PETROLEUM LIMITED**  
**Half Year Report for the six months ended 30 June 2016**

**Financial Review** continued

- c) MNR and GKPI's intention to recognise the allocation to the MNR of the Shaikan Government Option with effect from 1 August 2012 (subject to the satisfaction of certain conditions, including the payment by MNR of capex, Opex and other back-costs attributable to its Shaikan Government Option);
  - d) The basis for (i) the calculation; and (ii) payment on a monthly basis until satisfied in full, of the back-costs referred to in sub-paragraph 1(c) above;
  - e) The reduction in the capacity building value charge to be paid per month by GKPI under the Shaikan PSC from 40% to 30% of sales of GKPI's Profit Petroleum (as defined in the Shaikan PSC); and
  - f) The commitment of each of MNR and GKPI to enter into the Second Shaikan Amendment for the purposes of giving effect to each of the objectives listed at sub-paragraph 1(a) through to 1(e) above.
2. finalise the terms of relinquishment and termination by the Group of its rights and obligations under the Sheikh Adi PSC, which has been completed in accordance with the executed Relinquishment and Termination Agreement attached to the Bilateral MNR Agreement.
- On 29 July 2016, DNO announced the terms of the DNO Proposal. The Company announced in response on 29 July 2016 that completion of the Restructuring best serves the Company's stakeholders and it would not engage in any additional process that causes the Company to be distracted from that objective
  - As disclosed in the 2015 Annual Report, the Group relinquished the Sheikh Adi Block and terminated the Sheikh Adi PSC
  - The relinquishment of the Ber Bahr block is being finalised

**Financial outlook**

The Group's liquidity position has improved since the 2015 year end due to the non-payment of the April 2016 coupons and receipts from the MNR. As of 20 September 2016, cash balances are \$68 and additional proceeds of \$25 million will become available from the Open Offer, subject to completion of the Restructuring. The Company will have the option to defer interest for two years on the re-instated debt of \$100 million and the flexibility to incur additional financing of up to \$45 million through the use of the Super Senior Debt Basket and the General Debt Basket.

The Group's improved liquidity is expected to allow the implementation of the Group's near-term investment plan to maintain production at 40,000 bopd with the potential to increase production to 55,000 bopd subject to MNR and MOL approvals, the continuation of the regular payment cycle from the MNR and a commercially acceptable investment environment.

The Group continues its efforts to manage costs prudently whilst maintaining safe and secure operations.

**Sami Zouari**  
Chief Financial Officer

**GULF KEYSTONE PETROLEUM LIMITED**  
**Half Year Report for the six months ended 30 June 2016**

**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 a failure to meet shareholder expectations and to achieve strategic targets for growth, or a loss of financial standing and reputation. Not all of these risks are wholly within the Group's control and the Group 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. A detailed explanation of the risks summarised below, and how the Group seeks to mitigate the risks, can be found on pages 40 to 44 of the 2015 Annual Report which is available at [www.gulfkeystone.com](http://www.gulfkeystone.com).

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

- stakeholder expectations;
- disputes regarding title or exploration and production rights;
- political, social and economic instability;
- business conduct and anti-bribery;
- export routes;
- security;
- field delivery risk;
- HSSE risks;
- gas flaring;
- liquidity and solvency;
- export payment mechanism; and
- commodity prices.

In addition, the Board has identified the following new risks:

<b>Key risk factor</b>	<b>Potential impact</b>	<b>Mitigation</b>
The Restructuring may not be successfully implemented and there is no alternative consensual restructuring.	The Group will be unable to service its debt and/or meet its repayment obligations as they fall due and would become subject to applicable insolvency processes. Additionally, the MNR could have cause to revoke GKPI's operatorship of the Shaikan Block and could have cause to terminate its participation in the Shaikan PSC.	The Restructuring is in progress and being carefully managed by the Company to ensure successful completion.  The Directors believe that the Restructuring will be completed successfully based on:  a) the proportion of creditors representing the aggregate principal amount of the Notes and the aggregate principal amount of the convertible bonds who have signed the Restructuring Agreement is over the required 75%; and  b) the current status of the conditions precedent.
The Group may be unable to secure the Second Shaikan Amendment on the terms set out in the Bilateral MNR Agreement.	Until the Second Shaikan Amendment is executed there can be no assurance that the terms of the Bilateral MNR Agreement will be formally implemented or the MNR will continue to address monthly revenue payments in line with the Bilateral MNR Agreement.	The Group continues to work with its partners (MOL and the MNR) to finalise the Second Shaikan Amendment



**GULF KEYSTONE PETROLEUM LIMITED**  
**Half Year Report for the three months ended 30 June 2016**

**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  
21 September 2016

## **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 2016 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 17. 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 2016 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.

