**Not for release, publication or distribution, directly or indirectly, in whole or in part in or into the United States or any jurisdiction other than the United Kingdom and Bermuda where to do so would constitute a contravention of the relevant laws or regulations of such jurisdiction. This announcement (and the information contained herein) does not contain or constitute an offer to sell or the solicitation of an offer to purchase, nor shall there be any sale of securities in any jurisdiction where such offer, solicitation or sale would constitute a contravention of the relevant laws or regulations of such jurisdiction.**

GULF KEYSTONE PETROLEUM LTD.

**9 April 2015**

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

# 2014 Results Announcement

Gulf Keystone, an independent oil and gas exploration and production company with operations in the Kurdistan Region of Iraq, today announces its results for the year ended 31 December 2014.

## HIGHLIGHTS

### Operational

- 2014 gross production of 6,484,391 barrels of oil (2013: 496,921 barrels of oil) with significant growth expected in 2015
- Gulf Keystone's operations in the Kurdistan Region remained secure with production operations and crude oil export deliveries from the Shaikan field uninterrupted throughout 2014
- The first production milestone of 40,000 barrels of oil per day ("bopd") reached in December 2014 following a gradual ramp-up during the year
- Current production in excess of 37,000 bopd is being delivered against the pre-payment of US$ 26 million gross (US$20.8 million net to Gulf Keystone) received for Shaikan crude oil sales on 25 February 2015, with further payments of a similar nature anticipated

### Financial – as at 31 December 2014

- Revenues of US$38.6 million achieved (FY13: US$6.7 million); additional revenue in the region of US$100 million owed but not yet recognised for crude oil export sales
- Loss after tax of US$248.2 million (FY13: US$32.0 million)
- Net proceeds of US$240 million raised from the issue of debt securities and associated warrants in April 2014

### Financial – post period end

- US$26 million gross (US$20.8 million net) received as pre-payment for Shaikan crude oil sales in February 2015
- Successful placing of 85.9 million shares on 31 March 2015, raising gross proceeds for the Company of US$40 million
- Discussions ongoing with a number of parties in relation to possible asset transactions or corporate sale
- Book Equity Ratio Put Option successfully removed from the Trust Deed and Conditions of the US$250 million 13.0 per cent Guaranteed Notes due 2017 at the noteholder meeting on 7 April 2015
- Cash balance at 8 April 2015 of US$84.7 million (31 Dec 2014: US$87.8 million) excluding recent share placing proceeds

### Outlook

- Establish a regular payment cycle for past and future Shaikan crude oil export sales
- Finalise and implement a pipeline access solution for the Shaikan crude
- Achieve stable Shaikan production rates of 40,000 bopd aiming to maintain a daily average of 36,000 bopd throughout 2015

- Manage expenditure in a responsible and prudent manner, continuing to review and control capital commitments
- Make decisions on investment in additional production facilities, development wells and infrastructure required to increase Shaikan production in line with the approved Shaikan Field Development Plan
- Make a decision regarding early production and development of the Sheikh Adi discovery

**Commenting on the Full Year results, Andrew Simon, Interim Non-Executive Chairman, said:**

*"2014 was a pivotal year for Gulf Keystone as we completed the critical transition from explorer to producer. We started the year with our first crude oil export sales and ended the year by achieving our objective of producing 40,000 barrels of oil per day from the Shaikan field, our flagship asset in the Kurdistan Region of Iraq. This was a significant achievement for an independent E&P company in a country in the midst of a conflict.*

*We are committed to rebuilding shareholder value. All avenues for doing this are being considered, including expansion plans for Shaikan. As already announced, the Company is continuing to engage in discussions with interested parties in relation to possible asset transactions or a sale of the Company, as well as considering additional routes to secure further funding."*

**John Gerstenlauer, CEO, said:**

*"Hitting an important production milestone and achieving a year of regular crude oil export deliveries confirmed another step change year for our operational progress at Shaikan, verifying the presence of a robust international market for our production and demonstrating our commitment to meeting targets against a challenging geopolitical backdrop and low international oil prices.*

*Following a number of payments received for crude oil exports in 2014 and the most recent pre-payment of US$26 million in February 2015, the arrears amount for crude oil export sales has not increased significantly in the past six months and we believe that we are close to achieving a steady and stable payment cycle for present and future crude oil export sales."*

**Enquiries:**


**Gulf Keystone Petroleum:** **+44 (0) 20 7514 1400**
John Gerstenlauer, CEO
Sami Zouari, CFO
Anastasia Vvedenskaya, Head of Investor Relations

**Media Relations and Financial PR Adviser:** **+44(0) 20 7520 9266**
Mark Antelme

or visit: www.gulfkeystone.com


**Notes to Editors:**

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

**Disclaimer**

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

**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**

**Statement of Andrew Simon, Interim Non-Executive Chairman**

I am writing to you in my capacity as Interim Chairman, following Simon Murray's retirement from the Board in March 2015.

2014 was a pivotal year for Gulf Keystone as we completed the critical transition from explorer to producer. We started the year with our first crude oil export sales and ended the year by achieving our objective of producing 40,000 bopd from the Shaikan field, our flagship asset in the Kurdistan Region of Iraq. This was a significant achievement for an independent E&P company in a country in the midst of a conflict.

Shaikan crude oil export deliveries by truck to the Turkish coast ran mainly without interruption throughout 2014, and resulted in production of nearly 6.5 million barrels, oil sent for export of nearly 6 million barrels and 0.5 million barrels of domestic sales. The world class Shaikan field covers an area of over $283km^2$ and is absolutely key to our asset portfolio in the region which has to date 12.5 billion barrels of gross hydrocarbons in place and gross 2P reserves and 2C contingent resources of 1.2 billion barrels.

The summer of 2014 saw the ascendance of the Islamic State insurgency in Iraq and the surrounding region, with the associated threats to the stability of the region. This resulted in the precautionary withdrawal of non-essential staff which was carried out flawlessly, and in spite of which, we barely lost a day's production, whilst still achieving our year end goal of producing 40,000 bopd.

However, whilst we can be proud of our achievements from an operational and production stand point, the on-going costs of the regional conflict, budget negotiations between the Kurdistan Regional Government ("KRG") and the federal government in Baghdad, combined with the fall in the oil price, have had a detrimental effect on our cash receipts. Whilst this has also been the case with other regional producers the impact on Gulf Keystone has been felt more severely due to the relative weakness of our balance sheet. These negative impacts have been a key factor in the significant weakness in our share price.

The first quarter last year also saw the Company move 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. ("Main Market") and whilst we have made progress on many areas of corporate governance more remains to be done to achieve our objective of being best in class. Following the transition to the Main Market, we raised a new bond in April 2014 in order to fulfil our work program and achieve 40,000 bopd by the end of the year.

Ensuring the highest standards of safety is imperative for all companies, even more so for an oil company. The temporary withdrawal of the Company's non-essential personnel in August 2014, and our general approach to HSSE, demonstrates our commitment to safe practices wherever we operate.

Tragically there has been a huge refugee influx into the Kurdistan Region and I am pleased and proud that we have been able to make some contribution to the humanitarian relief effort that is underway near our areas of operation. We want to see our relationship with the KRG extend well beyond the exploitation of the region's natural resources, specifically by being a responsible corporate citizen.

From a corporate perspective, we have seen a number of changes at the Board level. Firstly, I would like to thank Simon Murray, our outgoing chairman, who played a key role in taking the business forward during the last 20 months in difficult circumstances. Todd Kozel, who stepped down at the last AGM, was one of the founders of the Kurdistan Region's oil industry and without him the Company would not exist.

John Gerstenlauer, the Company's COO for over six years, stepped up into the role of CEO and oversaw the achievement of the production output of 40,000 bopd. I would like to reiterate the thanks already given to those directors who stepped down from the Board during the year.

Equally, we welcomed a number of new Non-Executive Directors in Joseph Stanislaw, V Uthaya Kumar and Maria Darby-Walker, all of whom bring a wealth of different experiences to the Board. Finally, in early 2015 we appointed Sami Zouari as Chief Financial Officer. He brings a track record from operations in the oil industry as well as an eminent career in corporate finance and significant contacts in the Middle East. We now look forward to a greater period of stability on the Board whilst searching for a full time Chairman.

