

3 September 2020

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

2020 Half Year Results Announcement
Continued strong production operations
Near-term production uplift opportunities identified

Gulf Keystone Petroleum, a leading independent operator and producer in the Kurdistan Region of Iraq (“Kurdistan” or “Kurdistan Region”), announces its results for the half year ended 30 June 2020.

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

“We moved decisively to protect the business and preserve liquidity in response to COVID-19 and the decline in oil prices. We are actively managing the impact of COVID-19 and working to protect our staff. The Shaikan Field continues to perform well with production up more than 25% compared to H1 2019.

While waiting to resume the 55,000 bopd project, the Company has identified a number of simple, low-cost, high-impact investments that have the potential to increase the current base level of gross production by approximately 5,000 bopd and, subject to a satisfactory operating environment, could be implemented in the near-term.

We continue to maintain a tight focus on cost control and further savings will be reflected in the full year results.

With our current measures in place, we are pleased to provide 2020 gross production guidance of 35,000 to 36,000 bopd. With continued improvement in macro and operating conditions, we are well positioned to deliver the long-term potential of the Shaikan Field and look forward to resuming shareholder distributions over time.”

Highlights to 30 June 2020 and post reporting period

Operational

- Operations at Shaikan continue safely and reliably, with no Lost Time Incidents (“LTIs”) reported during 2020.
- The Shaikan reservoir continues to perform in line with expectations, with current gross production of c.36,000 bopd and average 2020 gross production to 1 September 2020 of 36,272 bopd.
- At the time of suspension of investment plans in March 2020, key drilling and facilities activities were on track to achieve the 55,000 bopd target in Q3 2020.
- GKP is preparing to return to production growth, and has identified a number of quick payback projects, which are expected to increase gross production by c.5,000 bopd for an aggregate gross cost of c.\$3 million. Planning is ongoing and, subject to a satisfactory operating environment, could be implemented in the near-term.
- The Company remains committed to operating sustainably. Throughout the pandemic, the Company has continued to actively support the communities around Shaikan and has donated essential equipment to nearby hospitals.

Financial

- H1 2020 revenue of \$49.9 million (H1 2019 - \$95.6 million) and Adjusted EBITDA of \$27.5 million (H1 2019 - \$59.0 million) resulted from the decline in oil prices, partially offset by increased production. Such factors combined with increased depreciation, depletion and amortisation (“DD&A”) due to production growth drove a loss after tax of \$33.1 million (H1 2019 - \$24.2 million profit).
- Opex per barrel in H1 2020 was \$2.6/bbl, below guidance of \$2.7 – \$3.1/bbl. Operating costs and general and administrative (“G&A”) expenses savings of 12% contributed to expense reductions compared to H1 2019, and further savings are expected in H2 2020 with the significant reduction in activity and continuing focus on cost control.
- Net capex in H1 2020 was \$38.5 million. H2 2020 net capex is expected to be minimal, comprised principally of long-lead time deliveries that will expedite the eventual restart of growth activities. Full year net capex is expected to be within the original \$40-48 million guidance range.
- To protect cash flows, Gulf Keystone hedged c.70% of its H2 2020 net production at a floor price of \$35/bbl while retaining full upside exposure.
- In Q1 2020, the Company completed the second tranche of its share buyback programme bringing total 2019 and 2020 capital distributions to \$99 million.
- Since March 2020, the Kurdistan Regional Government (“KRG”) has paid for the last five months of oil sales in the following month as per its commitment to international oil companies (“IOCs”).
- The Company has a strong balance sheet with \$140 million of cash at 2 September 2020 and no debt repayment until mid-2023.

Corporate

- As previously announced, Jón Ferrier, CEO, has informed the Board of his intention to retire from the Company upon appointment of a successor and after a period of handover. The search process for a new CEO is underway.
- The Company announced the re-appointment of Garrett Soden to the Board of GKP as a Non-Independent Non-Executive Director representing funds managed by Lansdowne Partners Austria GmbH.

Outlook

- After successfully managing the impacts of COVID-19 over the last several months, the Company is pleased to provide 2020 gross production guidance of 35,000 bopd to 36,000 bopd.
- GKP is well positioned to restart its drilling programme to achieve 55,000 bopd when circumstances permit.
- In line with its stated growth strategy, GKP continues to progress growth opportunities at Shaikan and will also consider potential value accretive inorganic options on an opportunistic basis.
- The Company remains in a constructive dialogue with the KRG and will continue to seek the timely settlement of the overdue November 2019 to February 2020 invoices totaling \$73.3 million (net). The KRG has committed that with the continuing improvement in the price of dated Brent above \$50/bbl outstanding arrears will be reviewed.
- GKP remains committed to maintaining its strong financial position and, as conditions continue to improve, returning to a balance of production growth and shareholder distributions.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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Notes to Editors:

Gulf Keystone Petroleum Ltd. (LSE: GKP) is a leading independent operator and producer in the Kurdistan Region of Iraq. Further information on Gulf Keystone is available on its website www.gulfkeystone.com

Disclaimer

This announcement contains certain forward-looking statements that are subject to the risks and uncertainties associated with the oil & gas exploration and production business. These statements are made by the Company and its Directors in good faith based on the information available to them up to the time of their approval of this announcement but such statements should be treated with caution due to inherent risks and uncertainties, including both economic and business factors and/or factors beyond the Company's control or within the Company's control where, for example, the Company decides on a change of plan or strategy. This announcement has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. This announcement should not be relied on by any other party or for any other purpose.

CEO Statement

Shaikan's continuing stable low-cost production performance has been a welcome constant against the backdrop of recent unprecedented global uncertainties. COVID-19 continues to have a profound impact on economies, movements of people, supply chains and the general operating environment. While Brent oil prices have rebounded to around \$45/bbl from lows of below \$20/bbl, uncertainty remains on the trajectory of the overall recovery of longer-term prices.

2020 started well with an active investment programme and the Company was on track to achieve 55,000 bopd in Q3 2020. From March 2020, as the COVID-19 pandemic took hold, the Company moved quickly to ensure the welfare of its people, protect the business and preserve liquidity. The Shaikan Field benefits from a flexible development plan and the Company rapidly and decisively took steps to significantly scale back its operations and reduce costs.

Suspension of growth plans to achieve 55,000 bopd resulted in targeted 2020 net capex being reduced by c.50% versus 2019. Opex and G&A were quickly addressed and we are on track to achieve our annualised target reduction of c.20% over 2019. The Company has completed the previously announced 40% reduction of its workforce, who were substantially focused on the 55,000 bopd expansion project. These timely interventions protected the Company's strong balance sheet, positioning it well to navigate through current uncertainties and be ready to return to growth.

Throughout the period, the Company maintained safe operating practices. GKP immediately implemented stringent protocols and testing procedures specifically for COVID-19, which have been adapted over time as the pandemic evolves. GKP is currently over 250 days LTI free.

Kurdistan has been impacted by the combination of the rapid spread of COVID-19 and the fall in the oil price. As a consequence of the financial pressures facing the region, payment of invoices to all the IOCs for November 2019 to February 2020 crude oil sales (aggregating \$73.3 million net to GKP) remain outstanding.

The Government pledged to pay monthly oil sales invoices from March 2020 in the following month, and we are pleased to confirm this commitment is being honoured. Gulf Keystone recognises that these are exceptional times and is encouraged by the KRG's assurance that all historic invoices will be paid. The Company remains in a constructive dialogue with the KRG and will continue to seek the timely settlement of historic invoices. The KRG has committed that with the continuing improvement in the price of dated Brent above \$50/bbl outstanding arrears will be reviewed.