#### **Deloitte LLP**

Chartered Accountants and Statutory Auditor  
London, United Kingdom

21 September 2016

**GULF KEYSTONE PETROLEUM LIMITED**

**Condensed Consolidated Income Statement**  
for the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 Unaudited \$'000	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
<b>Continuing operations</b>				
Revenue	4	102,068	30,092	86,165
Cost of sales	5	(76,221)	(62,620)	(136,872)
<b>Gross profit/(loss)</b>		<b>25,847</b>	<b>(32,528)</b>	<b>(50,707)</b>
<b>Other operating expenses</b>				
Impairment loss	6	(40,000)	(3,609)	(3,609)
General and administrative expenses		(14,791)	(17,921)	(30,990)
<b>Loss from operations</b>		<b>(28,944)</b>	<b>(54,058)</b>	<b>(85,306)</b>
Interest revenue	4	46	25	42
Other gains and losses		4,962	2,473	3,051
Finance costs	7	(35,684)	(25,620)	(52,075)
<b>Loss before tax</b>		<b>(59,620)</b>	<b>(77,180)</b>	<b>(134,288)</b>
Tax expense		(254)	(513)	(689)
<b>Loss after tax</b>		<b>(59,874)</b>	<b>(77,693)</b>	<b>(134,977)</b>
<b>Loss per share (cents)</b>				
Basic	8	(6.21)	(8.50)	(14.41)
Diluted	8	(6.21)	(8.50)	(14.41)

**Condensed Consolidated Statement of Comprehensive Income**  
for the six months ended 30 June 2016

		Six months ended 30 June 2016 Unaudited \$'000	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
Loss for the period		(59,874)	(77,693)	(134,977)
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Exchange differences on translation of foreign operations		(1,648)	(50)	(1,139)
<b>Total comprehensive loss for the period</b>		<b>(61,522)</b>	<b>(77,743)</b>	<b>(136,116)</b>

**GULF KEYSTONE PETROLEUM LIMITED**

**Condensed Consolidated Balance Sheet**  
as at 30 June 2016

	Notes	30 June 2016 Unaudited \$'000	30 June 2015 Unaudited \$'000	31 December 2015 Audited \$'000
<b>Non-current assets</b>				
Intangible assets	10	251,748	306,984	314,696
Property, plant and equipment	11	525,761	591,661	562,178
Deferred tax asset		199	710	483
		<b>777,708</b>	<b>899,355</b>	<b>877,357</b>
<b>Current assets</b>				
Inventories		18,410	21,108	18,544
Trade and other receivables	12	13,553	10,558	16,527
Cash and cash equivalents		74,749	67,526	43,641
		<b>106,712</b>	<b>99,192</b>	<b>78,712</b>
<b>Total assets</b>		<b>884,420</b>	<b>998,547</b>	<b>956,069</b>
<b>Current liabilities</b>				
Trade and other payables	13	(114,513)	(120,760)	(127,399)
Provisions		(7,457)	(10,840)	(11,151)
Other borrowings	14	(239,795)	-	-
		<b>(361,765)</b>	<b>(131,600)</b>	<b>(138,550)</b>
<b>Non-current liabilities</b>				
Convertible bonds	14	(314,253)	(306,762)	(310,444)
Other borrowings	14	-	(228,825)	(234,094)
Provisions		(23,445)	(28,407)	(27,333)
		<b>(337,698)</b>	<b>(563,994)</b>	<b>(571,871)</b>
<b>Total liabilities</b>		<b>(699,463)</b>	<b>(695,594)</b>	<b>(710,421)</b>
<b>Net assets</b>		<b>184,957</b>	<b>302,953</b>	<b>245,648</b>
<b>Equity</b>				
Share capital	15	9,781	9,781	9,781
Share premium account	15	834,619	834,619	834,619
Share option reserve		47,697	51,731	47,085
Convertible bonds reserve		7,359	13,030	10,179
Exchange translation reserve		(3,046)	(309)	(1,398)
Accumulated losses		(711,453)	(605,899)	(654,618)
<b>Total equity</b>		<b>184,957</b>	<b>302,953</b>	<b>245,648</b>

**GULF KEYSTONE PETROLEUM LIMITED**

**Condensed Consolidated Statement of Changes in Equity**  
for the six months ended 30 June 2016

	Attributable to equity holders of the Group							Total equity \$'000
	Notes	Share Capital \$'000	Share premium account \$'000	Share option reserve \$'000	Exchange translation reserve \$'000	Accumulated losses \$'000	Convertible bond reserve \$'000	
Balance at 1 January 2015 (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
Net loss for the period		-	-	-	-	(57,284)	-	(57,284)
Other comprehensive income/(loss) for the period		-	-	-	(1,089)	-	-	(1,089)
Total comprehensive income/(loss) for the period		-	-	-	(1,089)	(57,284)	-	(58,373)
Transfer relating to share-based payments		-	-	(5,714)	-	5,714	-	-
Share-based payment charge		-	-	1,078	-	-	-	1,078
Deferred tax on share-based payment transactions		-	-	(10)	-	-	-	(10)
Convertible bond equity amortisation		-	-	-	-	2,851	(2,851)	-
Balance at 31 December 2015 (audited)		9,781	834,619	47,085	(1,398)	(654,618)	10,179	245,648
Net loss for the period		-	-	-	-	(59,874)	-	(59,874)
Other comprehensive loss for the period		-	-	-	(1,648)	-	-	(1,648)
Total comprehensive loss for the period		-	-	-	(1,648)	(59,874)	-	(61,522)
Transfer relating to share-based payments		-	-	(219)	-	219	-	-
Share-based payment charge		-	-	831	-	-	-	831
Convertible bond equity amortisation		-	-	-	-	2,820	(2,820)	-
<b>Balance at 30 June 2016 (unaudited)</b>		<b>9,781</b>	<b>834,619</b>	<b>47,697</b>	<b>(3,046)</b>	<b>(711,453)</b>	<b>7,359</b>	<b>184,957</b>