I would like to thank all our staff and contractors, both in the Kurdistan Region and the UK, for their hard work and dedication in what have been exceptionally difficult circumstances during this past year.

Looking to the future, we have three key objectives. Firstly, to be the best business partner to our host government the KRG. Our ability to produce and sell oil is inextricably linked to the well-being and future prosperity of the Kurdish people. Our firm commitment is to move from 40,000 bopd to 70,000 bopd and ultimately to 100,000 bopd. The only way to achieve this will be to find a modus operandi that will enable the

Company to be paid for past and future oil sales on a regular basis, which will allow us both to invest in future facilities and production and address our capital structure.

At the time of writing this report we have successfully concluded an equity fundraising and our bondholders have consented to the removal of the book-to-equity covenant which would have jeopardized our successful US$40.7 million equity raise in April 2015. This capital raise will strengthen our finances in the short term while we are working to secure regular revenue streams from production. And so our second objective is to put the Company on a sounder financial footing for the longer term.

In addition, as we have announced, the Company is continuing to engage in discussions with interested parties in relation to possible asset transactions or a sale of the Company, as well as consider additional routes to secure further funding.

Thirdly, we are committed to rebuilding shareholder value for our supportive shareholders who have recently suffered from the significant decline in our share price. Again all options for doing this are being considered by your Board including our expansion plans for Shaikan.  Whilst the geo-political situation, lack of revenue receipts and a fall in the oil price have not helped, we are also aware that these should not be viewed as excuses and it is beholden on us, your Board, to deliver value for shareholders, including our new investors who subscribed to the recent share placing and whom I am happy to welcome today.

You have mine and the entire Board's commitment to pursue all these objectives to the best of our ability and to do so whilst observing the highest standards of corporate governance. There is an undeniable mutuality of interest for all our principle stakeholders. I look forward to welcoming as many of you as possible to our AGM.

**Andrew Simon**
Interim Non-Executive Chairman

**Statement of John Gerstenlauer, Chief Executive Officer**

2014 was a year of significant production growth for Gulf Keystone as we increased momentum and continued to ramp up our operations from the Shaikan field, achieving our first full year of crude oil export deliveries and realising important milestones.

Early in the year the Company received the first third party evaluation of its assets in the Kurdistan Region of Iraq. The Competent Persons Report (CPR), prepared by ERC Equipoise Limited, provided an estimation of the Company's Reserves, Contingent Resources and Prospective Resources, identifying baseline numbers of 12.5 billion barrels of gross oil in place and 1.2 billion barrels of oil of combined gross 2P and 2C recoverable reserves and contingent resources across the Company's portfolio of assets in the Kurdistan Region comprising the Shaikan, Sheikh Adi, Akri-Bijeel and Ber Bahr blocks. The publication of such a report not only recognised Gulf Keystone's transition from exploration to production company but being based merely on the limited drilling and development work done also revealed the scale and very significant upside potential of our assets for future increases to these numbers as field development work moves forward.

Immediately after the publication of the CPR, we made the transition from AIM to the Main Market, a move we felt fitting for our position as an established and growing E&P player. This move was followed in April by a successful debt offering of US$250 million in three-year senior unsecured notes due April 2017. Having met these momentous objectives early in the year the Board and management could continue 2014 with a focus on delivering strategy.

The beginning of 2014 witnessed the commencement of Shaikan crude oil export deliveries, trucked to the Mediterranean coast in Turkey to be sold to the international market. The first shipment from the Turkish coast took place in late January 2014 and over the year our crude oil export deliveries totalled nearly 6 million barrels, equating to a daily average of over 16,800 bopd enabled by our two production facilities PF-1 and -2, each capable of producing 20,000 bopd. Starting the year with levels near to 10,000 bopd, by the end of Q1 production had reached 16,000 bopd and 20,000 bopd by June. Sustaining a year of solid production, we hit our 40,000 bopd target in late December. This prominent milestone was realised following the successful installation of flowlines to tie in producers Shaikan-7 and -8 to PF-1 which now has five wells in total, and a third well at PF-2, Shaikan-10. Shaikan-11 an additional production well, recently completed ahead of time and under budget, is due to increase levels of production at PF-2 in the near term and will bring the total number of wells at PF-2 to four.

We realised a total of US$10.4 million net for domestic sales during the year and received payment for export volumes of US$28.2 million net in 2014. In addition, we continue to work with the Ministry of Natural Resources of the Kurdistan Regional Government in order to establish a payment cycle for future crude oil export sales and significant amounts in arrears amassed over the years.

The Company's financial position has been strengthened by the successful share placing in April 2015, which resulted in gross proceeds of US$40,693,235. However we continue to take a prudent approach to our capital expenditure in 2015. Our strategy for the near term is to maintain steady production and sales, finalise a pipeline access solution for Shaikan and get a steady stream of revenues, which in turn will allow us to invest in further development of the Shaikan field in line with Phase 1 of the approved Field Development Plan.

Despite the recently challenging geopolitical backdrop and the low oil price environment that have affected the Kurdistan Region and the oil industry as a whole, our operational story has remained stoic. We have absorbed the impact of plunging oil prices due to our low operating costs and sustained near uninterrupted production and construction operations throughout 2014, and at the height of this challenging year when the Islamic State (IS) insurgence posed a serious security threat to Iraq. With our focus unchanged in the face of various obstacles, we were not only able to continue but increase production and reach our year end 40,000 bopd target, while ensuring our staff were safe and secure, and meaningfully supporting the humanitarian relief effort in the Kurdistan Region.

Hitting an important production milestone and achieving a year of regular crude oil export deliveries confirmed another step change year for our operational progress at the Shaikan field, verifying the presence of a robust international market for our product and demonstrating our commitment to meeting targets and aligning ourselves with stakeholder expectations. We look forward to the normalisation of the payment cycle for our production and welcome the recent pre-payment of US$26 million gross received in February 2015.

I would like to thank my fellow Board members and management team for their continued dedication and drive. I would also like to take this opportunity to thank all our employees and contractors, especially the team in the Kurdistan Region who have shown resilience while working in what has at times been a tentative environment. Finally I would like to thank the KRG for working so closely with Gulf Keystone, as partners, in order to achieve our mutual goals.

We are proud of what has been achieved in what has proved a testing geopolitical scenario in 2014 and early 2015 and feel that 40,000 gross barrels of oil per day is an excellent base for future production growth.

**John Gerstenlauer**
Chief Executive Officer

**Operational Review**

Despite an extremely challenging environment Gulf Keystone's major operational targets have all been achieved for 2014.

Operationally 2014 was an exceptional year for progress, during the course of which development of Shaikan was high paced and we were successful in realising our stated goals. By early 2014 Shaikan PF-1 had achieved stable production levels of 10,000 bopd and, as predicted with the commissioning of PF-2, in June this increased to over 20,000 bopd, until achieving our cumulative production target of 40,000 bopd in December after flowlines were laid allowing further wells to come online at both Shaikan production facilities. With the 2014 Shaikan production milestone achieved, further well capacity brought online and a stable export route in place, production growth from the field is set to continue.

On the Sheikh Adi block, we successfully completed and flow tested appraisal well Sheikh Adi -3 and we continue to work with our host government and partner to determine the optimal path to development and production of the discovery.

**Reserves and Resources**

The March 2014 CPR identified 12.5 billion barrels of gross oil in place and 1.2 billion barrels of oil of combined gross 2P and 2C recoverable reserves and resources across the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel blocks. All 2P reserves and the majority of 2C contingent resources have been identified within the Company-operated assets of Shaikan and Sheikh Adi, and most of these, based on current information, are in the Jurassic formation. 299 million barrels of gross 2P oil reserve in the Jurassic formation of the Shaikan field, with 163 million barrels of net 2P reserves to Gulf Keystone, have been assigned on the basis of the planned 26 development wells of the Shaikan FDP Phase 1. These wells, which will mainly target the Sargelu, Alan and Mus formations only in the Jurassic, represent fewer than 25% of the approximate 100+ wells envisaged for the full field development of Shaikan.