Gulf Keystone, along with the strong support of the Ministry of Natural Resources of the Kurdistan Regional Government ("MNR"), is successfully navigating the operational challenges associated with COVID-19 and is pleased today to provide 2020 gross production guidance of 35,000 to 36,000 bopd.

As part of its risk management strategy, the Company has protected the downside of another potential downturn in oil prices by hedging 70% of 2020 second half production at a minimum price of \$35/bbl, while retaining exposure to price upside.

Extensive operational planning is underway to execute simple, low-cost, rapid payback opportunities that are expected to deliver c.5,000 bopd for an aggregate cost of c.\$3 million gross. Execution of these projects has the potential to be implemented in the near-term but is subject to a satisfactory operating environment.

With continued improvements in the macro environment, regular monthly payments, further clarity around outstanding revenue arrears from the KRG and confidence in the operating environment, GKP, in line with its growth strategy, will look to restart its drilling programme to achieve 55,000 bopd. Furthermore, GKP will also consider potential value accretive inorganic options on an opportunistic basis.

Environment, social and governance ("ESG") remains a priority for the Company. With the recent reductions to our national workforce, GKP worked closely with local communities to maintain the strong relationships fostered over the past ten years. In support of the KRG's COVID-19 response, GKP donated medical equipment, including Personal Protective Equipment, test kits and sterilisation equipment to hospitals in the Shaikan area.

Prior to COVID-19, Gulf Keystone was amongst a small number of E&P companies offering investors both a compelling self-funded production growth story as well as a yield on their investment through a dividend policy and share buybacks. The Company recently returned nearly \$100 million to investors with the completion of the share buyback programme in March 2020. GKP continues to keep its capital distributions policy under review and with an improved oil price environment and outlook, the Company looks forward to resuming capital distributions.

As previously announced, after five years, I have decided to retire which will take effect once my successor has been appointed and after a period of handover. The search process is underway. The Company also announced the re-appointment of Garrett Soden to the Board of GKP as a Non-Independent Non-Executive Director representing funds managed by Lansdowne Partners Austria GmbH.

This has been a period with considerable challenges, which the Company has successfully managed and is well positioned to capitalise on improving conditions. The professionalism and commitment of the Gulf Keystone team and its contractors has been outstanding. We sincerely thank them, as well as our hosts, the KRG, for their support.

Jón Ferrier
Chief Executive Officer

Operational Review

The year started with strong operational momentum with significant progress on facilities debottlenecking and drilling activities. The Company was on-track to achieve 55,000 bopd in Q3 2020 when the expansion project was suspended in March.

Key components to the 55,000 bopd project were all well progressed at the time of suspension:

- Facilities debottlenecking to reach a production processing capacity of 55,000 bopd was within three weeks of completion;
- SH-13 was suspended just above the reservoir section with less than one month of work remaining to bring the well onstream. The well was drilled quicker than planned, benefiting from improving performance as lessons learned from our drilling campaign were applied;
- SH-L, the next well after SH-13, was planned to be spudded from the same drilling pad and was expected to be drilled and completed in two months; and
- SH-9 only required final commissioning to be brought on stream as an oil producer, providing increased production confidence to PF-1.

Given the flexible nature of our capital programme, the Company was able to react quickly and safely to unprecedented events. The Capex programme was reduced by c.50% from 2019 and cost savings were implemented to reduce G&A and Opex by at least 20%. In H1 2020, Opex per barrel was \$2.6, below full year guidance of \$2.7 to \$3.1/bbl.

Despite the challenges imposed by COVID-19, production operations have continued safely and reliably throughout the period with strong logistics support from the MNR. No LTIs have been reported during 2020.

The Shaikan reservoir continues to perform well despite a significantly reduced programme of additional wells and workovers. Average 2020 gross production to 1 September 2020 is 36,272 bopd, with current production at c.36,000 bopd. The Company continues to proactively manage the impact of COVID-19 on operations and we are pleased to provide gross production guidance for 2020 of 35,000 to 36,000 bopd.

Gulf Keystone has taken advantage of the pause in development activity to refine its plans and develop potential growth opportunities:

- a comprehensive review of seismic and new well data is underway to enhance our understanding of the subsurface that will optimise future well placement and reservoir planning; and
- a register of low cost, rapid payback projects has been developed. The top three projects – SH-9 final commissioning, completion of SH-12 in the main Upper Jurassic reservoir and further debottlenecking of PF-1 to increase production capacity from the current 24,000 bopd to over 30,000 bopd – are expected to increase gross production by approximately 5,000 bopd for a total cost of c.\$3 million gross. The Company is currently planning the projects with the final timing of execution dependent on a satisfactory operating environment.

In addition to these near-term measures, with continued improvements in the macro environment, regular monthly payments, further clarity around outstanding revenue arrears from the KRG and confidence in the operating environment, GKP will look to restart its drilling programme to achieve 55,000 bopd.

GKP remains committed to being at the forefront of best practice with regards to all aspects of ESG. The Company retains its plan to reduce CO₂ emissions from operations by more than one-half with the implementation of the Shaikan Field Development Plan and looks forward to providing further updates in due course.

Throughout the pandemic, GKP has supported local communities and donated essential medical equipment to nearby hospitals. The recent reduction of employees from local communities has been handled sensitively and our good relations with stakeholders built up over the last decade preserved, positioning us well for the restart of operations. We continue to develop local staff with a full suite of online training and have provided virtual seminars for 140 engineering students at local universities and colleges.

Stuart Catterall
Chief Operating Officer

Financial Review

Key financial highlights

| | Six months ended 30 June 2020 | Six months ended 30 June 2019 | Year ended 31 December 2019 |
|---|----------------------------------|----------------------------------|--------------------------------|
| Gross average production (bopd) | 37,159 | 29,362 | 32,883 |
| Realised price (\$/bbl) | 19.1 | 44.8 | 42.9 |
| Revenue (\$m) | 49.9 | 95.6 | 206.7 |
| Operating costs (\$m) ¹ | (14.2) | (16.4) | (37.4) |
| Gross operating costs per bbl (\$/bbl) ¹ | (2.6) | (3.9) | (3.9) |
| General and administrative expenses (\$m) | (5.4) | (8.2) | (19.5) |
| - Incurred in relation to Shaikan Field (\$m) | (3.2) | (3.8) | (10.0) |
| - Corporate G&A (\$m) | (2.2) | (4.4) | (9.5) |
| Revenue receipts (\$m) | 52.1 | 89.8 | 155.7 |
| Impairment of trade receivables (\$m) | (12.8) | (0.2) | (0.3) |
| (Loss)/profit after tax (\$m) | (33.1) | 24.2 | 43.5 |
| Basic (loss)/earnings per share (cents) | (15.64) | 10.55 | 19.25 |
| Capital investment (\$m) ¹ | 38.5 | 32.4 | 90.0 |
| Adjusted EBITDA (\$m) ¹ | 27.5 | 59.0 | 122.5 |
| Net cash (\$m) ¹ | 39.2 | 198.3 | 86.4 |
| Cash and cash equivalents (\$m) | 143.6 | 302.1 | 190.8 |
| Outstanding New Notes (\$m) | 100.0 | 100.0 | 100.0 |

¹ Operating costs, gross operating costs per barrel, Adjusted EBITDA, capital investment and net cash are either non-financial or non-International Financial Reporting Standards ("IFRS") measures and are explained in the summary of significant accounting policies.

