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**GULF KEYSTONE
PETROLEUM LTD.**



28 August 2014

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

Half Year Report for the six months ended 30 June 2014

Gulf Keystone, an independent oil and gas exploration, development and production company with operations in the Kurdistan Region of Iraq ("Kurdistan Region"), today announces its results for the six months ended 30 June 2014.

Operational highlights

- Gulf Keystone's operations in the Kurdistan Region remain secure and production and crude oil sales from the Shaikan field have not been interrupted in any material way
- Ramp-up of Shaikan production in H1 2014 from 10,000 gross barrels of oil per day ("bopd") to rates of in excess of 20,000 gross bopd through the tie-in of an additional producing well to Shaikan PF-1 and the commencement of production operations from Shaikan PF-2
- Crude oil export deliveries by truck to Turkey in H1 2014 totalled 2.2 million barrels gross with total gross production from Shaikan to date fast approaching 5.5 million barrels
- Initial payments for the export crude oil sales received with the realised price at the Shaikan facility estimated as US\$51-56/bbl. Through an ongoing dialogue with the Ministry of Natural Resources of the Kurdistan Regional Government ("MNR" and "KRG"), the Company is seeking to establish a regular payment cycle for past and future Shaikan crude oil export sales
- Gross domestic sales for H1 2014 of 0.1 million barrels with a realised price of US\$42/bbl
- Agreement of the Field Development Plan ("FDP") for the Akri-Bijeel Block by the MNR in August with production from the Bijell and Bakrman discovery areas expected by MOL Kalegran Limited, the operator, to reach 35,000 gross bopd in 2015

Financial highlights

- Revenues of US\$18.7 million achieved for H1 2014 (1H13: \$nil; FY13: \$6.7 million); additional revenue in the region of US\$35 million owed but not yet recognised for H1 2014 crude oil export sales
- Loss after tax for H1 2014 of \$29.8 million (1H13: \$26.4 million; FY13: \$32.0 million)
- Net proceeds of US\$240 million raised from the issue of debt securities and associated warrants in April 2014
- Cash and cash equivalents at 26 August 2014 of US\$177 million

Outlook

- Company continues to target 40,000 bopd of Shaikan production by year end through the tie-in of three additional producing wells (Shaikan-7, -8 and -10), although certain consequences of the recent security situation, including the current short term limited availability of some international contractors, may cause this to move to Q1 2015
- Conclude discussions with the MNR on the establishment of a regular and predictable payment cycle for past and future Shaikan crude oil export sales in order to generate steady revenues, which is of critical importance to Gulf Keystone's funding position
- Manage expenditure in a responsible and prudent manner, continuing to review and control capital commitments. Once a steady flow of revenues has been established, make decisions on investment in additional production facilities, development wells and infrastructure in order to increase Shaikan production in line with the approved Shaikan Field Development Plan
- Continue to review options regarding the Company's 20% working interest in the Akri-Bijeel Block and explore other funding options available
- Complete the appraisal of the Sheikh Adi discovery, submit the appraisal report and make a decision regarding early production and development

Simon Murray, Non-Executive Chairman of Gulf Keystone, said:

“Despite the recent security crisis in Iraq, which clearly affected the lives of many people in the Kurdistan Region and refugees from elsewhere in Iraq, I strongly believe that Gulf Keystone’s footprint as one of the key oil producers in this strategically important area is assured. With the continued support of the Ministry of Natural Resources, we are positive about increasing our production to the stated goal of 40,000 bopd, receiving payment for all entitlement barrels produced to date and entering a new phase of value generation.”

John Gerstenlauer, Chief Executive Officer of Gulf Keystone, commented:

“Our operations in the Kurdistan Region, where we have been present since 2007, are progressing well with the two existing Shaikan production facilities producing in the range of 20,000 to 25,000 bopd and crude oil export deliveries continuing essentially uninterrupted since late November 2013 to date. We are currently discussing with our hosts and stakeholders in the Kurdistan Region the plan for monetizing all past and future Shaikan production through achieving a stable payment cycle to progress in line with the approved Shaikan Field Development Plan.”

The management team will host a conference call for analysts at noon UK time today. Shortly after the call, an audio webcast will be made available on the Company’s website www.gulfkeystone.com.

Enquiries:

Gulf Keystone Petroleum: +44 (0) 20 7514 1400
John Gerstenlauer, Chief Executive Officer
Anastasia Vvedenskaya, Investor Relations

Bell Pottinger +44 (0) 20 3772 2500
Mark Antelme / Henry Lerwill

or visit: www.gulfkeystone.com

Notes to Editors:

- Gulf Keystone Petroleum Ltd. (LSE: GKP) is an independent oil and gas exploration, development and production company focused on exploration in the Kurdistan Region of Iraq.
- Gulf Keystone Petroleum International (GKPI) holds Production Sharing Contracts for four exploration blocks in Kurdistan, the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel blocks.
- GKPI is the operator of the Shaikan Block, which is a major commercial discovery, with a working interest of 75% and is partnered with MOL Kalegran Limited (a 100% subsidiary of MOL Hungarian Oil and Gas plc.) and Texas Keystone Inc., which have working interests of 20% and 5% respectively. Texas Keystone Inc. holds its interest in trust for Gulf Keystone, pending transfer of its interest to the Company.
- Gulf Keystone is moving into the large-scale phased development of the Shaikan field targeting 100,000 bopd of production capacity during Phase 1 of the Shaikan Field Development Plan following its approval in June 2013.

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 communication and the information contained herein is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States unless they are registered or are exempt from registration. Any public offering of securities to be made in the United States would be made by means of a prospectus that would contain detailed information about the company and its management, as well as financial statements. The company does not intend to register any portion of this offering in the United States or to conduct a public offering in the United States or any other jurisdiction. Any public offering of securities to be made in the United States would be made by means of a prospectus that would contain detailed information about the Company and its management, as well as financial statements. Copies of this communication are not being, and should not be, distributed in or sent into the United States.

GULF KEYSTONE PETROLEUM LIMITED

Chairman's Statement

The first half of 2014, and the period since, has been another chapter of good progress for Gulf Keystone, both from an operational and corporate perspective. Despite the recent escalation of the security situation in Iraq, our operations in the Kurdistan Region remain secure, which is a testament to the work of our strong team on the ground. We continue to monitor the situation in close cooperation with the Kurdistan Regional Government ("KRG") whose continued support is paramount for our efforts to continue and increase production in 2014 and beyond.