The CPR is an important baseline indication of resources and reserves, with potential for future increases through the full implementation of Phase 1 of the Shaikan FDP and its further project phases, which will include the drilling of a substantial number of development wells, acquisition of additional production data from the existing and additional production facilities and further exploration drilling in and development of the Cretaceous, Triassic and potentially Permian formations. The CPR does not take into account undrilled and untested horizons, which we intend to target with a further deep exploration well on Shaikan, and we see a clear route for unlocking the upside to these initial 2P and 2C numbers through drilling more wells and thus obtaining a better understanding of the oil water contact levels, the actual fracture porosity and the likely production mechanism. We also anticipate that our 2C contingent resources will be converted to 2P reserves as the next phase of the Shaikan development is approved.

**Shaikan (75% working interest; Operator)**

**Crude oil export deliveries**

Shaikan crude oil is sold to international markets via trucked deliveries to the Turkish coast. One hundred percent of our production is currently being exported this way and truck loading continues to operate effectively with over 250 trucks being loaded on some days which equates to approximately 41,000 bopd. Even at these levels however, this is not a 24 hour operation, meaning there remains capacity in the current system for volumes to increase.

Total export deliveries from Shaikan totalled 5.9 million bbls, or 901k tonnes, in 2014 with a maximum daily delivery of an extremely encouraging 57,450 bopd achieved in December.

During the first two months of 2015 we exported 871,000 bbls from Shaikan, aiming to maintain stable average production rates from Shaikan of 36,000 bopd for export throughout 2015 based on 90% plant availability

**Drilling**

The Shaikan-7 well, originally drilled for deep exploration, was unable to achieve its objective due to a number of mechanical complications in the course of the drilling operations. The well has now been completed to produce from either the upper or lower Jurassic and is currently the only well producing from the deeper Butmah reservoir, flowing into PF-1. The Company remains committed to drilling an exploration well to target the deeper Triassic and Permian potential.

Shaikan-10, the Company's first development well and ninth producer, was successfully completed, flow tested for a short period and tied into PF-2 to provide the third well into the facility. Shaikan-10 is demonstrating excellent productivity from the limited flow data gained to date. Two kilometres away subsurface is the Shaikan-11 well which spudded in December 2014 to provide further feedstock to PF-2. Add to this the now tied-in Shaikan-8 at PF-1, and there are currently nine wells available for production on Shaikan. The Company has converted all but one of its appraisal wells to producers, demonstrating our commitment to ensuring economic efficiency.

**Production, flowlines and facilities**

Work has progressed well during the year in bringing further capacity online. Shaikan PF-1 has been online since July 2013 meaning that during Q1 2014 levels of production were stable at around 10,000 bopd. When PF-2 came on stream in May, with oil from wells Shaikan-2 and Shaikan-5 flowing in June, production rose above 20,000 bopd. With a similar processing train to PF-1, but with a larger footprint and more storage, PF-2 is operating well. In order to ramp-up production further, an 11 km trench was excavated from the Shaikan-10 and -11 well site to the facility, into which four flowlines and an umbilical have been laid. In anticipation of high production volumes from these wells, the flowlines were duplicated, successfully hydrotested and brought online with Shaikan -10 oil before the end of 2014, which was key to reaching our 40,000 bopd prodcution milestone.

Surface manifold and flowlines have been laid for new wells Shaikan-7 and -8 and additional flowlines for existing wells Shaikan-1 and -3 granting extra capacity, which will be utilised once the 3 ½” tubing in these wells is replaced with 5” tubing during 2015.

The amine gas sweetening system to allow associated gas to be used as fuel for the production facilities, has been tested at both facility sites and commissioning continues. Also a rolling programme of plant debottlenecking and upgrades in order to enhance facility performance is underway as we move forward with Phase I of Shaikan Field Development Plan execution.

Continued growth in well capacity by the addition of wells, the commissioning of PF-2 and the proof of concept in the route to market, with well in excess of 40,000 bopd being trucked on several occasions, places Gulf Keystone in good stead for future development of the Shaikan field. We remain committed to implementing the approved Phase 1 of the Shaikan FDP, which will take us beyond our current 40,000 bopd to up to 70,000 bopd before progressing to the Phase 1 target of 100,000 bopd. The step up in production from where we currently stand will require additional production facilities, development wells and infrastructure, including a Central production facility (CPF) Phase 1. The Company has now produced nearly 3% of its Shaikan 2P reserve and looks forward to further development of this remarkable asset going forward.

**Sheikh Adi (80% working interest; Operator)**

After making the Jurassic discovery with the Sheikh Adi-2 well in November 2012, the Company and the KRG, our partner in the block, moved forward with an appraisal programme for the field to appraise Jurassic targets and evaluate the Triassic upside. Key to this was the drilling and testing of the Sheikh Adi-3, which spudded in December 2013 in a region close to the western flank of Shaikan. The well successfully tested hydrocarbons achieving rates of up to 270 bbls/d from the Jurassic, proving the first commercial rates from the footwall part of the structure and was suspended awaiting future production. In parallel, reprocessing of the seismic data volume and integration with neighbouring data has allowed much improved definition of the structure, both in terms of extent and layering. We continue to work with our host government and partner to determine the optimal path to development and production of this asset.

**Other Assets**

**Ber Bahr (40% working interest)**

The Ber Bahr-1 exploration well made a commercial Jurassic discovery in 2013 after being successfully side-tracked and tested 2,100 bopd of 15 degree API oil from the Jurassic Sargelu formation. Genel Energy plc, the operator, stated that the results of the Ber Bahr-1 well confirmed the existence of a commercial oil discovery. A 160km$^2$ 3D seismic survey was completed in September 2014 and initial interpretation of this data confirms a potentially large accumulation in the Jurassic reservoirs. An appraisal well, Ber Bahr-2, is planned in 2016 to delineate the reservoir and define the oil water contact of the existing discovery.

**Akri-Bijeel (20% working interest)**

In 2014, MOL Hungarian Oil and Gas plc, the operator of the Akri-Bijeel block, declared the block commercial based on the discoveries made by the Bijell-1 well in the Jurassic in 2010 and the Bakrman-1 well in the Triassic in February 2013. The Field Development Plan for the Bijell and Bakrman discoveries was approved by the MNR in late 2014.

In line with the Company's decision to undertake a gradual strategic exit from Algeria, our remaining limited activities in Algeria will continue to focus on an orderly exit from the small GKN/GKS oil fields in the Ferkane area.

**John Stafford**

Vice President Operations

## Financial Review

### Results for the Year

### Operating Results

2014 has been a period of significant progress and transition for Gulf Keystone. The Group has continued to transform from an oil explorer to producer, changing the focus of financial results from capital expenditure to revenue, operating expenditure and production. However, this has been affected by the lack of a stable payment cycle for the increasing production.

Gross production for the year totalled 6,484,391 barrels of oil (2013: 496,921 barrels of oil). Production averaged 18,000 barrels of oil per day, reaching 40,000 gross barrels of oil per day on 27 December 2014.

Gross liftings were 6.5 million barrels of oil (2013: 304,680 barrels of oil). Of these liftings 6 million barrels were lifted for the export market and 0.5 million barrels for the domestic market. Revenue realised for the period was $38.6 million, of which $28.2 million arose from export sales (2013: $Nil) and $10.4 million from domestic sales (2013: $6.7 million).

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. As the payment mechanism for sales to the export market is currently developing within the Kurdistan Region of Iraq, the Group considers that, at this point in time, revenue can be only reliably measured at the point of cash receipt. The realised price for domestic sales was $43/bbl (2013: $41/bbl) and in accordance with the terms of the Shaikan PSC, domestic sales are recognised gross of royalty.

Export sales for the period have been recognised net of royalty with the KRG deemed to have taken the royalty "in-kind". This is based on the Group's current working interest and its associated 42% entitlement (i.e. excluding royalty) to gross oil sales. The practice of recognising export revenues on a cash receipts basis has resulted in crude sent for export in the region of $100 million, based on GKP's current 80% working interest in the field, being owed but not recognised. The revenue recognition policy for export sales will be re-evaluated once a payment cycle is better established. Further details on revenue, and the related judgements and assumptions, can be found in the Summary of Significant Accounting Policies, Critical accounting estimates and judgements and note 2 to the consolidated financial statements.