A key element of Gulf Keystone's strategy is to maintain a conservative financial position. The Company has a strong balance sheet, with \$139.6 million of cash at 2 September 2020 and no debt repayment until July 2023, which provides financial flexibility to continue to successfully navigate through these uncertain times.

In Q1 2020, the Company completed the second tranche of its share buyback programme bringing total capital distributions throughout 2019 and 2020 to \$99.0 million. We remain committed to maintaining our strong financial position and, as conditions improve, returning to a balance of production growth and shareholder distributions.

To preserve liquidity, the 2020 capital expenditure programme was halved from the prior year and concrete progress has been made on achieving cost reduction targets, all while maintaining high standards of health and safety.

While we are encouraged by the increase in oil price since April 2020, uncertainty remains around further COVID-19 outbreaks and the potential impact on oil demand. To protect cash flows from declining below the Company's aggregate operating costs, G&A and interest break-even level, Gulf Keystone hedged c.70% of its H2 2020 net production at a floor price of \$35/bbl, while retaining the full upside to increasing oil prices.

Despite the significant decline in oil prices, Gulf Keystone generated positive Adjusted EBITDA of \$27.5 million in H1 2020; however, the Company recognised a loss after tax for the first half of 2020 for the first time since its restructuring in 2016.

Revenues

Despite COVID-19 and challenging macro-economic conditions, Gulf Keystone's average H1 2020 production increased to 37,159 bopd, up 27% from H1 2019 and 13% from FY 2019. However, the benefit of higher production was more than offset by the decline in dated Brent oil prices.

Operating costs, depreciation, other cost of sales and administrative expenses

The Company's operating costs decreased 13% to \$14.2 million (H1 2019: \$16.4 million; FY 2019: \$37.4 million), driven by cost saving initiatives. Gross operating costs per bbl decreased significantly to \$2.6/bbl (H1 2019: \$3.9/bbl; FY 2019: \$3.9/bbl), just below 2020 guidance of \$2.7-3.1/bbl. Considering scheduled H2 2020 maintenance activities and full year production guidance, we reaffirm the full year operating costs per barrel guidance range.

G&A expenses decreased by 34% from \$8.2 million in H1 2019 to \$5.4 million in H1 2020. Cost savings initiatives contributed c.9% of the decrease. The remaining decrease is driven principally by the reduction in accruals due to the impact of the decline in GKP's share price on the tax provision for share-based compensation and higher capitalisation of costs due to increased capex activity as compared to H1 2019.

Aggregate operating costs and G&A savings of 12% contributed to a reduction in H1 2020 expenditures compared to H1 2019 expenditures. Given that high activity levels were only curtailed, and staff and cost reduction programmes implemented part way through H1 2020, costs are expected to continue to decrease in H2 2020. GKP remains on track to achieve its targeted reduction in operating costs and G&A of at least 20% compared to 2019 and c.30% on a run-rate basis.

The decline in capacity building payments related to the decline in oil prices (H1 2020: \$3.8 million; H1 2019: \$7.1 million; FY 2019: \$15.3 million) was more than offset by an increase in depletion and amortisation of oil and gas assets resulting from increased production (H1 2020: \$41.8 million; H1 2019: \$32.4 million; FY 2019: \$72.5 million).

Trade receivables

The Company received \$52.1 million (net) in H1 2020 from the KRG (H1 2019: \$89.8 million; FY 2019: \$155.7 million). Subsequent to 30 June 2020, payments for June and July for a total of \$15.4 million (net) were received.

In March 2020, the KRG informed the Company and other IOCs in Kurdistan that:

- from March 2020 and onwards, oil sales will be paid in the following month; and
- outstanding trade receivables related to November 2019 to February 2020 would be deferred.

Since March 2020, the KRG has honoured its commitment and paid the last five months of oil sales in the following month.

The Company remains in a constructive dialogue with the KRG and will continue to seek the timely settlement of the overdue November 2019 to February 2020 invoices totaling \$73.3 million (net). The KRG has indicated that with the continuing improvement in the price of dated Brent above \$50/bbl, payment terms of these outstanding amounts will be reviewed.

While the Company expects to recover the full \$73.3 million (net) from the KRG, the recovery terms are not yet known. Notwithstanding the Company's expectation to recover the full amount, accounting standard IFRS 9 requires Gulf Keystone to recognise \$12.8 million of expected credit losses ("ECL").

Capital investment

During H1 2020, GKP invested \$38.5 million net of capital expenditures in Shaikan. This investment included completion of drilling and testing of SH-9, drilling of SH-13 until suspension just above the reservoir section, preparation for drilling of the next well, SH-L, on the same pad as SH-13 and facilities debottlenecking. Minimal activity is planned for the second half of the year and overall 2020 capital investment is expected to be within the original \$40-48 million net guidance range.

Cash flow and Liquidity

H1 2020 cash generated from operating activities of \$24.2 million (H1 2019: \$55.0 million; FY 2019: \$83.7 million) and Adjusted EBITDA of \$27.5 million (H1 2019: \$59.0 million; FY 2019: \$122.5 million) were down principally due to the decline in oil prices which more than offset the benefits of increased production and cost reductions.

During the period, the Company completed its share buyback programme by repurchasing \$20.2 million of common shares, bringing total share buybacks in 2019 and 2020 to \$50.0 million. In June 2020, the Company resolved to cancel 18.1 million treasury shares and retain one million treasury shares to fulfil potential future exercises of share-based rewards. The process to formalise the cancellation of the treasury shares is ongoing.

The cash balance at 30 June 2020 stood at \$143.6 million (H1 2019: \$302.1 million; FY 2019: \$190.8 million). The \$100.0 million of New Notes mature in July 2023 and the Company remains well above financial covenants' minimum thresholds of \$15.0 million cash balance and equity ratio of 40%.

The Group performed a cash flow and liquidity analysis based on which the Directors have a reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future. Thus, the going concern basis of accounting is used to prepare the half year financial statements (see going concern section of note 2).

GULF KEYSTONE PETROLEUM LIMITED
Half Year Report for the six months ended 30 June 2020

Non-IFRS measures

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

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

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

Operating costs

Operating costs is a useful indicator of the Group’s costs incurred to produce Shaikan oil. Operating costs, in comparison with cost of sales, exclude certain non-cash accounting adjustments and contractual production sharing contract (“PSC”) payments.

| | Six months ended 30 June 2020 Unaudited \$ million | Six months ended 30 June 2019 Unaudited \$ million | Year ended 31 December 2019 Audited \$ million |
|--------------------------------------|---|--|--|
| Cost of sales | 60.2 | 61.1 | 137.9 |
| Depreciation of oil & gas properties | (41.8) | (32.4) | (72.5) |
| Transportation costs | - | (5.2) | (12.0) |
| Capacity building payments | (3.8) | (7.1) | (15.3) |
| Working capital movement | (0.4) | - | (0.7) |
| Operating costs | 14.2 | 16.4 | 37.4 |

The 30 June 2019 transportation costs balance was restated to include the cost of transporting oil from PF-1 to PF-2 pipeline.

