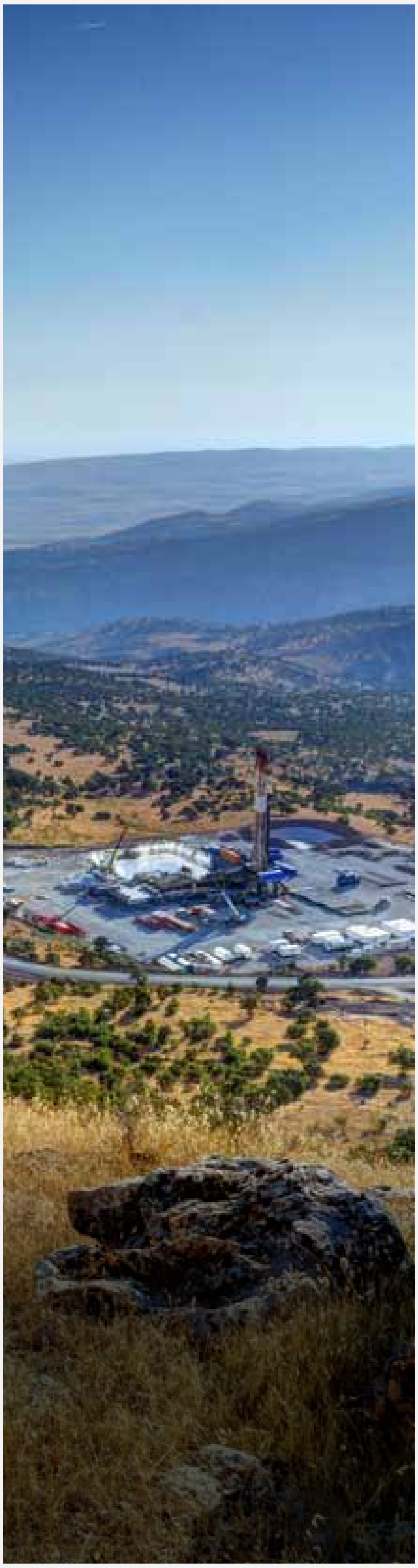
Annual report and accounts 2014

GULF KEYSTONE PETROLEUM



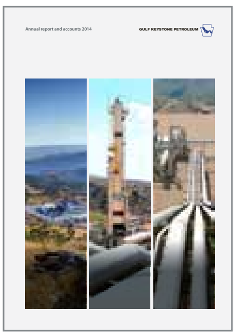
WHO WE ARE

Gulf Keystone Petroleum Limited is an independent exploration and production company, with five discoveries across a world-class portfolio of development and production assets in the Kurdistan Region of Iraq, including the Shaikan field, one of the largest onshore developments in the world today.

We have successfully transitioned from explorer into producer and exporter in just four years and from zero barrels to commercial production of 40,000 bopd ("barrels of oil per day") in under two years.

The investment case remains compelling due to our multi-billion barrel resource, solid operations and significant future potential of our assets.

PROUD TO OPERATE IN THE KURDISTAN REGION OF IRAQ



Front cover
Shaikan -10 well
Shaikan PF -1
Shaikan PF -1

visit us online at gulfkeystone.com

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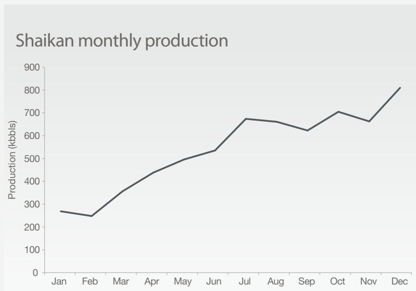


YEAR IN REVIEW

2014 has been a year of operational advancements for Gulf Keystone.

We confirmed our transition from explorer to producer, with a rapid ramp-up in production and crude oil sent for export sales from the Shaikan field, reaching our landmark target of 40,000 bopd in December.

25 March 2014

Move to Main Market

The Company moved from AIM and was admitted, with a Standard listing, to the Official List of the United Kingdom Listing Authority ("UKLA") and to trading on the Main Market, at the London Stock Exchange plc.

13 June 2014

PF -2 commissioned

Shaikan PF -2, capable of producing 20,000 bopd, was fully commissioned and production operations commenced in June 2014.

1,200%

increase in production in 2014

17 July 2014

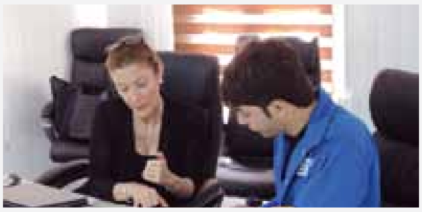
Chief Executive Officer

John Gerstenlauer, who served as Gulf Keystone's Chief Operating Officer since 2008, assumed the role of Chief Executive Officer in July 2014.

17 August 2014

Non-Executive Directors

2014 saw the appointment of three new Non-Executive Directors, Joseph Stanislaw and VU Kumar joined the Company in August and Maria Darby-Walker in December, each bringing skill sets honed over long and distinguished careers in their respective fields, complementing the team in place.



6.5m

barrels of oil production in 2014

30 October 2014

Akri Bijeel Field Development Plan

The Field Development Plan for Akri-Bijeel, based on two discovery areas Bijell and Bakrman, was approved by the Kurdistan Regional Government's ("KRG") Ministry of Natural Resources ("MNR").

1 December 2014
Payment for Shaikan crude oil export sales

A milestone payment of US$15 million gross for Shaikan crude export sales was made to the Company following the statement made by the KRG's MNR on 7 November 2014 regarding the plan to make an initial payment to producers for exports, with further payments to follow on a regular basis.

24 December 2014
Shaikan -11

The Company spudded Shaikan -11, an additional producer, which was completed in March 2015 and will be tied to PF -2 through the 11km flowline already in place.

27 December 2014
40,000 bopd

In December the Company reached the target of 40,000 barrels of oil per day target following a ramping-up of Shaikan production during the year.

22 January 2015
Chief Financial Officer

On the 22 January 2015 the Company appointed Sami Zouari as the new Chief Financial Officer, completing a high-calibre management team.

26 February 2015
Further payments for Shaikan crude

US$26 million gross received as pre-payment for Shaikan crude oil sales in February 2015

7 April 2015
Share placing

The successful placing of 85,900,000 new Common Shares to trading and listing which, resulting in gross proceeds of US$41 million.

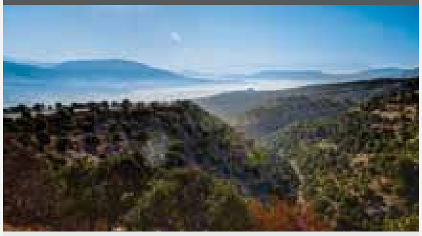
OUR STORY SO FAR

Gulf Keystone's story is one of constant evolution.

From our beginnings in 2001 and AIM listing in 2004, it was our exploration campaign in the Kurdistan Region of Iraq ("KRI") which resulted in the multi-billion barrel oil discovery at Shaikan and subsequent rapid development of the field.

This made us the Main Market listed Company we are today with 40,000 bopd of production and crude oil export sales to date totalling over nine million barrels. We are a key producer in the KRI.

2001-2003



- Founded by UAE, Kuwaiti and US private equity and incorporated in Bermuda

2004-2006

- Listed on the AIM Market of the London Stock Exchange plc (stock quote GKP)

2010

- First third-party assessment of the Shaikan discovery gross oil-in-place published
- Bijell -1, first exploration well on the Akri-Bijeel block, announced as a discovery
- Shaikan Extended Well Test facilities completed and first domestic oil sales commenced
- Significant amount of 3D seismic data acquired for the Shaikan and Sheikh Adi blocks
- Sheikh Adi -1 exploration well spudded
- ADR's traded on the premier tier OTCQX International

2011

- 420 percent (P90) – 181 percent (P10) increase in gross oil-in-place estimates for the Shaikan discovery with a range of 8.0 billion (P90) to 13.4 billion (P10) barrels, by Dynamic Global Advisors ("DGA")
- Significant increase in the gross output of the Shaikan Extended Well Test production facility
- Sheikh Adi preliminary resource evaluation by DGA of 1 billion (P90) to 3 billion (P10) barrels of gross oil-in-place
- A fully subscribed $200 million share placing

13.26bn
total gross oil-in-place (discovered and undiscovered) across our portfolio

4yrs
from exploration to exports

2007

- Award of two Production Sharing Contracts for the Shaikan and Akri-Bijeel blocks in the Kurdistan Region of Iraq

2008

- American Depositary Receipts ("ADRs") traded in US over-the-counter securities (market symbol GFKSY)

2009

- Acquired interest in two further Production Sharing Contracts for the Sheikh Adi and Ber Bahr blocks in the Kurdistan Region of Iraq
- First exploration well Shaikan -1 drilled and announced as a major discovery
- Announcement of the Company's strategic gradual exit from Algeria

2012

- 14 exploration and appraisal wells drilled or being drilled across the four blocks, including the second exploration well on Sheikh Adi and three additional wells on Akri-Bijeel
- Shaikan appraisal programme completed with Shaikan -5 and -6
- Shaikan Declaration of Commercial Discovery announced and the work on the Field Development Plan is ongoing
- Placement of senior unsecured convertible bonds due October 2017 for the amount of US$275 million
- Sheikh Adi -2 exploration well announced as a discovery

2013

- Shaikan Field Development Plan submitted in January and approved in June
- Bakrman -1 exploration well on the Akri-Bijeel block announced as a discovery
- Ber Bahr -1 exploration well on the Ber Bahr block announced as a discovery
- Appointment of Non-Executive Chairman
- Commencement of Shaikan commercial production
- Deutsche Bank appointed the Company's financial adviser to help with the move to the Main Market
- US$50 million tap issue of convertible bonds
- Commencement of crude oil exports from the Shaikan field

2014

- MNR announced oil export sales from the Kurdistan Region of Iraq
- Export sales of Shaikan crude oil commenced
- Successful transition from AIM to the Main Market of the LSE (LSE: GKP)
- Closed on a US$250 million debt financing
- Payments of US$20.2 million gross made to Company
- Shaikan PF -2 fully comissioned
- John Gerstenlauer appointed as Chief Executive Officer
- Payment of US$15 million gross is made to the Company for crude oil export deliveries
- Reached 40,000 gross bopd Shaikan production target

INTERIM CHAIRMAN'S STATEMENT

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.

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.

> **Ensuring the highest standards of safety is imperative for all companies, even more so for an oil company.**

OUR GOVERNANCE PRINCIPLES

- INDEPENDENCE
- KNOWLEDGE
- RESPONSIBILITY

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, VU 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

8 April 2015

CHIEF EXECUTIVE OFFICER'S STATEMENT

The Company's financial position has been strengthened by the successful share placing in April 2015.

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 six 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.

Shaikan production facility PF -2.

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

8 April 2015

ASSET OVERVIEW

Gulf Keystone holds Production Sharing Contracts for four adjacent blocks in the Kurdistan Region of Iraq, Shaikan and Sheikh Adi, both of which are Company operated and Ber Bahr and Akri Bijeel, all with discoveries.

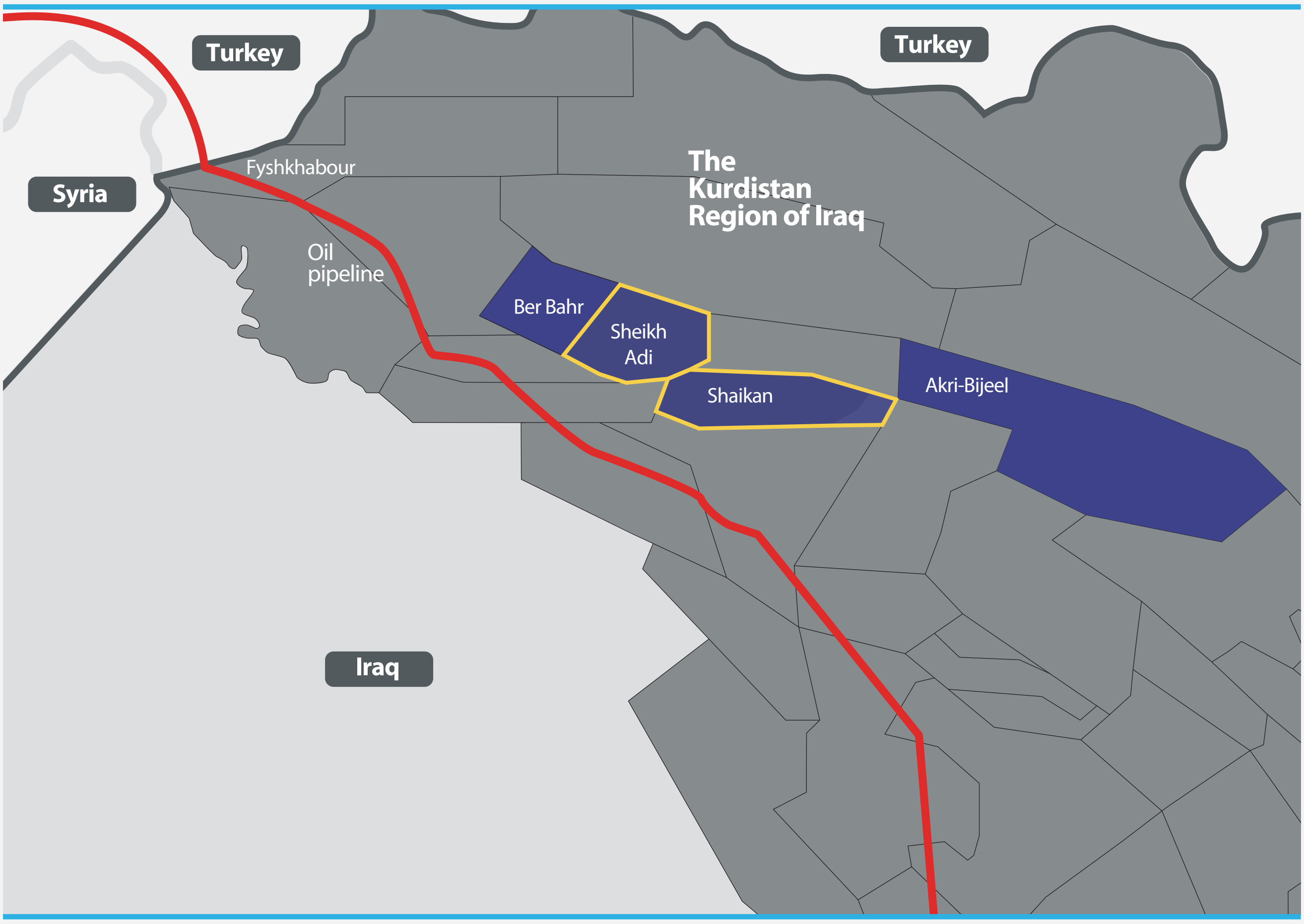
WORLD-CLASS ASSETS

In August 2009, Gulf Keystone made a significant discovery on the Shaikan block, which was declared commercial in August 2012.

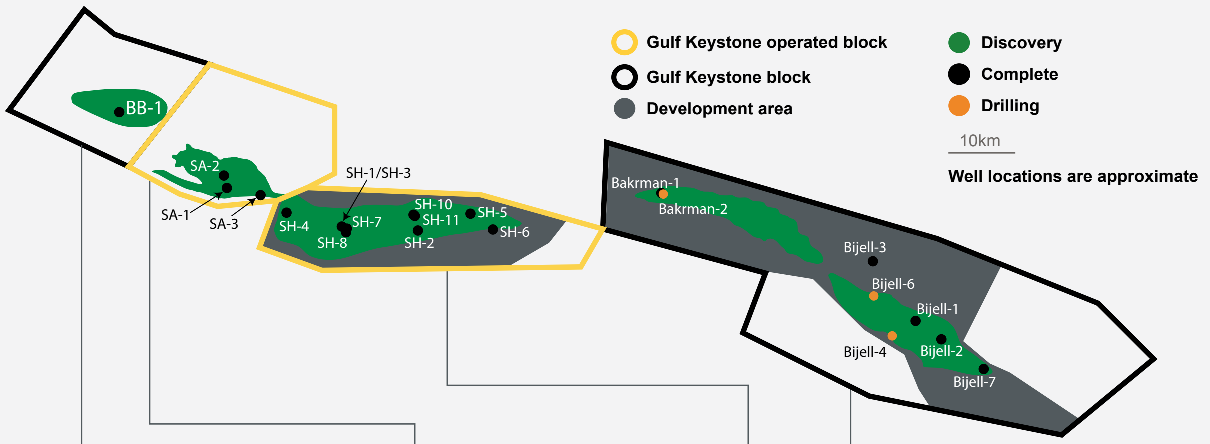
Following the approval of the Shaikan Field Development Plan ("FDP") we commenced commercial production operations and subsequently crude oil export sales, hitting our 40,000 bopd target in December 2014. Future targets aim to see production levels increase to up to 70,000 bopd and then to the medium-term target of 100,000 bopd as Phase 1 is implemented, until eventually reaching a plateau as full field development is realised. On the Sheikh Adi block, located immediately to the west of Shaikan, we continue to work to determine the optimal path for development and production.

Ber Bahr is in the appraisal phase with a further appraisal well planned for 2016. Akri-Bijeel development continues following approval of the FDP, based on the two discovery areas Bijell and Bakrman.

IN CONTEXT



A CLOSER LOOK



Ber Bahr	Sheikh Adi	Shaikan	Akri-Bijeel

All volumes are CPR numbers

Ber Bahr

656MMstb
STOIIP

102MMstb (undiscovered)

758MMstb (total)

2C (Jurassic) 22MMstb

3D seismic in 2014

Sheikh Adi

2,256MMstb
STOIIP

657MMstb (undiscovered)

2,913MMstb (total)

2C (Jurassic) 152MMstb

Indicative Jurassic recovery factor 8% (scope for upward revision)

Further prospectivity identified

Shaikan

9,215MMstb
STOIIP

Jurassic STOIIP 6,194MMstb

2P 299MMstb

2C 702MMstb

2P + 2C recoverable 1,001MMstb

Indicative Jurassic recovery factor (2P+2C) is 12%

13.265 billion barrels total gross oil in place discovered & undiscovered

2P based on the Shaikan Phase 1 Jurassic development comprising only first 26 wells.

We anticipate that our 2C contingent resources will be converted to 2P reserves as the next phase of the Shaikan development is approved.

Akri-Bijeel

379MMstb
STOIIP

2C (Jurassic) 41MMstb

2C (Triassic) 2MMstb

Early production and FDP in 2014

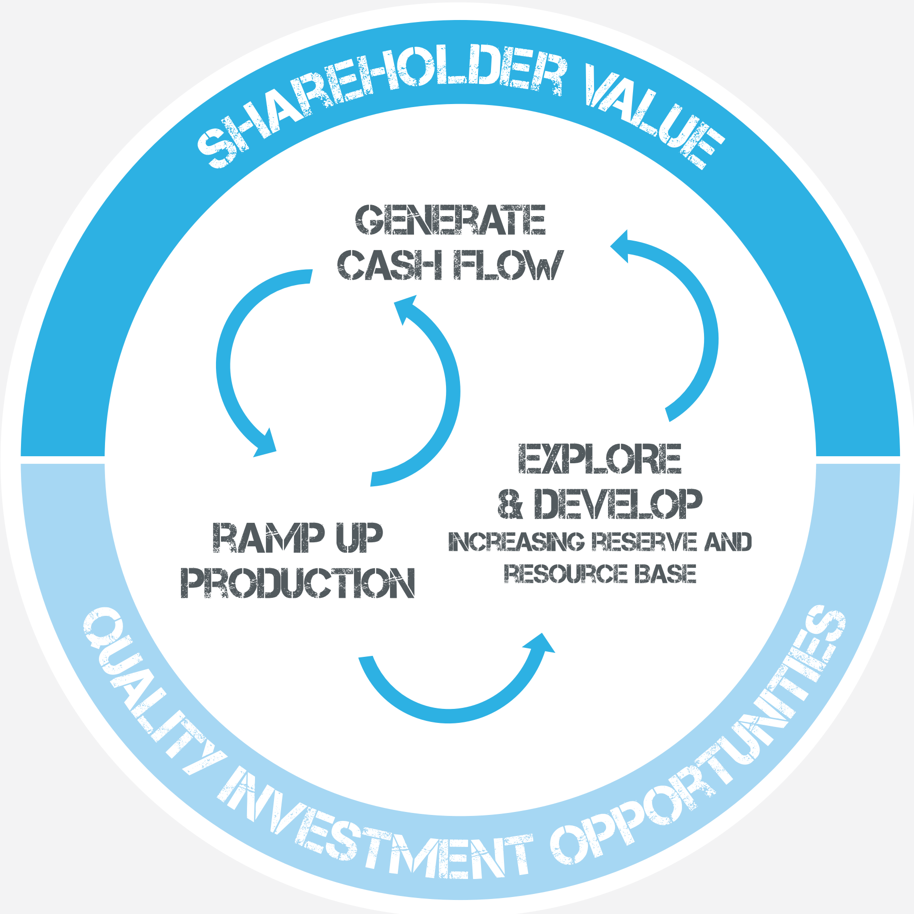
OPERATORS AND PARTNERS

Block	WI	Diluted	Operator	Other partner
Shaikan	75%	51%[3]	GKP	MOL (20%), TKI (5%)[2]
Sheikh Adi	80%	80%	GKP	KRG (20%)
Ber Bahr	40%	40%	Genel	Genel (40%), KRG (20%)
Akri-Bijeel[1]	20%	12.8%	MOL	MOL (80%)

Notes:
(1) Gulf Keystone Petroleum International ("GKPI") holding subject to third party and Kurdistan Regional Government's ("KRG") back-in-rights.
(2) Texas Keystone inc. ("TKI") holds its interest in trust for GKPI, pending transfer of its interest to GKPI.
(3) Inclusive of TKI's holding increases to 54.4 percent.

OUR BUSINESS MODEL

As we move our Company forward the generation of cash flow is paramount for further investment into the development of our assets, allowing for the ramp up of production and the potential increase of our reserve and resource base.



STRONG RELATIONSHIPS

In close partnership with our host government we work to grow and strengthen our long-standing social and economic relationship with the region, through the community support we provide, employment opportunities we offer and the willingness of our local communities to work with us to create wealth.

WORLD-CLASS ASSETS

With the Shaikan discovery alone, declared commercial in 2012, Gulf Keystone has one of the largest onshore developments in the world today. We are achieving significant daily production levels from the field and our crude oil export deliveries make us a key contributor to the Kurdistan region's oil exports.

GROWING PRODUCTION

Our gross production in 2014 increased 1,205 percent from the previous year, totalling 6,484,391 barrels of oil compared with the 2013 figure of 496,921 barrels of oil. A gradual ramp-up in 2014 saw steady production rates increase from 10,000 bopd to 20,000 bopd in June, reaching our 40,000 bopd target in December.

INDUSTRY CONTEXT

The commencement of oil exports through the KRI-Turkey pipeline by the KRG was a landmark for the KRI oil industry.

Economic and political overview

Equity markets

2014 was a volatile period for global equity markets. Although relatively stable compared to other global indices, the FTSE 100 traded within an 11.3 percent range and ended the year down 2.7 percent. Oil and gas stocks were particularly affected by the reduction in oil prices.