We are privileged to be at the helm of one of the world's most significant development projects today. With an oil in place number for our acreage of 12.5 billion barrels, the Shaikan field remains the prize oil asset of the Kurdistan Region. Its ongoing development is of great importance to the region and the Company alike. We are focused on moving ahead from our initial production targets towards the full field development for the mutual benefit of the people of the Kurdistan Region and our shareholders.

Perhaps the clearest measure of our continuing progress is that over the period we have significantly ramped up Shaikan production, achieving average rates in excess of 20,000 gross barrels of oil per day ("bopd") in June, more than twice the level seen at the start of the year. Given that we commenced commercial production from Shaikan field as recently as July 2013 and had no production for a number of months before then, this is real progress. As you will read, our experienced team in the Kurdistan Region are working tirelessly to develop Shaikan, bring further increases in production and ensure that Shaikan crude oil export sales remain continuous. I would like to thank the management team and everyone on the ground who helped maintain the pace of the Company's production operations despite the recent challenging circumstances.

Today, we are producing from two new production facilities, which are capable of handling 40,000 gross bopd. With the continued support from the KRG's Ministry of Natural Resources ("MNR"), we will progress towards this production target and contributing to the MNR's overall near term goal of 400,000 bopd of oil export sales from the Region. We are encouraged that first payments for the Shaikan crude oil export sales have now been made. The Company is currently in discussions with the MNR seeking to establish a stable and predictable payment cycle for past and future Shaikan crude oil export sales.

Followers of the Company will have seen a number of further announcements at a corporate level. The Board changes over the period reflect the growth in the business. The ability to attract Non-Executive Directors of the calibre of Dr Joseph Stanislaw and Mr V Uthaya Kumar, our two most recent additions to the Board, is a clear endorsement of the Company and its significant potential.

Earlier in the summer, we welcomed John Gerstenlauer to the role of CEO. Having joined the Company in 2008 as Chief Operating Officer, John has played a critical role in the success of the business, having supervised the drilling of every well since we commenced operations in the Kurdistan Region and being the leader of the team that made one of the largest on-shore discoveries in the last 20 years.

As I write, the geopolitical situation across Iraq is dominating the news and our thoughts are with the people of the Kurdistan Region and those thousands of refugees who fled their homes elsewhere in Iraq to seek shelter and support in the region. The Board remains extremely confident in the ability of the KRG, with the full support of the international community, to ensure that the security situation is controlled, our production can be increased, the integrity of our assets preserved and international export routes remain open for the sale of Kurdistan oil.

Gulf Keystone is committed to continuing to play its part in ensuring that the natural resources of the Kurdistan Region are successfully developed and to support the KRG in this shared goal.

On behalf of the Board I would like to reiterate my thanks to the government and people of the Kurdistan Region, and all of Gulf Keystone's team for their levels of professionalism and dedication to our business.

Simon Murray
Non-Executive Chairman

GULF KEYSTONE PETROLEUM LIMITED

Chief Executive Officer's Review

For Gulf Keystone, the first half of 2014 has been marked by two significant events on the operational front. Firstly, we have successfully achieved the initial ramp-up of production from the Shaikan field, our key asset in the Kurdistan Region of Iraq, to above 20,000 bopd on average, reaching 25,000 bopd for the first time on June 4th, 2014. Since the commencement of early production operations in October 2010, Shaikan total gross production is now fast approaching 5.5 million barrels.

Secondly, we commenced export sales of Shaikan crude oil through trucked deliveries to Turkey, thus tapping international markets for the first time. With over 3.5 million barrels of Shaikan crude oil trucked and fifteen cargoes lifted from Turkish ports on the Mediterranean coast for sale to international buyers since January, through to August 28th, we are optimistic about market appetite for Shaikan crude oil. Our current task is to reach a comprehensive agreement with the MNR on the monetization of all our production for the benefit of the Kurdistan region, as well as our shareholders and other stakeholders.

On the corporate front, we completed the Company's transition from AIM to the Official List, by way of a Standard Listing, and to trading on the Main Market of the London Stock Exchange plc. in March. This move was followed in April by a successful debt offering of US\$250 million in three-year senior unsecured notes due April 2017, privately placed in accordance with Reg S/144A with institutional investors in Europe, the US and Asia. In August 2014, we appointed Deutsche Bank AG, London Branch the Company's corporate broker.

Shaikan Block (75% working interest; Operator)

Production and sales

Since the beginning of 2014, Shaikan production has seen a substantial increase from 10,000 gross bopd in January to average rates well in excess of 20,000 gross bopd in June. This has been achieved through the tie-in of an additional producing well, Shaikan-4 to the first Shaikan production facility (PF-1) and the commencement of production operations at Shaikan PF-2, currently producing from two wells, Shaikan-2 and -5. The ramp-up of production to 40,000 bopd will continue in a stepped manner once three additional wells, Shaikan-7, -8 and -10 have been tied into the existing production facilities. In order to achieve this, a number of flowlines, including two 15 km long twin lines to connect Shaikan-10 and eventually the new Shaikan-11 well to PF-2, will have to be laid. The flowlines for Shaikan-10 and -11 have recently arrived at the PF-2 location and the flowlines for Shaikan-7 and -8 are currently in transit and expected to arrive in country in the near future.

While we are confident with respect to the gradual ramp-up in Shaikan production and of achieving our current average production guidance for 2014 of between 20,000 and 25,000 gross bopd, we are conscious that a number of consequences of the recent security crisis in Iraq may affect the pace of the increase in production. These include the availability of international contractors to conduct debottlenecking work at PF-1 and -2 and to drill Shaikan-11, an additional PF-2 well.

Further development

We remain committed to implementing the approved Phase 1 of the Shaikan FDP, which will take us from the near-term production target of 40,000 bopd to 66,000 bopd before progressing to the Phase 1 target of 100,000 bopd. This step up in production will require additional production facilities, development wells and infrastructure. While we are planning to drill our next development well, Shaikan-11 by early 2015, a steady flow of revenues needs to be established in order for the Company to make a decision to invest in PF-3 and its associated development wells drilling and infrastructure. Similarly, plans to drill a deep exploration well into the deeper Triassic and the Permian, side-track and re-test the Shaikan-6 well and prepare a review of the Shaikan FDP to include Cretaceous, Triassic and potentially Permian developments, will be reassessed in 2015.