Gross operating costs per barrel

Gross operating costs are divided by gross production to arrive at operating costs per bbl.

| | Six months ended 30 June 2020 Unaudited | Six months ended 30 June 2019 Unaudited | Year ended 31 December 2019 Audited |
|---|--|--|--|
| Gross production (MMbbls) | 6.8 | 5.3 | 12.0 |
| Gross operating costs (\$ million) | 17.7 | 20.5 | 46.7 |
| Gross operating costs per barrel (\$ per bbl) | 2.6 | 3.9 | 3.9 |

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Adjusted EBITDA

Adjusted EBITDA is a useful indicator of the Group's profitability, which excludes the impact of costs attributable to income tax (expenses)/credit, finance costs, interest revenue, depreciation and amortisation and other gains and losses.

| | Six months ended 30 June 2020 Unaudited \$ million | Six months ended 30 June 2019 Unaudited \$ million | Year ended 31 December 2019 Audited \$ million |
|--------------------------------------|---|--|--|
| (Loss)/Profit after tax | (33.1) | 24.2 | 43.5 |
| Finance Costs | 5.7 | 5.5 | 11.2 |
| Interest Revenue | (1.0) | (3.6) | (6.0) |
| Tax charge/(credit) | 0.5 | (0.1) | (0.3) |
| Depreciation of oil & gas properties | 41.8 | 32.4 | 72.5 |
| Impairment of receivables | 12.8 | 0.2 | 0.3 |
| Other depreciation and amortisation | 0.8 | 0.4 | 1.3 |
| Adjusted EBITDA | 27.5 | 59.0 | 122.5 |

Capital investment

Capital investment is the value of the Group's additions to oil and gas assets excluding any movements in decommissioning assets.

| | Six months ended 30 June 2020 Unaudited \$ million | Six months ended 30 June 2019 Unaudited \$ million | Year ended 31 December 2019 Audited \$ million |
|---------------------------------|---|--|--|
| Additions to oil and gas assets | 38.5 | 32.4 | 90.0 |
| Capital investment | 38.5 | 32.4 | 90.0 |

Net Cash

Net cash is a useful indicator of the Group's indebtedness, financial flexibility and capital structure because it indicates the level of cash and cash equivalents less cash borrowing with the Group's business. Net cash is defined as current and non-current borrowings plus non-cash adjustments, less cash and cash equivalents

| | 30 June 2020 Unaudited \$ million | 30 June 2019 Unaudited \$ million | 31 December 2019 Audited \$ million |
|---------------------------|--|---|--|
| Outstanding New Notes | (98.4) | (98.0) | (98.2) |
| Unamortised issue costs | (1.6) | (2.0) | (1.8) |
| Interest accrual | (4.4) | (4.4) | (4.4) |
| Cash and cash equivalents | 143.6 | 302.7 | 190.8 |
| Net cash | 39.2 | 198.3 | 86.4 |

GULF KEYSTONE PETROLEUM LIMITED

Half Year Report for the six months ended 30 June 2020

Principal risks and uncertainties

The Board determines and reviews the key risks for the Group on a regular basis. The principal risks, and how the Group seeks to mitigate them, at half year are consistent with those detailed in the management of principal risks and uncertainties section of the 2019 Annual Report and Accounts. The principal risks are listed below:

| Strategic | Operational | Financial |
|---|---|----------------------------------|
| Political, social and economic instability | Health, Safety, Security and Environment ("HSSE") risks | Liquidity and funding capability |
| Disputes regarding title or exploration and production rights | Gas flaring | Export payment mechanism |
| Business conduct and anti-corruption | Security | Commodity prices |
| Export route availability | Field delivery risk | |
| Stakeholder expectations | Reserves | |
| Climate change and sustainability | | |
| Global pandemic (including COVID-19 impact) | | |
| Cyber security | | |

The Board continues to actively monitor the effect of COVID-19 on the macro environment and the Group's operations. The primary risks associated with COVID-19 are considered separately and are also embedded within the existing principal risks, including HSSE, Field delivery risk, Liquidity and funding capability and Commodity prices.

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
2 September 2020

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Half Year Report for the six months ended 30 June 2020

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 2020 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
2 September 2020

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Income Statement for the six months ended 30 June 2020

| | Notes | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|--|-------|--|--|--|
| Continuing operations | | | | |
| Revenue | 4 | 49,878 | 95,606 | 206,741 |
| Cost of sales | 5 | (60,245) | (61,054) | (137,891) |
| Impairment of trade receivables | 11 | (12,791) | (196) | (293) |
| Gross (loss)/profit | | (23,158) | 34,356 | 68,557 |
| General and administrative expenses | | (5,428) | (8,169) | (19,531) |
| (Loss)/profit from operations | | (28,586) | 26,187 | 49,026 |
| Finance revenue | 6 | 997 | 3,628 | 6,046 |
| Finance costs | 6 | (5,707) | (5,549) | (11,153) |
| Foreign exchange gains/(losses) | | 697 | (112) | (661) |
| (Loss)/profit before tax | | (32,599) | 24,154 | 43,258 |
| Tax (expense)/credit | 7 | (538) | 50 | 271 |
| (Loss)/profit after tax | | (33,137) | 24,204 | 43,529 |
| (Loss)/profit per share (cents) | | | | |
| Basic | 8 | (15.64) | 10.55 | 19.25 |
| Diluted | 8 | (15.64) | 10.06 | 18.37 |

Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2020

| | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|---|--|--|--|
| (Loss)/profit for the period | (33,137) | 24,204 | 43,529 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | (1,099) | (12) | 597 |
| Total comprehensive (loss)/income for the period | (34,236) | 24,192 | 44,126 |

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Balance Sheet
as at 30 June 2020

| | Notes | 30 June 2020 Unaudited \$'000 | 30 June 2019 Unaudited \$'000 | 31 December 2019 Audited \$'000 |
|--------------------------------|-------|--|--|--|
| Non-current assets | | | | |
| Intangible assets | | 462 | 445 | 454 |
| Property, plant and equipment | 10 | 406,747 | 381,546 | 407,602 |
| Trade receivables | 11 | 72,213 | - | - |
| Deferred tax asset | | 345 | 607 | 849 |
| | | 479,767 | 382,598 | 408,905 |
| Current assets | | | | |
| Inventories | | 34,768 | 19,854 | 31,040 |
| Trade and other receivables | 11 | 13,322 | 67,497 | 103,181 |
| Cash and cash equivalents | | 143,579 | 302,701 | 190,762 |
| | | 191,669 | 390,052 | 324,983 |
| Total assets | | 671,436 | 772,650 | 733,888 |
| Current liabilities | | | | |
| Trade and other payables | 12 | (72,553) | (73,221) | (83,981) |
| Dividends payable | | - | (50,000) | - |
| | | (72,553) | (123,221) | (83,981) |
| Non-current liabilities | | | | |
| Trade and other payables | | (2,096) | - | (1,989) |
| Other borrowings | 13 | (98,407) | (97,987) | (98,192) |
| Provisions | | (31,668) | (23,647) | (29,807) |
| | | (132,171) | (121,634) | (129,988) |
| Total liabilities | | (204,724) | (244,855) | (213,969) |
| Net assets | | 466,712 | 527,795 | 519,919 |
| Equity | | | | |
| Share capital | 14 | 229,430 | 229,430 | 229,430 |
| Share premium account | 14 | 871,675 | 870,728 | 871,675 |
| Treasury Shares | | (49,812) | - | (29,749) |
| Exchange translation reserve | | (4,320) | (3,830) | (3,221) |
| Accumulated losses | | (580,261) | (568,533) | (548,216) |
| Total equity | | 466,712 | 527,795 | 519,919 |