Oil price

Brent crude spent much of the first half of the year above $100 per barrel. However the second half of the year saw a substantial drop, with Brent falling to $53/bbl by year end – the lowest price since 2009. The drop was affected by relative reduced global demand, particularly from emerging markets, and increased US production. Prices have also been significantly affected by OPEC's decision not to reduce global production levels. At 31 January 2015, oil analysts forecast Brent prices to be an average of $58/bbl in 2015 and $66/bbl in 2016 (Source: Bloomberg).

Status of the local industry

KRI crude liftings from the Turkish port of Ceyhan have become regular and sales predictable.

The commencement of oil exports through the KRI-Turkey pipeline by the KRG was a landmark for the KRI oil industry. The ability to market oil through Ceyhan and receive international prices confirmed the status of the region as an important oil province, and revenues help to ensure a strong and prosperous Kurdistan Region of Iraq.

Exports through the pipeline rose to over 400,000 bopd by the end of 2014. At the start of 2015 450,000 bopd were flowing through the pipeline to Ceyhan and the KRG are aiming to see this increase to 800,000 bopd during 2015.

Brent crude spent much of the first half of the year above $100 per barrel.

450k
bopd flowing through the Kurdistan-Turkey pipeline to Ceyhan at the start of 2015

800k
bopd KRG export target for 2015

OUR STRATEGIC PRIORITIES

PRODUCTION

Maintain stable Shaikan production rates of 40,000 bopd and beyond through debottlenecking at PF -1 and -2.

For more information please visit our website
www.gulfkeystone.com

40,000 bopd
target reached in December 2014

Having achieved our PF -1 and -2 cumulative production target of 40,000 bopd in December 2014 our aim is to continue to achieve stable Shaikan production rates of 40,000 bopd with a daily average of 36,000 bopd throughout 2015, while unlocking potential to improve production capacity through debottlenecking work at PF -1 and -2.

PAYMENTS

Establish a regular payment cycle for past and future Shaikan crude oil export sales.

For more information please visit our website
www.gulfkeystone.com

US$26 million
gross received in February 2015

Following a number of payments received for crude oil exports in 2014 and the most recent pre-payment of US$26 million gross in February 2015 we anticipate further payments of a similar nature. This will allow further investment into the Shaikan field in line with Phase 1 of the approved Field Development Plan.

PIPELINE

Finalise and implement a pipeline access solution for Shaikan crude.

For more information please visit our website
www.gulfkeystone.com

100,000 bopd
Phase 1 target of the Shaikan Field Development Plan

Negotiations are ongoing with the MNR over access to the DNO pipeline solution at Fyshkhabour which would enable the Company to maximise production, lower transportation costs and efficiently develop production operations for future Shaikan Phase 1 FDP targets of 70,000 bopd and 100,000 bopd.

STRATEGY AND PERFORMANCE

Vision to build major independent exploration and production company

Strategy	Objective	Measure
Become a cash generating business and attain financial flexibility	• Conclude discussions with the MNR on the establishment of a regular and predictable payment cycle for past and future Shaikan crude oil export sales in order to generate steady revenues • Exit non-core assets	• Establish a regular payment cycle and recovery of outstanding amounts
Ramp-up commercial oil production from Shaikan	• Maintain stable production and sales of 40,000 bopd • Increase production to up to 70,000 bopd and then 100,000 bopd in line with Shaikan FDP target • Normalise cash flows for crude sent for export • Finalise pipeline solution • Efficient development and production operations • Achieve positive operating cash flow as we progressively develop our assets	• Steady average gross production • Commencement of expansionary projects • Reduce gross operating cost per barrel • Increase cash inflow from operating activities
Increase reserves and resource base	• Increase value of assets	• Reserve additions • Conversion of 2C contingent resources to 2P reserves
Attain highest level of corporate governance	• Increase shareholder confidence • Ensure appropriate independent challenge of Executive Management	• Compliance with the UK Corporate Governance Code • Results of the shareholders' vote at the AGM
Maintain high levels of corporate social responsibility	• Carry out all operations with openness, integrity and accountability • Creating opportunities to develop and acquire talent • Maintain exceptional relationships with KRG/MNR and people of Kurdistan in an environment of mutual respect and co-operation	• Promotions in Competency Based Framework (CBF) promotions • Delivery against the Company's CSR three to five year plan • Response to involuntary displaced persons ("IDP's")/humanitarian crisis in the Kurdistan region

Progress made in 2014/15	Associated risks (see pages 32-35)
• Receipt of US$26 million (gross) prepayment for sales in February 2015 • Receipt of US$15 million (gross) in December 2014 • Receipt of US$20.2 million (gross) payment for sales in May/June 2014	• Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding • Risks associated with infrastructure and export market • Political and regional risk • Liquidity and credit risk
• Reached 40,000 bopd target in December 2014 following a gradual ramp-up of Shaikan production during the year • A record 58,000 gross barrels of Shaikan crude was sent by truck to the Turkish coast for further export sale on 29 December 2014 • Commissioning of PF -2 in June 2014 • Debottlenecking at PF -1 and -2 resulting in increased production • Drilling of Shaikan -11 well and completion of well tie ins • Negotiations ongoing with the MNR over pipeline solution and access to the DNO pipeline solution at Fyshkhabour	• Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding • Risks associated with infrastructure and export market • Liquidity and credit risk • Capital availability and expenditure control • Field delivery risk
• Publication of the Competent Person's Report ("CPR"), the first third-party evaluation of reserves and resources • Akri-Bijeel FDP approval based on Bijell and Bakrman discoveries • Drilling and testing of Sheikh Adi -3 well	• Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding • Risks associated with infrastructure and export market • Capital availability and expenditure control • Field delivery risk
• Move from AIM to Main Market in March 2014 • Voluntary adoption of the UK Corporate Governance Code • Three additionally appointed Non-Executive Directors added to the Board	• Organisational capability • Business Conduct and Bribery Act
• Competency based training programmes for staff continued and developed • 15 promotions achieved in 2014 as a direct result of our Competency Based Framework • Increased manpower on the ground • Provided humanitarian aid assistance and supplies	• Political and regional risk, including risks relating to disputes regarding title and exploration and production rights • Health, safety, security and environment ("HSSE") • Security

REGIONAL CONTEXT

KURDISTAN

We are fully focused on our commitment to the people and environment of the Kurdistan Region of Iraq.

The KRI comprises parts of the three governorates of Erbil, Sulaymaniyah and Duhok. It borders Syria to the west, Iran to the east, and Turkey to the north.

Recent history in brief

The Kurdistan Regional Government (KRG) was formed in 1992 by the Kurdistan National Assembly. Under successive cabinets since the fall of the former regime in 2003, there have been considerable advancements in the region including the development of housing, education, airports, infrastructure, international relations and social and economic projects, in particular oil and gas policy and industry which has subsequently encouraged an increase in foreign investment.

The oil and gas industry in the KRI is relatively new but has, over the past ten years, seen immense growth and development, with an estimated 45 billion barrels of oil in reserves and over 100 wells now spudded in the region. During 2013, the KRG completed the construction of its export pipeline infrastructure and positive political advancements between the KRI and Turkey in 2014 have laid a clearer route for crude oil exports to the Mediterranean Turkish coast, from which the crude is sold to the international market. The industry is also creating further employment and training opportunities for the people of Kurdistan, important for a region where the median age is just over 20 years old.

Over the last year the KRI has faced new challenges stemming from the security threat posed by Islamic terrorist organisation 'IS' following its insurgence in Iraq. KRI borders have however resisted IS penetration, and with continued efforts of the KRG's military force the Peshmerga and scale of support from the international community that environment is likely to be maintained. Despite this, the situation has put intense pressure on governmental resources and the dramatic and sudden influx of over one million involuntary displaced persons ("IDPs") from Iran, Syria and elsewhere in Iraq, seeking refuge in Kurdistan, has led to a humanitarian crisis.

45bn
barrels of oil in reserves in the Kurdistan region of Iraq

Gulf Keystone and the KRI

We have been in the KRI since 2007 with production sharing contracts in place to last up to 30 years. We work closely with the KRG to achieve our joint goal of aiding the expansion of the region for benefits today and for future generations. Where possible, Gulf Keystone have endeavoured to directly support the humanitarian aid effort. The Company is a key contributor in meeting the KRG's oil production targets and in turn to the development of the region as a whole as it remains one of the most attractive upstream destinations in the world, a Region of Growth and huge potential.

> **The industry is also creating further employment and training opportunities for the people of Kurdistan, important for a region where the median age is just over 20 years old.**

Gulf Keystone providing humanitarian aid relief.

CORPORATE SOCIAL RESPONSIBILITY REVIEW

SHARED VALUES

We aim to make meaningful contributions to the communities in which we operate, nurturing relationships and aligning our common values of mutual support, growth and prosperity.

In this section

The Company is committed to conducting its business to high ethical standards and in an open and honest manner.

INTRODUCTION

We are sensitive to the diverse cultures with whom we interact and we aim to make a positive contribution to the communities in which we operate. We value our workforce, and are committed to providing a workplace free of discrimination where all employees are afforded opportunities and are rewarded upon merit and ability.

The Company is committed to conducting its business to high ethical standards and in an open and honest manner. We seek to be fair in our relationships and dealings with our counterparties and strive to maintain strong relationships with our business partners, host governments and within the local communities in which we operate.

Our operations play an important role in supporting the overall development of the oil and gas sector in the Kurdistan Region of Iraq and in contributing to the overall economic growth benefiting of the people of Iraq.

Corporate Responsibility Plan

Gulf Keystone developed a long-term corporate responsibility ("CR") plan in 2013 which was approved by the Ministry of Natural Resources in 2014. It outlines ways in which we are working with the Kurdistan Regional Government and local authorities on an ongoing basis to achieve common corporate responsibility aims, with a particular focus on community engagement and investment, including training, education and healthcare.

This Corporate Responsibility Plan fulfils three needs:

- to set out our CR strategy and delivery programme;
- to meet the KRG's requirement for all oil and gas companies to prepare and submit a forward-looking CR Plan; and
- to set out the health, safety and environment (HSE) elements of the CR Plan to reflect the management of policy responsibilities within the KRG.

We believe that a successful CR programme is essential if it is to meet our production obligations and targets in a way that delivers maximum return on investment while addressing the significant community, environmental, workplace and market issues that are common to any responsible production company.

...focus on community engagement and investment, including training, education and healthcare.

We strive to align our values in the interests of the people who continue to contribute towards Gulf Keystone's success.

PEOPLE

We strive to align our values in the interests of the people who continue to contribute towards Gulf Keystone's success. This includes all employees and contractors as we ensure their safety and wellbeing while supporting individual educational and training needs, sustaining a first class team on the ground and throughout the organisation.

Training

We have a Competency Based Framework ("CBF") in place designed and tailored for Surface Operations at both Shaikan PF -1 and PF -2. The programme encourages the development of our highly motivated production operations staff in order to deliver sustainable levels of competency for safe and efficient operations through training and assessment. The programme is the first of its kind to be implemented within the KRI's oil and gas industry but we feel it is an invaluable tool enabling us to raise performance, achieve consistency, communicate effectively, ensure a system for promotion and provide clear career paths for our employees.

At present we have a total 122 bilingual employees working on PF -1 and PF -2, all of whom are under CBF assessment includes our maintenance group consisting of 16 employees to whom the framework was extended in 2014, in line with our 2013 target. During 2014 a total of 3,797 assessments were performed for potential promotional purposes with total assessments to date reaching over 9,000. From its inception there have been approximately 37 promotions achieved, including 15 in 2014.

English teaching is incorporated into the CBF with the primary aim of ensuring that all staff understand safety instructions in English and are able to follow English operational guidance. Furthermore it is a skill that has the potential to be utilised throughout a lifetime.

It has been an excellent year for the CBF. The Kurdistan Oil & Gas Workforce Capability Development, an initiative started by the MNR, has recognised the success of this framework and are now promoting it as the standard for oil and gas companies present in the KRI.

In 2015 we hope to build on the scope and success of the scheme with the following priority areas having been identified for the CBF schedule:

- field operations;
- tanker loading;
- compressor operations; and
- burners and furnace operation.

37 promotions achieved as a direct result of the Competency Based Framework ("CBF").

English teaching at Shaikan PF -1 as part of the Competency Based Framework ("CBF").

We have put in place comprehensive HSE and operations management procedures including emergency and incident response plans.

HEALTH AND SAFETY

We conduct our business safely and in a socially responsible and ethical manner. We respect the law and endeavour to protect the environment and communities in which we work. As a leading oilfield operator in the KRI, safety is of the highest importance. We use our smarter-safer-together approach in all operations while adhering to the highest standards of business conduct. To ensure that health, safety and environment considerations remain core values, we see it as our obligation to identify and reduce risks, safeguard people and protect the environment, assets and the communities where we operate.

We have put in place comprehensive HSE and operations management procedures including emergency and incident response plans. The Group actively engages with local communities and governments using specialist consultants. Clear policies and procedures are supported by strong leadership, accountability and commitment throughout the organisation.

> **We use our smarter-safer-together approach in all operations while adhering to the highest standards of business conduct.**

Shaikan PF -2.

Our success is dependent on the quality of the relationships we build with the communities established near our operational sites.

COMMUNITY

Our success is dependent on the quality of the relationships we build with the communities established near our operational sites. We anticipate that we will work alongside many of these communities for a minimum of 20-25 years in accordance with our Production Sharing Contracts. We expect this social and economic relationship to grow and strengthen through the community support we provide, the employment opportunities we offer and the willingness of our local communities to work with us to create wealth.

A key place for community relations

As our Company grows, so does our responsibility. We have taken on a number of community projects including school renovations, the building of event halls, water pumps and access roads. In November 2013 Gulf Keystone was awarded a certificate of 'Thanks and appreciation' from the Mayor of Shaikan, Mr Ismail Mustafa, in recognition of the community engagement and support work we have undertaken. At the time, Gulf Keystone was the only oil and gas company to have received this document, marking our efforts and community investment in the area.

Humanitarian aid

During the last twelve months the Kurdistan Region of Iraq has faced a humanitarian crisis, becoming host to a large number of internally displaced persons ("IDPs") as a result of the IS insurgence in Iraq. Naturally, our reaction has been to do what we can to help and show our support to the region, where possible, providing humanitarian aid.

During the height of the summer we provided basic food staples and essential items to IDPs in and around our operational areas, distributing over 300 family food parcels as well as clothing and sanitation products in one week alone and covering 24 villages.

During the winter months we engaged in a winterisation scheme which included supplying families with food, bedding, clothes, heaters and fuel.

> **The region has faced a humanitarian crisis, becoming host to a large number of internally displaced persons seeking refuge.**

Humanitarian aid workers delivering supplies to communities surrounding our operations.

We are focused on minimising the environmental impact of our operations in line with the legal and regulatory requirements governing environmental practices within the KRI.

ENVIRONMENT

We are focused on minimising the environmental impact of our operations in line with the legal and regulatory requirements governing environmental practices within the KRI. We recognise the importance of maintaining a healthy natural environment and are committed, as part of our CR Plan, to demonstrate improving levels of environmental management, with the aim of reducing the environmental impacts of our business.

Waste management

We have in place a waste management system across our two operated blocks, Shaikan and Sheikh Adi having purchased and installed an industrial incinerator which meets all EU established criteria for air emissions. It is positioned centrally in the field in order to handle all the solid waste generated and efficiently serve the concession which allows us to monitor and control waste disposal.

As part of the Company's continuing community relations programme we have set up a green team, made up of Kurdistan national employees, to operate the incinerator, collecting rubbish from our operational sites and neighbouring villages. We are one of only a few oil companies that handle waste in this way, making us a leader in the area of waste disposal within our peer group.

Kurdistan Region of Iraq landscape on the Shaikan Block.

UK Consul General visits Gulf Keystone's Shaikan production facility

UK HM Consul General to the Kurdistan Region and Northern Iraq, Angus McKee, visited Gulf Keystone's production facility at the Shaikan in December 2014. Following the visit, McKee said "Kurdistan Region's oil industry is a real success story, and it benefits from significant UK investment and know how. Gulf Keystone is a UK-listed exploration and production company looking to expand its operations. As well as contributing to oil exports, it employs over 200 local staff, and takes social responsibility – including the current humanitarian crisis – seriously."

"Kurdistan Region's operators draw significantly on British expertise. The Consulate General in Erbil, including our UK Trade and Investment Team, work to strengthen these ties. The oil industry's success is essential for the future development and prosperity of Kurdistan Region".

> "Gulf Keystone takes social responsibility – including the current humanitarian crisis – seriously."

Strategic report

Governance

Financials

Additional information

OPERATIONAL REVIEW

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.

John Stafford
Vice President Operations

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

In March 2014 we were pleased to release the CPR prepared by ERC Equipoise Limited, a report providing the Company and the market with the first baseline indication of reserves and resources across our portfolio in the Kurdistan Region of Iraq. The report also served as an important step in Gulf Keystone's transition from an oil and gas exploration company to a production company and as part of our move from AIM to the Main Market of the LSE.

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, as total number of barrels produced to date stretches beyond 8 million.

2014 was a transformational year for the operational landscape of Kurdistan with terrorist group IS emerging in Iraq during the summer. Despite some tumultuous months however, Gulf Keystone production was not halted, thanks to the incredible determination of all involved, meaning we achieved a full year of crude oil export deliveries from the Shaikan field.

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 percent of the approximate 100+ wells envisaged for the full field development of Shaikan.

Flowline connections at PF -2.

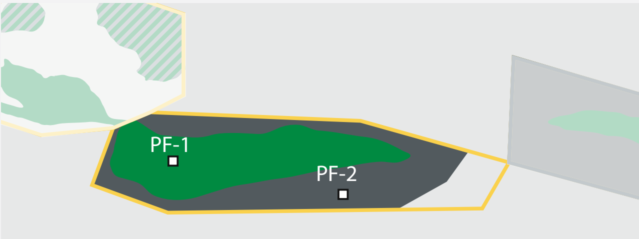
The CPR is an important baseline indication of resources and reserves, with potential for future increases through the full implementation of Phase 1 of the Shaikan FDP and its further project phases, which will include the drilling of a substantial number of development wells, acquisition of additional 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

The Shaikan block is situated about 85 km north-west of Erbil covering an area of 283 km^2 and is one of the largest onshore developments in the world today.

KEY INFORMATION

75%
Working interest; operator



Location of Shaikan production facilities

For maps please visit our website
www.gulfkeystone.com/operations

Exports

Shaikan crude oil is sold to international markets via trucked deliveries to the Turkish coast. 100 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, a year of ceaseless exports, with a maximum daily delivery of an extremely encouraging 57,450 bopd achieved in December.

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

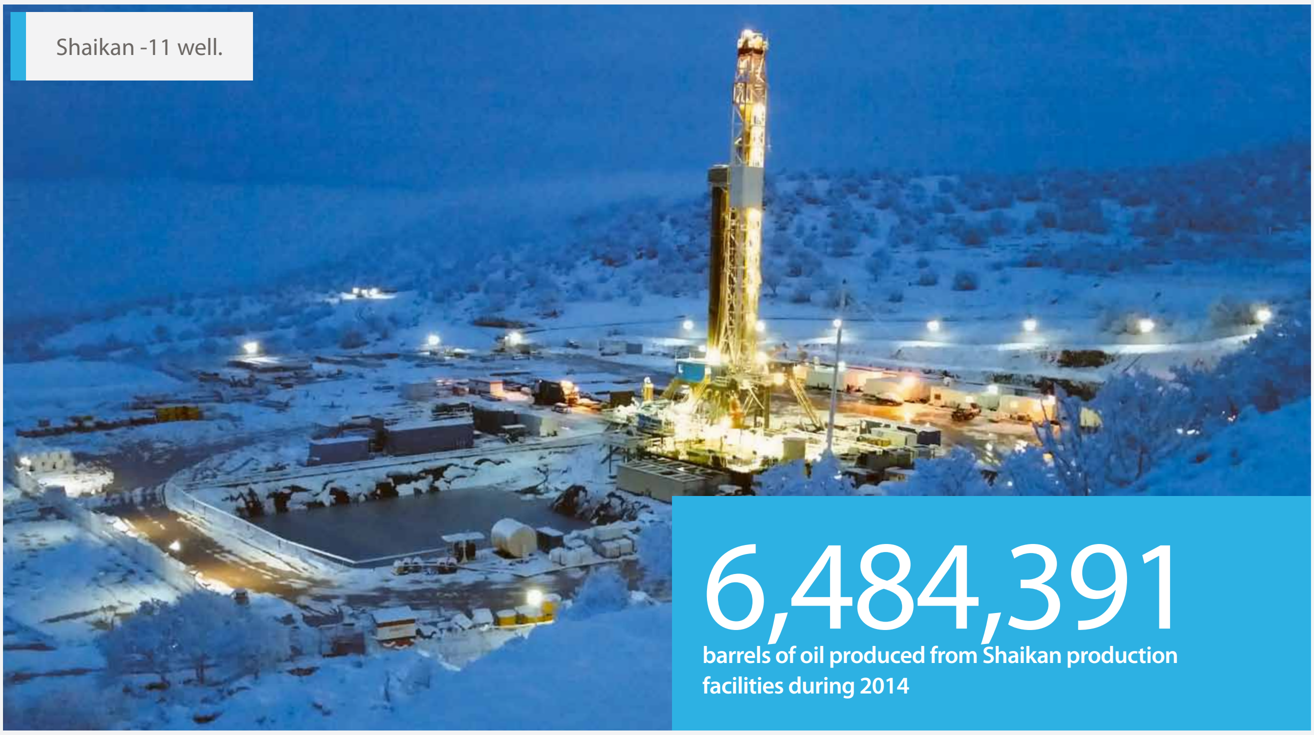
Drilling

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, but 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's commitment to drill an exploration well to target the deeper Triassic and Permian potential remains.

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 and 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 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 the first quarter of 2014 levels of



Shaikan -11 well.

6,484,391

barrels of oil produced from Shaikan production facilities during 2014

production were stable at around 10,000 bopd. When PF -2 came on stream with oil from wells Shaikan -2 and Shaikan -5 in June this 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 11km trench has been 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 2014 year end, which was key to reaching our 40,000 bopd milestone.

Surface manifold and flowlines have been laid for new wells Shaikan -7 and -8 and additional flowlines laid for existing wells Shaikan -1B and -3 granting extra capacity, which will be utilised once the 3½" 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. Similarly, plans to drill a deep exploration well, side-track and re-test the Shaikan -6 well and prepare a review of the Shaikan FDP to include further insight into Cretaceous, Triassic and potentially Permian developments, will be reassessed in 2015. The company has now produced nearly three percent of its Shaikan 2P reserve and looks forward to further development of this remarkable asset going forward.

Operational challenges

During a challenging operational environment as a result of regional political disturbances, particularly the IS offensive which peaked in August 2014, not only did Gulf Keystone achieve its objective of installing and commissioning an added 20,000 bopd capacity but production went essentially undisturbed. However, the level of suitably experienced and qualified contracting staff has suffered as a result with many companies removing staff from the region and not returning them and as such the company has suffered delays in some core projects and increased costs in sourcing the necessary expertise. Nonetheless, operational targets have been met.

Two important points emerge from the events of the summer, the first being that our national staff elected to stay on location, and secondly, production was never halted. This is testament to the loyalty and sense of ownership felt by our colleagues in Country and to the operational strength of the Company, even in times of adversity. The safety of our staff and contractors is of paramount importance and is always at the forefront of any strategy and following the IS incursions additional security has been installed across Gulf Keystone facilities.