Sheikh Adi Block (80% working interest; Operator)

Sheikh Adi-3, the second appraisal well, was drilled earlier this year in order to investigate the presence of hydrocarbons in the footwall of the Sheikh Adi Structure, where hydrocarbons had previously been discovered in the hanging wall by the Sheikh Adi-2 appraisal well. The well reached a total depth of 3,520 metres in the Triassic Kurre Chine B reservoir where oil was flowed in a DST but with high water-cut. Further appraisal work will determine whether there are more favourable locations for any future Triassic production wells. Meanwhile, a DST in the lower Jurassic Butmah formation produced water and a DST in the upper Jurassic Mus interval produced dry oil. The rig has now moved back to Shaikan and a work-over rig is expected to return to complete the testing of both the main prospective Alan and Mus interval in the upper Jurassic and also the overlying Cretaceous sequence. Sheikh Adi-3 is then expected to be completed as a Jurassic producer. Appraisal of the Sheikh Adi discovery will be completed in 2015 and a decision on early development and production will be made then.

GULF KEYSTONE PETROLEUM LIMITED

Chief Executive Officer's Review continued

Ber Bahr Block (40% working interest)

Genel Energy plc., the operator has reported that a 170km² 3D seismic survey is currently underway on the Ber Bahr Block. The results of the new seismic and the Ber Bahr-2 appraisal well, currently scheduled to spud in H1 2015, will help determine the resource potential and forward activity plan.

Akri-Bijeel Block (20% working interest)

MOL Kalegran Limited, the operator reported that the FDP for the Akri-Bijeel Block based on the Bijell and Bakrman discoveries has been agreed by the MNR in August 2014. The operator currently has four rigs in operation on the block drilling Bijell-2, -4, -6 and Bakrman-2 wells, as well as an extended well test facility on the Bijell discovery, which is currently producing with the production expected to increase to 10,000 bopd. The operator expects to increase production from the discovery areas to 35,000 bopd in 2015 and 50,000 bopd by 2017-18. We continue to explore options regarding Gulf Keystone's 20% working interest in the block and this recent development is encouraging as it provides the market with an indication of the commercialisation of this asset.

With the support of and cooperation with the MNR and KRG, we are doing our utmost to ensure that all our personnel and contractors on the ground are safe and our operations continue around the clock. I would like to thank my experienced and always reliable teams in Erbil and at each production location as without them this effort to continue and increase production and load between 150 and 200 trucks of Shaikan crude oil every day would not be possible. As a company, our strategy for the near term will be to focus on Shaikan, our flagship project and a key development for the Kurdistan Region, to get a steady stream of revenues, which in turn will allow us to invest in Shaikan's further development and other exploration, appraisal and development activities across our portfolio in the region.

John Gerstenlauer
Chief Executive Officer

GULF KEYSTONE PETROLEUM LIMITED

Financial Review

The first half of 2014 has been a period of progress and change for Gulf Keystone. The Group has continued its journey from oil explorer to producer, changing the focus of financial results from a Group driven solely by capital expenditure to one where revenue, operating expenditure and production are of critical importance.

Income statement

Gross production for the first six months of 2014, all from the Shaikan field, totalled 2.3 million barrels with average daily production being just under 13,000 bopd. Gross liftings for the period also totalled 2.3 million barrels, of which 2.2 million barrels were lifted for the export market and 0.1 million barrels for the domestic market.

The Group continues to recognise revenue on a cash receipts basis for sales to the export market and revenue from domestic sales on an accruals basis, consistent with our producing peers in the region. Revenue realised for the period was \$18.7 million (1H13: \$nil; FY13: \$6.7 million), of which, \$16.2 million arose from export sales (1H13: \$nil; FY13: \$nil) and \$2.5 million from domestic sales (1H13: \$nil; FY13: \$6.7 million).

The realised price for domestic sales was \$42/bbl (2013: \$41/bbl) and in accordance with the terms of the Shaikan PSC, domestic sales are recognised gross of royalty. The Group has received its full entitlement for these sales during the period.

The price realised for export sales recognised has been estimated as \$51-56/bbl. This price is the price achieved at the Shaikan facility and stated after deductions for trucking and port storage costs as well as the discount to Brent associated with the quality of the Shaikan crude. Export sales for the period have been recognised net of royalty with the KRG deemed to have taken the royalty "in-kind". The policy of recognising export revenues on a cash receipts basis has resulted in export sales in the region of \$35 million, based on GKP's current 80% working interest in the field, being owed but not recognised. Based on the Group's current working interest and its associated 42% entitlement (i.e. excluding royalty) to gross oil sales, the Group has received \$21-23/bbl per gross barrel lifted. The revenue recognition policy of export sales will be re-evaluated once the payment process is better established. 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 \$16.5 million (1H13: \$nil; FY13: \$11.9 million). This includes production costs, royalty costs and the Shaikan asset depreciation charge for the period. On an entitlement basis, including all export production, cash operating costs per barrel excluding royalty, production and capacity payments due to the KRG were \$8.9/bbl (FY13: \$27.2/bbl). For 1H14, gross production costs per barrel for the Shaikan field are approximately \$5/bbl (FY13: \$19/bbl).

The unit of production method, based on entitlement production, reserves and costs for the Shaikan Phase 1 development, has been used to calculate the depreciation, depletion and amortisation (DD&A) charge for the period. Production and reserves entitlement associated with unrecognised export sales have been excluded from DD&A calculation until such time as cash is received and sales recognised. Further details on cost of sales are to be found in note 5 to the half year report.

The six months period to 30 June 2014 is a key milestone in the Group's operations as it is the first time a gross profit has been recognised from the Shaikan field. Until such time as payments become regular and predictable, gross profit will be variable. The Company is continuing to work with the KRG to achieve a regular and predictable payment cycle. Export infrastructure improvements are continuing to come online as planned in the region and the KRG is continuing to advance its export plans.