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2020

| | Share capital | Share premium account | Exchange translation reserve | Accumulated losses | Treasury shares | Total equity |
|--|------------------|-----------------------------|------------------------------------|-----------------------|--------------------|-----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 January 2019 (audited) | 229,430 | 920,728 | (3,818) | (593,523) | - | 552,817 |
| Net profit for the period | - | - | - | 24,204 | - | 24,204 |
| Other comprehensive income for the period | - | - | (12) | - | - | (12) |
| Total comprehensive income for the period | - | - | (12) | 24,204 | - | 24,192 |
| Dividend | - | (50,000) | - | - | - | (50,000) |
| Employee share schemes | - | - | - | 786 | - | 786 |
| Balance at 30 June 2019 (unaudited) | 229,430 | 870,728 | (3,830) | (568,533) | - | 527,795 |
| Net profit for the period | - | - | - | 19,325 | - | 19,325 |
| Other comprehensive income for the period | - | - | 609 | - | - | 609 |
| Total comprehensive income for the period | - | - | 609 | 19,325 | - | 19,934 |
| Share Buyback | - | - | - | - | (29,831) | (29,831) |
| Dividend | - | 947 | - | - | - | 947 |
| Employee share schemes | - | - | - | 1,074 | - | 1,074 |
| Share options exercised | - | - | - | (82) | 82 | - |
| Balance at 31 December 2019 (audited) | 229,430 | 871,675 | (3,221) | (548,216) | (29,749) | 519,919 |
| Net (loss) for the period | - | - | - | (33,137) | - | (33,137) |
| Other comprehensive loss for the period | - | - | (1,099) | - | - | (1,099) |
| Total comprehensive (loss)/income for the period | - | - | (1,099) | (33,137) | - | (34,236) |
| Share buyback | - | - | - | - | (20,165) | (20,165) |
| Employee share schemes | - | - | - | 1,194 | - | 1,194 |
| Share options exercised | - | - | - | (102) | 102 | - |
| Balance at 30 June 2020 (unaudited) | 229,430 | 871,675 | (4,320) | (580,261) | (49,812) | 466,712 |

GULF KEYSTONE PETROLEUM LIMITED

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2020

| | Note | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|--|------|---|---|--|
| Operating activities | | | | |
| Cash generated in operations | 9 | 28,082 | 56,566 | 87,892 |
| Interest received | | 1,288 | 3,491 | 5,897 |
| Interest paid | | (5,121) | (5,022) | (10,068) |
| Net cash generated in operating activities | | 24,249 | 55,035 | 83,721 |
| Investing activities | | | | |
| Exits costs of Algerian operation | | - | (11,060) | (11,060) |
| Purchase of intangible assets | | (7) | (392) | (390) |
| Purchase of property, plant and equipment | | (50,109) | (36,337) | (96,926) |
| Net cash used in investing activities | | (50,116) | (47,789) | (108,376) |
| Financing activities | | | | |
| Payment of dividends | | - | - | (49,053) |
| Share buyback | | (20,165) | - | (29,831) |
| Payment in lieu of options exercised | | (330) | - | (99) |
| Payment of leases | | (718) | - | (972) |
| Net cash from financing activities | | (21,213) | - | (79,955) |
| Net (decrease)/increase in cash and cash equivalents | | (47,080) | 7,246 | (104,610) |
| Cash and cash equivalents at beginning of period | | 190,762 | 295,566 | 295,566 |
| Effect of foreign exchange rate changes | | (103) | (111) | (194) |
| Cash and cash equivalents at end of the period being bank balances and cash on hand | | 143,579 | 302,701 | 190,762 |

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2020

1. General information

The Company is incorporated in Bermuda (registered address: Cedar House, 3rd Floor, 41 Cedar Avenue, Hamilton 12, Bermuda). The Company's common shares are listed on the Official List of the United Kingdom Listing Authority and are traded on the London Stock Exchange's Main Market for listed securities. The Company serves as the holding company for the Group, which is engaged in oil and gas exploration, development and production, operating in the Kurdistan Region of Iraq.

2. Summary of significant accounting policies

The Annual Report and Accounts of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed Group financial statements for the six months period ended 30 June 2020 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.

The condensed set of financial statements included in this half yearly financial report have been prepared on a going concern basis as the Directors consider that the Group has adequate resources to continue operating for the foreseeable future.

The accounting policies adopted in the 2020 half-yearly financial report are the same as those adopted in the 2019 Annual Report and Accounts, other than the implementation of new IFRS reporting standards.

The financial information for the year ended 31 December 2019 does not constitute the Group's financial statements for that year but is derived from those Accounts. The auditor's report on these Accounts was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter.

Adoption of new and revised accounting standards

As of 1 January 2020, a number of accounting standard amendments and interpretations became effective, as noted in the 2019 Annual Report and Accounts (pages 116 and 117). 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 2020.

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 CEO Statement and the Operational Review. The financial position of the Group at the period end and its cash flows and liquidity position are included in the Financial Review.

As at 2 September 2020, the Group had \$139.6 million of cash. The Group continues to closely monitor and manage its liquidity. Cash forecasts are regularly produced, and sensitivities run for different scenarios including, but not limited to, the impact of COVID-19 on the Group's operations and commodity prices, different production rates from the Shaikan block, cost contingencies, disruptions to revenue receipts, etc. To preserve liquidity in response to macroeconomic challenges, Gulf Keystone capitalised on the flexible nature of its development programme and cost structure, and reduced capital expenditures, its work force and running costs. The Group's forecasts, taking into account the applicable risks and the stress test scenarios, show that it has sufficient financial resources for the 12 months from the date of approval of the 2020 half year financial statements.

Based on the analysis performed, the Directors have a reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future. Thus, the going concern basis of accounting is used to prepare the half year financial statements.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2020

Critical accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Critical accounting judgements and key sources of estimation uncertainty remain consistent with those disclosed in the 2019 Annual Report and Accounts.

Key estimates

Reserves estimates

Commercial reserves are determined using estimates of oil-in-place, recovery factors and future oil prices. Future development costs are estimated using assumptions as to numbers of wells required to produce the commercial reserves, the cost of such wells and associated production facilities and other capital and operating costs. Reserves estimates principally affect the DD&A charges, as well as impairment assessments.

Carrying value of producing assets

In line with the Group's accounting policy on impairment, management performs an impairment review of the Group's oil and gas assets at least annually with reference to indicators as set out in IAS 36. The Group assesses its group of assets, called a cash-generating unit ("CGU"), for impairment, if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where indicators are present, management calculates the recoverable amount using key estimates such as future oil prices, estimated production volumes, the cost of development and production, pre-tax discount rates that reflect the current market assessment of the time value of money and risks specific to the asset, commercial reserves and inflation. The key assumptions are subject to change based on market trends and economic conditions. Where the CGU's recoverable amount is lower than the carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The Group's sole CGU at 30 June 2020 was the Shaikan Field with a carrying value of \$402.0 million.

The Group performed a full impairment evaluation considering the impact of COVID-19, the decline in oil prices, the Group's decision to suspend the Shaikan expansion project, potential changes to future development plans and recent actions to preserve liquidity. The potential impact of such factors together with other possible changes to key assumptions and available management mitigating actions, indicated that no impairment would arise.