Operating costs on a per barrel basis, excluding royalty, inventory movements, and depreciation, depletion and amortisation costs were $11.8 per barrel on an entitlement basis (2013: $27.2 per barrel).

The unit of production method, based on entitlement production, reserves and costs for the Shaikan development, has been used to calculate the depreciation, depletion and amortisation (DD&A) charge for the year. Production and reserves entitlement associated with unrecognised crude sent for export have been included in the DD&A calculation. The depreciation charge relating to these assets for 2014 was $38.4 million (2013: $2.4 million), and is recorded within cost of sales; see notes 3 and 11 to the consolidated financial statements for further details.

The Gross loss for the year was $43.3 million (2013: $5.3 million). The increased loss has been driven by the disparity between recognising export revenue on a cash receipt basis and expenses on a full production basis.

### Non-Operating Results

An impairment charge of $144.1 million has been recognised in 2014 (2013: $Nil). The impairment has been recognised on the Akri-Bijeel Block which the Company deems to be a non-core asset.

General and administrative expenses for 2014 were $39.0 million (2013: $15.8 million), an increase of $23.2 million. This can be primarily attributed to the large Excalibur receipts in 2013 and the reduction in Long Term Incentive Plan and bonus expense, as discussed below.

On 13 December 2013, the English Commercial Court (the "Court") handed down its full judgment dismissing all the claims asserted by Excalibur Ventures LLC ("Excalibur") and deciding all issues in favour of the Group and Texas Keystone (the "Defendants). The Court ordered that the full sum paid into the Court as security for the Defendant's costs be paid out to the Defendants and the amount received by the Company (£17.5 million, net of outstanding legal fees of £0.6 million) was credited against 2013 administrative expenses. The Company received this amount in January 2014. The Company was awarded a further £3.2 million, and Texas Keystone, an additional £2.4 million to be recovered from Excalibur and their financial backers, following an assessment of costs on an indemnity basis, of which £1.4 million has been recognised in 2014, following receipt in early 2015.

The costs associated with the share bonus awards and the options awarded under the Company Share Options Plan and Long Term Incentive Plan decreased from $12.6 million in 2013 to $4.9 million, reflecting no new grants during the year. Of these costs, $0.7 million has been included within intangible assets and property plant and equipment (2013: $2.9 million), as these employment costs are directly attributable to technical staff working on capital oil and gas projects. In addition, cash bonuses for senior management have reduced by $4.6 million to $3.0 million (2013: $7.6 million), in line with Group remuneration policy and with no new awards granted to Executive Management for the year ended 31 December 2014.

Other gains of $0.1 million (2013: other losses of $1.2 million) comprise foreign exchange gains.

Interest revenue remains low in accordance with prevailing interest rates and has reduced from 2013 due to a lower average cash balance (2014: $0.1 million; 2013: $0.8 million). Finance costs of $19.8 million (2013: $10.4 million) are made up of the accretion charge on the decommissioning provision of $0.5 million (2013: $0.4 million), interest payable in respect of the Convertible Bonds of $26.9 million (2013: $23.4 million) and interest payable on the new Bonds issued during the year of $29.1 million. Of the interest expense on both the Convertible and Guaranteed Bonds $36.7 million (2013: $13.4 million) was capitalised within tangible and intangible assets.

The tax cost for 2014 is $2.1 million (2013: $0.1 million) and arises on UK activities. No tax cost has been recognised for operations in Kurdistan. Under the terms of the PSC, the KRG will settle Iraq tax obligations out of its share of profit oil.

The results for 2014 show an increased loss after tax of $248.2 million (2013: $32.0 million) reflecting the impairment recognised in the Akri-Bijeel block, the lack of a regular payment cycle in addition to the increased operations and its funding needs.

**Cash Flow**

Net cash outflow from oil and gas operations after operational and administrative expenses was $0.8 million (2013: $25.1 million). The loss from operations of $226.4 million (2013: $21.1 million) was adjusted for non-cash charges of $190.2 million (2013: $13.0 million), that includes share-based payments, impairment charges and depreciation, depletion and amortisation costs. Non-cash expenditure was reduced by a decrease in share-based payment expense from $9.8 million to $4.0 million, but offset by an increase in depreciation to $39.0 million (2013: $3.0 million), including the charge to the Shaikan oil and gas assets. See note 21 to the consolidated financial statements for further details.

Working capital adjustments result in a $35.4 million cash inflow (2013: $17.0 million outflow) reducing operational cash outflow relative to accounting loss from operations. The increases in inventories and payables are in line with the level of the Company's activities during the year, while the significant decrease in receivables results from the outstanding Court costs receivable, which was paid in early 2014.

Bond coupon payments of $36.6 million were made during 2014 (2013: $17.2) and are included within cash used in operating activities.

Tax paid in 2014 was $0.2 million (2013: $0.7 million) and interest received was $0.1 million (2013: $0.8 million). Net cash outflow from operating activities after tax and interest was $37.4 million (2013: $42.1 million).

Cash used in investing activities totalled $197.4 million (2013: $182.3 million), which comprises $86.8 million spent on intangible assets (2013: $131.8 million) and $110.6 million (2013: $59.0 million) spent on property, plant and equipment with no movement in liquid investments (2013: $8.6 million decrease). The spend on property, plant and equipment has increased following the transfer of the Shaikan assets from intangible assets to property, plant and equipment at 30 June 2013. The majority of the cash spent on intangible assets relates to the Company's exploration activities in the Kurdistan Region of Iraq, including the drilling, testing and workovers of wells on the Sheikh Adi, Ber Bahr and Akri-Bijeel blocks. Overall, cash spend on intangible assets and property plant and equipment was comparable to 2013 (2014: $197.4 million; 2013: $190.9 million).

Cash generated by financing activities amounted to $240.1 million (2013: $53.9 million) and primarily results from the placing of $250 million 13.0 percent guaranteed notes during April 2014. In 2013, significant funds were raised through the "tap" issue of the $50 million convertible bonds during November 2013.

The net overall increase in cash and cash equivalents during the period was $5.3 million (2013: $171.7 million decrease). Foreign exchange gains on cash balances were $0.6 million (2013: $1.3 million loss).

Cash and cash equivalents totalled $87.8 million at 31 December 2014 (31 December 2013: $82.0 million).

**Corporate Activities**

During 2014, the Company obtained admission to trading on the London Stock Exchange plc's ("LSE") Main Market for listed securities. The admission to the Official List occurred at 8.00am on 25 March 2014. Trading in the Company's common shares on AIM was simultaneously cancelled.

**Other and Further Events**

The Company continues to explore options for the disposal of its 20% working interest in the Akri-Bijeel block together with its appointed corporate advisers, whom are responsible for coordination of, and advice on, the process. The disposal process remains ongoing at the date of this report, with the Group continuing to actively market its interest. The block was declared commercial in October 2013 by the operator, MOL. Early production has commenced from the Extended Well Test ("EWT") facility following the tie-in of Bijell-1B, with initial production at around 3,500 barrels per day, reducing to 2,000 barrels per day by 31 December 2014. These developments, together with the Bakrman discovery in 2013, all enhance the prospect of a successful conclusion to the disposal process. The Akri-Bijeel intangible asset (2014: $8.6 million; 2013: $103.1 million), including the associated working capital balances, continues to be classified as an asset held for sale. Further details of this asset, and the facts and circumstances of the proposed sale, are given in note 12 to the consolidated financial statements.

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

**Financial Strategy and Outlook for 2015**

Given the macro geo-political challenges that today are affecting Gulf Keystone and the Kurdistan Region, where our core assets are located, we are focused on ensuring the best course possible through this period for the benefit of all stakeholders. Whilst we continue to work closely with the KRG, our host and partner, on establishing a stable payment cycle for Shaikan production, we need to maintain and enhance our liquidity in the near term.

As such, and due to the impairment of the non-core Akri-Bijeel Block, which has been held for sale by the Company, we believe that it was appropriate to seek the removal of the Book to Equity Ratio Put Option covenant, which allowed the Company to raise $40 million of equity via a private placement as a short term funding solution, while working on several mid to long term funding alternatives.