General and administrative expenses during the period were \$23.5 million (1H13: \$19.3 million). The increase in administrative costs of \$4.2 million results from an increase in staff and other overhead costs as the Group continues to expand operations in Kurdistan. Notably, the capitalisation of Erbil office administrative and overhead costs has reduced following the commencement of operation of PF-1 and PF-2. Other additional costs in 1H14 include listing fees of \$3.2 million (1H13: \$ nil). These increases are partially offset by a reduction in share based payment charges (1H14: \$2.3 million; 1H13: \$5.5 million) and a reduction in adviser costs incurred in relation to the Group's defence against the Excalibur claims, which were still ongoing as at 30 June 2013.

Other losses of \$0.8 million (1H13: \$0.5 million loss) comprise foreign exchange losses of \$0.8 million (1H13: \$0.1 million loss). The 2013 comparative also includes a mark-to-market valuation loss of \$0.5 million on forward exchange contracts. Interest revenue has decreased to \$0.1 million (1H13: \$0.5 million) due to lower cash balances during the period and lower interest rates achieved on deposits.

Finance costs of \$6.0 million (1H13: \$6.5 million) relate to the accretion charge on the decommissioning provision (1H14: \$0.2 million, 1H13: \$0.2 million), interest payable in respect of the Convertible Bonds of \$13.3 million (1H13: \$11.2 million) and interest payable in respect of other borrowings of \$8.3 million (1H13: \$nil), offset by capitalisation of borrowing costs associated with qualifying assets under development of \$15.8 million. The cash coupon paid on the convertible bonds in 1H14 amounted to \$10.2 million (1H13: \$8.6 million).

GULF KEYSTONE PETROLEUM LIMITED

Financial Review continued

The tax expense of \$1.7 million (1H13: \$0.5 million) is related to UK activities and comprises \$1.0 million of corporate income tax and \$0.7 million change in deferred tax asset associated with share-based payments.

The results for the first half of 2014 show an increased loss after tax of \$29.8 million (1H13: \$26.4 million) reflecting the increase in administrative and tax expense discussed above.

Cash flow

Net cash inflow from operating activities after general and administrative expenses was \$21.3 million (1H13: \$22.3 million outflow). The loss from operations of \$21.3 million (1H13: \$19.3million) was adjusted for non-cash expenditure of \$11.7 million (1H13: \$5.9 million), which included share-based payment and depreciation and amortisation charges as well as an increase in provision for abandonment costs in Algeria. The working capital adjustments totalled to a \$30.9 million cash inflow (1H13: \$8.9 million outflow) increasing the operational cash inflow.

The significant decrease in receivables is primarily attributable to the receipt of outstanding court costs of £17.5 million, net of £0.6 million outstanding legal fees, payable to the Group following the dismissal of all claims asserted by Excalibur Ventures LLC against the Group. Tax paid in 1H 2014 was \$nil (1H13: \$0.4 million) and interest received was \$0.1 million (1H13: \$0.2 million). Net cash inflow from operating activities after tax and interest, including the \$10.2 million semi-annual coupon payment for the convertible bonds, was \$11.2 million (1H13: \$31.1 million outflow).

Cash used in investing activities totalled \$109.7 million (1H13: \$81.5 million), which comprises \$52.4 million spent on intangible assets (1H13: \$90.0 million) and \$57.3 million (1H13: \$0.1 million) spent on property, plant and equipment. The majority of the spend on property plant and equipment relates to expenditure on the Shaikan asset, which was reclassified from intangible assets to property, plant and equipment at 30 June 2013. Additions include work on the completion and commissioning of PF-2 and the drilling and completion of the Shaikan-7 well.

Intangible expenditure primarily comprises additions to Sheikh Adi, Akri Bijeel and Ber Bahr assets. This includes the drilling of the Sheikh Adi-3 well, a number of wells drilled on the Akri Bijeel block as well as construction of surface facilities, and geological studies and the commencement of seismic acquisition over the Ber Bahr block. Further information on oil and gas assets can be found in notes 9 to 11 to the half year report.

The Company raised \$240.1 million in net proceeds from the issue of debt securities consisting of \$250 million three-year senior unsecured loan notes (the "Notes"), carrying a coupon of 13% per annum payable on a biannual basis and freely tradeable and detachable warrants relating to 40 million common shares in the Company. Further details can be found in note 12 to the half year report.

The net overall increase in cash and cash equivalents during the period was \$141.7 million (1H13: \$110.4 million decrease). Foreign exchange losses on cash balances were \$0.1 million (1H13: \$2.1 million loss). Cash and cash equivalents totalled \$223.5 million at 30 June 2014 (30 June 2013: \$141.2 million; 31 December 2013: \$82.0 million). As at 26 August 2014, cash and cash equivalents totalled \$177.1 million.

Financial strategy and outlook

Our medium and long term strategy remains to fully realise the potential of our assets through the funding of high-impact exploration, appraisal and development programmes so as to generate value and returns for our stakeholders. At this time, the primary focus of the Company is to continue to work with the KRG to secure a regular and predictable payment cycle as well as to achieve our stated production target of 40,000 bopd gross from the Shaikan field. Receipt of cash revenues from export sales is critical to the on-going business. Achieving these aims will enable us to make considerable progress towards our goal of fully financing our activities from production cash flows and to support the Company's growth strategy with a robust, well-funded business. Allied to this, we will work to manage our cost base prudently and responsibly and review and control capital commitments as we continue to build our organisational capacity.

GULF KEYSTONE PETROLEUM LIMITED

Financial Review continued

As part of our discussions with the KRG, we are seeking clarification of the status and exercise of the Shaikan Government and Third Party Participation Options, which the Group is currently carrying, and the associated reimbursement of costs that if received would enhance cash resources. The Group also continues to explore options for its 20% working interest in the Akri-Bijeel block and additional funding options available. Further details regarding our current funding strategy can be found in note 2 'Going concern'.

The Company continues to affect an orderly exit from its Algerian operations and is continuing the discussions with Sonatrach regarding the withdrawal from Block 126a (GKN and GKS oilfields under the Ferkane Permit).

Gulf Keystone plans to consolidate its current position by reaching production of 40,000 bopd gross from the Shaikan field and establishing regular and stable cash payments for liftings. The Company will then look to grow the value of the business through further field development and/or corporate transactions.