The key areas of estimation in the impairment assessment are as follows:

- Commodity prices are based on latest internal forecasts, benchmarked with external sources of information to ensure they are within the range of available market and analyst forecasts;

| \$/bbl | 2020 | 2021 | 2022 onwards |
|-----------------------|-------------|-------------|---------------------|
| H1 2020 – base case | 42 | 47 | 55 |
| H1 2020 – stress test | 35 | 40 | 50 |
| FY 2019 – base case | 60 | 60 | 60 |
| FY 2019 – stress test | 30 | 40 | 50 |

- Discount rates that are adjusted to reflect risks specific to the Shaikan Field and the KRI. The impairment analysis was based on a post-tax nominal 15% discount rate;
- operating costs and capital expenditure that are based on financial budgets and internal management forecasts. Costs assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated therewith;
- commercial reserves and production profiles; and
- timing of revenue receipts.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2020 continued

Measurement and recognition of ECL

In March 2020, the KRG informed the Company and other IOCs in Kurdistan that payments for sales from November 2019 to February 2020 would be deferred. As at 30 June 2020, the Group had \$77.3 million of overdue invoices in relation to this period.

The Company remains in a constructive dialogue with the KRG and will continue to seek the timely settlement of overdue invoices. The KRG has indicated that with the continuing improvement in the price of dated Brent above \$50/bbl, payment terms of these outstanding amounts will be reviewed.

While the recovery terms are not yet known, the Company continues to expect to recover the full \$77.3 million from the KRG. In line with IFRS 9, the Group is required to calculate an ECL associated with this receivable. The measurement of the ECL is a function of the gross carrying amount at the reporting date, the probability of default, and the magnitude of a potential loss if there is a default. The Group uses judgement in determining the assumptions for the impairment calculation, based on observed market data and convention, existing market conditions and forward-looking estimates at the end of each reporting period.

The result of the Group's assessment is \$12.8 million adjustment to the trade receivables. The Group provided detailed disclosure required by IFRS 9 ECL assessment in note 11.

Significant accounting judgement

Revenue

The recognition of revenue, particularly the recognition of revenue from exports, is considered to be a key accounting judgement. The Group began commercial production from the Shaikan Field in July 2013 and historically made sales to both the domestic and export markets. However, as the payment mechanism for sales to the export market continues to develop within the Kurdistan Region of Iraq, the Group considers that revenue can be only reliably measured when the cash receipt is assured. The assessment of whether cash receipts are reasonably assured is based on management's evaluation of the reliability of the MNR's payments to the IOCs operating in the Kurdistan Region of Iraq. The Group also recognised payables to the MNR that were offset against amounts receivable from the MNR for previously unrecognised revenue in line with the terms of the Shaikan PSC.

The judgement is not to recognise revenue in excess of the sum of the cash receipt that is assured and the amount of payables to the MNR that can be offset against amounts due for previously unrecognised revenue in line with the terms of the Shaikan PSC, even though the Group may be entitled to additional revenue under the terms of the Shaikan PSC. Any future agreements between the Company and the KRG might change the amounts of revenue recognised.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2020 continued

3. Geographical information

The Group's non-current assets excluding deferred tax assets and other financial assets by geographical location are detailed below:

| | 30 June 2020 Unaudited \$'000 | 30 June 2019 Unaudited \$'000 | 31 December 2019 Audited \$'000 |
|----------------|--|-------------------------------------|--|
| Kurdistan | 407,017 | 381,528 | 407,808 |
| United Kingdom | 192 | 463 | 248 |
| | 407,209 | 381,991 | 408,056 |

Information about major customers

Included in revenues is \$49.9 million which arose from sales to the Group's largest customer (H1 2019: \$95.6 million; FY 2019: \$206.7 million).

4. Revenue

| | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|------------------------|---|--|--|
| Oil sales | 49,878 | 94,063 | 202,871 |
| Transportation revenue | - | 1,543 | 3,870 |
| | 49,878 | 95,606 | 206,741 |

The Group accounting policy for revenue recognition is set out in its 2019 Annual Report, with revenue recognised on a cash-assured basis.

During the six months period ended 30 June 2020, the cash-assured values recognised as oil sales was \$49.9 million (H1 2019: \$94.1 million; FY 2019: \$202.9 million). The oil sales price was calculated using the monthly dated Brent price less an average discount of \$21.1 (H1 2019: \$21.7; FY 2019: \$21.7) per barrel for quality, pipeline tariff and transportation costs.

From 15 November 2017 until mid-December 2019, the Group performed transportation services in respect of the KRG's share of export oil sales. Transportation costs were charged to the KRG with no mark-up. Following the completion and connection of the PF-1 pipeline to the main regional export pipeline, all oil has been exported via pipeline with no further transportation services required.

5. Cost of Sales

| | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|--------------------------------------|---|--|--|
| Oil production costs | 18,472 | 23,509 | 53,403 |
| Depreciation of oil & gas properties | 41,773 | 32,358 | 72,514 |
| Transportation costs | - | 5,187 | 11,974 |
| | 60,245 | 61,054 | 137,891 |

Oil production costs represent the Group's share of gross production expenditure for the Shaikan Field for the period and include capacity building payments of \$3.8 million (H1 2019: \$7.1 million; FY 2019: \$15.3 million). Following the completion and connection of PF-1 pipeline to the main regional export pipeline in December 2019, the Group is no longer required to incur transportation costs. The 30 June 2019 transportation costs balance was restated to include the cost of transporting oil from PF-1 to the PF-2 pipeline.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2020 continued

6. Finance costs

| | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|--|---|--|--|
| Notes interest charged during the period (Note 13) | (5,215) | (5,192) | (10,397) |
| Finance lease Interest | (122) | (21) | (67) |
| Unwinding of discount on decommissioning provision | (370) | (336) | (689) |
| Total finance costs | (5,707) | (5,549) | (11,153) |
| Finance revenue | 997 | 3,628 | 6,046 |
| Net finance costs | (4,710) | (1,921) | (5,107) |

7. Taxation

| | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|-----------------|---|--|--|
| Corporation tax | (90) | - | - |
| Deferred tax | (448) | 50 | 271 |
| | (538) | 50 | 271 |

8. Profit per share

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

| | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|--|---|--|--|
| (Loss)/Profit after tax for the purposes of basic and diluted loss per share | (33,137) | 24,204 | 43,529 |
| Weighted average number of shares: | | | |
| Basic ('000) | 211,934 | 229,317 | 226,178 |
| Diluted ('000) | 211,934 | 240,564 | 236,953 |

Weighted average number of shares excludes 19.1 million (H1 2019: nil; FY 2019: 10.5 million) ordinary shares held in treasury as well as shares held by Employee Benefit Trustee ("EBT") and the Exit Event Trustee of 0.1 million (H1 2019: 0.1 million; FY 2019: 0.1 million).

As the company reported a loss for the six months ending 30 June 2020, the exercise of the outstanding share options would reduce the reported loss per share and, therefore, these share options are anti-dilutive.