**GULF KEYSTONE PETROLEUM LIMITED**

**Condensed Consolidated Cash Flow Statement**  
for the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 Unaudited \$'000	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
<b>Operating activities</b>				
Cash generated/(used) in operations	9	46,686	(6,469)	20,064
Tax received		182	599	599
Interest received		46	25	42
Bond coupon payments		-	(26,496)	(52,903)
<b>Net cash generated/(used) in operating activities</b>		<b>46,914</b>	<b>(32,341)</b>	<b>(32,198)</b>
<b>Investing activities</b>				
Purchase of intangible assets		(1,371)	(3,357)	(5,607)
Purchase of property, plant and equipment		(14,284)	(25,480)	(46,542)
<b>Net cash used in investing activities</b>		<b>(15,655)</b>	<b>(28,837)</b>	<b>(52,149)</b>
<b>Financing activities</b>				
Proceeds on issue of share capital		-	39,379	39,379
<b>Net cash generated by financing activities</b>		<b>-</b>	<b>39,379</b>	<b>39,379</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>31,259</b>	<b>(21,799)</b>	<b>(44,968)</b>
Cash and cash equivalents at beginning of period		43,641	87,835	87,835
Effect of foreign exchange rate changes		(151)	1,490	774
<b>Cash and cash equivalents at end of the period being bank balances and cash on hand*</b>		<b>74,749</b>	<b>67,526</b>	<b>43,641</b>

\*Cash and cash equivalents include an amount of \$32.5 million held in the Debt Service Reserve Account as stipulated by the 2014 Notes.

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016

#### 1. General information

The condensed Group financial statements for the six months period ended 30 June 2016, 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 2015. The condensed Group interim financial statements for the six months ended 30 June 2016 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 21 September 2016. An electronic version of the half year report has been posted on the Group's website [www.gulfkeystone.com](http://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 2015 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 2015.

##### *Going concern*

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have 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 financial statements.

The Going Concern statement is made on the assumption of the successful completion of the Restructuring and reflects raising \$25 million on the completion of the Open Offer, which was oversubscribed. In order for the Restructuring to be implemented it must be approved by Guaranteed Noteholders and Convertible Bondholders at the Creditor Meetings, and the Scheme must be sanctioned by the Court. The Scheme will require the consent of not less than 75% (by value), and a majority in number, of each of the Guaranteed Noteholders and Convertible Bondholders that attend and vote at each of the Creditor Meetings. 90% and 84% of the Guaranteed Noteholders and Convertible Bondholders, respectively, have agreed to the Restructuring under the Restructuring Agreement.

In addition, there are a number of conditions that need to be satisfied, including, inter alia:

- the Company having confirmed that the shares to be issued in the Debt Equitisation will be admitted to trading on the London Stock Exchange promptly after the Scheme Effective Date;
- the Company having confirmed that it has advised the Committee Advisors of any material changes to the Company's Capex Plan;
- the Company having confirmed that it has not spent any Capex other than Capex relating to production maintenance;
- satisfaction that any new Board member(s) selected and approved by the Majority Participating Holders and notified to the Company prior to the Scheme Effective Date will be appointed to the Board on or promptly after the Scheme Effective Date; and
- the Company having agreed arrangements with the MNR reasonably satisfactory to both it and to the Majority Participating Holders regarding (a) the implementation of the Bilateral MNR Agreement, (b) the future marketing of the Group's oil until a formal audit has been carried out and (c) the predictability of future payments including recovery of past costs and receivables.

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016 continued

#### 2. Accounting policies (continued)

*Going concern (continued)*

The Directors believe that the Restructuring will be completed successfully based on:

- c) the proportion of creditors representing both the aggregate principal amount of the Notes and the aggregate principal amount of the convertible bonds who have signed the Restructuring Agreement, which is over the required 75%; and
- d) the current status of the conditions precedent.

The financial position of the Group as at 30 June 2016 and its cash flows and liquidity position are included in the Financial Review.

#### *Revenue*

The recognition of revenue, particularly the recognition of revenue from exports, is considered to be a key accounting judgement. For all sales, the goods are considered to be delivered and the title passed at the point of loading at the Shaikan field. For sales into the local market, it is clear that, at this point of delivery, economic benefit will flow to the Group and that revenue and costs can be measured reliably and therefore revenue is recognised. As the payment mechanism for sales to the export market is developing within the Kurdistan Region of Iraq and 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 MNR's payments to the international oil companies operating in the Kurdistan Region of Iraq in line with the KRG's announcement in February 2016 of its intention to apply the PSC terms.

Management makes the following assumptions in arriving at the value of sales revenue:

- point of sale is the Shaikan facility;
- cash is received and revenue is recognised for all sales, net of royalty, as the royalty is taken "in-kind" by the KRG; and
- cash receipts from the MNR represent the non-governmental contractors' share of revenue.