Mary Hood

Interim Chief Financial Officer

GULF KEYSTONE PETROLEUM LIMITED

Principal risks and uncertainties

Gulf Keystone's business may be impacted by various risks leading to, among other possible impacts, failure to meet shareholder expectations and to achieve strategic targets for growth, loss of financial standing and reputation. Not all of these risks are wholly within the Company's control and the Company may be affected by risks which are not yet manifest or reasonably foreseeable. The Board determines and reviews the key risks for the Group on a regular basis. For all the known risks facing the business, Gulf Keystone attempts to minimise the likelihood and mitigate the impact.

The Group has identified its principal risks for the next 6 months as being:

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

Further information detailing the possible impact of these risks and the ways in which these risks are mitigated is provided on pages 34 to 37 of the 2013 Annual Report and Accounts. The political and regional risk has increased since 31 December 2013 as a result of the insurgency in Iraq, which has impacted on the Kurdistan region. The Company's operations have not been significantly disrupted to date, and the Company continues to produce and truck oil, but the current situation significantly increases the risk to the Company's physical assets and personnel. A widening of the conflict could potentially pose a threat to the Company's entire operations and its ongoing viability.

GULF KEYSTONE PETROLEUM LIMITED

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;
- (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,

John Gerstenlauer
Chief Executive Officer
27 August 2014

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Income Statement
for the six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Continuing operations				
Revenue	4	18,700	-	6,696
Cost of sales	5	(16,506)	-	(11,950)
Gross profit/(loss)		2,194	-	(5,254)
Other operating expenses				
General and administrative expenses		(23,500)	(19,256)	(15,843)
Loss from operations		(21,306)	(19,256)	(21,097)
Other gains and losses		(795)	(543)	(1,186)
Interest revenue		59	463	828
Finance costs	6	(6,015)	(6,537)	(10,392)
Loss before tax		(28,057)	(25,873)	(31,847)
Tax expense		(1,717)	(528)	(118)
Loss after tax		(29,774)	(26,401)	(31,965)
Loss per share (cents)				
Basic	7	(3.42)	(3.06)	(3.69)
Diluted	7	(3.42)	(3.06)	(3.69)

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2014

		Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Loss for the period		(29,774)	(26,401)	(31,965)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations		1,121	(1,973)	279
Total comprehensive loss for the period		(28,653)	(28,374)	(31,686)

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Balance Sheet
as at 30 June 2014

	Notes	30 June 2014 Unaudited \$'000	30 June 2013 Unaudited \$'000	31 December 2013 Audited \$'000
Non-current assets				
Intangible assets	9	256,963	196,906	220,963
Property, plant and equipment	10	571,754	445,431	516,437
Deferred tax asset		3,109	4,464	3,680
		831,826	646,801	741,080
Current assets				
Assets held for sale	11	132,374	77,283	103,086
Inventories		22,188	30,062	20,654
Trade and other receivables		5,021	11,870	34,023
Cash and cash equivalents		223,509	141,156	81,972
		383,092	260,371	239,735
Total assets		1,214,918	907,172	980,815
Current liabilities				
Trade and other payables		(109,220)	(85,837)	(100,795)
Derivative financial instruments		-	(410)	-
Provisions		(7,197)	(4,185)	(4,185)
Liabilities directly associated with assets classified as held for sale	11	(2,264)	(1,217)	(1,378)
Current tax liabilities		(1,037)	(17)	-
		(119,718)	(91,666)	(106,358)
Non-current liabilities				
Convertible bonds	12	(299,910)	(246,165)	(296,725)
Other borrowings	12	(219,657)	-	-
Provisions		(16,880)	(12,178)	(15,365)
		(536,447)	(258,343)	(312,090)
Total liabilities		(656,165)	(350,009)	(418,448)
Net assets		558,753	557,163	562,367
Equity				
Share capital		7,975	7,962	7,975
Share premium account		796,099	793,609	796,099
Share option reserve		57,844	34,779	33,486
Convertible bonds reserve		18,684	22,852	21,488
Exchange translation reserve		1,849	(1,524)	728
Accumulated losses		(323,698)	(300,515)	(297,409)
Total equity		558,753	557,163	562,367

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2014

	Attributable to equity holders of the Group							Total equity \$'000
	Share Capital Notes	Share premium account \$'000	Share option reserve \$'000	Exchange translation reserve \$'000	Accumulated losses \$'000	Convertible bond reserve \$'000		
Balance at 1 January 2013 (audited)	7,847	791,479	29,280	449	(276,849)	25,485	577,691	
Net loss for the period	-	-	-	-	(26,401)	-	(26,401)	
Other comprehensive loss for the period	-	-	-	(1,973)	-	-	(1,973)	
Total comprehensive loss for the period	-	-	-	(1,973)	(26,401)	-	(28,374)	
Transfer relating to share- based payments	-	-	(166)	-	166	-	-	
Share-based payment charge	-	-	7,067	-	-	-	7,067	
Deferred tax on share-based payment transactions	-	-	(1,402)	-	-	-	(1,402)	
Share issue	115	2,130	-	-	-	-	2,245	
Convertible bond equity amortisation	-	-	-	-	2,633	(2,633)	-	
Own shares held by EBT ⁽¹⁾	-	-	-	-	(64)	-	(64)	
Balance at 30 June 2013 (unaudited)	7,962	793,609	34,779	(1,524)	(300,515)	-	557,163	
Net loss for the period	-	-	-	-	(5,564)	-	(5,564)	
Other comprehensive income/(loss) for the period	-	-	-	2,252	-	-	2,252	
Total comprehensive income/(loss) for the period	-	-	-	2,252	(5,564)	-	(3,312)	
Transfer relating to share based payments	-	-	(5,923)	-	5,923	-	-	
Share-based payment charge	-	-	5,501	-	-	-	5,501	
Deferred tax on share-based payment transactions	-	-	(871)	-	-	-	(871)	
Share issue	13	2,490	-	-	-	-	2,503	
Issue of convertible bond	-	-	-	-	-	1,383	1,383	
Convertible bond equity amortisation	-	-	-	-	2,747	(2,747)	-	
Balance at 31 December 2013 (audited)	7,975	796,099	33,486	728	(297,409)	21,488	562,367	
Net loss for the period	-	-	-	-	(29,774)	-	(29,774)	
Other comprehensive income/(loss) for the period	-	-	-	1,121	-	-	1,121	
Total comprehensive income/(loss) for the period	-	-	-	1,121	(29,774)	-	(28,653)	
Transfer relating to share- based payments	-	-	(681)	-	681	-	-	
Share-based payment charge	-	-	2,894	-	-	-	2,894	
Deferred tax on share-based payment transactions	-	-	(17)	-	-	-	(17)	
Convertible bond equity amortisation	-	-	-	-	2,804	(2,804)	-	
Issue of warrants	-	-	22,162	-	-	-	22,162	
Balance at 30 June 2014 (unaudited)	7,975	796,099	57,844	1,849	(323,698)	18,684	558,753	

⁽¹⁾ Employee Benefit Trust ("EBT").