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements
for the six months ended 30 June 2020 continued

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

| | Six months ended 30 June 2020 Unaudited \$'000 | Six months ended 30 June 2019 Unaudited \$'000 | Year ended 31 December 2019 Audited \$'000 |
|---|---|--|--|
| (Loss)/profit from operations | (28,586) | 26,187 | 49,026 |
| <i>Adjustments for:</i> | | | |
| Depreciation of property, plant and equipment | 42,570 | 32,769 | 73,806 |
| Amortisation of intangible assets | 6 | 31 | 26 |
| Other gains or losses | - | - | - |
| Share-based payment expense | 1,098 | 756 | 1,910 |
| Impairment of receivables | 12,791 | 196 | 293 |
| (Increase) in inventories | (3,728) | (5,664) | (16,850) |
| Decrease/(Increase) in receivables | 2,574 | 353 | (35,416) |
| Increase in payables | 1,357 | 1,938 | 15,097 |
| Net cash generated in operating activities | 28,082 | 56,566 | 87,892 |

10. Property, plant and equipment

| | Oil and Gas Assets \$'000 | Fixtures and Equipment \$'000 | Right of use Assets \$'000 | Total \$'000 |
|---|--|--|---|-------------------------|
| Period ended 30 June 2019 | | | | |
| Opening net book value | 379,650 | 887 | - | 380,537 |
| Additions | 32,432 | 201 | 404 | 33,037 |
| Revisions to decommissioning charge | 710 | - | - | 710 |
| Depreciation charge | (32,358) | (183) | (228) | (32,769) |
| Foreign currency translation differences | - | 31 | - | 31 |
| Net book value at 30 June 2019 | 380,434 | 936 | 176 | 381,546 |
| Additions | 57,609 | 554 | 3,124 | 61,287 |
| Disposal at cost | - | - | (35) | (35) |
| Revisions to decommissioning asset | 5,808 | - | - | 5,808 |
| Depreciation charge | (40,156) | (198) | (683) | (41,037) |
| Depreciation on disposals | - | - | 15 | 15 |
| Foreign currency translation differences | 1 | 18 | (1) | 18 |
| Net book value at 31 December 2019 | 403,696 | 1,310 | 2,596 | 407,602 |
| Cost | 696,608 | 7,005 | 3,492 | 707,105 |
| Accumulated depreciation | (292,912) | (5,695) | (896) | (299,503) |
| Net book value at 31 December 2019 | 403,696 | 1,310 | 2,596 | 407,602 |
| Period ended 30 June 2020 | | | | |
| Opening net book value | 403,696 | 1,310 | 2,596 | 407,602 |
| Additions | 38,541 | 56 | 1,640 | 40,237 |
| Disposals at cost | - | (492) | - | (492) |
| Revision to decommissioning asset | 1,491 | - | - | 1,491 |
| Depreciation charge | (41,773) | (112) | (685) | (42,570) |
| Depreciation on disposals | - | 492 | - | 492 |
| Foreign currency translation differences | - | (13) | - | (13) |
| Closing net book value | 401,955 | 1,241 | 3,551 | 406,747 |
| At 30 June 2020 | | | | |
| Cost | 736,640 | 6,442 | 5,132 | 748,214 |
| Accumulated depreciation | (334,685) | (5,201) | (1,581) | (341,467) |
| Net book value | 401,955 | 1,241 | 3,551 | 406,747 |

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2020 continued

10. Property, plant and equipment (continued)

The additions to the Shaikan asset amounting to \$38.5 million during the period include the costs of testing of SH-9, the partial drilling of SH-13, well flowlines construction, PF-1 and PF-2 debottlenecking activities and subsurface studies. The increase in the decommissioning asset represents further decommissioning obligations that arose on capital projects.

11. Trade and other receivables

| | 30 June 2020 Unaudited \$'000 | 30 June 2019 Unaudited \$'000 | 31 December 2019 Audited \$'000 |
|---------------------------------|-------------------------------------|-------------------------------------|--|
| Trade receivables - non-current | 72,213 | - | - |
| Trade receivables - current | 7,961 | 59,737 | 97,917 |
| Other receivables | 4,725 | 6,852 | 4,458 |
| Prepayments and accrued income | 636 | 908 | 806 |
| | 85,535 | 67,497 | 103,181 |

Reconciliation of Trade Receivables

| | 30 June 2020 Unaudited \$'000 | 30 June 2019 Unaudited \$'000 | 31 December 2019 Audited \$'000 |
|--------------------------------|-------------------------------------|-------------------------------------|--|
| Gross carrying amount | 94,375 | 61,049 | 99,326 |
| Less: Impairment allowance | (14,200) | (1,312) | (1,409) |
| Carrying value at 30 June 2020 | 80,175 | 59,737 | 97,917 |

Trade receivables comprise invoiced amounts due from the KRG for crude oil sales totalling \$85.3 million (H1 2019: \$51.7 million; FY 2019: \$90.2 million) and a share of Shaikan revenue arrears the Group purchased from MOL in 2018 amounting to \$9.1 million. The amount due from the KRG includes past due trade receivables of \$77.3 million¹ (H1 2019: \$19.0 million; FY 2019: \$47.8 million) related to November 2019 to February 2020 invoices. Since the timing of receipt of the past due receivables and the Shaikan revenue arrears purchased from MOL is uncertain, the amounts were classified as non-current assets. While the Group expects to recover the full nominal value of the outstanding invoices and MOL receivable, the ECL on the overdue receivable balance of \$14.2 million was provided against the receivables balance in line with the requirements of IFRS 9 of which \$12.8 million was recognised in the reporting period (H1 2019: \$0.2 million; FY 2019: \$0.3 million).

For March 2020 and subsequent months, the KRG has paid for oil sales in the following month. The June 2020 invoice included in current trade receivables as at 30 June 2020 was received in July 2020.

¹ The past due trade receivables amount excludes the associated capacity building payments due to the KRG which reduce the net amount due to GKP to \$73.3 million.

ECL sensitivities

The tables below show information on the sensitivity of the carry amounts of the Groups financial assets to the estimates used in calculating impairment allowance on outstanding invoices. These estimates have a significant risk of causing material adjustments to the carrying value of the Group's trade receivables.

The table below demonstrates the sensitivity of the Group's profit before tax to movements in the loss given default for financial assets, with all other variables held constant:

| Increase/decrease in loss given default | 2020 \$'million |
|---|--------------------|
| +10% | (0.1) |
| -10% | 0.1 |

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2020 continued

11. Trade and other receivables (continued)

ECL sensitivities (continued)

The table below demonstrates the sensitivity of the Group's profit before tax to the default spread, with all other variables held constant

| Increase/decrease probability of default | 2020 \$'million |
|--|--------------------|
| +10% | (1.2) |
| -10% | 1.3 |

The table below demonstrates the sensitivity of the Group's profit before tax to estimated recovery period with all other variables held constant

| Increase/decrease in recovery period | 2020 \$'million |
|--------------------------------------|--------------------|
| + 12 months | (5.7) |
| - 12 months | 6.5 |

Other receivables

Included within Other receivables is an amount of \$0.4 million (H1 2019: \$0.4 million; FY 2019 \$0.4 million) being the deposits for leased assets which are receivable after more than one year. There are no receivables from related parties as at 30 June 2020 (H1 2019: nil; FY 2019: nil). No impairments of other receivables have been recognised during the first half of the year (H1 2019: nil; FY 2019: nil).

12. Trade and other payables

Current liabilities

| | 30 June 2020 Unaudited \$'000 | 30 June 2019 Unaudited \$'000 | 31 December 2019 Audited \$'000 |
|---------------------------|-------------------------------------|-------------------------------------|--|
| Trade payables | 9,841 | 3,275 | 6,982 |
| Accrued expenses | 31,613 | 42,828 | 46,466 |
| Other payables | 29,448 | 26,907 | 29,268 |
| Finance lease obligations | 1,561 | 211 | 1,265 |
| Taxation payable | 90 | - | - |
| | 72,553 | 73,221 | 83,981 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. Other payables included \$10.0 million (H1 2019: \$10.0 million; FY 2019: \$10.0 million) in relation to the Sheikh Adi PSC bonus that was payable on the declaration of commerciality. Accrued expenses included \$16.0 million (H1 2019: \$16.0 million; FY 2019: \$16.0 million) in relation to 2018 production bonus. It is likely that these liabilities will be offset against unrecognised Shaikan revenue arrears, in accordance with the principles agreed under the Bilateral Agreement between the Group and the MNR.