This successful placement will strengthen the Company's financial position in the short term while discussions with interested parties in relation to possible asset transactions or a sale of the Company. The Board is currently assessing a number of longer-term funding options to progress to the next Shaikan production target of up to 70,000 bopd, which will also be sustained by a regular payment cycle in relation to past and future production.

**S Zouari**
Chief Financial Officer

**M Hood**
Deputy Chief Financial Officer

**Consolidated Income Statement**

For the year ended 31 December 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 2 | **38,560** | 6,696 |
| Cost of sales | 3 | **(81,845)** | (11,950) |
| **Gross loss** | | **(43,285)** | (5,254) |
| **Other operating expenses** | | | |
| Impairment expense | 9 | **(144,119)** | - |
| General and administrative expenses | | **(39,034)** | (15,843) |
| **Loss from operations** | 4 | **(226,438)** | (21,097) |
| Other gains and (losses) | | **73** | (1,186) |
| Interest revenue | 2 | **103** | 828 |
| Finance costs | | **(19,812)** | (10,392) |
| **Loss before tax** | | **(246,074)** | (31,847) |
| Tax charge | 5 | **(2,129)** | (118) |
| **Loss after tax for the year** | | **(248,203)** | (31,965) |
| **Loss per share (cents)** | | | |
| Basic | 6 | **(28.51)** | (3.69) |
| Diluted | 6 | **(28.51)** | (3.69) |

**Consolidated Statement of Comprehensive Income**
For the year ended 31 December 2014

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Loss for the year | **(248,203)** | (31,965) |
| Items that may subsequently be reclassified to profit or loss: | | |
| Exchange differences on translation of foreign operations | **(986)** | 279 |
| **Total comprehensive loss for the period** | **(249,189)** | (31,686) |

**Consolidated Balance Sheet**
As at 31 December 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 7 | **276,290** | 220,963 |
| Property, plant and equipment | 8 | **593,604** | 516,437 |
| Deferred tax asset | | **732** | 3,680 |
| | | **870,626** | 741,080 |
| **Current assets** | | | |
| Assets classified as held for sale | 9 | **8,587** | 103,086 |
| Inventories | | **22,854** | 20,654 |
| Trade and other receivables | | **16,380** | 34,023 |
| Cash and cash equivalents | | **87,835** | 81,972 |
| | | **135,656** | 239,735 |
| **Total assets** | | **1,006,282** | 980,815 |
| **Current liabilities** | | | |
| Trade and other payables | | **(103,985)** | (100,795) |
| Provisions | | **(7,197)** | (4,185) |
| Liabilities directly associated with assets classified as held for sale | 9 | **(8,587)** | (1,378) |
| | | **(119,770)** | (106,358) |
| **Non-current liabilities** | | | |
| Convertible bonds | 10 | **(303,278)** | (296,725) |
| Other borrowings | 10 | **(224,071)** | - |
| Provisions | | **(19,559)** | (15,365) |
| | | **(546,908)** | (312,090) |
| **Total liabilities** | | **(666,677)** | (418,448) |
| **Net assets** | | **339,605** | 562,367 |
| **Equity** | | | |
| Share capital | | **8,922** | 7,975 |
| Share premium account | | **796,099** | 796,099 |
| Share option reserve | | **51,017** | 33,486 |
| Convertible bonds reserve | | **15,834** | 21,488 |
| Exchange translation reserve | | **(259)** | 728 |
| Accumulated losses | | **(532,008)** | (297,409) |
| **Total equity** | | **339,605** | **562,367** |

**Consolidated Statement of Changes in Equity**
For the year ended 31 December 2014

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital $'000** | **Share premium account $'000** | **Share option reserve $'000** | **Exchange translation reserve $'000** | **Accumul-ated losses $'000** | **Convertible bonds reserve $'000** | **Total equity $'000** |
| **Balance at 1 January 2013** | **7,847** | **791,479** | **29,280** | **449** | **(276,849)** | **25,485** | **577,691** |
| Net loss for the year | - | - | - | - | (31,965) | - | (31,965) |
| Other comprehensive income for the year | - | - | - | 279 | - | - | 279 |
| **Total comprehensive income/(loss) for the year** | **-** | **-** | **-** | **279** | **(31,965)** | **-** | **(31,686)** |
| Transfer relating to share-based payments | - | - | (6,089) | - | 6,089 | - | - |
| Share-based payment expense | - | - | 12,568 | - | - | - | 12,568 |
| Deferred tax on share-based payment transactions | - | - | (2,273) | - | - | - | (2,273) |
| Share conversion and issue | 128 | 4,620 | - | - | - | - | 4,748 |
| Own shares held by EBT | - | - | - | - | (64) | - | (64) |
| Issue of convertible bonds | - | - | - | - | - | 1,383 | 1,383 |
| Convertible bonds equity amortisation | - | - | - | - | 5,380 | (5,380) | - |
| **Balance at 1 January 2014** | **7,975** | **796,099** | **33,486** | **728** | **(297,409)** | **21,488** | **562,367** |
| Net loss for the year | - | - | - | - | (248,203) | - | (248,203) |
| Other comprehensive loss for the year | - | - | - | (987) | - | - | (987) |
| **Total comprehensive income/(loss) for the year** | **-** | **-** | **-** | **(987)** | **(248,203)** | **-** | **(249,190)** |
| Transfer relating to share-based payments | - | - | (8,897) | - | 8,897 | - | - |
| Share-based payment expense | - | - | 4,885 | - | - | - | 4,885 |
| Deferred tax on share-based payment transactions | - | - | (619) | - | - | - | (619) |
| Share conversion and issue | 947 | - | - | - | (914) | - | 33 |
| Own shares held by EBT | - | - | - | - | (33) | - | (33) |
| Issue of warrants | - | - | 22,162 | - | - | - | 22,162 |
| Convertible bond equity amortisation | - | - | - | - | 5,654 | (5,654) | - |
| **Balance at 31 December 2014** | **8,922** | **796,099** | **51,017** | **(259)** | **(532,008)** | **15,834** | **339,605** |

**Consolidated Cash Flow Statement**
For the year ended 31 December 2014

| | Notes | **2014** **$'000** | 2013 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated/(used) in operations | 11 | **(760)** | (25,072) |
| Tax paid | | **(210)** | (675) |
| Interest received | | **103** | 828 |
| Bond coupon payments | | **(36,563)** | (17,188) |
| **Net cash used in operating activities** | | **(37,430)** | (42,107) |
| **Investing activities** | | | |
| Purchase of intangible assets | | **(86,809)** | (131,844) |
| Purchase of property, plant and equipment | | **(110,623)** | (59,008) |
| Decrease/(increase) in liquid investments | | **-** | 8,600 |
| **Net cash used in investing activities** | | **(197,445)** | (182,252) |
| **Financing activities** | | | |
| Proceeds on issue of share capital | | **-** | 4,748 |
| Proceeds on issue of convertible bonds | | **240,114** | 49,189 |
| **Net cash generated by financing activities** | | **240,114** | 53,937 |
| **Net (decrease)/increase in cash and cash equivalents** | | **5,239** | (170,422) |
| Cash and cash equivalents at beginning of year | | **81,972** | 253,713 |
| Effect of foreign exchange rate changes | | **624** | (1,319) |
| **Cash and cash equivalents at end of the year being bank balances and cash on hand**[1] | | **87,835** | 81,972 |

[1] This amount includes $32.5 million held within a Debt Service Reserve Account as stipulated by the 2014 Notes. The Company has free access to this account, but any shortfall must be repaid within 5 business days.

**Notes to the financial statements**

**Summary of Significant Accounting Policies**

**General information**

The Company is incorporated in Bermuda and, during 2013, was quoted on AIM, a market operated by the London Stock Exchange Plc (registered address: Cumberland House, 9th Floor, 1 Victoria Street, Hamilton, Bermuda). On 25 March 2014, the Company's common shares of US$0.01 each ("Common Shares") were admitted, with a Standard Listing, to the Official List of the United Kingdom Listing Authority ("UKLA") and to trading on the London Stock Exchange's Plc's Main Market for listed securities. Pursuant to Rule 41 of the AIM Rules, the Company gave notice that trading in the Company's Common Shares on AIM was cancelled on the same day. In 2008, the Company established a Level 1 American Depositary Receipt programme in conjunction with the Bank of New York Mellon which has been appointed as the depositary bank. The Company serves as the holding company for the Group, which is engaged in oil and gas exploration and production, operating in the Kurdistan Region of Iraq and the Republic of Algeria.