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Operating activities				
Cash generated/(used) in operations	8	21,309	(22,308)	(25,072)
Tax paid		-	(444)	(675)
Interest received		59	245	828
Convertible bond coupon payments		(10,156)	(8,594)	(17,188)
Net cash generated/(used) in operating activities		11,212	(31,101)	(42,107)
Investing activities				
Purchase of intangible assets		(52,341)	(89,953)	(131,844)
Purchase of property, plant and equipment		(57,322)	(137)	(59,008)
Decrease in liquid investments		-	8,600	8,600
Net cash used in investing activities		(109,663)	(81,490)	(182,252)
Financing activities				
Proceeds on issue of share capital		-	2,180	4,748
Proceeds on issue of convertible bond		-	-	49,189
Proceeds on issue of other borrowings		240,114	-	-
Net cash generated by financing activities		240,114	2,180	53,937
Net (decrease)/increase in cash and cash equivalents		141,663	(110,411)	(170,422)
Cash and cash equivalents at beginning of period		81,972	253,713	253,713
Effect of foreign exchange rate changes		(126)	(2,146)	(1,319)
Cash and cash equivalents at end of the period being bank balances and cash on hand		223,509	141,156	81,972

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2014

1. General information

The condensed Group financial statements for the six months period ended 30 June 2014, 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 2013. The condensed Group interim financial statements for the six months ended 30 June 2014 have not been audited or reviewed by the Company's external auditors and were approved by the Board of Directors on 27 August 2014. 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, 16 Berkeley Street, London, W1J 8DZ, United Kingdom.

The financial information for the year ended 31 December 2013 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 condensed set of financial statements included in this half year financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority. 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 2013.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Chief Executive Officer's Review. The financial position of the Group as at 30 June 2014 and its cash flows and liquidity position are included in the Financial Review.

In April 2014, the Group issued \$250 million debt securities, raising net proceeds of \$240.1 million. With the proceeds of this debt issue, the Group is on track to achieve its production target of 40,000 bopd through stepped production increases as wells are tied in to the facilities.

Following the attainment of the 40,000 bopd target, the Group will continue the development of the Shaikan Block in accordance with the FDP. This development requires substantial capital expenditures for the foreseeable future, being at least the next 12 months. In addition, following the recent announcement by MOL Plc., the operator of the Akri-Bijeel Block, regarding the agreement of the FDP for the Block by the Ministry of Natural Resources, the Group envisages incurring significant capital expenditure on this Block unless the asset is sold or the Group's funding interest is otherwise reduced.

In 1H 2014, the Group continued to consistently achieve revenues from domestic sales and to lift oil for exports. While the payments for domestic revenues were received regularly, the inflow of cash from export sales has been inconsistent throughout the period with the Group not receiving its full entitlement to date. While such entitlement is contractual, the process for receiving consistent payments in a timely manner has not yet been established. The Group sees this matter as its main priority and continues to engage the KRG with this intent.

The Group is dependent on existing cash resources, which totalled \$177 million at 26 August 2014, together with production revenues from its interest in the Shaikan Block, in order to meet its future working capital and capital expenditure requirements. The receipt of revenues from export sales is, therefore, critical for the Group's ability to continue as a going concern.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2014 continued

2. Accounting policies continued

The Group's management has a number of options whereby it can affect the rate of spend of the Group's cash resources. As operator of the Shaikan and Sheikh Adi blocks, the Group has significant control over the rate at which it incurs expenditure on these blocks, including commitments incurred to increase production capacity from 40,000 to 66,000 bopd. Akri-Bijeel is considered to be a non-core asset to the Group's portfolio and management continues its efforts to explore options for the Group's 20% working interest in this Block.

Further, existing cash resources may be enhanced over the next 12 months from the date of this report if, under the terms of the Shaikan and Akri-Bijeel PSCs, the exercise of the Government Options and/or the Third Party Options for either or both of Shaikan and Akri-Bijeel takes place. At 31 July 2014, the associated reimbursement of costs would result in cash receipts to the Group in excess of \$165 million, as well as a reduction in future expenditures following the dilution of the Group's working interest.

Whilst the Directors believe that one or more of the above events are likely to occur, if none of these events occur, and the Group is unable to otherwise enhance its existing cash resources, then the Directors would expect the Group to require additional working capital in the foreseeable future. Owing to the criticality of cash receipts from export revenues to the Group's ability to continue as a going concern, the Directors consider that in light of the inconsistency of payments received in the six month period to 30 June 2014, and, that while a stable and reliable payment process for export sales is not yet fully established, a material uncertainty exists over the Group's ability to continue as a going concern.

Further, it is noted that while our operations in the KRG remain secure and the Directors remain confident in the ability of the KRG, with the full support of the international community, to ensure that the security situation is controlled, the geopolitical situation across Iraq has changed since the release of the 2013 Annual Report and Accounts. Should it significantly deteriorate, there exists the possibility that the Group's assets may be materially adversely affected or sales may be disrupted.

Based on the forecasts and projections prepared at the time of preparation of this half year report and considering the uncertainties described above and the options available to the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing this half year report.