SHEIKH ADI

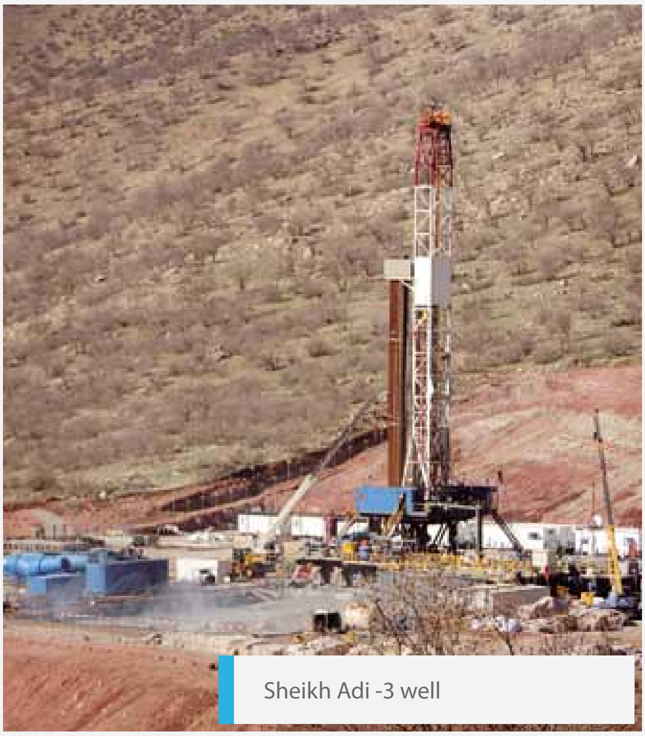
The Sheikh Adi block covers an area of 180 km² and lies to the west and on trend with the Shaikan structure. Since our 2012 discovery, appraisal well Sheikh Adi -3 has successfully completed and flow tested proving first commercial rates from the footwall part of the structure.

KEY INFORMATION

80%
Working interest; operator

For maps please visit our website
www.gulfkeystone.com/operations

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 the western flank of Shaikan. The well successfully tested hydrocarbons achieving rates of up to 270bbls/d from the Jurassic, proving the first commercial rates from the footwall part of the structure and has been 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.



Sheikh Adi -3 well

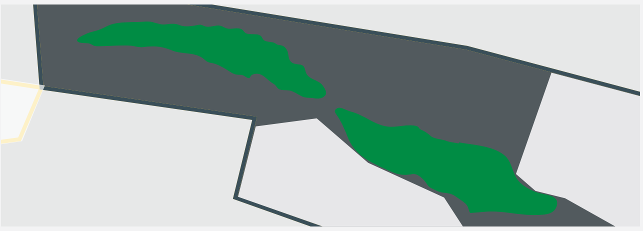
OTHER ASSETS

The Ber Bahr block covers an area of 206 km and lies to the north-west and on trend with the Shaikan and the Sheikh Adi blocks. The Akri-Bijeel block is situated to the east of the Shaikan block and covers an area of 889 km².

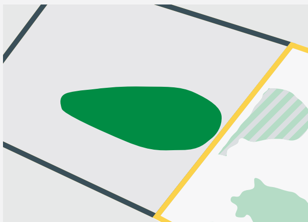
KEY INFORMATION

40% Working interest (Ber Bahr)

20% Working interest (Akri-Bijeel)



Akri-Bijeel



Ber Bahr

For maps please visit our website www.gulfkeystone.com/operations

Ber Bahr

The Ber Bahr -1 exploration well made a commercial Jurassic discovery in 2013 and was successfully side-tracked in the first half of 2013 and tested 2,100 bopd of 15 degree API oil from the Jurassic Sargelu formation. Genel Energy, the operator of the block, stated in May 2013 that the results of the Ber Bahr -1 well confirmed the existence of a commercial oil discovery. A 160km² 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

In November 2013, 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.

The development will be done in two phases, phase one objective is to allow the operator to better determine key factors such as the reserves base, recovery factor, optimum surface facility design and overall field development cost. Drilling is ongoing to meet these objectives.

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

8 April 2015

RISK MANAGEMENT

Getting risk management right is an essential component of business success. It supports the achievement of our strategic objectives and protects our business, our people and our reputation.

BOARD
Ultimately responsible for effectiveness of internal control systems

AUDIT COMMITTEE
Reviews effectiveness as regards:

- Financial reporting
- Risk management
- Audit function

HSSE AND CSR COMMITTEE
Reviews effectiveness as regards:

- Health, Safety & Security systems
- Environmental systems
- CSR systems

SENIOR MANAGEMENT
Responsible for implementation of risk management processes

INTERNAL AUDIT FUNCTION
Assists the Board and management in executing their responsibilities

Identifying, understanding and mitigating the risks we face, whilst being able to maximise the value from business opportunities, supports effective decision making. Responding quickly when risks crystallise to mitigate their impact is a key element of our risk management process which underpins the safe delivery of our business plans and strategic objectives, protects our licence to operate, and helps to create a long-term competitive advantage.

The Board, its Committees and the senior management team are actively engaged in monitoring and limiting, where possible, the risks to which the Company and its subsidiaries (together "the Group") are exposed. During 2014, we have regularly considered our risk profile and updated the Group risk register. The following table indicates the key risks the Group faces, their potential impact and the mitigation measures that we have in place. The list is not exhaustive or in priority order, and may change at any time.

Strategic risks

Key risk factor	Potential impact	Mitigation
Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding	Ineffective or poorly executed strategy fails to create shareholder value and to meet shareholder expectations. It may lead to loss of investor confidence and reduction in the Company's share price, which reduces the Company's ability to access finance and increases vulnerability to a hostile takeover.	The Company maintains a regular dialogue with the Company's shareholder base and the general public. A website is maintained to disseminate information widely and in a timely manner. Gulf Keystone employs an investor relations team. All key developments are released to the market through the Regulatory Information Service, also available on the Company's website.
Organisational capability	With the Group's transition from exploration to development and production, it is of utmost importance to ensure that the capability of the organisation is adequate to deliver plans for growth. Organisational capability is a function of both the strength of the Group's human resources and internal controls. Inability of the Group to recruit and retain staff with the right skills and to implement succession plans may lead to a loss of knowledge and skills to the Group and other short- and long-term disruption to the business. Weak controls or lack of compliance may lead to loss of value and failure to achieve growth targets.	Gulf Keystone has created competitive remuneration packages including bonus, share options and long-term incentive plans that are reviewed regularly to ensure key executives and senior management are appropriately compensated. Senior management turnover rate in the Group continues to remain at low levels. The Group's internal audit function performed by PricewaterhouseCoopers ("PwC") carries out a variety of internal control procedures audits with a risk based focus. The areas of focus for the internal audit reviews are determined by the Audit Committee, who also monitor timely and adequate implementation of the recommendations made. For further details on the reviews carried out in 2014, please refer to the Audit Committee Report section of the Corporate Governance Report.
Political and regional risk, including risks relating to disputes regarding title and exploration and production rights	Unfavourable developments in politics, laws and regulations can affect our operations, earnings and our ability to deliver the strategy. The Group has the right to explore its assets in the Kurdistan Region of Iraq and, to the best of its knowledge, those rights are in good standing. However, The Iraq Oil Ministry has publicly stated that the PSCs entered into by the KRG are not valid. If the validity of the PSCs was successfully challenged, the Group could be required by the KRG to accept contractor entitlements that are materially less favourable than the current PSCs. Consequences may include limits on production or cost recovery, import and export restrictions, price controls, uncertainty over payment mechanisms for the export sales, tax increases and other retroactive tax claims, expropriation of property, cancellation of contract rights and increase in regulatory burden.	The history of political and social instability of Iraq, particularly in relation to the so called Islamic State, including the Kurdistan Region of Iraq where the majority of the Group's operations are concentrated, is noted by the Board who mitigate the political risk as far as possible. While the Group cannot control or completely mitigate the risks of disputes between the Kurdistan Region of Iraq and the Republic of Iraq in relation to the Kurdistan PSCs, it maintains continuous dialogue with appropriate government departments and closely monitors the local situation for emerging risks to the business and has business continuity plans in place. Gulf Keystone strives to be a good corporate citizen globally, and fosters reputation by strong and positive relationships with the governments and communities where we do business. The Group has a number of ongoing corporate social responsibility initiatives.

Strategic risks continued

Key risk factor	Potential impact	Mitigation
Risks associated with infrastructure and export market	The Group's ability to export oil may be curtailed by current uncertainty relating to the export market and the payment mechanism for export oil in the Kurdistan Region of Iraq. The construction of a pipeline connecting the Company's blocks to the export market is critical to the future operations of the Group as transportation by truck has limited capacity, is costly and carries inherent risk relating to potential safety and environmental concerns in the event of any accidents.	The Group continues to have a regular dialogue with the KRG as part of its engagement with stakeholders. The Group monitors the developments in the Kurdistan Region of Iraq infrastructure and availability of transport options. As a short-term solution, Gulf Keystone expects in the near future to be able to rely on transportation by truck to the DNO pipeline facility at Fyshkhabour, pending the Group's anticipated access to the regional pipeline infrastructure from Kurdistan to Turkey. However, the Group recognises all the limitations associated with trucking.
Business conduct and bribery act	Due to the nature of the industry sector and the regions in which Gulf Keystone operates, the Group is potentially exposed to accusations of poor practice when it comes to the requirements introduced by the UK Bribery Act in 2010. Violations of this Act, by the Group or those acting on its behalf, may result in a criminal case against Gulf Keystone and/or our employees, leading to reputational damage, possible imprisonment and fines.	The Audit Committee designated a senior executive as the anti-Bribery Officer for the Group. His role is to ensure that the Group has appropriate procedures in place to mitigate the risk of bribery and that all employees, agents and other associated persons are made fully aware of the Group's policies and procedures with regard to ethical behaviour, business conduct and transparency. PwC performed an independent Bribery Act compliance review in 2013. The Audit Committee is monitoring the timely implementation of PwC's recommendations. A detailed bribery risk assessment has been performed by management and reviewed by the Board.
Operational risks		
Field delivery risk	Field delivery risk applies to all phases of the exploration and production ("E&P") cycle from seismic acquisition through to production operations. At each phase the mitigating measures will be different, however, failure to control risks will manifest itself as project delays, cost overruns, high production costs, early field decommissioning and, ultimately, lower than expected reserves.	Technical, financial and Board approvals are required for all projects, and for all dedicated project teams. The technical team analyse results from appraisal wells and determine the appropriate course of action in terms of drilling programme and facility design. All projects are closely monitored to ensure the project delivers against plan and to enable actions to be taken to maintain progress. Project finances are monitored against budget to minimise overruns.
Health, safety, security and environment ("HSSE")	The Group may be exposed to specific risks in relation to social and environmental factors as well as health and safety matters. The security risk is addressed in additional detail below. Identified risk areas include H2S leaks at the production facilities, road traffic accidents and other accidents at production facilities and well sites. Consequences may include accidents resulting in loss of life, injury and/or significant pollution of the local environment, destruction of facilities, disruption to business activities, risk of litigation and reputational damage, with an associated financial loss.	The Group established a Health, Safety, Security and Environment and Corporate Social Responsibility ("HSSE and CSR") Committee in September 2013, ensuring that HSSE strategy is directed from the Board level, in order to warrant accountability and commitment throughout the organisation. Gulf Keystone has put in place comprehensive HSSE and operations management procedures including emergency and incident response plans. The Group actively engages with local communities and governments using specialist consultants. PwC performed an independent HSSE procedures review in 2013. Management is continuously working on the improvements to the HSSE procedures including the implementation of the recommendations that arose from PwC's review.

Operational risks continued

Key risk factor	Potential impact	Mitigation
Security	The Group is exposed, by virtue of the location of its operations, to a number of security risks. These include the threat of terrorist attack and local protests and unrest at Gulf Keystone sites. Both of these threats may lead to death or injury to personnel, disruption to operations, costs to repair facilities and reputational damage to the Group.	The Group has employed external consultants to assess the security risks, monitor the threat level and advise on security procedures and contingency plans. Good relations with local communities are also considered essential as they provide intelligence about the nature, severity and likelihood of any threat.
Prohibition on flaring and undeveloped options for monetising natural gas discoveries	Under the terms of the Kurdistan PSCs, to the extent that the Group is unable to re-inject or sweeten natural gas, prior authorisation is required for the prolonged flaring of natural gas. Expiration of the flaring permit will result in the suspension of production and sales.	The Group maintains active dialogue with the regional authorities to ensure that it complies with the existing regulations. Harmful gases emissions are closely monitored by the HSSE department with any variances outside the norms investigated and reported to the executive management.
Financial risks		
Capital availability and expenditure control	Access to financing to maintain the ongoing operations of the business is critical. If the Group's financial performance and access to funding do not match the capital requirements, it will be impossible for Gulf Keystone to fulfil commitments and deliver the exploration and development programme. In the extreme case, this could impact the Group's ability to continue as a going concern.	Finances are controlled through a comprehensive annual budgeting process and periodic forecast updates, including sensitivity reviews. The projected cash balance is reviewed on an ongoing basis. All significant expenditure is approved by the Board. Short-term and long-term cash forecasts are monitored and reported regularly to senior management and the Board. Active dialogue is maintained with financial institutions and investors and potential sources of funding the Group's ongoing work programme are considered. Gulf Keystone's management have a strong track record of successful fundraisings.
Liquidity and credit risk	The Group's required capital expenditures exceed the currently available working capital. There is a continued risk that receipt of funds for crude sent for export will not materialise. The Directors believe that a material uncertainty exists around the Group's ability to continue as a going concern. As a result of the shortfall in working capital, the Group may not be able to pay liabilities as they fall due and, in extreme cases, this may lead to insolvency. The Group also has convertible bonds, bonds and warrants in issue, thereby increasing its exposure to credit risk.	The Group also has a number of other potential sources of cash inflows which are detailed in the "Going concern" section of the Directors' report. The Group has a strong track record of fundraising and the Directors have a reasonable expectation of securing the necessary funds to fulfil the Group's working programme

FINANCIAL REVIEW

Sami Zouari
Chief Financial Officer

Mary Hood
Deputy Chief Financial Officer

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.

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 six 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 percent 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 percent 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.

Kurdistan region of Iraq.

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 judgement 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.

Financial review continued

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 comprised $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 percent 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).

Truck loading at Shaikan PF -1.

Shaikan monthly production 2014

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.

Sami Zouari
Chief Financial Officer

Mary Hood
Deputy Chief Financial Officer

BOARD OF DIRECTORS

Andrew Simon

John Gerstenlauer

Sami Zouari

Lord Guthrie

Andrew Simon
Interim Non-Executive Chairman

Andrew Simon OBE was appointed as a Non-Executive Director of Gulf Keystone Petroleum Limited in September 2013, appointed Senior Independent Director of the Company in March 2014 and Interim Non-Executive Chairman in March 2015.

He has been a Non-Executive Director at Travis Perkins plc since 2006 and is also a Non-Executive director at Finning International Inc. (Canada), Management Consulting Group plc, SGL Carbon SE (Germany), Exova Group plc, Icon Infrastructure Management Limited (Guernsey) and British Car Auctions.

Mr Simon was previously Deputy Chairman of Dalkia plc, Chairman and/or Chief Executive of Evode Group plc and has held non-executive directorships with Severn Trent Plc, Ibstock PLC, Laporte Plc, Associated British Ports Holdings PLC, Brake Bros Holdings Ltd and Travis Perkins plc where he is Chairman of theRemuneration and Health & Safety Committees.

Committee memberships

Audit Committee, Remuneration Committee (Chairman)

John Gerstenlauer
Chief Executive Officer

John Gerstenlauer joined Gulf Keystone in 2008 from BASF's Wintershall Nederland Group, The Hague, where he was Managing Director.

A US citizen, John holds Bachelor of Science degrees in Marine Biology and Civil Engineering, and a Master of Science degree in Ocean Engineering. He has written numerous technical papers on petrophysical topics and drilling techniques.

John's oil and gas industry career began when he joined Shell Coastal Division, New Orleans, as a Petrophysical Engineer in 1978. Over subsequent years, he assumed increasingly senior production engineering and drilling engineering roles within various New Orleans-based Shell operating divisions including Coastal, Onshore and Offshore until joining Shell Oil subsidiary Pecten Cameroon Inc as engineering manager in 1985.

Committee memberships

Nominations Committee, HSSE and CSR Committee

Sami Zouari
Chief Financial Officer

Sami Zouari joined Gulf Keystone as Chief Financial Officer in January 2015, following careers in both the oil and gas industry and investment banking, where he also had a particular focus on the energy and commodities sectors in the Middle East and North Africa.

Prior to his appointment, he served as the Regional Head of Corporate & Investment Banking for North Africa, Iraq and Oman at BNP Paribas in London, overseeing various financial transactions in the MENA region with a focus on the oil and gas industry. Between 2008 and 2012, he was the Head of MENA within the Energy & Commodity division of BNP Paribas in Paris, managing lending transactions for oil and gas private and public companies.

Prior to his career in investment banking, Mr Zouari worked for Total EP in a number of roles, starting as an Economist for the Middle East Division and finally as Commercial Manager for Total EP Libya in Tripoli, overseeing all non-operated assets producing in excess of 300,000 bopd.

Mr Zouari holds a BA in Economics from Columbia University (New York, NY), and a Masters from Harvard University (Cambridge, MA).

Committee memberships

None

Lord Guthrie
Non-Executive Director

Field Marshal the Lord Guthrie of Craigiebank, GCB LVO OBE DL, was appointed as a Non-Executive Director of Gulf Keystone Petroleum Limited in October 2011 and is Chairman of the Nominations Committee. He was appointed as Deputy Chairman between September 2013 and March 2014.

Lord Guthrie served in the British Army from 1957 to 2001. From 1997 to 2001 he was Chief of the Defence Staff and the Principal Military Adviser to two Prime Ministers and three Secretaries of State for Defence.

Committee memberships

Nominations Committee (Chairman), HSSE and CSR Committee


Philip Dimmock


Joseph Stanislaw


VU Kumar


Maria Darby-Walker

Philip Dimmock
Non-Executive Director

Philip Dimmock was appointed as a Non-Executive Director of Gulf Keystone Petroleum Limited in September 2013 and is Chairman of the Health, Safety, Security and Environment ("HSSE") Committee. He has over 40 years' experience in upstream oil and gas, both in the UK and internationally, and is currently a consultant to various oil and gas companies, including Equator Exploration Ltd where he was chief operating officer.

Philip spent a significant part of his career at BP in a wide variety of senior positions including manager of the Forties oil field.

Committee memberships

Audit Committee (Chairman), Remuneration Committee

Joseph Stanislaw
Non-Executive Director

Joseph Stanislaw was appointed as a Non-Executive Director of Gulf Keystone Petroleum Limited in August 2014.

Joseph gained a BA, cum laude, from Harvard College, an MA from the University of Cambridge and a PhD in Economics from the University of Edinburgh and he is one of only several people to have been awarded an Honorary Doctorate and Professorship from Gubkin Russian State University of Oil and Gas in Moscow.

Committee memberships

Audit Committee, Nominations Committee,
HSSE and CSR Committee (Chairman)

V Uthaya Kumar
Non-Executive Director

VU Kumar ("VU") was appointed as a Non-Executive Director of Gulf Keystone Petroleum Limited in August 2014.

Corporate Finance Holder and Fellow of the Institute of Chartered Accountants in England & Wales and Chartered Accountant of the Malaysian Institute of Accountants, VU is experienced in the disciplines of Risk & Governance, Financial Reporting and Process & Controls.

Over the past 35 years VU held various roles at PricewaterhouseCoopers, which have involved leading some of the most important assignments for the company in Malaysia and globally, working in audit, business advisory, mergers and acquisitions, valuations, privatisations, IPOs and cross-border transactions.

Committee memberships

Audit Committee, Remuneration Committee

Maria Darby-Walker
Non-Executive Director

Maria Darby-Walker was appointed as a Non-Executive Director of Gulf Keystone Petroleum Limited in December 2014.

A specialist in managing corporate reputation and strategic communications, she has spent the last 25 years advising many of the world's leading companies and their boards. Her experience spans a wide range of industry sectors including natural resources, banking and financial regulation, aerospace, media and FMCG, amongst others. Clients have included: Rio Tinto, Cadbury, the Financial Conduct Authority, Oyu Tolgoi (Turquoise Hill) in Mongolia, Ivanhoe Mines, SchlumbergerSema and media group Tempus during its acquisition by WPP.

Committee memberships

Remuneration Committee, HSSE and CSR Committee

SENIOR MANAGEMENT

Tony Peart
Legal and Commercial Director

Tony Peart joined the Company in 2008 and has over 33 years of legal, commercial and management experience in the oil and gas industry.

From 2006 to 2008 he was Legal and Commercial Director of African Arabian Petroleum Limited, an Emirati-owned oil company holding exploration and production interests in North and West Africa.

From 2000 to 2005 he was Senior Vice President, General Counsel and Corporate Secretary of Petrokazakhstan Inc. which was acquired by the Chinese National Petroleum Corporation ("CNPC").

He was previously Managing Director of Bula Resources Plc and MMS Petroleum Plc and has held senior management positions at Lasmo Plc, Ultramar Exploration Limited and Veba Oil and Gas Limited.

He is an Attorney, holds a Masters degree in General Management from the Vlerick Leuven Gent Management School and has completed the Programme for Management Development at the Harvard Business School.

Mary Hood
Deputy Chief Financial Officer

Mary Hood joined Gulf Keystone in 2011 as Financial Controller and was appointed Interim Chief Financial Officer in June 2014, a position she held for over seven months before assuming the role as Deputy Chief Financial Officer in January 2015.

A qualified Chartered Accountant and Chartered Company Secretary, she brings a strong awareness of risk management, stakeholder and corporate governance issues to Gulf Keystone, together with an excellent knowledge of IFRS and a commercial focus.

Mary obtained an MA and PhD from the University of Cambridge and has a background in the Energy & Resource Audit practice with Deloitte UK, where she worked as External Audit Manager for FTSE 250, AIM listed and private companies. Prior to qualifying as a chartered accountant, Mary worked as a Development Officer for Cambridge Sport Lakes Trust, focusing on fundraising and sport development programme creation.

Mary is currently an Executive Member and Senior Treasurer for the Cambridge University Women's Boat Club ("CUWBC") and rowed for Cambridge whilst at university.

John Stafford
VP Operations

John joined the Company in early 2009 as Manager, Geology and Geophysics.

John's background is in geoscience having particular exposure to field development, reserve certification and reporting and equity redetermination.

Joining the industry in 1982 John gained experience with several service companies including ECL, Schlumberger and PGS running projects in integrated field management and all aspect of reserves certification and reporting including defence documents and Competent Persons Reports. As manager of a six field integrated project development he gained experience of fractured reservoir development in the Zagros trend prior to acting as a risk board adviser to PGS.

Umur Eminkahyagil
Country Manager – Kurdistan Region of Iraq

Umur received his BSc in Petroleum and Natural Gas Engineering from Middle East Technical University, Ankara, Turkey, with High Honours in 1991.

He spent the first eleven years of his career holding various Reservoir Engineering positions with Shell, mainly in Turkey and Thailand. He joined the Expro Group in 2002 and held progressively more challenging roles within the Group, spanning Malaysia, South East Asia, and finally Angola in West Africa, where he worked as General Manager.

In 2007, he became Vice President for MB Petroleum Services, responsible for international business, a position he held for a number of years before joining Gulf Keystone in March 2012.