There is \$4.4 million interest payable included in accrued expenses as at 30 June 2020 (H1 2019: \$4.4 million; FY 2019: \$4.4 million).

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2020 continued

12. Trade and other payables (continued)

Non-current liabilities

| | 30 June 2020 Unaudited \$'000 | 30 June 2019 Unaudited \$'000 | 31 December 2019 Audited \$'000 |
|-------------------------------------|-------------------------------------|-------------------------------------|--|
| Non-current finance lease liability | 2,096 | - | 1,989 |
| | 2,096 | - | 1,989 |

13. Long-term borrowings

In July 2018, the Group completed the private placement of a 5-year senior unsecured \$100 million bond (the "New Notes"). The unsecured New Notes are guaranteed by Gulf Keystone Petroleum International Limited and Gulf Keystone Petroleum (UK) Limited, two of the Company's subsidiaries, and the key terms are summarised as follows:

- maturity date is 25 July 2023;
- at any time prior to maturity, the New Notes are redeemable in part, or full, with a prepayment penalty;
- the interest rate is 10% per annum with semi-annual payment dates; and
- the Company is permitted to raise up to \$200 million of additional indebtedness at any time on market terms to fund capital and operating expenditure, subject to certain requirements.

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

| | 30 June 2020 Unaudited \$'000 | 30 June 2019 Unaudited \$'000 | 31 December 2019 Audited \$'000 |
|--|-------------------------------------|-------------------------------------|--|
| Liability at the beginning of the period | 102,553 | 102,156 | 102,156 |
| Interest charged during the period | 5,215 | 5,192 | 10,397 |
| Interest paid during the period | (5,000) | (5,000) | (10,000) |
| Liability at the end of period | 102,768 | 102,348 | 102,553 |

Liability reported in:

| | 30 June 2020 Unaudited \$'000 | 30 June 2019 Unaudited \$'000 | 31 December 2019 Audited \$'000 |
|-------------------------|-------------------------------------|-------------------------------------|--|
| Current liabilities | 4,361 | 4,361 | 4,361 |
| Non-current liabilities | 98,407 | 97,987 | 98,192 |
| | 102,768 | 102,348 | 102,553 |

The New Notes are traded on the Norwegian 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 2019 \$'000 |
|-----------|--------------|------------------------|
| New Notes | \$0.94250 | 94,250 |

GULF KEYSTONE PETROLEUM LIMITED

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2020 continued

13. Long-term borrowings (continued)

As of 30 June 2020, the Group's remaining contractual liability comprising principal and interest based on undiscounted cash flows at the maturity date of the Reinstated Notes is as follows:

| | 30 June 2020 | 30 June 2019 | 31 December 2019 |
|--------------------------|---------------------|--------------|---------------------|
| | Unaudited | Unaudited | Audited |
| | \$'000 | \$'000 | \$'000 |
| Within one year | 10,000 | 10,000 | 10,000 |
| Within two to five years | 120,639 | 130,639 | 125,639 |
| | 130,639 | 140,639 | 135,639 |

14. Share capital

| | Common shares | | Share | Share |
|---|----------------|------------------|----------------|----------------|
| | No. of shares | Amount | capital | premium |
| | 000 | \$'000 | \$'000 | \$'000 |
| Issued and fully paid | | | | |
| Balance 1 January 2020 (audited) | 229,430 | 1,101,105 | 229,430 | 871,675 |
| Balance 30 June 2020 (unaudited) | 229,430 | 1,101,105 | 229,430 | 871,675 |

The common shares in issue include 19,059,064 shares held in treasury (H1 2019: nil; FY 2019: 10,415,603 shares). On 18 June 2020, the Company resolved to cancel 18,059,064 shares held in treasury, leaving one million shares in treasury.

15. Contingent Liabilities

The Group has a contingent liability of \$27.3 million (2019: \$27.3 million) in relation to the proceeds from the sale of test production in the period prior to the approval of the Shaikan Field Development Plan ("FDP") in July 2013. The Shaikan PSC does not appear to address expressly any party's rights to this pre-FDP petroleum. 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-FDP petroleum are for the account of the Contractor (GKP and MOL), rather than the KRG, and, accordingly, recorded them as test revenue in prior years. However, the KRG has requested a repayment of these amounts and the Group is currently involved in negotiations to resolve this matter. The Group has received external legal advice and does not consider that a probable material payment is payable to the KRG. This contingent liability forms part of the ongoing Shaikan PSC amendment negotiations and it is likely that it will be settled as part of those negotiations.

16. Subsequent events

In July 2020, the Company entered into dated Brent oil price hedges by purchasing put options at a cost of \$2.7 million. For each of the months from July – December 2020, the option provides the Company the right, to in effect sell c.70% of its entitlement production at the strike price of \$35/bbl, while retaining the full upside to increasing oil prices.

GULF KEYSTONE PETROLEUM LIMITED

GLOSSARY (See also the glossary in the 2019 Annual Report and Accounts)

| | |
|----------------------------------|---|
| Bilateral Agreement | the bilateral agreement between GKPI and the MNR dated 16 March 2016 |
| bbbl | barrel |
| bopd | barrels of oil per day |
| capex | any expenditure or obligation in respect of expenditure which, in accordance with accounting principles applied by the Company in the preparation of its audited Accounts, is treated as capital expenditure (and including the capital element of any expenditure or obligation incurred in connection with any finance lease) |
| CGU | cash-generating unit |
| COVID-19 | Coronavirus |
| Crude Oil Sales Agreement | the Shaikan crude oil export sales agreement valid between 1 January 2019 and 31 December 2020 |
| DD&A | depreciation, depletion and amortisation |
| E&P | exploration and production |
| Adjusted EBITDA | Adjusted earnings before interest, tax, depreciation and amortisation |
| EBT | employee benefit trust |
| ECL | expected credit losses |
| ESG | environment, social and governance |
| FDP | Field Development Plan |
| First Shaikan Amendment | First amendment to the Shaikan PSC executed on 1 August 2010. |
| G&A | general and administrative |
| GKP | Gulf Keystone Petroleum Limited |
| GKPI | Gulf Keystone Petroleum International Limited |
| Group | Gulf Keystone Petroleum Limited and its subsidiaries |
| HSSE | health, safety, security and environment |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| IOC | International oil companies |
| KRG | Kurdistan Regional Government |
| LTI | lost time incident |
| MNR | Ministry of Natural Resources of the Kurdistan Regional Government |
| MOL | Kalegran B.V. (a subsidiary of MOL Hungarian Oil & Gas plc) |
| New Notes | the \$100 million unsecured, guaranteed notes issued on 25 July 2018 by GKP with a maturity date of 25 July 2023 |
| PF-1 | Production Facility 1 |
| PF-2 | Production Facility 2 |
| PSC | production sharing contract |
| Second Shaikan Amendment | the second proposed amendment to the Shaikan PSC formally implementing the terms of the Bilateral MNR Agreement (including the First Shaikan Amendment) |
| Shaikan PSC | the Production Sharing Contract for the Shaikan block between the Kurdistan Regional Government of Iraq and Gulf Keystone Petroleum International Limited and Texas Keystone Inc. and Kalegran Limited (a subsidiary of MOL) signed on 6 November 2017 as amended by subsequent agreements |