Changes in accounting policy

In 2013, a number of new standards and interpretations became effective as noted in the 2013 Annual Report and Accounts (page 92). The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group. Since the 2013 Annual Report and Accounts was published no significant new standards and interpretations have been issued. The following new and revised standards that impact Gulf Keystone Petroleum became effective during 2014:

IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IAS 28 (revised)	<i>Investment in Associates and Joint Ventures</i>

The adoption of these standards has not had a material impact on the financial statements of the Group.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2014 continued

3. Segment information

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

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

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

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

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2014 continued

3. Segment information continued

30 June 2014 (unaudited)	Algeria \$'000	Kurdistan Region \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
Revenue						
Oil sales	-	18,700	-	-	-	18,700
Inter-segment sales	-	-	5,575	-	(5,575)	-
Total revenue	-	18,700	5,575	-	(5,575)	18,700
(Loss)/profit before tax	(3,541)	(3,991)	3,726	(38,423)	14,172	(28,057)
Tax expense	-	-	(1,717)	-	-	(1,717)
(Loss)/profit after tax	(3,541)	(3,991)	2,009	(38,423)	14,172	(29,774)
Total assets	74	1,028,639	25,393	1,305,026	(1,144,214)	1,214,918
30 June 2013 (unaudited)	Algeria \$'000	Kurdistan Region \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
Revenue						
Oil sales	-	-	-	-	-	-
Inter-segment sales	-	-	5,473	-	(5,473)	-
Total revenue	-	-	5,473	-	(5,473)	-
(Loss)/profit before tax	(51)	(653)	(4,255)	(32,186)	11,272	(25,873)
Tax expense	-	-	(528)	-	-	(528)
(Loss)/profit after tax	(51)	(653)	(4,783)	(32,186)	11,272	26,401
Total assets	175	754,069	25,703	1,009,207	(881,982)	907,172
31 December 2013 (audited)	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
Revenue						
Oil sales	-	6,696	-	-	-	6,696
Inter-segment sales	-	-	11,745	-	(11,745)	-
Total revenue	-	6,696	11,745	-	(11,745)	6,696
(Loss)/profit before tax	(556)	(8,618)	(2,106)	(35,054)	14,487	(31,847)
Tax expense	-	-	(118)	-	-	(118)
(Loss)/profit after tax	(556)	(8,618)	(2,224)	(35,054)	14,487	(31,965)
Total assets	85	886,079	29,717	1,089,439	(1,024,505)	980,815

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2014 continued

4. Revenue

During the period to 30 June 2014, the Company sold Shaikan oil domestically and on the export market, following the commencement of exports in late November 2013. Revenue from domestic sales for the period to 30 June 2014 amounted to \$2.5 million (30 June 2013: \$nil) and revenue from export sales amounted to \$16.2 million (30 Jun 2013: \$nil). Revenue for commercial sales is recognised in line with the terms of the Shaikan PSC, the applicable sales contracts and the Group's accounting policy.

The price achieved on domestic sales in 2014 was \$42/bbl (2013: \$41/bbl). In arriving at the value of domestic sales revenue, management have used the following assumptions:

- Point of sale is the Shaikan facility;
- Revenue is recognised on an accruals basis;
- Revenue is recognised gross of any royalty due in accordance with the terms of the Shaikan PSC; and
- Company's current working interest in the Shaikan block is 80%.

The estimated realised price for export sales recognised for the first half of the year was \$51-56/bbl. Management has used the following assumptions in arriving at the value of export sales revenue during the period:

- Point of sale is the Shaikan facility;
- Revenue is recognised on a cash receipts basis;
- Cash is received and revenue is recognised, net of royalty, royalty is taken "in-kind" by the KRG;
- Deductions for trucking and port storage costs as well as the discount to Brent received have been estimated based on available information;
- Cash receipts by GKPI as the operator represent the non-governmental contractors' share of revenue; and
- Company's current working interest in the Shaikan block is 80%.

	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Oil Sales	18,700	-	6,696
Interest revenue	59	463	828
	18,759	463	7,524

5. Cost of Sales

	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Production costs	10,118	-	8,685
Royalty costs	408	-	888
Depreciation of oil & gas properties	5,980	-	2,377
	16,506	-	11,950

Following approval of the Shaikan FDP on 25 June 2013 and the commencement of commercial production, a grossmargin was recognised for the Shaikan field for the first time in 2H 2013. Prior to this date, all revenues were accounted for as test production, with an equal and offsetting amount in cost of sales. Consequently, no charge to cost of sales was recognised during the six months to 30 June 2013 as there were no oil sales during this period.

A unit of production method, based on entitlement production, reserves and costs for Shaikan field Phase 1 development, has been used to calculate the depreciation, depletion and amortisation (DD&A) charge for the period. Consistent with 2H13, production and reserves entitlement associated with unrecognised export sales have been excluded from the DD&A calculation until such time as cash is received and sales recognised. A depreciation charge of \$6.0 million has been recorded within cost of sales for the period to 30 June 2014 (31 Dec 2013: \$2.4 million).

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

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2014 continued

6. Finance costs

	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Interest payable in respect of convertible bonds	13,285	11,217	23,433
Interest payable in respect of other borrowings	8,277	-	-
Unwinding of discount on provisions	249	179	378
Capitalised finance costs	(15,796)	(4,859)	(13,419)
	6,015	6,537	10,392

7. Loss per share

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

	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Loss			
Loss after tax for the purposes of basic and diluted loss per share	(29,774)	(26,401)	(31,965)

	30 June 2014 Number (000s) Unaudited	30 June 2013 Number (000s) Unaudited	31 December 2013 Number (000s) Audited
Number of shares			
Weighted average number of common shares for the purposes of basic loss per share	869,517	862,486	865,480
Adjustments for:			
-bonus shares	n/a	n/a	n/a
-share options	n/a	n/a	n/a
-warrants	n/a	n/a	n/a
-ordinary shares held by the Employee Benefit Trust	n/a	n/a	n/a
-ordinary shares held by the Exit Event Trustee	n/a	n/a	n/a
-convertible bonds	n/a	n/a	n/a
Weighted average number of common shares for the purposes of diluted loss per share	869,517	862,486	865,480

The Group followed the steps specified by IAS 33 in determining whether potential common shares are dilutive or anti-dilutive. It was determined that all of the potential common shares including bonus shares, share options, 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 2014, 36.8 million share options (31 Dec 2013: 37.5 million), 3.3 million un-issued bonus shares (31 Dec 2013: 3.3 million), 40.0 million warrants (31 Dec 2013: nil), 10.0 million common shares held by the Exit Event Trustee (31 Dec 2013: 10.0 million), 9.4 million common shares held by the Employee Benefit Trust (31 Dec 2013: 9.4 million) and 74.0 million common shares (31 Dec 2013: 74.0 million) to be issued if the bonds are converted at the initial conversion price of \$4.39 were excluded from the loss per share calculation as they were anti-dilutive.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2014 continued