He initially joined the Company as Development and Production Manager and has subsequently been appointed, as of 1 September 2012, the Company's Country Manager for Kurdistan, Iraq.

Mohamed Messaoudi
Country Manager – Algeria

Mohamed is a petroleum geologist with 31 years of experience in the oil and gas industry in Algeria.

Mohamed joined Sonatrach, the Algerian National Oil Enterprise in 1979, becoming Chief Geologist for the Hassi Messaoud Basin in 1996 and then the Regional Exploration Manager of the North Algeria Area – Onshore and Offshore Basins.

Prior to Mohamed's retirement from Sonatrach, he held the position of Regional Exploration Manager for the South East Algeria Region, Algeria's most important hydrocarbon area containing the Hassi Messaoud, Berkine, Illizi and Oued Mya basins.

DIRECTORS' REPORT

The Directors are pleased to present their report on the affairs of the Group, together with the consolidated financial statements of the Company and auditor's report, for the year ended 31 December 2014. A review of the business is set out in the preceding sections of this annual report, including the Chairman's statement, Chief Executive Officer's statement, Operational review and Financial review, which are incorporated into this report by reference. The Corporate governance statement also forms part of this report.

Results and dividends

The Group's financial results for the year ended 31 December 2014 are set out in the consolidated financial statements. The Group made a net loss after taxation for the year of $248.2 million (2013: $32.0 million loss) and the Directors do not recommend a dividend for the year (2013: $nil). Future payments of dividends are expected to depend on the earnings and financial condition of the Company and such factors as the Board of Directors consider are appropriate.

Capital structure

Details of the authorised and issued share capital, together with movements in the Company's issued share capital during the year, are shown in note 20 to the consolidated financial statements. The business is financed by means of debt (see note 17 to the consolidated financial statements), internally generated funds and external share capital.

There are no specific restrictions on the size of a holding nor on the transfer of common shares, both of which are governed by the general provisions of the Company's Bye-Laws and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's common shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued Common Shares are fully paid.

Details of the employee share schemes are set out in note 24 to the consolidated financial statements and details of the Directors' awards are included in the report of the Remuneration Committee.

Voting rights and Bye-Law amendments

The Company's Bye-Laws may only be revoked or amended by the shareholders of the Company by resolution passed by a majority of not less than three-fourths of such shareholders as vote in person or, where proxies are allowed, by proxy at a general meeting. Resolutions put to the vote of any general meeting are decided on a show of hands unless a poll is demanded in accordance with the Company's Bye-Laws.

Directors

With regard to the appointment and replacement of Directors, the Company is governed by its Bye-Laws, the Companies Act (Bermuda) and related legislation. In accordance with the Bye-Laws, one-third of all the Directors are required to retire by rotation every year at the Annual General Meeting.

The following Directors have held office during the year:

John Gerstenlauer	Chief Executive Officer[3][4][5]
Todd Kozel	Chief Executive Officer (resigned in July 2014)
Simon Murray	Non-Executive Chairman (retired in March 2015)
Andrew Simon	Interim Non-Executive Chairman and Senior Independent Director[1][2][6]
Lord Guthrie	Non-Executive Director[3][4]
Philip Dimmock	Independent Non-Executive Director[1][2]
Joseph Stanislaw	Independent Non-Executive Director (appointed August 2014)[1][3][4]
VU Kumar	Independent Non-Executive Director (appointed August 2014)[1][2]
Maria Darby-Walker	Independent Non-Executive Director (appointed December 2014)[2][4]
Sami Zouari	Chief Financial Officer (appointed January 2015)
Ewen Ainsworth	Finance Director (resigned in June 2014)
Mark Hanson	Non-Executive Director (retired by rotation in July 2014)
Jeremy Asher	Non-Executive Deputy Chairman (resigned in June 2014)
John Bell	Independent Non-Executive Director (resigned in June 2014)
Thomas Shull	Independent Non-Executive Director (resigned in June 2014)

(1) Member of the Audit Committee as at the date of this report.
(2) Member of the Remuneration Committee as at the date of this report.
(3) Member of the Nominations Committee as at the date of this report.
(4) Member of Health, Safety, Security and Environment Committee as at the date of this report.
(5) Appointed Chief Executive Officer in July 2014.
(6) Appointed Interim Non-Executive Chairman in March 2015.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Directors' report continued

Directors' interests in shares

The Directors who held office at 31 December 2014 had the following interests in the common shares of the Company, including family interests:

	Number of common shares[1]						
Name of Director	At 1 January 2014	Shares issued/ purchased in 2014	Shares sold/ transferred in 2014	**At 31 December 2014**	Shares issued post year end	Shares sold/ transferred post year end	At date of report
John Gerstenlauer	1,744,111	291,834	—	**2,035,945**	—	—	2,035,945
Simon Murray	160,000	—	—	**160,000**	—	—	160,000
Andrew Simon	—	—	—	**—**	—	—	—
Lord Guthrie	—	—	—	**—**	—	—	—
Philip Dimmock	—	—	—	**—**	—	—	—
Joseph Stanislaw	—	—	—	**—**	—	—	—
VU Kumar	—	—	—	**—**	—	—	—
Maria Darby-Walker	—	—	—	**—**	—	—	—

(1) Includes common shares held directly, by family members and through the Gulf Keystone EBT which are held subject to the discretion of the EBT Trustee.

At the date of this report, the Employees Benefit Trust held 8,750,836 common shares of the Company. A further 10,000,000 common shares are held by the Exit Event Trustee in relation to the Exit Event Award (see note 24 to the consolidated financial statements).

Directors' interests in share options of the Company and the Company's bonus scheme grants, including family interests, as at 31 December 2014 are disclosed in the report of the Remuneration Committee.

Significant shareholdings

The Company has been notified of the following significant shareholdings as at 8 April 2015:

	Number of common shares	Percentage of issued share capital
Capital Research Global Investors	69,596,975	7.12%
TD Direct Investing	69,048,633	7.06%
M&G Investment Management	67,973,877	6.95%
Barclays Wealth	63,522,339	6.49%
Hargreaves Lansdown Asset Management	54,380,424	5.56%

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, Chief Executive Officer's statement 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, note 26 to the consolidated financial statements 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. Note 26 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 twelve 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 27). 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 twelve months from the date of this annual 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 also 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 annual report 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 annual report and financial statements. The financial statements do not include any adjustments that might be required if they were prepared on a basis other than that of a going concern

Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Group including employee share plans and the Convertible Bonds. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Group and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

On behalf of the Board

John Gerstenlauer
Chief Executive Officer

8 April 2015

CORPORATE GOVERNANCE REPORT

One of the Board's primary responsibilities is to ensure that the Company is run in the best long-term interests of our shareholders and wider stakeholders.

Chairman's introduction into the corporate governance section

Dear shareholder

We remain committed to building upon the high standards of corporate governance that we have implemented to date to support us in running the Company.

On 25 March 2014, the Company's common shares were admitted to the standard segment of the Official List. As a consequence of being a Bermuda incorporated company with a standard listing the Company is not subject to the UK Corporate Governance Code (the "Code"), as amended in September 2012. However the Board recognises the importance of good governance and has considered the principles and provisions set out in the Code.

In 2014 the FRC updated the UK Corporate Governance Code to include provisions that require companies to apply malus and clawback to performance related remuneration. These provisions have been included within our Remuneration Committee report in the current year.

In 2014, our Board was further strengthened with three new Non-Executive Directors who come from a variety of backgrounds and bring a range of skills and experience to the Board. The Board has taken the opportunity to review and enhance the composition of the Board Committee by co-opting these new Directors. We continue to monitor our effectiveness and in 2014 completed an internal review.

Andrew Simon
Interim Non-Executive Chairman

Introduction

One of the Board's primary responsibilities is to ensure that the Company is run in the best long-term interests of our shareholders and wider stakeholders. This is achieved through the Board's commitment to maintain high standards of governance and to aim to create a culture which demands the same commitment and performance from all of our employees and contractors and in all our business activities. The governance processes applied across the Group are illustrated below and in the individual Committee reports.

Statement of compliance with the UK Corporate Governance Code

Gulf Keystone is a Bermuda incorporated Company with a standard listing on the London Stock Exchange and is not required to comply with the UK Corporate Governance Code. However, the Board resolved that the principles and provisions of the UK Corporate Governance Code will be applied and followed across the Group, in the interest of good governance.

The version of the Corporate Governance Code applicable to the current reporting period is the September 2012 UK Corporate Governance Code (the "Code"). As at the date of this report, the Board considers that it and the Company have complied with the provisions of the Code, except for the following matter:

- in 2014, the Company undertook a rigorous review of the Non-Executive Directors' independence in line with the Listing Rules' guidance. It was concluded that requirements D.2.1 and B.2.1 of the Code regarding the number of independent members were not met for the Remuneration and Nominations Committees.

The Code is issued by the Financial Reporting Council and is available for review on the Financial Reporting Council's (FRC's) website http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx.

BOARD

AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATIONS COMMITTEE	HSSE AND CSR COMMITTEE
Philip Dimmock (Chairman)	Andrew Simon (Chairman)	Lord Guthrie (Chairman)	Joseph Stanislaw (Chairman)
VU Kumar	Philip Dimmock	John Gerstenlauer	Lord Guthrie
Andrew Simon	Maria Darby-Walker	Joseph Stanislaw	John Gerstenlauer
Joseph Stanislaw	VU Kumar		Maria Darby-Walker

Matters reserved for the Board

The Board has a formal schedule of matters specifically reserved to it for decision. They cover the key strategic, financial and operational issues facing the Group and include:

- the Group's strategic aims and objectives;
- changes to the Company's capital, management or control structures;
- dividend policy and dividend recommendation;
- half-yearly reports, final results, annual report and accounts;
- the overall system of internal control and risk management;
- major capital projects, corporate actions and investment;
- communication policy; and
- changes to the structure, size and composition of the Board.

The Board is responsible to shareholders for the proper management of the Group. In 2014, the Board has continued to focus its efforts on strategic objectives that will create shareholder value and ensuring that these are properly pursued.

The Gulf Keystone Board and its Committees

As at the time of this report, the Board comprised two Executive Directors and six Non-Executive Directors (including the Chairman). The Company regards five of the Non-Executive Directors (excluding the Chairman) as independent. The Company's Executive and Non-Executive Directors come from a variety of backgrounds and bring different ideas and perspectives to the table ensuring that the Company's Directors have the right experience to meet the needs of the business. The Company places high importance on having an appropriate Board composition with the six Non-Executive Directors, ensuring that the strategies proposed by the Executive Directors are fully considered and appropriately challenged.

Currently, the Board has four Committees: Audit and Risk Committee (the "Audit Committee"), Remuneration Committee, Nominations Committee and Health, Safety, Security and Environment and Corporate Social Responsibility ("HSSE and CSR") Committee. Each standing Board Committee has specific written terms of reference issued by the Board and adopted by the relevant Committee, updated most recently in December 2013 in anticipation of the move up to the Main Market. All Committee Chairmen report orally on the proceedings of their Committees at the meetings of the Board. Where appropriate the Committee Chairmen also make recommendations to the Board in accordance with their relevant terms of reference. In addition the minutes of the Committee meetings are included in the papers distributed to all Board members in advance of Board meetings.

Corporate governance report continued

The Gulf Keystone Board and its Committees continued
To ensure Directors are kept up-to-date on developing issues and to support the overall effectiveness of the Board and its Committees. The Non-Executive Chairman and Committee Chairmen communicate regularly with the Chief Executive and other Executive Directors. The key governance mandates of the Board's four main Committees are shown below.

Board Committees

Audit Committee

The Audit Committee comprises four Non-Executive Directors. As at 31 December 2014, the Audit Committee members were Philip Dimmock (Chairman), VU Kumar, Andrew Simon and Joseph Stanislaw. Philip Dimmock has served as the Chairman of the Committee since March 2014, having taken over from Mark Hanson. The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Board considers each Committee member's experience to be recent and relevant for the purposes of the Code. This Committee meets at least four times per year and, during the year ended 31 December 2014 the Committee met four times.

The terms of reference of the Audit Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com. The Audit Committee report is set out in a separate section of the Corporate governance report.

Nominations Committee

As at 31 December 2014, the Nominations Committee members were Field Marshal the Lord Guthrie of Craigiebank (Chairman) and Simon Murray who served on the Committee for the full year joined by John Gerstenlauer and Joseph Stanislaw upon their appointment as Chief Executive Officer and Non-Executive Director respectively. The Nominations Committee formally met twice during the year. The terms of reference of the Nominations Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com. The Nominations Committee report is set out in a separate section of the Corporate governance report.

The Code states that a majority of members of the Nominations Committee should be independent non-executive directors and that the Chairman, or an independent non-executive director, should chair the Committee, neither of which were complied with during the year.

Remuneration Committee

As at 31 December 2014, the Remuneration Committee comprised three Non-Executive Directors: Andrew Simon (Chairman), Simon Murray, and Philip Dimmock. This Committee, which meets at least twice per year, is responsible for making recommendations to the Board concerning the compensation of the Executive Directors and the Chairman, as well as the level and structure of remuneration for senior management. PwC was appointed as Gulf Keystone's remuneration consultant in March 2014. The Remuneration Committee has met three times during the year. The Committee is also responsible for the determination of the Group's remuneration policy. The details of the policy as well as the activities undertaken by the Committee during the year can be found in the Directors' remuneration report. The terms of reference for the Remuneration Committee are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com.

The Code states that the Remuneration Committee should comprise of at least three independent non-executive directors. This was not complied with during the year although it is at the date of this report, as since year end Simon Murray has stepped down and VU Kumar and Maria Darby-Walker have joined.

HSSE and CSR Committee

The HSSE and CSR Committee was set up in September 2013 to ensure that appropriate systems are in place to maintain health, safety, security and environmental risk and the corporate social responsibility of the Group. As at 31 December 2014, the Committee comprised two Non-Executive Directors, Joseph Stanislaw (Chairman) and Lord Guthrie and the Group's CEO, John Gerstenlauer. The Committee meets at least two times a year. The primary function of the Committee is to oversee the development of the Group's policies and guidelines for the management of HSSE and social risks, evaluate the effectiveness of these policies and their ability to ensure compliance with applicable legal and regulatory requirements, evaluate and oversee the quality and integrity of reporting to external stakeholders concerning HSSE and CSR, and review the results of any independent audits of the Group's performance in regard to HSSE and CSR making recommendations, where appropriate, to the Board concerning the same. The Committee also examines specific safety issues as requested by the Board.

Since its constitution, the Committee has reviewed a range of safety-related matters. This included consideration of the recommendations that arose from the internal audit of the Group's HSSE arrangements carried out by PwC as part of their internal audit function and the development of an action plan to address these recommendations. Shortly after its creation, the Committee carried out a site visit to the Shaikan block in order to observe and assess the safety measures in place. The Committee did not note any violations of the Group's HSSE policy during the visit. During 2014, the HSSE policy was reviewed to ensure it remained adequate and up-to-date. It was requested that a management report on the Group's safety matters was produced and provided to the Committee on a monthly basis. The Committee will also consider the engagement of a specialist HSSE firm to perform any future reviews if required. The terms of reference of the HSSE and CSR Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com.

The role of the Chairman

In running the Board, the Chairman is responsible for creating an environment which facilitates robust and constructive challenge and debate. In creating this environment the Chairman encourages open communications and aims to ensure that the Non-Executive Directors' constructive challenge and suggestions are considered by the Executive Directors dispassionately and on their merits. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues.

In 2014, the Board evaluated the Chairman's external commitments. The Board is satisfied that the Chairman committed sufficient time to his duties in relation to the Company.

The role of the Chief Executive Officer

Supported by the Executive Directors and senior management team, the Chief Executive Officer, within the authority delegated by the Board, has day-to-day management responsibility for implementing the Group's strategy and running the Group.

The role of the Senior Independent Director

As at 31 December 2014, Andrew Simon held the role of the Senior Independent Director, having been appointed to this position in March 2014. He is responsible for assisting the Chairman with effective communications to Gulf Keystone's shareholders and is available to shareholders should they have any concerns which have not been resolved through the normal channels of the Chairman, Executive Directors or our Investor Relations Department or if these channels are not appropriate. He is also available to our Non-Executive Directors should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman.

Changes to the Board

In 2014, the Company welcomed three new Non-Executive Directors. VU Kumar and Joseph Stanislaw were appointed to the Board in August 2014 and Maria Darby-Walker was appointed in December 2014. In 2015, Sami Zouari was also welcomed to the Board as Chief Financial Officer. The search, selection and appointment process for Non-Executive Directors is described in the section on the Nominations Committee.

Todd Kozel, Ewen Ainsworth, Mark Hanson, Jeremy Asher, John Bell and Thomas Shull all stepped down from the Board during the year and Simon Murray retired from the Board on 31 March 2015.

Board meetings and attendance

Board meetings are held on a regular basis, outside the UK, and no decision of any consequence is made other than by the Directors. The Directors' attendance record at the scheduled Board meetings and Board Committee meetings for the year ended 31 December 2014 is shown in the table below. For Board and Board Committee meetings, attendance is expressed as the number of meetings that each Director attended out of the number that they were eligible to attend. In addition to those scheduled meetings, ad hoc meetings and Board administration calls were arranged to deal with matters between scheduled meetings as appropriate.

	Full Board meetings	Audit Committee	Remuneration Committee	Nominations Committee	HSSE and CSR Committee
Simon Murray(4)	11(15)			2(2)	
John Gerstenlauer	13(15)			1(2)	2(2)
Todd Kozel(5)	8(9)				
VU Kumar(1)	3(4)	3(3)			
Joseph Stanislaw(1)	4(4)	2(2)		1(2)	2(2)
Maria Darby-Walker(2)	1(1)				
Sami Zouari(3)	0(0)				
Ewen Ainsworth(6)	7(8)				
Mark Hanson(5)	5(9)				
Lord Guthrie	11(15)			2(2)	2(2)
Jeremy Asher(6)	5(9)	1(1)			
John Bell(6)	8(9)	1(1)	2(2)		
Philip Dimmock	13(15)	4(4)	3(3)	1(2)	
Thomas Shull(6)	5(9)				
Andrew Simon	13(15)	4(4)	3(3)	1(2)	

(1) Appointed as a Director with effect from August 2014.
(2) Appointed as a Director with effect from December 2014.
(3) Appointed as a Director with effect from January 2015.
(4) Resigned as a Director with effect from March 2015.
(5) Resigned as a Director with effect from July 2014.
(6) Resigned as a Director with effect from June 2014.

Corporate governance report continued

Directors' independence

The independence of each of the Non-Executive Directors is considered upon appointment, annually and at any other time a director's circumstances change in a way that warrants reconsideration. The Board considers whether the Director is independent of management and any business or other relationship that could materially interfere with the exercise of objective and independent judgement by the Director or the Director's ability to act in the best interests of the shareholders. In particular, the Board has considered each Non-Executive Director's interest in share compensation schemes, including the Company Share Options Plan and Executive Bonus Schemes, and any positions which the Director holds, or held, in companies with which Gulf Keystone has commercial relationships. The Board has concluded that, five out of six Non-Executive Directors (excluding the Chairman) are independent. Where compensation arrangements in the form of shares exist, the Non-Executive Director was deemed not to be independent

Information and support

The Group is committed to supply the Board and its Committees with full and timely information, including detailed financial, operational and corporate information, to enable Directors to discharge their responsibilities. The Committees are provided with sufficient resources to undertake their duties. All Directors have access to the advice of senior management and, where appropriate, the services of other employees for all governance and regulatory matters. Independent professional advice is also available to Directors in appropriate circumstances, at the Company's expense.

The Board also keep up to date with developments in relevant law, regulation and best practice to maintain their skills and knowledge. Monthly reports are produced by management of the Group to ensure that the Board are well informed on the Group's latest operational, financial, corporate and investor relations updates.

A wealth of papers and reports are prepared by management prior to all Board and Committee meetings allowing the Board to effectively address all of the items on the relevant meeting's agenda. These papers are provided to the Board in a timely manner allowing for sufficient time to review the information prior to the meeting and raise questions where necessary.

Re-election of Directors

The Company's Bye-Laws provide for each Director to be re-elected by shareholders at least once every three years. The Board believes that continuity is essential for a business like Gulf Keystone and that allowing each Director to serve a three-year term prior to standing for re-election facilitates the retention of experienced and appropriately skilled individuals.

Performance evaluation of the Board and its Committees

The Board and its Committees are satisfied that they are operating effectively and that each Director has performed well in respect of his individual role on the Board. The Board believes that the performance of all the Directors continues to be effective and that they each demonstrate commitment to the role. The Board is satisfied that the individuals currently fulfilling key senior management positions in the organisation have the requisite depth and breadth of skills, knowledge and experience.

Risk management and internal control

The Board acknowledges its responsibility for establishing and monitoring the Group's systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The Board regularly reviews the effectiveness of the systems of internal control and considers the major business risks and the control environment. The Board is accordingly satisfied that effective controls are in place and that risks have been mitigated to an acceptable level.

The Company is subject to a variety of risks which derive from the nature of the oil and gas exploration and production business and relate to the countries in which it conducts its activities. The key procedures that have been established and which are designed to provide effective control are as follows:

- regular meetings between the executive management and the Board to discuss all issues affecting the Group;
- a clearly defined framework for investment appraisal, with Board approval required as appropriate; and
- an internal audit function.

The Board also believes that the ability to recognise the value of working as a partnership with host governments is a critical ingredient in managing risk successfully.

The Directors have derived assurance over the control environment from the following internal and external controls during 2014:

- implementation of policies and procedures for key business activities;
- an appropriate organisational structure;
- control over non-operated activities through delegated representatives;
- specific delegations of authority for all financial and other transactions;
- segregation of duties where appropriate and cost effective;
- business and financial reporting, including KPIs;
- reports from the Group Audit Committee;
- reports and findings from the Group's internal auditor on the areas identified and recommended for review by the Audit Committee; and
- reports from the Group's external auditor on matters identified during its audit.

The above procedures and controls have been in place in respect of the Group for the 2014 accounting period and up to the date of approval of the annual report and accounts. There were no significant weaknesses or material failings in the risk management and internal control system identified in any of the above reviews and reports.

Relations with investors

Regular communications with the Company's diverse shareholder base, including institutional and retail equity investors, as well as debt investors, are given high priority by the Board. The Chairman, Chief Executive Officer, Chief Financial Officer, Legal and Commercial Director and Head of Investor Relations are the Company's principal spokespersons, engaging with investors, fund managers, analysts, the press and other interested parties.

The Company is committed to maintaining a constructive dialogue with all its investors, including through providing regular updates on its operations and corporate developments. The Company has an established practice of issuing regulatory announcements on the Company's operations and/or any new price sensitive information. The Company's website at www.gulfkeystone.com, which is regularly updated, contains a wide range of information on the Company, including a dedicated investor section where investors can find share price and financial information, regulatory announcements, investor presentations, technical reports, corporate webcasts, videos and photos, interviews with the Company's management etc.

Gulf Keystone seeks to respond to all correspondence from shareholders as far as is applicable and proactively seeks to provide quarterly updates to the Company's major investors, as well as regular update meetings and calls with fund managers. Each of the Non-Executive Directors is available to attend meetings with major shareholders (without the Executive Directors present), if requested by such major shareholders. A list of the Company's major shareholders can be found in the Directors' report. Further to the Company's issue of convertible bonds in October 2012 and a subsequent tap issue of such bonds in November 2013, the Company's Investor Relations today encompass communications with both equity and debt investors.