#### *Adoption of new and revised accounting standards*

As of 1 January 2016, a number of accounting standard amendments and interpretations became effective, as noted in the 2015 Annual Report and Accounts (page 96). 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 2016.

#### 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 Report.

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 - the Group's operations in the Kurdistan Region of Iraq, comprising the Shaikan block and the Erbil office. The Group has previously owned three additional blocks in Kurdistan - Sheikh Adi (relinquished March 2016), Ber Bahr (in process of relinquishment) and Akri Bijeel (relinquished December 2015);
- United Kingdom - the United Kingdom office, which provides geological, geophysical, engineering and administrative services to the Group; and
- Algeria - the Algiers office and the Group's operations in Algeria.



## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016 continued

#### 3. Segment information continued

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 2016 (unaudited)	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
<b>Revenue</b>						
Oil sales	-	102,068	-	-	-	102,068
Inter-segment sales	-	-	3,868	-	(3,868)	-
<b>Total revenue</b>		102,068	3,868	-	(3,868)	102,068
<b>(Loss) before tax</b>	(56)	(16,000)	(58)	(43,334)	(172)	(59,620)
Tax expense	(1)	-	(253)	-	-	(254)
<b>(Loss) after tax</b>	(57)	(16,000)	(311)	(43,334)	(172)	(59,874)
<b>Total assets</b>	66	830,441	14,422	1,237,908	(1,198,417)	884,420

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

31 December 2015 (audited)	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
<b>Revenue</b>						
Oil sales	-	86,165	-	-	-	86,165
Inter-segment sales	-	-	8,478	-	(8,478)	-
<b>Total revenue</b>	-	86,165	8,478	-	(8,478)	86,165
<b>(Loss)/profit before tax</b>	(222)	(67,183)	(354)	(84,380)	17,851	(134,288)
Tax expense	-	-	(689)	-	-	(689)
<b>(Loss)/profit after tax</b>	(222)	(67,183)	(1,043)	(84,380)	17,851	(134,977)
<b>Total assets</b>	53	931,027	16,046	1,242,554	(1,233,611)	956,069

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016 continued

#### 4. Revenue

During the period to 30 June 2016, the Group sold Shaikan crude oil to the export market generating revenue of \$50.9 million (H12015: \$20.8 million; FY2015: \$68.8 million). No revenue was derived from domestic sales for the period (H12015: \$9.3 million; FY2015: \$17.4 million). The Group also recognised \$2.0 million received from the MNR in respect of revenue arrears under the 5% top-up mechanism announced in February 2016, and \$49.2 million by offsetting payables to the MNR against amounts due for previously unbooked revenue. Revenue is recognised in line with the terms of the Shaikan PSC, the applicable domestic sales contracts and the Group's accounting policy. The Group has been involved in discussions with the MNR to review the Shaikan quality discount and transportation costs on the Group's export sales to date. Based on these discussions, the realised price for 2016 export sales is estimated at \$20/bbl (FY2015: export sales \$22/bbl; domestic sales \$18/bbl).

Management has used the following assumptions in arriving at the value of sales revenue during the period:

- deductions for trucking and port storage costs, as well as the discount to Brent, for the quality of the crude oil, have been estimated at \$14.7/bbl and \$5.7/bbl, respectively, based on the discussions with the MNR and are subject to audit and the establishment of a retroactive quality bank for Kurdistan crude oil exports; and
- the Group's working interest in the Shaikan block is 80%.

	<b>Six months ended 30 June 2016 Unaudited \$'000</b>	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
Oil Sales	<b>102,068</b>	30,092	86,165
Interest revenue	<b>46</b>	25	42
	<b>102,114</b>	30,117	86,207

#### 5. Cost of Sales

	<b>Six months ended 30 June 2016 Unaudited \$'000</b>	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
Production costs	<b>32,453</b>	31,199	62,822
Depreciation of oil & gas properties	<b>39,916</b>	31,421	74,050
Amortisation of exploration and evaluation assets (note 10)	<b>3,852</b>	-	-
	<b>76,221</b>	62,620	136,872

Production costs represent the Group's share of Shaikan gross production costs for the period based on production delivered in H12016. Production and DD&A costs related to revenue arrears recognised in 2016 have been charged to the income statement in prior periods when the oil was lifted. Costs for H12016 include an \$8 million production bonus (FY2015: \$4 million).

A unit of production method, based on full entitlement production for the period, commercial reserves and the Shaikan field full development costs 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.

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016 continued

#### 6. Impairment loss

	<b>Six months ended 30 June 2016 Unaudited \$'000</b>	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
Impairment of intangible exploration and evaluation assets	<b>40,000</b>	-	-
Impairment of Akri Bijeel	-	3,609	3,609
	<b>40,000</b>	3,609	3,609

Management carried out an impairment review of the Group's oil and gas assets as at 30 June 2016 in view of the continuing short to medium-term low oil price environment and the Group's decision to relinquish the Sheikh Adi exploration block and having relinquished Ber Bahr in the prior year. In line with the Group's modified full cost accounting policy, exploration assets are assessed for impairment based on the overall Kurdistan cost pool which includes the Shaikan producing asset.