The financial information for the year ended 31 December 2014 set out in this announcement does not constitute statutory accounts within the meaning of the Bermuda Companies Act 1981 but has been extracted from those statutory accounts. Statutory accounts for the year ended 31 December 2013 were approved by the Board on 26 March 2014 and have been delivered to the Registrar of Companies and those for 2014 were approved by the Board of Directors on 8 April 2015 and will be delivered to the Registrar following the company's Annual General Meeting. The auditor has reported on the 2014 accounts; the report was unqualified, but did include a reference to a matter to which the auditor drew attention by way of emphasis of matter around going concern.

**Basis of preparation**

The financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) adopted for use in the European Union. However, this announcement does not itself contain sufficient information to comply with IFRS. The company will publish full financial statements that comply with IFRS on 28 April 2015.

**Basis of accounting**

The financial information has been prepared under the historical cost basis, except for the valuation of hydrocarbon inventory and the valuation of certain financial instruments, which have been measured at fair value, and on the going concern basis. Equity-settled share-based payments were initially recognised at fair value, but have not been subsequently revalued; cash-settled share based payments are recognised at fair value.

**Accounting policies**

The accounting policies applied in this announcement are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements. A number of amendments to existing standards and interpretations were applicable from 1 January 2014. The adoption of these amendments did not have a material impact on the group's financial statements for the year ended 31 December 2014.

*Going concern*

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, Strategic Review by the Chief Executive Officer and Operational Review. The financial position of the Group at the year end and its cash flows and liquidity position are included in the Financial Review. In addition, the Annual Report includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and details of its financial instruments and hedging activities. It also describes the Group's exposures to credit risk and liquidity risk.

Following commencement of first commercial production in July 2013 and sales thereafter along with the commencement of the export of crude oil in December 2013 from the Shaikan Block, the Group has entered a critical phase in its development as it transitions from pure explorer to oil producer. This requires significant capital and operating expenditure to be incurred during the next 12 months and the Group also needs to make significant coupon payments on its convertible bonds and 2014 Notes.

The Group's cash balances at 8 April 2015 were $84.7 million, excluding $40 million (gross) raised in early April 2015 through the placing of 85,900,000 new Common Shares (see note 12). The Group's key producing asset is its interest in the Shaikan Block in Kurdistan and, in order to meet its projected funding requirements for the foreseeable future, being 12 months from the date of this report, it has been assumed that the Group is able to establish a stable and reliable pattern of cash receipts from oil sent for export from its interest in Shaikan.

To date, a stable and reliable payment process for export deliveries has not been established. If this continues, the Directors expect the Group to require additional working capital by the end of August 2015.

In order to address this potential shortfall in working capital, the Group has recently engaged in discussions with a number of parties in relation to possible asset transactions and further equity financing (together the "mitigating actions"). In the longer term, together with the establishment of a stable and reliable payment process for export deliveries additional funding is also possible via the exercise of the Shaikan Government Option and/or the Shaikan Third Party Option under the terms of the Shaikan PSC.

The Directors have concluded that the lack of a stable and reliable payment process for export deliveries and the early stage of the mitigating actions outlined above create a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. Nevertheless, based on the forecasts and projections prepared at the time of preparation of this announcement and after making enquiries, and considering the uncertainties described above, 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 announcement. The financial information does not include any adjustments that might be required if they were prepared on a basis other than that of a going concern.

## Notes to the Consolidated Financial Statements

### 1. Segment information

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

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

Each segment is described in more detail below:

- Kurdistan Region of Iraq: the Kurdistan segment consists of the Shaikan, Akri-Bijeel, Sheikh Adi and Ber Bahr blocks and the Erbil office which provides support to the operations in Kurdistan;

- United Kingdom: the UK segment provides geological, geophysical and engineering services to the Gulf Keystone Group; and

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

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

| **31 December 2014** | **Algeria** | **Kurdistan** | **United Kingdom** | **Corporate** | **Elimination** | **Total** |
|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Revenue** | | | | | | |
| Oil sales | - | 38,560 | - | - | - | **38,560** |
| Inter-segment sales | - | - | 10,661 | - | (10,661) | **-** |
| **Total revenue** | **-** | **38,560** | **10,661** | **-** | **(10,661)** | **38,560** |
| | | | | | | |
| **Cost of sales** | | | | | | |
| Production costs | - | (42,238) | - | - | 454 | **(41,784)** |
| Royalty Costs | - | (1,672) | - | - | - | **(1,672)** |
| Oil and gas properties depreciation expense | - | (38,389) | - | - | - | **(38,389)** |
| **Gross profit/ (loss)** | **-** | **(43,739)** | **10,661** | **-** | **(10,207)** | **(43,285)** |
| | | | | | | |
| **General and administrative expenses** | | | | | | |
| Impairment charge | - | (132,903) | - | - | (11,217) | **(144,119)** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Allocated general and administrative expenses | (3,924) | (11,277) | (9,613) | (22,384) | 8,920 | **(38,279)** |
| Depreciation and amortisation expense | - | (548) | (207) | (1) | - | **(756)** |
| **Loss from operations** | **(3,924)** | **(188,467)** | **841** | **(22,385)** | **(12,504)** | **(226,438)** |
| Other gains and (losses) | (4) | (249) | - | 326 | - | **73** |
| Interest revenue | - | - | 5 | 99 | - | **103** |
| Finance costs | - | (534) | (2) | (55,932) | 36,657 | **(19,812)** |
| **(Loss)/profit before tax** | **(3,928)** | **(189,250)** | **844** | **(77,892)** | **24,153** | **(246,074)** |
| Tax expense | - | - | (2,129) | - | - | **(2,129)** |
| **(Loss)/profit after tax** | **(3,928)** | **(189,250)** | **(1,285)** | **(77,892)** | **24,153** | **(248,203)** |
| Capital expenditure | - | 359,072 | 114 | - | - | **359,185** |
| Total assets | 52 | 946,313 | 21,074 | 1,271,385 | (1,232,542) | **1,006,282** |

| 31 December 2013 | Algeria | Kurdistan | United Kingdom | Corporate | Elimination | Total |
|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'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** |
| **Cost of sales** | | | | | | |
| Production costs | - | (8,829) | - | - | 144 | **(8,685)** |
| Royalty Costs | - | (888) | - | - | - | **(888)** |
| Oil and gas properties depreciation expense | - | (2,377) | - | - | - | **(2,377)** |
| **Gross profit/ (loss)** | **-** | **(5,398)** | **11,745** | **-** | **(11,601)** | **(5,254)** |
| **General and administrative expenses** | | | | | | |
| Allocated general and administrative expenses | (552) | (2,353) | (13,636) | (11,161) | 12,657 | **(15,045)** |
| Depreciation and amortisation expense | - | (580) | (217) | (1) | - | **(798)** |
| **Loss from operations** | **(552)** | **(8,331)** | **(2,108)** | **(11,162)** | **1,056** | **(21,097)** |
| Other gains and (losses) | (4) | (162) | - | (1,032) | 12 | **(1,186)** |
| Interest revenue | - | 253 | 105 | 573 | (103) | **828** |
| Finance costs | - | (378) | (103) | (23,433) | 13,522 | **(10,392)** |
| **(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)** |
| **Capital expenditure** | - | 229,271 | 77 | - | - | **229,348** |
| **Total assets** | 85 | 886,079 | 29,717 | 1,089,439 | (1,024,505) | **980,815** |

*Geographical information*

The Group's information about its segment assets (non-current assets excluding deferred tax assets and other financial assets) by geographical location is detailed below:

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Algeria | **-** | - |
| Kurdistan | **869,420** | **737,047** |
| Bermuda | **1** | **2** |
| United Kingdom | **473** | **351** |
| | **869,894** | **737,400** |

*Information about major customers*

Included in revenues arising from the Kurdistan Segment are revenues of approximately $28.2 million (2013: $5.5 million) and $10.4 million (2013: $1.1 million) which arose from sales to the Group's two largest customers.