The Executive Directors of the Board regularly present at public conferences and investor meetings. Throughout 2014, the Company has given a number of investor presentations, which are available to view on the Company's website. At the Investor Day, the Board and management presented to shareholders on all aspects of the Company's business and corporate strategy and took questions from the audience. The Investor Day was recorded and a webcast was made available on the Company's website at www.gulfkeystone.com/investor-centre/webcasts.

In accordance with its Bye-Laws, last year the Company implemented the provisions of the Bermuda Companies Act 1981, in accordance with the Listing rules, regarding electronic communications with its shareholders in order to give shareholders more choice and flexibility in how they receive information from the Company. The number of communications sent by post has been reduced, resulting not only in cost savings for the Company but also speeding up the provision of information to shareholders.

A list of the Company's significant shareholders can be found in the Directors' report.

Annual General Meeting

The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. It is policy for all Directors to attend the AGM if possible.

AUDIT COMMITTEE REPORT

> During the year, the main focus of the Audit Committee has been to support and oversee the Group's ongoing review and evaluation of its risk management systems and internal controls.
>
> **Phillip Dimmock**
> Audit Committee Chairman

The Board has delegated to the Committee responsibility for overseeing the financial reporting, internal risk management and control functions, internal audit and for making recommendations to the Board in relation to the appointment of the Group's internal and external auditor.

In accordance with its terms of reference, the Audit Committee, which reports its findings to the Board, is authorised to:

- review the integrity of the Group's financial reporting and significant financial accounting estimates and judgements;
- monitor the effectiveness of the Group's risk management framework and internal controls;
- monitor and review the effectiveness of the Group's internal audit function;
- advise the Board on the appointment of the external auditor and on the remuneration for both audit and non-audit work;
- discuss the nature and scope of the audit with the external auditor; and
- assess the performance, independence and objectivity of the external auditor and any supply of non-audit services.

Composition

The Audit Committee currently comprises four Non-Executive Directors, all of whom are considered to be independent. The members of the Audit Committee during the year were as follows:

- Philip Dimmock (Chairman);
- Andrew Simon;
- VU Kumar (joined the Audit Committee on 11 September 2014);
- Joseph Stanislaw (joined the Audit Committee on 11 September 2014);
- John Bell (retired from the Audit Committee 25 June 2014);
- Jeremy Asher (retired from the Audit Committee 25 June 2014); and
- Mark Hanson (retired from the Audit Committee 17 July 2014).

Meetings

Four Audit Committee meetings were held in the financial year and one has been held to-date in 2015, at key times within the Group's reporting and audit calendar. The Committee discussed, among others, the following matters:

Month	Key issues considered
March 2014	• 2013 full year results • Principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditors • Review of internal audit progress; and considerations of areas and timings for future reviews
August 2014	• 2014 half year results • Review of principal accounting judgements and estimates
September 2014	• Risk profile and mitigation • Review of internal audit and controls • External audit effectiveness

December 2014	• External audit planning and reports for 2014 annual report
	• Internal audit plans and reports, including:
	  ◦ Key internal audit reports;
	  ◦ Follow up of internal audit recommendations;
	  ◦ Internal financial control assessments;
	  ◦ Future areas of review;
	  ◦ Risk profile and mitigation;
	  ◦ External audit effectiveness, independence and reappointment; and
	  ◦ Audit Committee annual evaluation.

March 2015	• 2014 full year results • Principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditors • Update on internal audit progress

The meetings were also attended on a selective basis by John Gerstenlauer (Chief Executive Officer), Sami Zouari (Chief Financial Officer), Mary Hood (Deputy Chief Financial Officer), Tony Peart (Legal and Commercial Director), senior finance management, Deloitte LLP (external auditor) and PwC (internal auditor).

Principal activities during the year

During the year, the main focus of the Audit Committee has been to support and oversee the Group's ongoing review and evaluation of its risk management systems and internal controls, ensure the robustness and integrity of the Group's financial reporting, and assess the effectiveness of both the internal and external audit processes.

The Committee has devoted significant time to reviewing these areas, which are integral to the Group's core management and financial processes, as well as engaging regularly with management, internal audit function and the external auditor. On the instruction of the Audit Committee, the internal audit function, undertook a number of reviews. The Committee worked closely with the management team to ensure the recommendations of the internal audit function are actioned in an efficient and timely manner. The creation of the internal audit function in 2012 has led to a number of improvements in the Group's controls and processes. For example, the establishment of HSSE and CSR Committee and an IT management group were a result of internal audit recommendations, among others. The Group also undertook anti-bribery policies and procedures review as bribery was determined as one of the principal risks given the nature of the business and the region in which the Group operates. The review did not raise any significant areas of concern and indicated that the Group have appropriate processes in place.

The Committee has, where necessary, taken the initiative in requesting information in order to provide the appropriate constructive challenge for its role. During the course of the year, the information that the Committee has received has been timely and clear and has enabled the Committee to discharge its duties effectively.

Audit Committee report continued

Significant issues considered by the Audit Committee in 2014 and early 2015

The Committee assesses whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements. The Committee also reviews reports by the external auditor on the full year and half year results which highlight any issues with respect to the work undertaken on the audit and provide further insights into the judgements used by management. The significant issues considered in the year are detailed below:

Significant issue	How the issue was addressed by the Committee
Going concern: the appropriateness of preparing the Group financial statements for the half year and full year on a going concern basis.	The Committee considered papers prepared by management, for the full year also taking into account the external auditor's review of these papers and their observations. The Committee concluded that management's recommendation to prepare the accounts on a going concern basis was appropriate, notwithstanding the existence of material uncertainties in this regard as further outlined in the Directors' report.
Accounting policy and measurement of depreciation, depletion and amortisation ("DD&A"): the charge was recognised for the first time in 2013 following the commencement of commercial production from Shaikan, with the first material charge being recognised in 2014.	The Committee reviewed the Group's accounting policy for DD&A and carefully considered the appropriateness of the key assumptions used by management in determining the DD&A charge for 2014. The Committee was satisfied that the charge recognised in 2014 was appropriate.
Revenue: review of the policy for recognition of revenue from commercial production for both domestic and export sales.	The Committee considered whether recognition of revenue in relation to both domestic and export sales was appropriate. The Committee reviewed and discussed the key judgements with management and thoroughly assessed the facts presented. The Committee also considered detailed reports from, and had discussions with, the external auditor in respect of revenue recognition. Based on these reviews and discussions, the Committee concluded that, it would continue to only be appropriate to recognise revenue in relation to oil sent for export during the year where cash has been received. They were satisfied that the revenue balance recognised for oil sales for the year ended 31 December 2014 was appropriate.
Recoverability of the Shaikan producing asset: an assessment of the Group's producing asset for impairment is required under International Financial Reporting Standards if potential indicators are identified. Such assessment involves management making a number of judgements and assumptions	The Committee considered reports from management ensuring the assumptions used are within an acceptable range. The views of the external auditor were also taken into account. The Committee concurred with the management's conclusion that there was no impairment of the Shaikan producing asset for 2014.
The carrying value of the Akri-Bijeel asset held for sale: an impairment of $144.1 million was recognised on the asset in 2014. The appropriateness of the charge was assessed by the Committee.	The Committee reviewed the management paper that considered management's valuation of the asset and the comparison against fair value less costs to sell. They were satisfied that the impairment recognised in 2014 was appropriate.

Internal audit

The Audit Committee has oversight responsibilities for the internal audit function. The internal audit annual plan is reviewed and approved and all reports arising therefrom are reviewed and assessed, along with management's actions on findings and recommendations. PwC are invited to and attend Audit Committee meetings where appropriate and is also given the opportunity to meet privately with the Audit Committee without any members of management present. Where PwC's attendance of the Audit Committee's meeting is not practicable, a report on the progress of the reviews and findings is prepared for the Committee's consideration.

During 2014 the internal audit function carried out the following reviews:

Budgeting for capital expenditure

A review of the design and operating effectiveness of key controls in place relating to the capital expenditure budgeting process, monitoring of spend against budget and authorisation of capital expenditure.

Procurement and tendering

A review of the design and operating effectiveness of key controls in place relating to the procurement tendering process during the last twelve months.

Revenue and cost recovery

A review of Group's processes in place to manage sales and cost control under the Production Sharing Contract, including processes in place to ensure documentation is robust.

The findings of the internal audit reviews were communicated to management who, based on the recommendations, prepared an action plan for addressing the issues raised. A report on the progress made on each action point is presented to the Audit Committee at each committee meeting.

External auditor

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit including ensuring that the auditor remains objective and independent. To fulfil its responsibility regarding independence, the Audit Committee considered:

- the external auditor's plan for the current year, noting the role of the audit partner, who signs the audit report and who, in accordance with professional rules, has not held office for more than five years, and any changes in the key audit staff;
- the overall extent of non-audit services provided by the external auditor, in addition to its case-by-case approval of the provision of non-audit services by the external auditor;
- the external auditor's written confirmation of independence to the Audit Committee; and
- the past service of the auditor who was first appointed in 2006.

Audit tendering

The Audit Committee has noted the changes to the Code, the recent findings of the Competition Commission and the Guidance for Audit Committees issued by the Financial Reporting Council, each in the context of tendering for the external audit contract at least every ten years. The Group's external audit was last tendered in 2011, resulting in a decision to retain Deloitte LLP as the Group's auditor. Since the appointment of Deloitte LLP in 2006, there have been two different senior statutory auditors in line with the required rotation timetable. Having previously conducted a full tender exercise and considered retendering in subsequent years, the Committee will continue to give consideration to the timing of the next formal tender in light of the regulatory requirements and any further changes in the regulatory framework. There are no contractual obligations that restrict the choice of external auditors.

Effectiveness of external auditor

To assess the effectiveness of the external audit process, the auditor is asked on an annual basis to articulate the steps that it has taken to ensure objectivity and independence, including where the auditor provides non-audit services. Gulf Keystone monitors the auditor's performance, behaviour and effectiveness during the exercise of their duties, which informs the Audit Committee's decision to recommend reappointment on an annual basis. The external auditor's fulfilment of the agreed audit plan and any variations from the plan and the robustness and perceptiveness of the auditor in its handling of the key accounting and audit judgements are also considered when making a judgement on auditor effectiveness. The Committee also held discussions with the management team regarding the efficiency of the audit process.

Following the above, the Audit Committee has recommended to the Board that Deloitte LLP be reappointed.

Non-audit services

As a safeguard to help to avoid the objectivity and independence of the external auditor becoming compromised, the Committee has a formal policy governing the supply of non-audit services by the external auditor. The Group engages external advisers to provide non-audit services based on the skills and experience required for the work, and cost. The Group may engage the external auditor to provide a limited range of non-audit services where this is the most effective and efficient way of procuring such services as long as the Group is satisfied that the auditor's objectivity and independence will not be compromised as a result.

In 2014, Deloitte LLP provided the following services to the Group:

- corporate finance services in relation to the move up to the Standard Segment of the London Stock Exchange; and
- advisory services in relation to the bond raising.

A breakdown of the fees paid to the external auditor in respect of audit and non-audit work is included in note 4 to the consolidated financial statements.

The Committee considered the potential threats that engagement of Deloitte LLP to perform non-audit services may pose to auditor independence. Deloitte LLP ensured that necessary safeguards were put in place to reduce the independence threats to an acceptable level. The Committee was satisfied that, given the nature of the work and the safeguards in place, the provision of non-audit services did not undermine auditor objectivity and independence.

Committee evaluation

During the year, a review of the Audit Committee's effectiveness was completed. This was conducted by reference to the Committee's responsibilities as stated in the Audit Committee's Terms of Reference. The assessment concluded that the Audit Committee was effective in carrying out its duties.

NOMINATIONS COMMITTEE REPORT

The Committee adopts a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

Field Marshal the Lord Guthrie of Craigiebank
Nominations Committee Chairman

The Board has delegated to the Nominations Committee the responsibility for ensuring the Board has the right balance of experience and skills to support our strategy.

In accordance with its terms of reference, the Committee, which reports its findings to the Board, is authorised to:

- review the structure, size and composition required of the Board and the balance of skills, experience, independence and knowledge;
- oversee executive succession planning taking into account challenges and opportunities facing the Group;
- identify and nominate for the approval of the Board candidates to fill Board vacancies as and when they arise;
- make recommendations to the Board concerning the continuation in office of any Director, including suspension and termination of service;
- appoint external search consultants to assist with appointments as required; and
- determine skills and capabilities required for new appointments.

Composition

The Nominations Committee currently comprises two Non-Executive Directors and the CEO. The members of the Nominations Committee during the year were as follows:

- Lord Guthrie (Chairman);
- John Gerstenlauer; (appointed to the Nominations Committee 11 September 2014);
- Joseph Stanislaw; (appointed to the Nominations Committee 11 September 2014);
- Simon Murray (retired from the Nominations Committee 31 March 2015);
- Philip Dimmock (retired from the Nominations Committee 4 March 2015);
- Thomas Shull (retired from the Nominations Committee 25 June 2014);
- Todd Kozel (retired from the Nominations Committee on 17 July 2014);
- John Bell (retired from the Nominations Committee 25 June 2014);
- Jeremy Asher (retired from the Nominations Committee 25 June 2014); and
- Mark Hanson (retired from the Nominations Committee 17 July 2014).

Process used for Board appointments

In appointing Non-Executive Directors, the Board's practice is to use external recruitment consultants where appropriate. During the year, terms were negotiated with Odgers Berndtson, one of the UK's pre-eminent executive search firms, to act as recruitment consultants for the Board. Other than providing recruitment consultancy services, Odgers Berndtson has no other connection with the Group.

The Committee adopts a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. During the year Joseph Stanislaw, V U Kumar and Maria Darby-Walker were appointed as Non-Executive Directors. In addition, following year end, Sami Zouari was appointed Chief Financial Officer of the Company.

There are no arrangements or understandings between any Director or executive officer and any other person pursuant to which any Director or executive officer was selected to serve. There are no family relationships between the Directors.

Other matters considered by the Nominations Committee

During the year, other matters considered by the Nominations Committee included the consideration of succession planning for the Board and the key skills and experience required for future recruits. The assessment of succession planning will be further developed during the course of next year.

The Committee recognises the benefits of having diversity across all areas of the Group and believes that this adds to Gulf Keystone's continued success and advantage. When considering the optimum make-up of the Board, the benefits of diversity of the Board are appropriately reviewed and balanced where possible, including in terms of differences in skills, industry experience, business model experiences, gender, race, disability, age, nationality, background and other contributions that individuals may bring. The Committee continues to focus on encouraging diversity of business skills and experience across the Board.

REMUNERATION COMMITTEE REPORT

The best potential proxy for shareholder value creation was considered to be oil production, and the target for 2014 set at 40,000 bopd, was achieved by the end of the year.

Andrew Simon
Remuneration Committee Chairman

Following the Company's move from AIM to the main market, the Company has implemented remuneration policies, that are a reflection of the remuneration policy presented last year, and which are included once more in this report.

Introduction

This report is on the activities of the Remuneration Committee for the period to 31 December 2014. It sets out the remuneration policy and remuneration details for the Executive and Non-Executive Directors of the Company. The Company is incorporated in Bermuda and therefore is exempt from the required disclosures under Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations) but the Directors have decided to provide such disclosures insofar as they are still compliant with the Company's Bye-Laws. The report is split into three main areas:

- the statement by the Chairman of the Remuneration Committee,
- the policy report, and
- the annual report on remuneration.

Remuneration Committee Chairman's statement

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 December 2014.

Following the review undertaken by Deloitte's remuneration practice in the last quarter of 2013, a new remuneration policy was developed (the "Policy"). This remains unchanged in 2014. The Policy is available for inspection on the Company website at www.gulfkeystone.co.uk and was approved at the 2014 AGM on 17 July 2014. PwC remains the Committee's independent remuneration adviser.

As a Bermudan domiciled company we are not under an obligation to follow the Regulations. A resolution was passed at the 2014 AGM to amend the Company's Bye-Laws to enable a binding vote on the Policy. The advisory vote on the Policy was passed at the 2014 AGM by a majority of 94.54 percent. In the event that the Policy is amended before 2017, we would seek a binding vote of our shareholders as required under the Regulations.

Following the Company's move from AIM to the main market, the Company has implemented remuneration policies, that are a reflection of the remuneration policy presented last year, and which are included once more in this report. Whilst it is the intention to follow best of class remuneration practice, Gulf Keystone is an entrepreneurial company operating in one of the last and most challenging frontiers of the oil exploration industry. It continues to be challenging to develop short and longer term quantifiable objectives given the geopolitical environment and ongoing fighting between IS and the KRG and southern Iraq and ongoing negotiations on the budgets between the KRG and Iraqi Government.

The best potential proxy for shareholder value creation was considered to be oil production, and the target for 2014 set at 40,000 bopd, was achieved by the end of the year despite the fact that for parts of the year the group was operating in a war zone, and had to carry out a full scale evacuation of non-essential staff in the middle of the summer. Other objectives related to Health and Safety, cash receipts for past and present oil exports and reserve replacement. Since at time of writing exports have recently commenced, having been curtailed and domestic sales have not been possible, it simply serves to illustrate that setting quantifiable targets is extremely challenging; we will thus have to adopt a flexible qualitative approach for 2015, but clearly ongoing production, cash payments, health and safety as well as potential asset sales are critical.

The CEO was awarded an on target bonus of 120 percent of salary for 2014 with a value of $941,400[(1)]. The Committee determined that 40 percent of this bonus would be payable at the point of the bonus determination and that the balance would be payable as cash payments were received by the Company in respect of past and future oil sales. 15 percent of the bonus will be payable for each $10 million received by the Company resulting in the full balance of the bonus being payable when receipts equal $40 million. In the event that a bid for the Company is received and it went unconditional any unpaid balance of the bonus would be payable immediately. The Committee has discretion to review the timings of the payment of the bonus if there is a large farm out payment received by the Company.

Since the Company was never in an open period there were no LTIPS granted to Board members and others during 2014.

It is the Company's medium term objective to move towards a production of 100,000 bopd from Shaikan under the Field Development Plan. This objective will be reflected in both short and longer term objectives for 2015, together with the associated significant investment required.

(1) Final bonus amount is calculated based on actual salary paid during the year, which is a combined rate for COO and CEO.

Structure of the report

This report is in two sections:

1. policy (pages 62 to 70). This contains details of the remuneration policy passed at the 2014 AGM. There has been no change to the policy and therefore it is not being put to a shareholder vote at the 2015 AGM; and
2. annual report on remuneration (pages 44 to 48) which sets out how our remuneration policy was implemented in 2014.

I will be available, together with my fellow Committee members and colleagues on the Board, at our 2015 AGM to answer any questions you may have with regard to our policy towards executive remuneration and the activities of the Committee more generally.

On behalf of the Committee, I welcome any feedback that you may have and look forward to receiving your support.

Andrew Simon
Remuneration Committee Chairman

Remuneration Committee report continued

Policy

Introduction

In light of the change to the Corporate Governance approach, the Directors' Remuneration Policy (the "Policy") as set out below operated from 1 January 2013 and was put to an advisory shareholders' vote at the 2014 AGM and may apply for three years from that date.

Summary

The Company's policy is to attract, motivate and retain individuals of the calibre necessary to achieve the strategic priorities of the Group. Furthermore, our policy is constructed to offer packages that are significantly weighted towards performance based elements with measures that reflect corporate and operational performance. The aim is to set targets that are stretching yet achievable.

Differences in policy from the wider employee population

Our remuneration policy is not unique to our Directors. The same principles underpin how we reward and compensate all our colleagues. We aim to provide base pay to all colleagues that is market competitive and to offer them the opportunity to share in our success through a variety of bonuses and incentive schemes.

Discretion

The Committee has discretion in several areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

It is the Committee's intention that commitments made in line with its policies prior to the date of the 2014 AGM will be honoured, even if satisfaction of such commitments is made post the AGM and may be inconsistent with the Policy. This includes the exit event awards set out below.

Impact of the new UK Corporate Governance Code

The Committee is comfortable that its Policy is in line with the new UK Corporate Governance Code (applying for financial years beginning on or after 1 October 2014). The following table sets out the key elements of the revised Code and how the Company's remuneration policy for Executive Directors is in line with the Governance Code:

Code provision	Company remuneration policy
Executive Directors' remuneration should be designed to promote the long-term success of the Company.	The Policy contains the following relevant elements: • an LTIP under which awards will normally vest three years after the date of grant; and • minimum shareholding requirements of 200 percent of salary for the CEO and 150 percent for the other Executive Directors. The Committee intends that both these elements should provide a holistic approach to ensuring executives are focused on the long-term success of the Company.
Schemes should include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so.	The Annual Bonus Plan and LTIP contain best practice malus and clawback provisions. The circumstances in which malus and clawback could apply are as follows: • discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company; • the assessment of any performance target or condition in respect of an award was based on error, or inaccurate or misleading information; • the discovery that any information used to determine the number of shares subject to an award was based on error, or inaccurate or misleading information; • action or conduct of an award holder which, in the reasonable opinion of the Board, amounts to employee misbehaviour, fraud or gross misconduct; and • events or behaviour of an award holder have led to the censure of the Company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group Company provided that the Board is satisfied that the relevant award holder was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to him. Clawback will apply for three years following the determination of the bonus under the Annual Bonus Plan. Malus will apply up to the date of vesting of LTIP awards and clawback will apply for two years following vesting. The Committee is comfortable that the rules of the plans provide sufficient powers to enforce malus and clawback if required.
For share-based remuneration, the Remuneration Committee should consider requiring Directors to hold a minimum number of shares and to hold shares for a further period after vesting or exercise, including for a period after leaving the Company, subject to the need to finance any costs of acquisition and associated tax liabilities.	The Policy contains minimum shareholding requirements for the CEO of 200 percent of salary and the other Executive Directors of 150 percent of salary. The Committee does not believe that given the volatile nature of the Company's business currently that additional holding periods are appropriate. In addition due to the position of the Company no LTIP awards have been made in 2014.

Exit Event Awards

In March 2012, the Company made Exit Event Awards to certain Executive Directors and employees equivalent to the value of up to 2.0 million common shares. Exit Event Awards are cash settled awards which are conditional on the occurrence of an Exit Event which envisages a sale of either the Company or a substantial proportion (i.e. more than 50 percent) of its assets. A further award of 0.9 million common shares was made in December 2013 to the employees with no additional Exit Event Awards made to Directors. The Exit Event Awards made in 2012 expire in March 2017 and the additional awards expire in December 2018. The purpose of the Award was to encourage employee retention in the event of any corporate transaction up to the point of Exit Event completion as well as align the interests of the Company's employees and key management personnel with shareholders.

The Company appointed a trustee (the "Exit Event Trustee") to hold and, subject to the occurrence of an Exit Event, to sell sufficient common shares to satisfy the Exit Event Awards. In total 10.0 million common shares were issued to the Exit Event Trustee to satisfy the initial, additional and any future Exit Event Awards to full-time employees of the Company and subsidiary companies, subject to the occurrence of an Exit Event, with such beneficiaries to be determined in due course. The preparation of the Exit Event Awards involved detailed discussions with a number of the Company's leading institutional and other shareholders who held, in aggregate, in excess of 35 percent of the issued share capital of the Company, as well as consultation with the Company's advisers. The Company will not grant any further Exit Events Awards to the Directors of the Company and its subsidiaries.

A summary of the remuneration components is detailed below.