8. Reconciliation of loss from operations to net cash used in operating activities

	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Loss from operations	(21,306)	(19,256)	(21,097)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	6,278	306	2,981
Amortisation of intangible assets	89	96	194
Increase in Algerian decommissioning provision	3,013	-	-
Share-based payment expense	2,301	5,471	9,838
Increase in inventories	(1,534)	(10,280)	(871)
Decrease/(increase) in receivables	28,680	11,872	(10,561)
Increase/(decrease) in payables	3,788	(10,517)	(5,556)
Net cash generated/(used) in operating activities	21,309	(22,308)	(25,072)

9. Intangible assets

The net book value at 30 June 2014 includes intangible assets relating to Ber Bahr \$65.0 million (31 December 2013: \$61.1 million) and Sheikh Adi \$191.9 million (31 December 2013: \$159.6 million). The remainder of the balance, with a carrying value of \$0.1 million (31 December 2013: \$0.2 million), is comprised of computer software.

The additions to oil and gas exploration and evaluation costs in the year include the continued drilling of the Sheikh Adi-3 well and geological studies together with the commencement of seismic acquisition over the Ber Bahr block.

10. Property, plant and equipment

The net book value at 30 June 2014 includes property, plant and equipment relating to the Shaikan block, which has a carrying value of \$570.1 million (31 Dec 2013: \$514.6 million). The remainder of the balance, with a carrying value of \$1.6 million (31 Dec 2013: \$1.8 million) is comprised of fixtures and equipment.

Additions to property, plant and equipment were \$61.6 million, of which \$61.5 million related to the Shaikan block. Additions include construction work on the Shaikan production facilities, enhancing the operation of PF-1 and the bringing of PF-2 into operation as well as work associated with the tie-in of wells to these production facilities and the completion of the Shaikan-7 well.

Associated with production, a depreciation, depletion and amortisation charge of \$6.0 million was recognised on the Shaikan oil and gas properties (30 Jun 2013: \$nil; 31 Dec 2013: \$2.4 million), which has been included within cost of sales (note 5). A depreciation charge of \$0.3 million was recognised on fixtures and equipment (30 Jun 2013: \$0.3 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 2014 continued

11. Asset held for sale

In 2011, as part of the Group's forward strategy to rationalise its asset portfolio, the Board resolved to sell the Group's 20% working interest in the Akri-Bijeel block. The Group subsequently appointed Joint Corporate Advisers responsible for co-ordination of and advice on the sale and this process is on-going.

The Akri-Bijeel intangible asset of \$132.4 million (31 Dec 2013: \$103.1 million) that is included within the Kurdistan operating segment has been classified as an asset held for sale as at 30 June 2014. The value of the asset held for sale as at 30 June 2014 includes \$9.6 million (31 Dec 2013: \$7.1 million) that relates to a prepayment balance to the operator.

Additions to Akri-Bijeel exploration and evaluation costs in the period were \$26.8 million and included the drilling of Bakrman-2, Bijell-2, Bijell-4 and Bijell-6 wells, site preparation for Bijell-8 and Bijell-10 as well as seismic processing and geological studies and the construction of surface facilities.

The decommissioning provision associated with the Akri-Bijeel block amounted to \$2.3 million as at 30 June 2014 and is included in the liabilities directly associated with assets classified as held for sale (31 Dec 2013: \$1.4 million).

Management consider that the criteria to classify the asset as held for sale continue to be met, notwithstanding the fact that this asset was classified as held for sale at 31 December 2011, 2012 and 2013. The Group continues to actively market its interest in Akri Bijeel and on 14 August 2014, the operator, MOL, announced that it has agreed upon its field development plan (FDP) with the Kurdish Ministry of Natural Resources. The FDP relates to two commercial discovery areas in the Akri-Bijeel block – the Bijell and the Bakrman areas. Early production continues from Extended Well Test ("EWT") facility.

12. Long term borrowings and warrants

On 17 April 2014, the Group issued debt securities consisting of \$250 million three-year senior unsecured loan notes (the "Notes"), carrying a coupon of 13% per annum payable on a biannual basis and freely tradeable and detachable warrants relating to 40 million common shares in the Company. The Notes are guaranteed by Gulf Keystone Petroleum International Ltd and have a maturity date of 18 April 2017. Each warrant entitles the holder, subject to certain conditions, to purchase a common share in the Company on payment of the exercise price of \$1.70. The warrants expire on 18 April 2017. The Notes and warrants have been listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market of the Luxembourg Stock Exchange.

The Notes

The Notes are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost under the effective interest method. Interest is calculated by using the effective annual interest rate which was calculated to be 19.7%.

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

	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Liability at the beginning of the period	300,900	247,028	247,028
Liability of new bonds at issue	217,952	-	47,627
Interest charged during the period			
- on convertible bonds	13,285	11,217	23,433
- on other bonds	8,277	-	-
Interest paid during the period			
- on convertible bonds	(10,156)	(8,594)	(17,188)
- on other bonds	-	-	-
Liability at the end of period	<u>530,258</u>	<u>249,651</u>	<u>300,900</u>

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2014 continued

12. Long term borrowings continued

Liability reported in:

	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Interest payable in current liabilities	10,691	3,486	4,175
Non-current liabilities	519,567	246,165	296,725
	530,258	249,651	300,900

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

	Six months ended 30 June 2014 Unaudited \$'000	Six months ended 30 June 2013 Unaudited \$'000	Year ended 31 December 2013 Audited \$'000
Within one year	52,813	17,188	20,313
Within two to five years	690,781	335,156	385,937
	743,594	352,344	406,250

The Warrants

The warrants were recognised as an equity instrument in accordance with IAS 39. The warrants were measured at fair value as at the date of issue, which was determined to be \$22.2 million. The fair value of the warrants was treated as part of the Notes' issue cost.

The assumptions used in the valuation of the warrants included a share price of 99.75p, an exercise price of \$1.70 as per the issue prospectus, a risk free rate of 0.8%, a time to expiry of 36 months and a share price volatility of 50%.