## 2. Revenue

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Oil sales | **38,560** | 6,696 |
| Interest revenue | **103** | 828 |
| | **38,663** | 7,524 |

During 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 year amounted to $10.4 million (2013: $6.7 million) and revenue from export sales amounted to $28.2 million (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 $42.5/bbl (2013: $41.2/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 was $29/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, as the royalty is taken "in-kind" by the KRG;
- Deductions for trucking and port storage costs as well as the discount to Brent, for the quality of the crude, 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%.

## 3. Cost of Sales

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Production costs | **41,784** | 8,685 |
| Royalty costs | **1,672** | 888 |
| Depreciation of Oil & Gas Properties | **38,389** | 2,377 |
| | **81,845** | 11,950 |

A unit of production method, based on full entitlement production, commercial reserves and costs for Shaikan field full development, has been used to calculate the depreciation, depletion and amortisation (DD&A) charge for the year. Production and reserves entitlement associated with unrecognised export sales have been included in the full year DD&A calculation. A depreciation charge of $38.4 million has been recorded within cost of sales for the year (2013: $2.4 million).

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

## 4. Loss from operations

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Loss from operations has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | **39,018** | 2,981 |
| Amortisation of intangible assets | **111** | 194 |
| Credit in relation to Excalibur litigation | **(2,138)** | (18,973) |
| Staff costs | **25,381** | 26,289 |
| Auditor's remuneration for audit services | **155** | 158 |
| Operating lease rentals | **2,051** | 1,769 |

## 5. Tax

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Corporation tax | | |
| Current year credit/(charge) | **445** | 706 |
| Adjustment in respect of prior years | **(400)** | (12) |
| Deferred UK corporation tax expense | **(2,174)** | (812) |
| Tax expense attributable to the Company and its subsidiaries | **(2,129)** | (118) |

Under current Bermudian laws, the Group is not required to pay taxes in Bermuda on either income or capital gains. The Group has received an undertaking from the Minister of Finance in Bermuda exempting it from any such taxes at least until the year 2035.

Any corporate tax liability in Algeria is settled out of Sonatrach's share of oil under the terms of the Algerian PSCs and is therefore not reflected in the tax charge for the year.

In the Kurdistan Region, the Group is subject to corporate income tax on its income from petroleum operations under the Kurdistan PSCs. The rate of corporate income tax is currently 15% on total income. However, any corporate income tax arising from petroleum operations will be paid from the Kurdistan Regional Government's share of petroleum profits.

The tax currently payable is based on taxable profit for the year earned in the United Kingdom by the Group's UK subsidiary. UK corporation tax is calculated at 21.49% (2013: 23.25%) of the estimated assessable profit for the year of the UK subsidiary.

On 20 March 2013, the UK Government announced a reduction in the main rate of UK corporation tax from 23 to 21% effective from 1 April 2014 in the Finance Bill 2013 as well as an additional reduction to 20% on 1 April 2015.

Deferred tax is provided for due to the temporary differences which give rise to such a balance in jurisdictions subject to income tax. During the current period no taxable profits were made in respect of the Group's Kurdistan PSCs, nor were there any temporary differences on which deferred tax is required to be provided. As a result, no corporate income tax or deferred tax has been provided for Kurdistan in the period.

In addition to the deferred tax charge to the income statement, a $0.6 million deferred tax charge (2013: $2.3 million charge) relating to estimated excess tax deductions related to share-based payments has been recognised directly in equity. All deferred tax arises in the UK.

The expense for the year can be reconciled to the loss per the income statement as follows:

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Loss before tax | **(246,074)** | (31,847) |
| Tax at the Bermudian tax rate of 0% (2013: 0%) | **-** | - |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(2,129)** | (118) |
| Tax charge for the year | **(2,129)** | (118) |

## 6. Loss per share

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

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| *Loss* | | |
| Loss after tax for the purposes of basic and diluted loss per share | **(248,203)** | (31,965) |

| | **2014 Number (000s)** | 2013 Number (000s) |
|---|---|---|
| Number of shares | | |
| Basic weighted average number of shares | **870,578** | 868,785 |

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 Trustee ("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 31 December 2014, 35.8 million share options (2013: 37.5 million), no unissued bonus shares (2013: 3.3 million),10.3 million common shares held by the EBT (2013: 9.4 million), 10.0 million common shares held by the Exit Event Trustee (2013: 10.0 million), 40.0 million warrants (2013: nil) and 74.0 million common shares to be issued if the convertible bonds are converted at the initial conversion price of $4.39 (2013: 74.0 million) were excluded from the loss per share calculation as they were anti-dilutive.

**Reconciliation of anti-dilutive shares:**

| | **2014 Number (million)** | 2013 Number (million) |
|---|---|---|
| Number of shares | | |
| Share Options | **35.8** | 37.5 |
| Unissued bonus share | **-** | 3.3 |
| Common Shares held by the EBT | **10.3** | 9.4 |
| Common Shares held by the Exit Event Trustee | **10.0** | 10.0 |
| Warrants outstanding | **40.0** | - |
| Common Shares to be issued on conversion of convertible bonds | **74.0** | 74.0 |
| Total potentially anti-dilutive shares | **170.1** | 134.2 |

**7. Intangible assets**

| | **Exploration & evaluation costs $'000** | **Computer software $'000** | **Total $'000** |
|---|---|---|---|
| **Year ended 31 December 2013** | | | |
| Opening net book value | 545,940 | 289 | 546,229 |
| Additions | 118,286 | 110 | 118,396 |
| Amortisation charge | - | (194) | (194) |
| Transfer of Shaikan assets to property, plant and equipment | (443,470) | - | (443,470) |
| Foreign currency translation differences | - | 2 | 2 |
| **Closing net book value** | **220,756** | **207** | **220,963** |
| **At 31 December 2013** | | | |
| Cost | 220,756 | 977 | 221,733 |
| Accumulated amortisation | - | (770) | (770) |
| **Net book value** | **220,756** | **207** | **220,963** |
| **Year ended 31 December 2014** | | | |
| Opening net book value | 220,756 | 207 | 220,963 |
| Additions | 55,487 | (45) | 55,442 |
| Amortisation charge | - | (111) | (111) |
| Foreign currency translation differences | - | (3) | (3) |
| **Closing net book value** | **276,243** | **47** | **276,290** |

| | | | |
|---|---|---|---|
| **At 31 December 2014** | | | |
| Cost | 276,243 | 928 | 277,171 |
| Accumulated amortisation | - | (881) | (881) |
| **Net book value** | **276,243** | **47** | **276,290** |

The net book value at 31 December 2014 includes intangible assets relating to: Ber Bahr $74.2million (2013: $61.1 million), and Sheikh Adi $202.1 million (2013: $159.6 million).

The additions to oil and gas exploration and evaluation costs in the year include the drilling of Sheikh Adi-3 and acquisition and processing of 3D seismic data on the Ber Bahr block.

The amortisation charge of $111,000 (2013: $194,000) for computer software has been included in general and administrative expenses.

**8. Property, plant and equipment**

| | Oil & Gas Properties $'000 | Fixtures & Equipment $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 31 December 2013** | | | |
| Opening net book value | - | 2,285 | 2,285 |
| Additions | - | - | - |
| Disposals | 73,545 | 118 | 73,663 |
| Depreciation charge | (2,377) | (604) | (2,981) |
| Transfer of Shaikan exploration and evaluation assets from intangibles | 443,470 | - | 443,470 |
| **Closing net book value** | **514,638** | **1,799** | **516,437** |
| | | | |
| **At 31 December 2013** | | | |
| Cost | 517,015 | 5,073 | 522,088 |
| Accumulated depreciation | (2,377) | (3,274) | (5,651) |
| **Net book value** | **514,638** | **1,799** | **516,437** |
| | | | |
| **Year ended 31 December 2014** | | | |
| Opening net book value | 514,638 | 1,799 | 516,437 |
| Additions | 115,684 | 547 | 116,231 |
| Disposals | - | - | - |
| Depreciation charge | (38,389) | (629) | (39,018) |
| Foreign currency translation differences | - | (45) | (45) |
| **Closing net book value** | **591,932** | **1,672** | **593,604** |
| | | | |
| **At 31 December 2014** | | | |
| Cost | 632,699 | 5,620 | 638,319 |
| Accumulated depreciation | (40,766) | (3,948) | (44,714) |
| **Net book value** | **591,932** | **1,672** | **593,604** |

The net book value of Oil & Gas properties at 31 December 2014 is comprised of property, plant and equipment relating to the Shaikan block and has a carrying value of $591.9 million (2013: $514.6 million).