Remuneration element	Link to strategy	Operation	Maximum potential value	Performance metrics	Remuneration Committee discretion
Base salary	Core element of total package, essential to support recruitment and retention of high calibre executives. Key element of core fixed remuneration.	Reviewed annually as at 1 January. Factors influencing decision include: • role, experience and individual performance; • pay awards elsewhere in the Group; • external Market (benchmarked against exploration and production comparator group); and • general economic environment.	The policy of the Remuneration Committee is normally to consider the relevant market median as the maximum salary level required. In the normal course of events the maximum salary increase for Executive Directors will be in line with the general employee increase. The Company will set out in the section headed "Statement of implementation of remuneration policy in the following financial year" the salaries for that year for each of the Executive Directors.	None	The Committee retains discretion to: • award salaries of above median levels where necessary to retain or attract high calibre candidates. This discretion will only be used in exceptional circumstances and where possible shareholders will be consulted in advance; • determine and review the appropriate comparator group used for benchmarking; and • increase salaries above the general peer group increase where this is reflective of significant additional responsibilities.
Benefits	Limited basic package of benefits. In line with the Company's strategy to keep remuneration simple and consistent.	Directors are currently entitled to private medical insurance.	Benefit levels reflect those typically available to senior managers within the Group. The maximum potential value of the benefits to the Directors is the cost to the Company to provide those benefits.	None	In the event that a Director is recruited from overseas, flexibility is retained by the Committee to provide the normal benefits provided to an executive for the market (e.g. it may be appropriate to provide benefits that are tailored to the circumstances of such an appointment).

Remuneration element	Link to strategy	Operation	Maximum potential value	Performance metrics	Remuneration Committee discretion
Pension	Helps executives provide for retirement and aids retention.	Up to 15 percent of salary is provided as a cash allowance. Pension allowances will not be included in the salary figure to be used to calculate bonus or any other executive reward based on the salary figure.	15 percent allowance	None	Not applicable
Annual bonus (short-term)	Rewards achievement of annual key business strategy and financial objectives.	Targets are set annually in line with the performance metrics. Total bonus level is determined after the year end, based on achievement of targets.	Maximum bonus opportunity under the plan is 200 percent of annual salary for the CEO and 150 percent for all other Executive Directors. The threshold opportunity at which bonus starts to be earned is 25 percent of salary. The on target opportunity for achievement of the KPIs is 120 percent of base salary with a sliding scale applying for achievement above and below the KPI targets.	At this stage of development of the business, the metric most likely to generate shareholder value and cash flow is production based on bopd. In addition to production, a number of qualitative objectives will be set for each of the Executive Directors. The Company will set out in the section headed "Statement of implementation of remuneration policy in 2015" the nature of the targets and their weighting for each year. Details of the performance conditions, targets and their level of satisfaction for the year being reported on will be set out in the Annual Remuneration Committee report. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial, operational and strategic targets used for the bonus plan, disclosing precise targets for the plan in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs under the bonus plan.	The Committee retains the discretion to review the weighting of measures and to set the performance targets and ranges for each metric. In determining the achievement of the targets, the Committee will take into account market conditions, improvement on prior year performance required and other relevant factors. The Committee retains discretion in exceptional circumstances to change the performance measures and targets and their respective weightings part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the Committee believes that the bonus outcome is not a fair and accurate reflection of business performance. Clawback provisions apply (see above).

Remuneration element	Link to strategy	Operation	Maximum potential value	Performance metrics	Remuneration Committee discretion
Long-Term Incentive Plan (LTIP)	Incentivises executives to deliver key financial targets over a longer term, with particular focus on shareholder return and the generation of cash to fund investment in growth and long-term sustainability of the business. Helps retain high performing executives.	Awards are usually granted annually to participants, but grants may be made at other times on recruitment or promotion of an executive or in other exceptional circumstances. Awards are in the form of nil cost share options, nominal cost share options or conditional shares. In special circumstances they may be cash-settled. Awards normally vest after three years to the extent that performance targets have been met.	The maximum value of the shares subject to awards to an individual in any financial year is 200 percent of annual salary for the CEO and 150 percent for other participants. At threshold performance 25 percent of the award vests. For on target performance 50 percent of the award vests. Between performance levels there is straight-line vesting.	Performance measures, representing a combination of market and non-market related elements, are set by the Remuneration Committee before each award is made. Non-market related performance is measured by reference to one or more of the Company's strategic KPIs. Initially, the Company will use production and increase in contingent resources metrics. Market related performance is measured by reference to comparative TSR. 25 percent of an award vests at median and 100 percent vests at upper quartile with a straight line increase between those two points. The weighting used for performance measures is: • comparative TSR – 40 percent; • production – 35 percent; and • increase in contingent resources – 25 percent.	The Committee may exercise its discretion as permitted in the rules of the LTIP which is subject to shareholders' approval. The principal areas in which the Committee may exercise discretion are: • the selection of participants; • the timing of awards; • the level of awards; • the selection, review and amendment of performance measures and targets; and • adjustments in the event of a capital variation.
Shareholding Requirements	Aligns the interests of executives and shareholders.	Formal requirement apply to executive directors. Participation in long-term incentives may be scaled back or withheld if the requirements are not met or maintained.	At least, 200 percent salary holding required for the CEO and 150 percent salary holding required for all other executive directors. The required shareholding must be reached within five years of the date of the remuneration policy approval.	Executive Directors are required to hold shares valued at the target level no later than January 2019 or, if later, within five years of their appointment as Directors.	The Committee has discretion to change the shareholding requirements.

The performance metrics that are used for our annual bonus and LTIP have been selected to reflect the Group's key performance indicators at this stage of its development. In considering appropriate performance metrics the Committee seeks to incentivise and reinforce delivery of the Company's strategic objectives achieving a balance between delivering annual return to shareholders and ensuring sustainable long-term profitability and growth.

Production based on bopd is used to assess short-term operational performance as it is key to revenue and cash generation. We aim to achieve production in line with the Group's annual budget and market guidance with allowance given to unplanned events that may cause reduction in production levels and are outside of the Company's control.

Increase in contingent resources is a key indicator of exploration success and field performance and measures the percentage of production that has been replaced during the year.

Gulf Keystone's strategy is focused on building long-term sustainable value growth. Our primary strategic objective is to deliver substantial returns to shareholders.

Since safety is of central importance to the business, the award of any bonus is subject to an underpin that enables the Remuneration Committee to reduce the bonus earned if there is a safety event that, in the Committee's opinion, warrants the use of such discretion.

The Committee calibrates performance targets by due reference to selected Exploration and Production ("E&P") comparator group and other indicators of the economic environment to ensure targets represent relative as well as absolute achievement.

Remuneration Committee report continued

Non-Executive Directors' fees

The Company provides a level of fees to support recruitment and retention of Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Company's strategic objectives.

The Non-Executive Chairman and Non-Executive Directors receive an annual fee paid in monthly instalments. The fee for the Chairman is set by the Remuneration Committee and the fees for the Non-Executive Directors are approved by the Board, on the recommendation of the Chairman and CEO.

Non-Executive fees are positioned in line with similarly sized international companies. The following fees were reviewed in 2014 and will normally be reviewed on an annual basis in line with inflation and general movement of pay within the Company.

Fee type	GBP[1]
Chairman's fee	350,000
Fees for other Non-Executive Directors	
Basic fee	90,000
Chair of a Board Committee	10,000
Member of a Board Committee	5,000

(1) The Chairman and Non-Executive Directors are remunerated in GBP (£), however, the values disclosed in the annual report on remuneration are reported in USD as it is the functional currency of the Group.

Non-Executive Directors do not receive any other benefits. Apart from the pre December 2012 awards, Non-Executive Directors do not participate in any of the Company's share plans.

The Company will set out in the section headed "Statement of implementation of remuneration policy in 2015" the fees for that year for each of the Non-Executive Directors.

Illustration of the application of the remuneration policy

For each person who is an Executive Director of the Company as at the date of this report, an illustration was prepared (see the tables below) setting out an indication of the level of remuneration that would be received by the Director in accordance with the Directors' Remuneration Policy in 2014.

Chief Executive Officer	Fixed $'000	In line with expectations $'000	Maximum $'000
Fixed	975	975	975
Annual variable	—	1,170	1,950
Long-term incentives	—	488	1,950
Total	975	2,633	4,875

Chief Financial Officer	Fixed $'000	In line with expectations $'000	Maximum $'000
Fixed	560	560	560
Annual variable	—	672	840
Long-term incentives	—	280	840
Total	560	1,512	2,240

In developing the scenarios, the following assumptions have been made:

Fixed	• Consists of base salary, benefits and pension. • Base salary is the 2014 salary. • Benefits comprise medical insurance, travel and accommodation. The value of travel and accommodation benefit may vary substantially year by year depending on the levels of travel required from the Executive Director. • Pension measured by applying cash in lieu rate against the 2014 salary for all executives:

	Base salary ($'000)	Benefits ($'000)	Pension ($'000)	Total fixed ($'000)
CEO	975	—	146	1,121
CFO[1]	560	—	84	644

(1) CFO's salary is paid in GBP and is translated into USD at GBP/USD rate of 1.6 for illustration purposes only.

In line with expectations	Based on what a Director would receive if performance was in line with plan: • annual variable element (includes annual bonus potential) pays out at 120 percent for on-plan performance; and • long-term incentive performance at mid-range relative to the targets set for plan, therefore 50 percent vesting of awards. The value of LTIP does not allow for share price appreciation in line with the regulations.
Maximum	• Full payout of annual variable element, i.e. two times salary for CEO and 1.5 times for the other Executive Directors. • Long-term incentive performance at upper quartile relative to the targets set for plan, therefore 100 percent vesting of long-term incentive awards i.e. two times salary for CEO and 1.5 times for the other Executive Directors.

Recruitment remuneration

It is our policy to recruit the best candidate possible for any executive board position. We seek to avoid paying more than necessary to secure the candidate and will have regard to guidelines and shareholder sentiment when formulating the remuneration package.

We structure salary, incentives and benefits for candidates in line with the above remuneration policy and accordingly participation in short and long term incentives will be on the same basis as existing Directors. The table below outlines our recruitment policy:

Base salary and benefits	The pay of any new recruit would be assessed following the principles set out in the remuneration policy table.
Pension	The appointee will be able to receive a cash allowance in lieu of pension benefits in line with the Company's policy as set out in the remuneration policy table.
Annual bonus	The appointee will be eligible to participate in the annual bonus as set out in the remuneration policy table. Awards may be granted up to the maximum opportunity allowable in the remuneration policy.
Long-term incentives	The appointee will be eligible to participate in the Company's 2014 LTIP as set out in the remuneration policy table. Awards may be granted up to the maximum opportunity allowable under the scheme.
Maximum level of variable remuneration	The maximum level of variable remuneration under the Company's policy is 400 percent of salary per annum.
Share buy-outs/ replacement awards	The Committee's policy is not to provide buy-outs as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justified the provision of a buyout, the value of any incentives that will be forfeited on cessation of a Director's previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and condition having a material effect on their value ('lapsed value'). The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.
Relocation	In instances where the new Executive Director is relocated from one location to another, the Company will provide one-off or ongoing support as part of the Executive Director's relocation benefits compensation to reflect the cost of relocation for the executive in cases where they are expected to relocate from their country of domicile. The level of relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences, housing allowance, schooling, etc.

Recruitment remuneration continued

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the annual remuneration report for the relevant financial year.

Non-Executive Directors recruited will be remunerated in accordance with the Company's policy.

Details of Directors' service contracts and letters of appointment

Each of the Executive Directors has a service contract, the date of which is shown below. These contracts provide for twelve months' notice from the CEO and six months' notice from the other Executive Directors, with the same notice periods required from the Company. They do not specify any compensation in the event of termination or change of control.

Non-Executive Directors do not have a service contract, but each has received a letter of appointment. No compensation is payable for the loss of office to Non-Executive Directors, which, depending on circumstances of termination, may be with or without notice. There are no other service agreements or material contracts, existing or proposed, between the Company and its Directors.

Executive Directors' service contracts and Non-Executive Directors' appointment letters will be available for inspection at the 2015 AGM (for 15 minutes prior to the meeting and during the meeting). As the Company's registered office is in Bermuda, it is not practicable to make the service contracts and appointment letters available at the Company's registered office.

One third of Directors are required to stand for re-election every year in accordance with the Company's Bye-Laws.

Details of the service contracts and letters of appointment in place as at 31 December 2014 for Directors are as follows:

Director	Effective date of current service contract or letter of appointment	Unexpired term at 31 December 2014
Simon Murray	July 2013	6 months(1)(2)
John Gerstenlauer	October 2008	Rolling contract
Lord Guthrie	July 2013	1 year 6 months(1)(3)
Philip Dimmock	July 2013	1 year 6 months(1)(4)
Andrew Simon	September 2013	8 months(1)(3)
VU Kumar	August 2014	1 year 6 months(1)(4)
Joseph Stanislaw	August 2014	8 months(1)(3)
Maria Darby-Walker	December 2014	2 year 7 months(1)(4)
Sami Zouari	January 2015	Rolling contract(2)

(1) Appointment can be terminated by the Company with immediate effect under certain circumstances in accordance with the Company's Bye-Laws.
(2) Appointment can be terminated by either party at any time on six months' written notice at any time during the term of employment.
(3) Appointment can be terminated by either party giving the other one month's written notice at any time during the term of employment.
(4) Appointment can be terminated by the Non-Executive Director giving the Company one month's written notice at any time during the term of employment.

The Committee's policy for setting notice periods is that a maximum twelve month period will apply for Executive Directors. The Committee may in exceptional circumstances arising on recruitment, allow a longer period, which would in any event reduce to twelve months following the first year of employment.

Policy on payment for Directors leaving employment

Contractual notice periods for Executive Directors are normally set at 6 months' notice with the exception of the CEO whose notice period is set at twelve months. The notice period required to be given by the Company is identical to that required from the Executive Directors.

The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid (other than the Exit Event Awards set out above). The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation), or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

We classify terminations of employment arising from death, ill health, disability, injury, retirement with Company's agreement or redundancy automatically as 'good leaver' reasons. In addition the Committee retains discretion under the incentive plan rules to determine 'good leaver' status. In the event such discretion is exercised, for example, recognising significant long term contribution to achievement of strategic objectives, a full explanation will be provided to shareholders as part of the annual report on remuneration. The Remuneration Committee will only use its general discretion to determine that an Executive Director is a good leaver in exceptional circumstances.

The reason for leaving may impact treatment of the various remuneration elements as follows:

Remuneration element	Good leaver reason	Other leaver reason
Salary	Ceases on cessation of employment (salary may be paid in lieu of notice).	Ceases on cessation of employment (salary may be paid in lieu of notice).
Annual bonus	Unpaid bonus from the period prior to cessation will be paid in full. A pro-rata bonus may be paid, subject to normal performance conditions, for the period in which cessation occurs. Bonus earned and deferred prior to 2013 will vest in full at cessation, subject to performance criteria.	All unvested bonus payments lapse. Deferred bonus payments also lapse. No bonus is paid for the period in which cessation of office occurs.
Benefits	Provision for accrual of benefits will cease on cessation of employment.	Provision for accrual of benefits will cease on cessation of employment.
LTIP	Normal vesting subject to the achievement of the performance conditions on a pro-rata time basis (no pro-rating to time in the event of the ill health, injury, disability or death of the executive).	Participation lapses at cessation of employment.

There are no other contractual provisions agreed prior to 27 June 2012.

The previous LTIP scheme, under which 2009 and 2010 LTIP awards were made, expired in August 2014. A new LTIP Scheme was approved by shareholders at the 2014 AGM and the key terms are set out in the table on page 61.

Change of control

The following is the position on a change of control of the Company:

Plan	Terms and conditions	Remuneration committee discretion
Annual bonus	Not applicable.	Not applicable.
LTIP	The Remuneration Committee may determine that part of an award will vest taking account of the Company's performance since the grant date and the proportion of the normal vesting period which has elapsed.	Remuneration Committee discretion.
LEGACY PLAN		
Executive Bonus Scheme	Outstanding rights to Bonus Award Shares vest on a change of control provided the change of control event is not after the 10th anniversary of the grant notification letter and subject to the holder being an eligible participant.	No discretion.
Unapproved Share Option Plan, including grants with LTIP performance conditions	Outstanding options may be exercised within 6 months of a change of control event notwithstanding any performance conditions and provided the option holder is still an eligible employee and the exercise period has not expired.	No discretion.

Relationship to employee pay

Pay levels for employees at all levels across the Group are determined in relation to a number of factors including economic conditions, cost of living, market practice and colleague feedback. In addition the Committee considers the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors.

The Company does not use any remuneration comparison metrics and has not conducted a formal consultation process with employees in designing the remuneration policy.

Remuneration Committee report continued

Consideration of shareholder views

We consult with shareholders on our remuneration policy and its execution. We welcome their constructive feedback and use this effectively to shape our approach. In 2015 we intend to hold shareholder consultation with our largest shareholders regarding the application of the Policy.

Feedback on the Policy received by way of the advisory vote at the 2014 AGM was considered by the Remuneration Committee in relation to a review of the Policy and this Remuneration report. Any feedback received by way of a binding vote in the future will be considered at the first Remuneration Committee meeting after the relevant AGM. Feedback received during the course of 2015 and subsequent AGMs, as well as any additional feedback received during any other meetings with shareholders, will be considered as part of the Company's annual review of remuneration policy.

Annual report on remuneration

Single total figure of remuneration $'000s

	Salary 2014	Salary 2013	Pension 2014	Pension 2013	Benefits 2014(8)	Benefits 2013(8)	Cash bonus 2014	Cash bonus 2013	LTIP 2014	LTIP 2013	Other 2014(10)	Total 2013(9)	**Total 2014**	Total 2013
Todd Kozel(1)	450	675	—	—	—	—	—	—	—	2,261	280	—	**730**	2,936
John Gerstenlauer(2)	726	594	109	—	130	127	941	—	—	452	—	—	**1,906**	1,173
Ewen Ainsworth(3)	140	281	—	—	—	5	—	—	—	452	—	—	**140**	738
Ali Al Qabandi(4)	—	158	—	—	—	—	—	—	—	—	—	—	**—**	158
Simon Murray	577	391	—	—	—	—	—	—	—	—	—	—	**577**	391
Mark Hanson(5)	124	172	—	—	—	—	—	—	—	—	—	124	**124**	296
Lord Guthrie	174	168	—	—	—	—	—	—	—	—	—	124	**174**	292
Jeremy Asher(6)	84	65	—	—	—	—	—	—	—	—	—	—	**84**	65
John Bell(6)	90	67	—	—	—	—	—	—	—	—	—	—	**90**	67
Philip Dimmock	180	70	—	—	—	—	—	—	—	—	—	—	**180**	70
Thomas Shull(6)	85	67	—	—	—	—	—	—	—	—	—	—	**85**	67
Andrew Simon	178	53	—	—	—	—	—	—	—	—	—	—	**178**	53
Mehdi Varzi(4)	—	98	—	—	—	—	—	—	—	—	—	—	**—**	98
VU Kumar(7)	61	—	—	—	—	—	—	—	—	—	—	—	**61**	—
Joseph Stanislaw(7)	68	—	—	—	—	—	—	—	—	—	—	—	**68**	—
Total	2,937	2,859	109	—	130	132	941	—	—	3,165	280	248	**4,397**	6,404

(1) Todd Kozel resigned as Chief Executive Officer on 17 July 2014.
(2) John Gerstenlauer was appointed Chief Executive Officer on 17 July 2014.
(3) Ewen Ainsworth resigned from the Board on 16 June 2014.
(4) Ali Al Qabandi and Mehdi Varzi retired by rotation from the Board on 20 July 2013.
(5) Mark Hanson retired from the Board by rotation on 17 July 2014.
(6) Jeremy Asher, John Bell and Thomas Shull resigned from the Board on 25 June 2014.
(7) VU Kumar and Joseph Stanislaw were appointed on 7 August 2014.
(8) Benefits include personal travel and accommodation associated with work in a number of locations and medical insurance.
(9) Other payments include the one-time payments made to Non-Executive Directors for additional duties performed during the calendar year.
(10) Other costs include an extra payment that was the result of an administrative error; the Company will take steps to reclaim the monies overpaid.

Details of bonus

Please see the statement by the Chairman of the Remuneration Committee.

Director's pension entitlements

From 2014 onwards, following the approval of the remuneration policy as disclosed in the policy statement section of this report, a cash allowance in lieu of a pension provision will be payable at a rate of 15 percent of Executive Directors' gross salary.

Benefits

The benefits provided included the following:

- medical insurance: – $5,910;
- travel and accommodation: – $124, 224.

Scheme interests awarded during the financial year

No share interests were awarded to the Directors under any of the current share awards schemes which include the Company Share Option Plan ("CSOP"), LTIP and Share Bonus Scheme.

Payments to past Directors

No payments to past Directors were made during 2014.

Payments for loss of office

Todd Kozel stepped down from the Board of Directors of the Company and all Group companies on 17 July 2014. Until that date he received his base salary and benefits. His base salary was in line with that announced in the 2013 report of the Remuneration Committee. On 30 January 2015, Mr Kozel's settlement agreement was finalised by all parties. As per the agreement the following payments were made:

- payment of £351,084 ($545,374 at 31 December 2014 exchange rate) in lieu of contractual notice period;
- payment of £1,600,000 ($2,485,440) in lieu of the third earned bonus instalment of £3,040,000 ($4,722,336) due under the Company's 2012 Executive Bonus Scheme which will now not be paid.

The above payments were made net of £68,109 ($105,801) due from Mr Kozel in relation to his personal travel.

In addition to the above, it was agreed that Mr Kozel's unexercised share options would continue to vest and remain exercisable, subject to and in accordance with the rules of the Company Share Option Plan. The details of the options are;

	2009 share option award	2010 share option award
Number	8,138,727	4,195,000
Exercise price	£0.75	£1.75
Dates from which options may be exercised	24 June 2010	7 February 2011
Expiry dates	23 June 2020	8 February 2021
Cost of options	$0.01 each	$0.01 each
Notional gain at 31 December 2014	$nil	$nil

Ewen Ainsworth stepped down from the Board of Directors of the Company on 16 June 2014. Until that date he received his base salary and benefits. His base salary was in line with that announced in the 2013 report of the Remuneration Committee. As per his settlement agreement the following payments were made:

- payment of £90,000 ($139,887 at 31 December 2014 exchange rate) in lieu of contractual notice period;
- payment of £150,000 ($233,145) as compensation for loss of office.

In addition to the above, it was agreed that Mr Ainsworth's unexercised share options would continue to vest and remain exercisable, subject to and in accordance with the rules of the Company Share Option Plan. The details of the options are:

	2008 share option award	2009 share option award	2010 share option award
Number	1,000,000	1,627,746	839,000
Exercise price	£0.30	£0.75	£1.75
Dates from which options may be exercised	14 February 2011	24 June 2010	7 February 2011
Expiry dates	13 February 2018	23 June 2020	8 February 2021
Cost of options	$0.01 each	$0.01 each	$0.01 each
Notional gain at 31 December 2014	$380,000	$nil	$nil

Remuneration Committee report continued

Director's shareholding and share interests

The Company's Remuneration Policy has also introduced formal shareholding requirements (rather than voluntary guidelines) applicable to Executive Directors and senior executives. Participation in long-term incentive schemes may be scaled back or withheld if the requirements are not met or maintained. Executive Directors are required to hold shares valued at up to two times salary within five years of the new remuneration policy approval. For the purpose of meeting the shareholding requirement, the net value of vested but unexercised awards is included.