In carrying out the impairment review, management estimated the fair value less costs to sell of the Kurdistan cash-generating unit using a discount cash flow model, including the following assumptions:

- risked proved and probable reserves estimates using standard evaluation techniques;
- internal estimates of future development costs to access those reserves;
- a long term oil price estimate of \$70/bbl
- a nominal discount rate of 15% (2015: 15%);
- life of asset; and
- timing of cash flows.

The fair value is a level 3 fair value measurement, as defined in note 25 of the 2015 Annual Financial Statements.

Following the review, the estimated recoverable amount is \$776 million, resulting in an impairment of \$40.0 million to the Group's intangible oil and gas assets. See note 10 for further details of the remaining amounts capitalised with respect to these assets. H12015 included an impairment charge of \$3.6 million in relation to Akri-Bijeel.

In December 2015, the Group, in agreement with its partners MOL Hungarian Oil and Gas Plc. (MOL) and the Kurdistan Regional Government's Ministry of Natural Resources, decided to relinquish the Akri-Bijeel Block and signed a PSC Relinquishment Agreement to that effect. A Termination and Settlement Agreement in respect of the Akri Bijeel joint operating agreement was signed in June 2016 and the Group has no further liabilities with respect to this block. The balance of the decommissioning liability of \$3.7 million was released and recognised as a gain in 'Other gains and losses' in the income statement.

#### 7. Finance costs

	<b>Six months ended 30 June 2016 Unaudited \$'000</b>	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
Interest payable in respect of convertible bonds	<b>13,908</b>	13,583	27,479
Interest payable in respect of guaranteed bonds	<b>21,862</b>	20,969	42,577
Unwinding of discount on provisions	<b>346</b>	325	803
Capitalised finance costs	<b>(432)</b>	(9,257)	(18,784)
	<b>35,684</b>	25,620	52,075

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2016 continued

#### 8. Loss per share

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

	<b>Six months ended 30 June 2016 Unaudited \$'000</b>	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
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#### Loss

Loss after tax for the purposes of basic and diluted loss per share

<b>(59,874)</b>	(77,693)	(134,977)
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	<b>30 June 2016 Number (000s) Unaudited</b>	30 June 2015 Number (000s) Unaudited	31 December 2015 Number (000s) Audited
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#### Number of shares

Weighted average number of common shares for the purposes of basic loss per share

<b>963,446</b>	913,539	936,934
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Adjustments for:

-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
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**Weighted average number of common shares for the purposes of diluted loss per share**

<b>963,446</b>	913,539	936,934
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The Group followed the steps specified by IAS 33 "Earnings per Share" in determining whether potential common shares are dilutive or anti-dilutive. It was determined that all of the potential common shares including 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 2016, 36.0 million share options (30 June 2015: 37.3 million, 31 Dec 2015: 36.0 million), 40.0 million warrants (30 June 2015: 40.0 million, 31 Dec 2015: 40.0 million), 10.0 million common shares held by the Exit Event Trustee (30 June 2015: 10.0 million, 31 Dec 2015: 10.0 million), 3.6 million common shares held by the Employee Benefit Trust (30 June 2015: 8.7 million, 31 Dec 2015: 6.4 million) and 74.9 million common shares (30 June 2015: 74.9 million, 31 Dec 2015: 74.9 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.

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

	<b>Six months ended 30 June 2016 Unaudited \$'000</b>	Six months ended 30 June 2015 Unaudited \$'000	Year ended 31 December 2015 Audited \$'000
<b>Loss from operations</b>	<b>(28,944)</b>	(54,058)	(85,306)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	<b>40,195</b>	31,768	74,707
Amortisation of intangible assets	<b>3,857</b>	17	35
Impairment	<b>40,000</b>	3,609	3,609
Share-based payment expense	<b>809</b>	1,500	2,539
Decrease in inventories	<b>134</b>	1,746	4,310
Decrease/(Increase) in receivables	<b>462</b>	2,885	(2,554)
(Decrease)/Increase in payables	<b>(9,827)</b>	6,064	22,724
<b>Net cash generated/(used) in operating activities</b>	<b>46,686</b>	(6,469)	20,064

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016 continued

#### 10. Intangible assets

	30 June 2016 Unaudited \$'000	30 June 2015 Unaudited \$'000	31 December 2015 Audited \$'000
<b>Exploration and evaluation costs</b>			
Opening net book value	314,682	276,243	276,243
Additions	875	30,714	38,439
Other movements related to the relinquishment of Sheikh Adi (see below)	(20,037)	-	-
Amortisation charge	(3,852)	-	-
Impairment	(40,000)	-	-
Closing net book value	251,668	306,957	314,682
<b>Computer software – net book value</b>	80	27	14
	<b>251,748</b>	<b>306,984</b>	<b>314,696</b>

The net book value at 30 June 2016 includes intangible assets relating to unsuccessful exploration costs on the Ber Bahr block of \$78 million (30 June 2015: \$76.5 million, 31 Dec 2015: \$79 million) and the Sheikh Adi block of \$213 million (30 June 2015: \$230.4 million, 31 Dec 2015: \$235.7 million) less an impairment of \$40.0 million. The remainder of the balance, with a carrying value of \$0.08 million (30 June 2015: \$0.03 million; 31 Dec 2015: \$0.01 million), comprises computer software.