The additions to the Shaikan block in the year include continued construction of the second Shaikan production facility - PF-2, the drilling of Shaikan -7 and -11, tie in of Shaikan-2, -4, -5, -7, -8, -9 and -10, wells to PF-1 and PF-2.

The depreciation, depletion and amortisation charge of $38.4 million on oil and gas properties (2013: $2.4 million) has been included within cost of sales (note 3).

The depreciation charge of $0.6 million on fixtures and equipment (2013: $0.6 million) has been included in general and administrative expenses.

## 9. Asset classified as held for sale

In 2011, as part of the forward strategy to rationalise its asset portfolio, the Group announced the intention 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 ongoing.

Following an economic assessment of the Akri-Bijeel field using the Net Present Value method, an impairment of $144.1 million has been recognised, to reduce its carrying value to the Company's best estimate of its fair value less costs to sell, taking in to consideration the recent steep fall in prevailing oil prices and the latest status of the drilling programme.

The Akri-Bijeel asset of $8.5 million (2013: $103.1 million), which is included within the Kurdistan operating segment, is expected to be sold within 12 months and has been classified as an asset held for sale as at 31 December 2014 and presented separately in the balance sheet. The value of the asset held for sale as at 31 December 2014 includes $Nil (2013: $7.1 million prepayment) that relates to a prepayment balance to the operator. The additions in the year include the drilling of Bakrman-2, Bijell-2, Bijell-4 and Bijell-6 wells, the workovers of Bijeel-1, as well as seismic processing and geological studies and the construction of surface facilities.

Further amounts of $6.3 million (2013: $Nil) and $2.2 million (2013: $1.4 million), representing respectively a payables balance to the operator and the net present value of the decommissioning costs associated with this asset is presented separately on the balance sheet as a liability directly associated with assets classified as held for sale at 31 December 2014.

| Akri-Bijeel Assets: | **2014**<br>**$'000** | 2013<br>$'000 |
|---|---|---|
| Intangible assets | **8,587** | 96,007 |
| Prepayment to operator | **-** | 7,079 |
| | **8,587** | 103,086 |

| Akri-Bijeel Liabilities: | **2014**<br>**$'000** | 2013<br>$'000 |
|---|---|---|
| Decommissioning provisions | **2,298** | 1,378 |
| Payables/(prepayments) to operator | **6,289** | - |
| | **8,587** | 1,378 |

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 in November 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.

## 10. 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 Luxembourg Stock Exchange. The warrants were recorded within equity at their fair value at the date of issuance of $22.2 million and the remaining proceeds of the Notes, net of additional issue costs, were recorded as a non-current liability.

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

| | **2014**<br>**$'000** | **2013**<br>**$'000** |
|---|---|---|
| Liability component at 1 January | **300,900** | 247,028 |
| Liability component of the Notes at issue | **217,952** | 47,627 |

| | | |
|---|---|---|
| Interest charged during the year | | |
| *- on convertible bonds* | **26,866** | 23,433 |
| *- on 2014 Notes* | **29,066** | - |
| Interest paid during the year | | |
| *- on convertible bonds* | **(20,313)** | (17,188) |
| *- on 2014 Notes* | **(16,250)** | - |
| Liability component at 31 December | **538,222** | 300,900 |

Liability component reported in:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Interest payable in current liabilities | **10,872** | 4,175 |
| Non-current liabilities | **527,350** | 296,725 |
| | **538,222** | 300,900 |

The interest charged for the year has been calculated by applying an effective interest rate on an annual basis to the liability component for the period since the bonds were issued. The effective interest rate for the initial $275 million convertible bond issue in October 2012 is 9.26%. The effective interest rate for the $50 million tap issue is 7.20%. Each year, an amount equal to the difference between the total interest charge and the coupon rate charge (at 6.25% per annum) is transferred within equity from the convertible bonds reserve to accumulated losses. The effective interest rate for the 2014 Notes is 19.7%.

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

| | Market price | 2014<br>$'000 |
|---|---|---|
| Convertible bonds | **$0.60** | 196,489 |
| 2014 Notes | **$0.78** | 193,138 |
| | | 389,627 |

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.

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Within one year | **52,813** | 20,313 |
| Within two to five years | **664,375** | 385,937 |
| | **717,188** | 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%.

At 31 December 2014, the 2014 Notes included a Book Equity Ratio (BER) Put Option. The BER is the ratio of Group equity to total assets. Under the terms of this Put Option if the BER is below 0.4 for 60 days following the date the Company releases its annual accounts, the Company is required to make an offer to purchase the 2014 Notes. At 31 December 2014 the BER was below 0.4, which led the Company to commence discussions with the 2014 Note holders, seeking to remove the BER Put Option. The status of these discussions is outlined in note 12.

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

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Loss from operations | **(226,438)** | (21,097) |
| *Adjustments for:* | | |
| Depreciation, depletion and amortisation of property, plant and equipment | **39,018** | 2,981 |
| Amortisation of intangible assets | **111** | 194 |
| Increase in Algerian decommissioning provision | **3,012** | - |
| Share-based payment expense | **3,969** | 9,838 |
| Impairment of assets held for sale | **144,119** | - |
| Increase in inventories | **(2,199)** | (871) |
| Decrease/(Increase) in receivables | **21,291** | (10,561) |
| Increase/(decrease) in payables | **16,355** | (5,556) |
| **Net cash used in operating activities** | **(760)** | (25,072) |

**12. Events after the balance sheet date**

On 31 March 2015 the Company raised gross proceeds of US$40,693,235 through a conditional placing of 85,900,000 new Common Shares at a placing price of 32p per share ("Placing Shares").

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

The admission of the placing shares became effective, and commenced trading on the Main Market of the LSE, at 8.00 a.m. on 7 April 2015.

**Consent solicitation**

On 7 April 2015, the Company announced that it had successfully completed the consent solicitation to remove the book equity ratio covenant from the Trust Deed constituting the 2014 Notes (see note 10) and from the conditions contained therein. Holders representing over 90% of the principal amount of 2014 Notes outstanding participated in the Consent Solicitation, with over 99% of votes cast in favour of the Proposed Amendments. The Extraordinary Resolution was passed at the noteholder meeting which took place on 7 April 2015, and the proposed amendments have been implemented.

The Company will pay a consent fee of US$5.00 for each US$1,000 in principal amount of 2014 Notes to holders whose Consent was validly delivered prior to 3.00 p.m. (London time) on 2 April 2015 and accepted pursuant to the terms of the Consent Solicitation Memorandum.

The complete terms and conditions of the Consent Solicitation are described in the Consent Solicitation Memorandum dated 12 March 2015 issued by the Company, as supplemented by the Supplements dated 24 March 2015 and 30 March 2015 (together, the "Consent Solicitation Memorandum"). The Company has agreed to the following terms: (i) retaining the Company's Debt Service Reserve Account at one year of scheduled interest payments for the Notes (instead of stepping down to six months of interest payments in October 2015); (ii) granting a security interest in favour of the holders of the Notes and the Company's 6.25 per cent. Convertible Bonds due 2017 (the "Convertible Bonds") over the shares of Gulf Keystone Petroleum International Limited, subject to negotiation of the terms of the security and intercreditor documentation; (iii) reducing certain of the Company's grace periods under the Trust Deed for certain events of default and including additional notifications to the Trustee; and (iv) beginning a dialogue with a committee of holders of the Notes if and when the Company's cash balance drops below US$50 million (including amounts in the Debt Service Reserve Account) for a period of five consecutive business days.

**13. Publication of financial statements**

It is anticipated that the full Annual Report and Financial Statements will be published on 28 April 2015. Copies will be available from this date at the group's UK office.