Directors' shareholdings and share interests as at 31 December 2014 were as follows:

	Shareholding requirement percentage of salary (net)	Beneficially owned shares[1]	Shares granted under company's executive bonus scheme unvested with no performance measures	Options granted under LTIP unvested subject to performance conditions[2]	Options granted under CSOP unvested subject to performance conditions and holding period	Vested but unexercised options[3]	Total conditional and unconditional interest in shares
Executive Directors							
John Gerstenlauer	200% (yes)	2,035,945	—	1,164,549	—	3,627,746	6,828,240
Non-Executive Directors							
Simon Murray	—	160,000	—	—	—	—	160,000
Lord Guthrie	—	—	—	—	250,000	—	250,000
Philip Dimmock	—	—	—	—	—	—	—
Andrew Simon	—	—	—	—	—	—	—
VU Kumar	—	—	—	—	—	—	—
Joseph Stanislaw	—	—	—	—	—	—	—
Maria Darby-Walker	—	—	—	—	—	—	—

(1) Includes any shares owned by connected persons.

(2) Includes all of 2010 LTIP options and the remaining 50 percent of the third tranche of 2009 LTIP options.

(3) Includes the vested tranches of 2009 LTIP options and CSOP options.

No options were exercised by the Directors during the year.

Historic CEO pay $'000s

	2009	2010	2011	2012	2013	**2014**
Single figure remuneration[1][2]	$6,287	$12,955	$20,931	$14,257	$675	**$1,797**
Bonus percentage of maximum payable	100%	100%	100%	100%	0%	**69%**
LTIP percentage of maximum number of shares capable of vesting that vested	100%	100%	0%	35%	22%	**0%**

(1) Includes benefits.

(2) Salary received by John Gerstenlauer in 2014 as both COO and CEO, excludes pension and LTIP.

Change in remuneration of the Director undertaking the role of CEO

	Percentage change in gross salary earned[1][2] (2014 full year compared to 2013 full year)[1]	Percentage change in benefits (2014 full year compared to 2013 full year)	Percentage change in bonus earned (2014 full year compared to 2013 full year)
CEO	166%	2%	100%
All Group employees and Directors (excluding CEO)	13%	0%	0%

(1) Includes benefits.

(2) Salary received by John Gerstenlauer in 2014 as both COO and CEO, excludes pension and LTIP.

Relative importance of spend on pay

	2014 $'000	2013 $'000	Percentage change
Total employee pay	**22,615**	13,917	60%
Loss after tax	**(248,203)**	(31,965)	706%
Capital expenditure	**171,673**	192,059	(11)%

For the purposes of the table, total employee pay number includes total pay for all employees and Executive Directors of the Company.

As continued investment in the Group's assets is critical for the delivery of the Group's strategy, capital expenditure is included as a comparator in the relative importance of spend on pay chart.

Statement of implementation of remuneration policy in 2015

The Company's remuneration practices are managed in accordance with the remuneration policy set out above, a policy for which the Remuneration Committee obtained shareholder approval at the 2014 AGM. Consequently, the Remuneration Committee is not anticipating any changes in remuneration for the current year.

Comparator group

The Committee is making no changes to the comparator groups used for remuneration in respect of 2015.

Salaries benefits and pension

No change from policy set out.

The following table sets out the entitlements for 2015:

Executive	Salary for 2015	Benefits	Pension allowance (introduced in 2014)
John Gerstenlauer	$975,000[1] (2014: $726,000)	No change	15%
Sami Zouari	$560,000 (2014: n/a)	n/a	15%

(1) Promoted to CEO in July 2014 when his salary was increased to $975,000; no further increase will be made in 2015.

Annual bonus

The following table sets out the maximum bonus opportunity for the Executive Directors:

Executive	Maximum bonus potential (percentage of salary)
John Gerstenlauer	200%
Sami Zouari	150%

Performance conditions and weighting

The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial, operational and strategic targets used for the bonus plan, disclosing precise targets for the plan in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs under the bonus plan.

Remuneration Committee report continued

LTIP grants

No LTIP grants were made in 2014. It is the intention of the Remuneration Committee to make the following grants to the Executive Directors in 2015:

Executive	Award (percentage of salary)
John Gerstenlauer	200%
Sami Zouari	150%

The performance conditions and targets for this award are as follows:

Performance condition	Weighting (percentage of award subject to condition)	Threshold performance (percentage of element of award vesting)	Target performance (percentage of element of award vesting)	Maximum performance (percentage of element of award vesting)
Comparative TSR	40%	To be determined on the day of grant (25%)	To be determined on the day of grant (50%)	To be determined on the day of grant (100%)
Production	35%			
Increase in contingent resources	25%			

In relation to the comparative TSR condition, vesting will start for median performance of this element of the award (25 percent of this element vesting) with full vesting for upper quartile performance.

The awards vest on a straight-line basis between performance levels.

Consideration by the Directors of matters relating to Directors' remuneration

The Remuneration Committee is responsible for making recommendations to the Board on the Company's framework of executive remuneration and its cost, reviewing the ongoing appropriateness and relevance of remuneration policy, recommending to the Board for approval the quantum of the Group's annual variable compensation and the annual compensation packages for individual Executive Directors and senior management, and engaging and liaising with external advisers, as necessary, on the appropriateness of the recommended variable and fixed compensation packages. The Remuneration Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors and for other senior members of management and is advised, as necessary, by a specialist firm of remuneration consultants.

The Executive Directors do not participate in discussions and decisions regarding their own remuneration. The fee for the Chairman is set by the Remuneration Committee and the fees for the Non-Executive Directors are approved by the Board, on the recommendation of the Chairman and CEO.

In 2014 the Remuneration Committee met three times. The Committee discussed, amongst others, the following matters:

Month	Weighting (percentage of award subject to condition)
February	• Bonuses in respect of 2013 financial year • Review of 2013 performance • Introduce deferred cash bonus • LTIP awards • Recommend that no awards are made in 2014
November	• Review of past incentive arrangements • Initial Company pay review 2015
December	• Approach to 2014 remuneration report • Review of 2014 performance and bonus recommendations • Discussion on targets for 2015 plans • Discussions on operation of the remuneration policy for 2015 • Review of executive salaries for 2015

As at 1 January 2014, the Committee comprised Andrew Simon (Chairman), Simon Murray, Mark Hanson and John Bell. During the year Mark Hanson and John Bell stepped down from the Committee and Philip Dimmock joined. Since the year end Simon Murray has stepped down and V U Kumar and Maria Darby-Walker joined.

In addition, John Gerstenlauer (CEO) and Tony Peart (Legal and Commercial Director) have assisted the Committee in its work, but never in respect of their own remuneration.

Remuneration advice

In early 2014, PwC was appointed by the Committee as their independent adviser. PwC were selected on the basis of their track record of providing robust, salient and independent advice in matters pertaining to executive remuneration. PwC is a member of the Remuneration Consultants Group and abides by its code. Fees will be determined on a time and materials basis at prevailing market rates. PwC also provide internal audit services to the Company. The fees charged by PwC for advice to the Committee for 2014 were £50,000.

In February 2014, the Company engaged MM&K to advise the Remuneration Committee on the design and implementation of a new equity-based long-term incentive plan to replace the existing plan that expires in August 2014. The fees charged by MM&K for advice to the Committee for 2014 were £39,118.

Statement of voting at general Meeting

At the last Annual General Meeting of the Company held on 17 July 2014, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for	% for	Votes against	% against	Total	Votes withheld votes cast (abstentions)
To approve the Directors' remuneration policy	264,847,175	94.54	15,293,715	5.46	280,140,890	14,391,049
To approve the 2013 Directors' annual report on remuneration	225,106,996	78.41	61,979,408	21.59	287,086,404	7,445,536

Andrew Simon
Chairman of the Remuneration Committee

8 April 2015

Directors' responsibilities statement

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

The Directors have elected to prepare the Group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- the strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

On behalf of the Board

John Gerstenlauer
Chief Executive Officer

8 April 2015

Independent auditor's report

to the members of Gulf Keystone Petroleum Limited

Opinion on financial statements of Gulf Keystone Petroleum Limited

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its loss for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, Summary of significant accounting policies and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union.

Emphasis of matter – Going concern

We have reviewed the Directors' statement, contained within the going concern section of the Summary of significant accounting policies, in respect of the Group's ability to continue as a going concern.

The Group's only producing asset is its interest in the Shaikan Block in Kurdistan and to date it has not been able to establish a stable and reliable pattern of cash receipts from export deliveries made from this field. If this continues, the Directors expect the Group to require additional funding by the end of August 2015. In order to address this potential shortfall, the Group is currently in the early stages of raising further additional equity financing and recently engaged in discussions with a number of parties in relation to possible asset transactions.

Whilst we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, these conditions indicate the existence of a material uncertainty which may give rise to significant doubt over the Group's ability to continue as a going concern. We describe below how the scope of our audit has responded to this risk. Our opinion is not modified in respect of this matter.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. The risks remain the same as those discussed in 2013, except for the addition of "Recoverability of producing assets" and the removal of "Recoverability of intangible exploration and evaluation assets". The latter has been removed as, due to the current appraisal status of the Sheikh Adi and Ber Bahr assets and the Group's ongoing plans for each of these licences, there were no impairment indicators under IFRS 6 "Exploration for and Evaluation of Mineral Resources".

Independent auditor's report

to the members of Gulf Keystone Petroleum Limited continued

<table>
<tr><th>Risk</th><th>How the scope of our audit responded to the risk</th></tr>
<tr><td>Going concern
We consider the application of the going concern basis of accounting and the related disclosures to be a significant risk due to the lack of a stable and reliable pattern of cash receipts from export deliveries in respect of the Shaikan field as explained further above in the Emphasis of matter – Going concern. In addition, there was a risk that the Group would be in breach of the terms of a covenant in its 2014 Loan Notes as the relevant financial ratio was below the required threshold at 31 December 2014.</td><td>To assess the appropriateness of the going concern assumption we:
• considered management's going concern paper which was approved by the Board, and the accompanying cash flow forecasts for the going concern period;
• obtained supporting evidence for the key assumptions in management's base case and downside scenarios which included the expected pattern of receipts from oil sent for export and the forecast oil price, operating costs and committed capital expenditure;
• understood the terms of the covenants in the 2014 Loan Notes, as described in note 17 to the financial statements, including the timing of early repayment in the event there is a breach;
• obtained supporting documentation to confirm the amendments made to the terms of the 2014 Loan Notes subsequent to year end that resulted in the removal of a covenant that the Group was otherwise forecasting to be in breach;
• considered the Group's available funding and planned activities to address the identified shortfall, which includes the raising of further equity funding and possible asset transactions; and
• considered whether the disclosures in the going concern section of the Summary of significant accounting policies, relating to going concern are balanced, proportionate and clear.
As a result of these procedures, we concluded that there was a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.
We have highlighted above the level of uncertainty identified by the Directors in respect of going concern.</td></tr>
<tr><td>Revenue recognition for oil sent for export
Revenue totalling $28.2 million has been recognised for oil sent for export for the first time in 2014 and has been done so on the basis of cash received during the year, as noted in the Summary of significant accounting policies.
There are significant judgements as to how to apply the criteria for revenue recognition under IAS 18 Revenue in respect of oil sent for export as:
• the only contract specifying the mechanism by which crude oil is delivered is the Production Sharing Contract (PSC) with the Kurdistan Regional Government (KRG);
• the payment mechanism for oil sent for export is still developing within the Kurdistan Region of Iraq; and
• the Group does not receive regular payment for these export deliveries.</td><td>We have assessed whether the Group's decision to record revenue in respect of oil sent for export on the basis of cash received during the year is consistent with IAS 18 through:
• reading the terms of the PSC to assess the extent to which it represents a binding sales arrangement;
• confirming the existence of significant uncertainties in relation to: (a) the payment mechanism for oil sent for export; and hence (b) whether the Group is able to conclude that it is probable that economic benefits will ultimately flow to the group in advance of cash receipt; and
• obtaining supporting documentation for any cash receipts subsequent to year end, to assess whether they should have been recorded in the current year.
For revenue recognised in respect of oil sent for export in 2014, we assessed whether the amounts recognised are supported by cash receipts during 2014.</td></tr>
</table>

Risk	How the scope of our audit responded to the risk
Depreciation, depletion and amortisation (DD&A) The calculation of the DD&A charge of $38.4 million, as discussed in note 3 and the Summary of significant accounting policies, in respect of the Shaikan Block is a judgemental area which requires consideration of several inputs such as total depreciable oil and gas assets, an appropriate estimate of commercial reserves and an estimate of future development costs necessary to access those reserves. Commercial reserves include both 2P reserves and a risk adjusted share of 2C contingent resources.	We have obtained supporting evidence for the key assumptions underlying the 2014 DD&A charge of $38.4 million through: • agreeing estimated commercial reserves as at 1 January 2014 to the most recent third party Competent Persons Report (CPR) prepared for the purpose of the Company's move up to the Standard segment of the Official list and performing procedures to assess the competence, objectivity and independence of the third party; • confirming the key assumptions relating to the estimation of commercial reserves, including the share of 2C contingent resources that has been included, with operational management and their third party CPR provider; • obtaining an understanding, based on discussions with management and our understanding of operational developments on the Shaikan Block during 2014, of any material reserve revisions made by the Group during 2014; • testing the production for 2014 to signed production reports and bills of lading; • agreeing the depreciable base as being the sum of historic costs incurred to date together with estimated future capital expenditure to access the reserves base, as set out in the latest internal budgets; • reconciling estimated future capital expenditure to the amounts included in the 1 January 2014 CPR, as adjusted for current year expenditure, and obtaining explanations for any significant differences; and • testing the mechanical accuracy of management's DD&A calculation.
Recoverability of producing assets Significant judgement is needed in determining the recoverable amount of the Shaikan Block, which had a carrying value at 31 December 2014 of $591.9 million. As discussed in the Critical Accounting estimates and judgements section of the Summary of significant accounting polices, no impairment in relation to Shaikan has been recorded in the 2014 financial statements. This is a particular area of focus for 2014 given the significant decline in the oil price, the heightened geopolitical and security risk in the region and the lack of establishment of regular cash receipts for oil sent for export, all of which are indicators of impairment. As a result, management prepared a value in use calculation which was based on key assumptions including: • the timing of commencement of regular cash receipts from the KRG; • the extent to which export sales continue through trucking rather than input into a pipeline, and the associated impact on transportation costs; • oil prices; • reserves and production profile; • discount rate; • operating costs; and • capital costs.	We have reviewed management's impairment calculations to assess whether they support management's conclusion that no impairment has arisen. We tested management's impairment calculations and assumptions by reference to publicly available information, third party information, our knowledge of the Group and industry and also budgeted and forecast performance. This included: • comparing the oil price assumptions to third party forecasts and publicly available forward curves; • using our internal valuation specialists to perform an independent recalculation of the discount rate; • testing the mechanical accuracy of the calculations; and • performing stress tests for a range of alternative scenarios, including oil price, production volumes, the timing of cash receipts for oil sent for export and the costs of different export mechanisms.

Independent auditor's report

to the members of Gulf Keystone Petroleum Limited continued

Risk	How the scope of our audit responded to the risk
Carrying value of assets held for sale The Group's interest in the Akri Bijeel Block is classified as an asset held for sale and therefore must be recorded at the lower of its carrying amount and its fair value less costs to sell. The carrying value of this asset was considered a key judgement given that the Group has been trying to sell this asset since 2011, the significant fall in oil prices during 2014 and unfavourable drilling results during the year. As a result of the impairment indicators, management have performed an impairment assessment which was based on the following key assumptions: • commodity prices; • reserves and production; • discount rate; • operating costs; and • capital costs. The Group has recorded an impairment charge of $144.1 million during the year, reducing the carrying value of this asset to $8.6 million. Further details are provided in note 12 to the financial statements and the Summary of significant accounting policies.	We have tested management's impairment calculations and assumptions by reference to publicly available information, third party information, our knowledge of the Group and industry and also budgeted and forecast performance. This included: • comparing the oil price and discount rate assumptions to those used in the impairment calculations for the Shaikan Block; • comparing reserves and forecast expenditures to those included in the official field development plan; • testing the mechanical accuracy of the calculations; and • assessing the appropriateness of the disclosures made in relation to the impairment.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 54.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company to be $9.7 million (2013: $12.0 million), which is approximately 2 percent (2013: 2 percent) of net assets excluding the Akri Bijeel impairment charge of $144.1 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $193,000 (2013: $240,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Our audit planning identified the group's business to be a single component, and therefore all of the operations of the Group were subject to a full scope audit by the UK audit team.

Our audit work was performed primarily at the Group's head office in London. Specified audit procedures in respect of the Group's property, plant and equipment and inventory balances were performed by a Deloitte member firm based in Kurdistan under the supervision of the UK audit team.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with the provisions of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

8 April 2015

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	12	**(144,119)**	—
General and administrative expenses		**(39,034)**	(15,843)
Loss from operations	4	**(226,438)**	(21,097)
Other gains and (losses)	6	**73**	(1,186)
Interest revenue	2	**103**	828
Finance costs	7	**(19,812)**	(10,392)
Loss before tax		**(246,074)**	(31,847)
Tax charge	8	**(2,129)**	(118)
Loss after tax for the year		**(248,203)**	(31,965)
Loss per share (cents)			
Basic	9	**(28.51)**	(3.69)
Diluted	9	**(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	**(987)**	279
Total comprehensive loss for the period	**(249,190)**	(31,686)

Consolidated balance sheet

as at 31 December 2014

	Notes	2014 $'000	2013 $'000
Non-current assets			
Intangible assets	10	**276,290**	220,963
Property, plant and equipment	11	**593,604**	516,437
Deferred tax asset	19	**732**	3,680
		870,626	741,080
Current assets			
Assets classified as held for sale	12	**8,587**	103,086
Inventories	14	**22,854**	20,654
Trade and other receivables	15	**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	16	**(103,985)**	(100,795)
Provisions	18	**(7,197)**	(4,185)
Liabilities directly associated with assets classified as held for sale	12,18	**(8,587)**	(1,378)
		(119,769)	(106,358)
Non-current liabilities			
Convertible bonds	17	**(303,278)**	(296,725)
Other borrowings	17	**(224,071)**	—
Provisions	18	**(19,559)**	(15,365)
		(546,908)	(312,090)
Total liabilities		**(666,677)**	(418,448)
Net assets		**339,605**	562,367
Equity			
Share capital	20	**8,922**	7,975
Share premium account	20	**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

The financial statements were approved by the Board of Directors and authorised for issue on 8 April 2015 and signed on its behalf by:

John Gerstenlauer
Chief Executive Officer

Sami Zouari
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 December 2014

		Attributable to equity holders of the Company						
	Notes	Share capital $'000	Share premium account $'000	Share option reserve $'000	Exchange translation reserve $'000	Accumulated losses $'000	Convertible bond 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	24	—	—	12,568	—	—	—	12,568
Deferred tax on share-based payment transactions	19	—	—	(2,273)	—	—	—	(2,273)
Share conversion and issue	20	128	4,620	—	—	—	—	4,748
Own shares held by EBT		—	—	—	—	(64)	—	(64)
Issue of convertible bonds	17	—	—	—	—	—	1,383	1,383
Convertible bonds equity amortisation	17	—	—	—	—	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	24	—	—	4,885	—	—	—	4,885
Deferred tax on share-based payment transactions	19	—	—	(619)	—	—	—	(619)
Share conversion and issue	20	947	—	—	—	(914)	—	33
Own shares held by EBT		—	—	—	—	(33)	—	(33)
Issue of warrants	17	—	—	22,162	—	—	—	22,162
Convertible bond equity amortisation	17	—	—	—	—	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 used in operations	21	**(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		**(86,822)**	(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 increase/(decrease) 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 five business days.

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 (registered address: Cumberland House, 9th Floor, 1 Victoria Street, Hamilton, Bermuda). On 25 March 2014, the Company's 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 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.

Adoption of new and revised accounting standards

Standards not affecting the reported results or the financial position

In the current year, the following new and revised Standards and Interpretations have been adopted. Their adoption has not had any material impact on the amounts reported in these financial statements but may impact the accounting for future transactions.

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 10, IFRS 12 and IAS 27	Investment Entities (amended)
IAS 27 (revised)	Separate Financial Statements
IAS 28 (revised)	Investments in Associates and Joint Ventures
IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities
IFRIC 21	Levies

At the date of authorisation of these financial statements, the following principal Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 9	Financial Instruments (effective date 1 January 2018)
IFRS 15	Revenue from Contracts with Customers (effective date 1 January 2017)

The Directors do currently not anticipate that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods, however, a detailed assessment of the effect of IFRS 15 is not yet complete.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis of accounting

The financial statements have 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. The principal accounting policies adopted are set out below.

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, Chief Executive Officer's statement 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, note 26 to the consolidated financial statements 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. Note 26 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. The Group's only 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 twelve months from the date of this annual 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 also 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 annual report 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 annual report and financial statements. The financial statements do not include any adjustments that might be required if they were prepared on a basis other than that of a going concern.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Joint arrangements

The Group is engaged in oil and gas exploration, development and production through unincorporated joint arrangements; these are classified as joint operations in accordance with IFRS 11. The Group accounts for its share of the results and net assets of these joint operations. In addition, where the Group acts as Operator to the joint operation, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the joint operation are included in the Group's balance sheet.

Sales and interest revenue

Revenue is measured at the fair value of the consideration received or receivable. Sales revenue represents the Group's share of sales from petroleum production, net of sales related taxes and VAT.

Revenue is recognised when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales revenue is recognised when the goods are delivered and the title has passed. To the extent that revenue arises from test production during an evaluation programme, an amount is charged from evaluation costs to cost of sales so as to reflect a zero net margin.

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

Summary of significant accounting policies continued

Property, plant and equipment other than oil and gas interests

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life as follows:

Fixtures and equipment	20% straight-line

Intangible assets other than oil and gas interests

Intangible assets, other than oil and gas assets, have finite useful lives and are measured at cost and amortised over their expected useful economic lives as follows:

Computer software	33% straight-line

Oil and gas assets

The Group adopts the modified full cost method of accounting for its oil and gas interests having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

Exploration and evaluation costs

Under the full cost method of accounting all costs relating to the exploration for and appraisal of oil and gas exploration and evaluation ("E&E") interests, whether commercial or not, are accumulated and capitalised as non-current assets within geographic cost pools.

Expenditure directly associated with evaluation or appraisal activities is initially capitalised as intangible non-current assets. Such costs include licence acquisition, technical services and studies, seismic acquisition, exploration and appraisal well drilling, payments to contractors, interest payable and directly attributable administration and overhead costs.

E&E costs incurred during the exploration and evaluation phase are carried forward, subject to there being no indication of impairment, where activities in an area have not reached a stage which permits reasonable assessment of the existence of economically recoverable reserves. E&E costs are transferred to development and production assets within property, plant and equipment upon the approval of a development programme by the relevant authorities and the determination of commercial reserves existence. Unsuccessful E&E costs are retained within intangible non-current assets and amortised as described below. E&E costs are not amortised prior to the conclusion of appraisal activities.

Development and production assets

Development and production assets are accumulated within geographic cost pools and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined above.

The cost of development and production assets also includes the cost of acquisition and purchases of such assets, directly attributable overheads, and costs for future restoration and decommissioning.