At 31 December 2015, the Group decided to relinquish the Ber Bahr block and, in March 2016, the Group relinquished the Sheikh Adi block. As part of the agreement for relinquishment of the Sheikh Adi block, the MNR released the Group from its obligations to pay past liabilities of \$20.0 million relating to PSC bonuses due on the declaration of commerciality and other PSC payments due.

In accordance with our accounting policies as described in the “Statement of Significant Accounting Policies” in the Group’s Annual Report and Accounts for the year ended 31 December 2015, any unsuccessful exploration and evaluation costs are retained within intangible non-current assets and are depreciated by reference to the commercial reserves of the wider geographic cost pool. As a result, the exploration and evaluation costs relating to the Sheikh Adi and Ber Bahr blocks are being depleted on a unit-of-production basis based on the wider Kurdistan pool of commercial reserves and production. The depletion charge was \$3.9 million for the period (30 June 2015 and 31 December 2015; \$Nil).

At 30 June 2016, the Group carried out an impairment review on its oil and gas assets resulting in an impairment of \$40.0 million of its exploration and evaluation assets. Further details are given in note 6 to the financial statements.

The additions to oil and gas exploration and evaluation costs in the period mainly related to remediation and ongoing general and administrative costs on the termination of the Ber Bahr licence.

#### 11. Property, plant and equipment

The net book value at 30 June 2016 includes property, plant and equipment relating to the Shaikan block, which has a carrying value of \$524.7 million (30 June 2015: \$589.7 million, 31 Dec 2015: \$560.8 million). The remainder of the balance, with a carrying value of \$1 million (30 June 2015: \$2 million, 31 Dec 2015: \$1 million) comprises fixtures and equipment.

Additions of \$3.8 million during the period related to the Shaikan block and included completion of the production flare stack, debottlenecking projects and geological, geophysical and reservoir engineering studies.

Associated with production, a depreciation, depletion and amortisation charge of \$39.9 million was recognised on the Shaikan oil and gas asset (30 June 2015: \$31.4 million; 31 Dec 2015: \$74.1 million), which has been included within cost of sales. A depreciation charge of \$0.3 million was recognised on fixtures and equipment (30 June 2015: \$0.3 million, 31 Dec 2015: \$0.7 million), which has been included in general and administrative expenses.

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016 continued

#### 12. Trade and other receivables

	30 June 2016 Unaudited \$'000	30 June 2015 Unaudited \$'000	31 December 2015 Audited \$'000
Trade receivables	12,494	6,732	12,000
Other receivables	525	2,703	3,034
Corporation tax receivable	-	200	189
Prepayments and accrued income	534	923	1,304
	<b>13,553</b>	<b>10,558</b>	<b>16,527</b>

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

	30 June 2016 Unaudited \$'000	30 June 2015 Unaudited \$'000	31 December 2015 Audited \$'000
Trade payables	10,152	11,069	10,786
Other creditors	35,015	1,056	232
Accrued expenses	69,346	108,635	116,381
	<b>114,513</b>	<b>120,760</b>	<b>127,399</b>

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

In accordance with the Bilateral MNR Agreement signed between GKPI and the MNR on 16 March, 2016, the Group has received payments on account for back-costs of approximately \$22 million in recognition of the Group's, MNR and GKPI's intention, subject to the satisfaction of certain conditions, to recognise the allocation to MNR of the Shaikan Government Option with effect from 1 August 2012. The treatment of the Shaikan Government Option is subject to the execution of a revised Shaikan PSC and the amounts received have been included in Other creditors until this has been finalised. The balance of outstanding back-costs as at 30 June 2016 is estimated at \$61 million.

Accrued expenses include interest payable of \$14.3 million (30 June 2015: \$4.1 million; 31 Dec 2015: \$4.2 million) in respect of convertible bonds and \$22.8 million (30 June 2015: \$6.6 million; 31 Dec 2015: \$6.6 million) in respect of the 2014 Notes (see note 14). The unpaid interest is expected to be equitised as part of the Restructuring, subject to completion.

#### 14. Borrowings

The Company has in issue convertible debt securities issued in 2012 and 2013 consisting of \$325 million convertible bonds 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 guaranteed, carrying a coupon of 13% per annum payable on a biannual basis (the "Notes" or the "guaranteed bonds"). The 2014 Notes are guaranteed by Gulf Keystone Petroleum International Ltd and have a maturity date of 18 April 2017. Issued with the Notes 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 Notes and warrants are listed on the Luxembourg Stock Exchange.

Subsequent to 30 June 2016, the Company announced that it had reached agreement with the majority of its creditors as well as its largest shareholder to address its short and longer term funding needs via a capital restructuring and open offer. See note 17 for further details.

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016 continued

#### 14. Borrowings (continued)

##### 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 in 2015, adjustments were made 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 2014 Notes and the convertible bonds are presented in the following tables:

	30 June 2016 Unaudited \$'000	30 June 2015 Unaudited \$'000	31 December 2015 Audited \$'000
Liability at the beginning of the period	555,374	538,221	538,221
Interest charged during the period			
- on convertible bonds	13,908	13,583	27,479
- on 2014 Notes	21,862	20,969	42,577
Interest paid during the period			
- on convertible bonds	-	(10,156)	(20,313)
- on 2014 Notes	-	(16,340)	(32,590)
Liability at the end of period	<u>591,144</u>	<u>546,277</u>	<u>555,374</u>

Liability reported in:

	30 June 2016 Unaudited \$'000	30 June 2015 Unaudited \$'000	31 December 2015 Audited \$'000
Interest payable in current liabilities	37,096	10,690	10,836
Principal payable in current liabilities	239,795	-	-
Principal payable in non-current liabilities	314,253	535,587	544,538
	<u>591,144</u>	<u>546,277</u>	<u>555,374</u>

Both the 2014 Notes and the convertible bonds 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 2016 \$'000
Convertible bonds	\$0.11	36,075
2014 Notes	\$0.65	<u>161,750</u>
		<u>197,825</u>

The convertible bonds and the 2014 Notes were suspended from trading on the Luxembourg Stock Exchange on 4 July 2016 due to the continuing events of default (relating to the non-payment of the coupons due in April 2016) and the ongoing restructuring process.

Assuming that both the convertible bonds and the 2014 Notes are not purchased and cancelled, redeemed or converted prior to their respective maturity dates of October 2017 and April 2017, the Company's remaining contractual liability comprising principal and interest, based on undiscounted cash flows at the maturity date of the convertible bonds and 2014 Notes are as follows:

	30 June 2016 Unaudited \$'000	30 June 2015 Unaudited \$'000	31 December 2015 Audited \$'000
Within one year	329,219	52,813	52,813
Within two to five years	335,156	637,969	611,562
	<u>664,375</u>	<u>690,782</u>	<u>664,375</u>

## GULF KEYSTONE PETROLEUM LIMITED

### Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2016 continued

#### 15. Share capital

	Common shares		Share	Share
	No. of shares	Amount	capital	premium
	000	\$'000	\$'000	\$'000
Issued and fully paid				
<b>Balance 1 January 2016 and 30 June 2016</b>	<b>978,138</b>	<b>844,400</b>	<b>9,781</b>	<b>834,619</b>

#### 16. Contingent Liabilities

The Group has a contingent liability of \$27 million (net to GKP) 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 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 revenue in prior years. However, the KRG has requested a repayment of these amounts and the Group is currently involved in discussions with them to resolve this matter.

#### 17. Events after the balance sheet date

In July 2016 the Company and Capital, a current shareholder, entered into a subscription agreement under which Capital undertook to subscribe for 54,294,991 Common Shares at a subscription price of US1.09 cents per Common Share. In order to put in place the Restructuring, the Company and its advisors engaged in a series of negotiations and discussions with key stakeholders, pursuant to which Capital entered into the First Subscription Agreement as part of their support for the overall Restructuring, by subscribing for Common Shares under the First Subscription Agreement and agreeing to subscribe for up to US\$20 million of New Common Shares pursuant to the Open Offer as an underwrite, thus providing additional support for the passing of a resolution to increase the authorised share capital of the Company at a Special General Meeting.

On 14 July 2016, Gulf Keystone announced that it had reached agreement with the majority of its creditors as well as its largest shareholder to address its short and longer term funding needs via a capital restructuring and Open Offer. Details of the terms of the Restructuring are available on the GKP website [www.gulfkeystone.com](http://www.gulfkeystone.com). On 5 August 2016, a resolution to increase the authorised share capital of the Company was approved in a Special General Meeting. A prospectus for the issue of additional share capital under an Open Offer was issued on 31 August 2016 resulting in additional share capital of \$25 million being raised, subject to completion of the Restructuring.

As of 20 September 2016, signatories to the Restructuring Agreement represented approximately 90% of the aggregate principal amount of the Notes and approximately 84% of the aggregate principal amount of the convertible bonds.

Under the terms of the Restructuring Agreement, the signatories have agreed, inter alia, to (i) forbear from taking any action to enforce the terms of the Notes and/or the convertible bonds, as applicable, (ii) support and take reasonable and necessary actions (that are consistent with the Restructuring Agreement and the Restructuring) as they may have under or in respect of the Notes and/or the convertible bonds, as applicable, in furtherance of implementation and consummation of the Restructuring and (iii) vote in favour of the Scheme at the relevant Creditor Meeting(s).

In order for the Restructuring to be implemented it must be approved by Guaranteed Noteholders and Convertible Bondholders at the Creditor Meetings, and the Scheme must be sanctioned by the Court. The Scheme will require the consent of not less than 75% (by value), and a majority in number, of each of the Guaranteed Noteholders and Convertible Bondholders that attend and vote at each of the Creditor Meetings. The Restructuring is expected to complete around mid-October 2016.



**GLOSSARY (See also the glossary in the 2015 Annual Report)**

<b>Bilateral MNR Agreement</b>	the bilateral agreement between GKPI and the MNR dated 16 March 2016
<b>Capex</b>	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)
<b>Capex Plan</b>	the capital expenditure plans of the Group as described in the Company's announcement of 14 April 2016
<b>Capital</b>	Capital Research and Management Company, which serves as investment advisor to New World Fund, Inc. and SMALLCAP World Fund, Inc.
<b>Committee</b>	the ad-hoc committee of Guaranteed Noteholders and Convertible Bondholders
<b>Committee Advisors</b>	the legal and/or financial advisors to the Committee
<b>Convertible Bondholders</b>	the holders of the convertible bonds
<b>Creditor Meetings</b>	the meetings of the Scheme Creditors convened in accordance with the Scheme to consider and, if thought fit, approve the Notes Reinstatement and the Debt Equitisation, including any adjournment thereof
<b>Debt Equitisation</b>	the release and conversion into equity of 62.4% of the outstanding principal amount and accrued interest of the Notes (being approximately \$266 million) and 100% of the outstanding principal amount and accrued interest of the convertible bonds (being approximately \$335 million) pursuant to the issue of new shares in the Company to Guaranteed Noteholders and Convertible Bondholders, which will result in the Guaranteed Noteholders and Convertible Bondholders holding 72.8% and 22.2% (respectively) of the increased share capital of the Company immediately following such conversion
<b>DNO</b>	DNO ASA a Middle East and North Africa focused oil and gas company
<b>DNO Proposal</b>	the proposal made by DNO to the Company to, conditional on completion of the Restructuring, acquire the entire issued share capital of the Company for US\$290 million (US\$120 million in cash, US\$ 170 million in shares in DNO)
<b>First Subscription Agreement</b>	the conditional agreement between Capital and the Company dated 13 July 2016
<b>General Debt Basket</b>	the provision in the Reinstated Notes that will permit the Company or GKPI to incur up to US\$20 million of additional indebtedness at any time outstanding
<b>Guaranteed Noteholders</b>	the holders of the Notes
<b>KRG</b>	Kurdistan Regional Government
<b>Majority Participating Holders</b>	Participating Holders holding in aggregate at least 50.01% of the aggregated principal amount of the Notes and the convertible bonds held by the Participating Holders at the relevant time
<b>MNR</b>	Kurdistan's Ministry of Natural Resources
<b>MOL</b>	MOL Hungarian Oil and Gas Plc
<b>Notes Reinstatement</b>	the reinstatement of US\$100 million of Guaranteed Note claims to be effected by the Scheme in connection with the Restructuring by the issuance of the Reinstated Notes
<b>Open Offer</b>	the pre-emptive open offer of up to US\$25 million made to Qualifying Shareholders
<b>Participating Holders</b>	those Guaranteed Noteholders and Convertible Bondholders from time to time who have entered into or otherwise become bound by the Restructuring Agreement
<b>PSC</b>	production sharing contract
<b>Qualifying Shareholder</b>	shareholder(s) on the Register on the Record Date
<b>Record Date</b>	5pm on 30 August 2016
<b>Register</b>	the register of member of the Company
<b>Reinstated Notes</b>	the US\$100 million of guaranteed notes to be issued pursuant to the Notes Reinstatement
<b>Restructuring</b>	the capital restructuring of the Company by way of the Open Offer, the Debt Equitisation and the Notes Reinstatement, as contemplated by the Scheme and this document, including (but not limited to) any and all connected compromises/agreements with persons not party to the Scheme, the Debt Equitisation, the Notes Reinstatement or the Open Offer
<b>Restructuring Agreement</b>	the conditional agreement between the Company and the members of the Committee entered into in connection with the Restructuring
<b>Sanction Order</b>	the order of the High Court of Justice of England and Wales that sanctions the Scheme
<b>Scheme</b>	the scheme of arrangement under Part 26 of the 2006 Act between the Company and the Scheme Creditors in connection with the Restructuring with any modification, addition or condition that the Court may think fit

<b>Scheme Creditors</b>	the persons with a beneficial interest as principal in the Notes and/or convertible bonds at the Scheme Effective Date
<b>Scheme Effective Date</b>	the time and date on which an office copy of the Sanction Order is delivered to the Registrar of Companies for registration
<b>Scheme Record Date</b>	The record date for the purpose of determining Scheme Entitlements under the Scheme
<b>Second Shaikan Amendment</b>	the second proposed amendment to the Shaikan PSC formally implementing the terms of the Bilateral MNR Agreement (including the First Shaikan Amendment)
<b>Shaikan Government Option</b>	under the terms of the Shaikan PSC, the KRG has the option (the " <b>Shaikan Government Option</b> ") to participate through a public company duly registered and incorporated in Kurdistan and regulated by the KRG under the Kurdistan Oil and Gas Law in an undivided interest in the petroleum operations (and all other rights, obligations and liabilities of the Shaikan Contractors) of the Shaikan Block as a component of the Shaikan Contractors (a " <b>Shaikan Contractor Entity</b> "). The Shaikan Government Option is over an interest of between 5 and 20% and (subject to such extension as may be agreed by the parties) within 180 days of the first Commercial Discovery being declared. In addition to the Shaikan Government Option, the KRG has the option to nominate a third party as a Shaikan Contractor Entity to have an undivided interest in the petroleum operations of the Shaikan Block (the " <b>Shaikan Third Party Option</b> ") of between 5 and 15%. Pursuant to the Second Shaikan Amendment the Shaikan Government Option will be formally exercised upon execution of the Second Shaikan Amendment and the implementation of the First Shaikan Amendment formally recognised
<b>Super Senior Debt Basket</b>	the provision in the Reinstated Notes that will permit the Company to incur up to US\$25 million of additional indebtedness at any time on market terms to fund capital expenditure and operating expenses