Depreciation of oil and gas assets

The net book values of producing assets are depreciated generally on a field-by-field basis using the unit of production ("UOP") basis which uses the ratio of oil and gas production in the period to the remaining commercial reserves plus the production in the period. Costs used in the calculation comprise the net book value of the field, and any further anticipated costs to develop such reserves.

Any unsuccessful E&E costs retained within intangible non-current assets are depreciated on a UOP basis by reference to the commercial reserves of the wider geographic cost pool.

Commercial reserves are proven and probable ("2P") reserves together with, where considered appropriate, a risked portion of 2C contingent resources, estimated using standard recognised evaluation techniques. The estimate is regularly reviewed by independent consultants.

Impairment of tangible and intangible non-current assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, or group of assets, is estimated in order to determine the extent of the impairment loss (if any). For exploration and evaluation assets, the group of assets is the relevant full cost pool. Where the assets fall into an area that does not have an established pool or if there are no producing assets to cover the unsuccessful exploration and evaluation costs, those assets would fail the impairment test and be written off to the income statement in full.

For other assets where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any impairment identified is immediately recognised as an expense.

Disposals of oil and gas interests

The difference between the fair value of the consideration receivable and the carrying value of the relevant proportion of the oil and gas asset disposed of is first used to reduce any unsuccessful exploration and evaluation cost carried in the pool, with any excess gain recognised in the income statement.

Carry of expenditures and farm-in arrangements

Where the Group enters into a commercial agreement which includes carry of expenditures or a farm-in, the arrangement is accounted for according to its commercial substance. Generally, in the case of a farm-in, the substance is that the counterparty has acquired a share, or a greater share, of the underlying oil and gas reserves and the arrangement is treated as a partial disposal. Where the substance is that the counterparty has acquired a right, or a conditional right to be reimbursed by the Group out of future production, a liability is recognised at the time the obligation arises. In the case of a carry, a liability is recognised when the obligation is probable and is no longer conditional upon factors under the Group's control.

Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised and added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from date of classification.

Summary of significant accounting policies continued

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and the financial position of the Group are expressed in US dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the year.

On consolidation, the assets and liabilities of the Group's foreign operations which use functional currencies other than US dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity in the Group's translation reserve. On the disposal of a foreign operation, such translation differences are reclassified to profit or loss.

Inventories

Inventories, except for hydrocarbon inventories, are valued at the lower of cost and net realisable value. Hydrocarbon inventories are recorded at net realisable value with changes in hydrocarbon inventories being adjusted through cost of sales.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at amortised cost using the effective interest method less any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Liquid investments

Liquid investments comprise short-term liquid investments of between three to twelve months maturity.

Financial assets at fair value through profit and loss

Financial assets are held at fair value through profit and loss ("FVTPL") when the financial asset is either held for trading or it is designated at FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line in the income statement.

Derivative financial instruments

The Group may enter into derivative financial instruments including foreign exchange forward contracts to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

Impairment of financial assets

Financial assets, other than those valued at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in local or national economic conditions that correlate with default on receivables.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, which are charged to share premium.

Convertible bonds

The net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity, as a convertible bond reserve and is not remeasured. The equity portion is amortised over the life of the bond to accumulated losses reserve within equity. The liability component is carried at amortised cost using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

Borrowings

Interest-bearing loans and overdrafts are recorded at the fair value of proceeds received, net of transaction costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise. The liability is carried at amortised cost using the effective interest rate method until the maturity of the borrowing.

Summary of significant accounting policies continued

Financial instruments continued

Trade payables

Trade payables are stated at amortised cost. The average maturity for trade and other payables is one to three months.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Decommissioning provision

Provision for decommissioning is recognised in full when damage is done to the site and an obligation to restore the site to its original condition exists. The amount recognised is the present value of the estimated future expenditure for restoring the sites of drilled wells and related facilities to their original status. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas property. The amount recognised is reassessed each year in accordance with local conditions and requirements. Any change in the present value of the estimated expenditure is dealt with prospectively. The unwinding of the discount is included as a finance cost.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the entity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 24.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight- line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserve.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the period. Details regarding the determination of the fair value of cash-settled share-based transactions are set out in note 24.

Leasing

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described above, 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.

Carrying value of intangible exploration and evaluation assets

The outcome of ongoing exploration, and therefore the recoverability of the carrying value of intangible exploration and evaluation assets, is inherently uncertain. Management makes the judgements necessary to implement the Group's policy with respect to exploration and evaluation assets and considers these assets for impairment at least annually with reference to indicators in IFRS 6. Further details are provided in note 10.

When an asset is expected to be disposed of or abandoned, the recoverable amount reflects the expected net disposal consideration, together with the value of any liabilities avoided or transferred.

Carrying value of producing assets

Oil and gas assets within property, plant and equipment are held at historical cost value, less accumulated depreciation and impairments.

Producing assets are tested for impairment whenever indicators of impairment exist. Management assesses whether such indicators exist, with reference to the criteria specified in IAS 36, at least annually.

The calculation of the recoverable amount requires estimation of future cash flows within complex impairment models. Key assumptions and estimates in the impairment models include:

- commodity prices that are based on latest internal forecasts, benchmarked with external sources of information, to ensure they are within the range of available analyst forecasts and the long-term corporate economic assumptions thereafter;
- discount rates that are adjusted to reflect risks specific to individual assets and the region; and
- commercial reserves and the related production and payment profiles.

Operating costs and capital expenditure are based on financial budgets and internal management forecasts. Cost assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated therewith. Underlying input cost assumptions are consistent with related output price assumptions.

In 2014, the reduction in oil prices in the final three months of the year, the political instability in Iraq, and, in respect of Shaikan, the lack of regular cash receipts for crude sent for export, were noted as potential indicators of impairment. The resulting calculation of recoverable amounts resulted in an impairment being recognised for the Akri Bijeel field. Further details are provided in note 12. It was determined that no impairment had arisen for the Shaikan field.

Decommissioning costs

The cost of decommissioning is estimated by reference to the Group's experience, with key judgements including the application of local laws and regulations, estimates of the related costs, inflation and discount rates. Further details are provided in note 18.

Depreciation, depletion and amortisation

Amortisation and depreciation of oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of commercial reserves on an entitlement basis at the end of the period plus production in the period, on a field-by-field basis. Commercial reserve estimates are based on a number of underlying assumptions, including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references these estimates against those of joint venture partners and external consultants. Such external estimates include the Competent Persons' Report prepared by ERC Equipoise, released in March 2014.

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 depreciation, depletion and amortisation charges, as well as impairment assessments.

Revenue

The recognition of revenue during 2014, and 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, domestic commercial sales followed shortly afterwards and the export of crude oil by truck commenced in November 2013. For all commercial production, the goods are considered to be delivered and the title passed at the point of loading at the Shaikan field. For sales into the local market, it is clear that at this point of delivery, economic benefit will flow to the Group and that revenue and costs can be measured reliably and thus revenue is recognised. However, in contrast, 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. During 2014, $28.2 million (net) had been received for oil sent for export and therefore, recognised as revenue. In February 2015, a gross $26 million prepayment for future oil sales was received.

Capitalisation of borrowing costs

The accounting policy for oil and gas assets describes the nature of the costs that the Group capitalises, which include applicable borrowing costs that are directly attributable to qualifying assets as defined in IAS 23 Borrowing Costs ("IAS 23"). Management has considered the definition of qualifying assets in IAS 23 and has determined that the Group's capitalised cash expenditures on its four Kurdistan blocks meets the definition of qualifying assets. Consequently, the interest associated with capital expenditures on the four Kurdistan blocks has been capitalised.

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 $'000	Kurdistan $'000	United Kingdom $'000	Corporate $'000	Elimination $'000	Total $'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)	—	—	(11,216)	(144,119)
Allocated general and administrative expenses	(3,924)	(11,277)	(9,613)	(22,384)	8,920	(38,278)
Depreciation and amortisation expense	—	(548)	(207)	(1)	—	(756)
Loss from operations	**(3,924)**	**(188,467)**	**841**	**(22,385)**	**(12,503)**	**(226,438)**
Other gains and (losses)	(4)	(249)	—	326	—	73
Interest revenue	—	—	5	98	—	103
Finance costs	—	(534)	(2)	(55,933)	36,657	(19,812)
(Loss)/profit before tax	**(3,928)**	**(189,250)**	**844**	**(77,894)**	**24,154**	**(246,074)**
Tax expense	—	—	(2,129)	—	—	(2,129)
(Loss)/profit after tax	**(3,928)**	**(189,250)**	**(1,285)**	**(77,894)**	**24,154**	**(248,203)**
Capital expenditure	—	236,599	377	—	—	236,976
Total assets	52	946,313	21,074	1,271,385	(1,232,542)	1,006,282

31 December 2013	Algeria $'000	Kurdistan $'000	United Kingdom $'000	Corporate $'000	Elimination $'000	Total $'000
Revenue						
Oil sales	—	6,696	—	—	—	6,696
Inter-segment sales	—	—	11,745	—	(11,745)	—
Total revenue	**—**	**6,696**	**11,745**	**—**	**(11,745)**	**6,696**
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 $'000	2013 $'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: $6.7 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 percent.

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 percent.

3. Cost of sales

	2014 $'000	2013 $'000
Production costs	41,784	8,685
Royalty costs	1,671	888
Depreciation of oil and gas properties	38,390	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 oil sent for export 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 oil sent for export.

4. Loss from operations

	2014 $'000	2013 $'000
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	**39,019**	2,981
Amortisation of intangible assets	**111**	194
Credit in relation to Excalibur litigation (see note 23)	**(2,138)**	(18,973)
Staff costs (see note 5)	**25,381**	26,289
Auditor's remuneration for audit services (see below)	**155**	158
Operating lease rentals (see note 22)	**2,051**	1,769

	2014 $'000	2013 $'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**130**	134
Fees payable to the Company's auditor for other services to the Group		
– the audit of the Company's subsidiaries pursuant to legislation	**25**	24
Total audit fees	**155**	158
Other assurance services	**—**	59
Remuneration advisory services	**—**	104
Corporate finance services	**305**	373
Other services	**—**	56
Total fees	**460**	750

5. Staff costs

The average monthly number of employees (including Executive Directors) for the year was as follows:

	2014 Number	2013 Number
Office and management	**87**	78
Technical and operational	**167**	109
	254	187

Employee benefits recognised as an expense during the year comprised:

	2014 $'000	2013 $'000
Wages and salaries	**22,615**	13,917
Social security costs	**(1,203)**	2,534
Share-based payment (see note 24)	**3,969**	9,838
	25,381	26,289

6. Other gains and (losses)

	2014 $'000	2013 $'000
Exchange gains/(losses)	**73**	(1,186)
	73	(1,186)

7. Finance costs

	2014 $'000	2013 $'000
Interest payable in respect of convertible bonds (see note 17)	**26,866**	23,433
Interest payable in respect of other bonds (see note 17)	**29,066**	—
Unwinding of discount on provisions (see note 18)	**534**	378
Capitalised finance costs	**(36,654)**	(13,419)
	19,812	10,392

The amount of finance costs capitalised was determined in accordance with IAS 23 by applying the effective interest rate of 11.15 percent on an annual basis applicable to the borrowings under the $325 million convertible bond and the $250 million other bond to the expenditures on the qualifying asset (see note 17).

8. 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 percent 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 percent (2013: 23.25 percent) 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 percent effective from 1 April 2014 in the Finance Bill 2013 as well as an additional reduction to 20 percent 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)/benefit for the year	**(2,129)**	(118)

9. 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**	865,480

The Group followed the steps specified by IAS 33 in determining whether potential Common Shares are dilutive or anti-dilutive. It was determined that all of the potential Common Shares including bonus shares, share options, convertible bonds and Common Shares held by the Employee Benefit Trustee ("EBT") and the Exit Event Trustee have an anti-dilutive effect on loss per share. As aresult, 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

10. 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	—	(4)	(4)
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 $74.2 million (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.

11. Property, plant and equipment

	Oil and gas properties $'000	Fixtures and 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	(38,390)	(629)	(39,019)
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	(40,767)	(3,948)	(44,715)
Net book value	**591,932**	**1,672**	**593,604**

The net book value of oil and 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.

12. 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 percent 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 into 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 twelve 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, are 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 $'000**	2013 $'000
Intangible assets	**8,587**	96,007
Prepayment to operator	**—**	7,079
	8,587	103,086

Akri-Bijeel liabilities:	**2014 $'000**	2013 $'000
Decommissioning provisions (note 18)	**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.

13. Group companies

Details of the Company's subsidiaries and joint operations at 31 December 2014, and 31 December 2013, are as follows:

Name of subsidiary	Place of incorporation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Gulf Keystone Petroleum (UK) Limited	United Kingdom	100%	100%	Geological, geophysical and engineering services
Gulf Keystone Petroleum International Limited	Bermuda	100%	100%	Exploration and evaluation activities in Kurdistan
Gulf Keystone Petroleum Numidia Limited	Bermuda	100%	100%	Exploration and evaluation activities
Gulf Keystone Petroleum HBH Limited	Bermuda	100%	100%	Exploration and evaluation activities
Shaikan Petroleum Limited	Bermuda	100%	100%	Exploration and evaluation activities

Name of joint operation	Place of incorporation	Proportion of ownership interest	Proportion of voting power held[(2)]	Principal activity
Shaikan	Kurdistan	80%[(1)]	33.3%	Production and development activities
Sheikh-Adi	Kurdistan	100%	50%	Exploration and evaluation activities
Akri-Bijeel	Kurdistan	20%	33.3%	Exploration and evaluation activities
Ber Bahr	Kurdistan	40%	33.3%	Exploration and evaluation activities

(1) 75 percent is held directly by Gulf Keystone Petroleum International Limited, with 5 percent held in trust for Texas Keystone, Inc. ("TKI") until formal transfer of the share is completed.

(2) Proportion of voting power is as defined in the individual Production Sharing Contracts (PSC). The above are joint operations based on the voting rights as set out in each PSC.

14. Inventories

	2014 $'000	2013 $'000
Exploration materials	**21,352**	19,893
Crude oil	**1,502**	761
	22,854	20,654

15. Trade and other receivables

	2014 $'000	2013 $'000
Trade receivables	**4,890**	—
Other receivables	**8,877**	30,257
Corporation tax receivable	**339**	—
Prepayments and accrued income	**2,274**	3,766
	16,380	34,023

Trade receivables relate to amounts due from oil sales with $4.9 million outstanding as at 31 December 2014 (2013: $nil).

Also included within other receivables for 2014 is an amount of $0.5 million (2013: $0.3 million) being the deposits for leased assets which are receivable after more than one year. There are no receivables from related parties as at 31 December 2014 (2013: $nil) (see note 25). No impairments have been recognised during the year (2013: $nil).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value and no amounts are provided against them.

16. Trade and other payables

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

The Directors consider that the carrying amount of trade payables approximates to their fair value.

	2014 $'000	2013 $'000
Trade payables	**13,885**	14,495
Other creditors	**669**	3,518
Accrued expenses	**89,431**	82,782
	103,985	100,795

Accrued expenses include interest payable of $4.3 million (2013: $4.2 million) in respect of convertible bonds and $6.6 million (2013: $nil) in respect of 2014 Notes (see note 17).

17. 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 percent 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 $'000	2013 $'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	**538,221**	300,900

Liability component reported in:

	2014 $'000	2013 $'000
Interest payable in current liabilities (see note 16)	**10,872**	4,175
Non-current liabilities	**527,349**	296,725
	538,221	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 percent. The effective interest rate for the $50 million tap issue is 7.20 percent. Each year, an amount equal to the difference between the total interest charge and the coupon rate charge (at 6.25 percent 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 percent.

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 $'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 $'000	2013 $'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 99.75 pence, an exercise price of $1.70 as per the issue prospectus, a risk free rate of 0.8 percent, a time to expiry of 36 months and a share price volatility of 50 percent.

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 27.

18. Provisions

	2014 $'000	2013 $'000
Current provisions	**7,197**	4,185
Non-current provisions	**19,559**	15,365
Assets Held for Sale provision	**2,298**	1,378
	29,054	20,928

Decommissioning provision	Current provisions (Algeria) $'000	Non-current provisions (Kurdistan) $'000	Assets held for sale provision $'000	Total $'000
At 1 January 2014	4,185	15,365	1,378	20,928
New provisions and changes in estimates	3,012	3,714	866	7,592
Unwinding of discount	—	480	54	534
At 31 December 2014	**7,197**	**19,559**	**2,298**	**29,054**

The provision for decommissioning is based on the net present value of the Group's share of expenditure which may be incurred in the removal and decommissioning of the wells and facilities currently in place and restoration of the sites to their original state. This expenditure is estimated to be incurred over the next twelve months on Algerian oil and gas assets and over the next 30 years on Kurdistan blocks.

19. Deferred tax asset

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation $'000	Share-based payments $'000	Total $'000
At 1 January 2013	1	6,795	6,796
(Charge)/credit to income statement	13	(825)	(812)
Charge direct to equity	—	(2,273)	(2,273)
Exchange differences	—	(31)	(31)
At 1 January 2014	**14**	**3,666**	**3,680**
(Charge)/credit to income statement	(45)	(2,127)	(2,172)
Charge direct to equity	—	(619)	(619)
Exchange differences	—	(157)	(157)
At 31 December 2014	**(31)**	**763**	**732**

20. Share capital

	2014 $'000	2013 $'000
Authorised		
Common shares of $0.01 each	**11,500**	10,500
Non-voting shares of $0.01 each	**500**	500
Preferred shares of $1,000 each	**20,000**	20,000
Series A preferred shares of $1,000 each	**40,000**	40,000
	72,000	71,000

The authorised common share capital increased by 100,000,000 shares during 2014, following a resolution passed at the 2014 AGM.

	Common shares			
	Number of shares 000	Amount $'000	Share capital $'000	Share premium $'000
Issued and fully paid				
Balance at 1 January 2013	876,182	799,326	7,847	791,479
Bonus scheme shares issued	7,126	71	71	—
Shares issued under option scheme	4,650	2,515	47	2,468
Warrant exercise	975	2,162	10	2,152
Balance 31 December 2013	888,933	804,074	7,975	796,099
Bonus scheme shares issued	3,305	33	33	—
Other	—	914	914	—
Balance 31 December 2014	**892,238**	**805,021**	**8,922**	**796,099**

During the year, a total of 3,305,004 shares were issued as part of the Company's bonus share scheme (2013: 7,125,837), of which 845,894 new common shares were issued to the Gulf Keystone Employee Benefit Trust ("EBT") at par value of $0.01 (see note 24).

At 31 December 2014, a total of 10,290,003 common shares were held by the EBT (2013: 9,444,109) and 10,000,000 shares were held by the Exit Event Trustee (2013: 10,000,000). All 20,290,003 common shares were included within reserves (2013: 19,444,109).

Rights attached to share capital

The holders of the common shares have the following rights (subject to the other provisions of the Bye-laws):

i. entitled to one vote per common share;

ii. entitled to receive notice of, and attend and vote at, general meetings of the Company;

iii. entitled to dividends or other distributions; and

iv. in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for a reorganisation or otherwise or upon a distribution of capital, entitled to receive the amount of capital paid up on their common shares and to participate further in the surplus assets of the Company only after payment of the Series A Liquidation Value (as defined in the Bye-laws) on the Series A preferred shares.

21. 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	**39,019**	2,981
Amortisation of intangible assets	**111**	194
Increase in Algerian decommissioning provision	**3,012**	—
Share-based payment expense	**3,971**	9,838
Impairment of assets held for sale	**144,119**	—
Increase in inventories	**(2,200)**	(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)

22. Commitments

Operating lease commitments – the Group as a lessee

	2014 $'000	2013 $'000
Minimum lease payments under operating leases recognised as expense for the year	**2,051**	1,769

At the balance sheet date, the Group had outstanding total commitments under non-cancellable operating leases, which fall due as follows:

	2014 $'000	2013 $'000
Within one year	**1,559**	1,299
In the second to fifth years inclusive	**2,691**	82
After five years	—	—
	4,250	1,381

Operating lease payments represent rentals payable by the Group for certain of its office and residence properties and facilities in the United Kingdom and the Kurdistan Region of Iraq. The UK office lease is for five years from February 2015 and is included above. The non-cancellable operating leases within Kurdistan are for up to one year in duration.

Exploration and development commitments

Due to the nature of the Group's operations in exploring and evaluating areas of interest and development of assets, it is difficult to accurately forecast the nature or amount of future expenditure, although it will be necessary to incur expenditure in order to retain present exploration and appraisal rights.

Expenditure commitments on current permits for the Group could be reduced by selective relinquishment of exploration tenure, by the sale of assets or by the renegotiation of expenditure commitments. The level of current committed exploration and development expenditure expected in the year ending 31 December 2015 for the Group is approximately $54.5 million (2014: $208.8 million) of which the majority is contracted. This includes the minimum amounts required to retain the relevant licences.

23. Excalibur litigation

In December 2010, Excalibur commenced legal action against Gulf Keystone and two of its subsidiaries (together "the Companies") and Texas Keystone Inc. ("Texas Keystone") asserting certain contractual and non-contractual claims against the Companies and Texas Keystone and claiming that Excalibur is entitled to an interest of up to 30 percent in the Companies' blocks in the Kurdistan Region of Iraq. The operations in the Kurdistan Region of Iraq comprise the substantial majority of the Group's overall petroleum operations.

On 13 December 2013 the Court handed down its full judgement dismissing all of the claims asserted by Excalibur and deciding all issues in favour of Gulf Keystone and Texas Keystone. Excalibur does not propose to appeal the judgement.

On 13 December 2013, the Court also ordered that the Companies should recover the costs of these legal proceedings and that these costs, if not agreed, should be assessed on an indemnity basis, which is typically more generous than the standard basis. Excalibur must pay interest on the Companies' costs at the rate of 1.5 percent per annum, from 13 December 2013 until the date of payment of the invoices.

The Court further ordered that the full sum of £17.5 million, which had been paid by Excalibur into the Court as security for the Defendants' costs, be paid out to the Defendants, i.e. £10.7 million to Gulf Keystone and its two subsidiaries and £6.8 million to Texas Keystone Inc. A total amount of £16.9 million, net of £0.6 million outstanding legal costs, was received by Gulf Keystone in January 2014. This payment has been recognised within administrative expenses as a credit to legal fees in the 31 December 2013 consolidated financial statements of Gulf Keystone, which provided all of the funds required to defend the case.

The Court further ordered Excalibur to provide an additional security for the costs of the Company and its two subsidiaries in the sum of £3,209,210 and an additional security for the costs of Texas Keystone Inc. in the sum of £2,402,800 by payment into Court by 31 December 2013. On 26 February 2015, $2,138,482 (£1,376,645) was received from Excalibur. This amount has been recognised within other receivables as at 31 December 2014 as per note 15. Gulf Keystone intends to pursue the claimants, and their financial backers, for the outstanding sum. The outstanding sums, of £4,235,364 have not been recognised in the 31 December 2014 consolidated financial statements.

24. Share-based payments

	2014 $'000	2013 $'000
Bonus shares charge	—	5,281
Share options charge	**4,885**	7,287
	4,885	12,568

During the year $0.9 million (2013: $2.9 million) of the above charge has been capitalised into the cost of the Group's exploration and development assets in accordance with the Group's accounting policy for E&E assets.

Equity-settled share option plan

The Group's share option plan provides for an exercise price at least equal to the closing market price of the Group shares on the date prior to grant. Awards made under the Group's share option plan have a vesting period of at least three years except for awards made under the Long Term Incentive Plan, which vest in equal tranches over a minimum of three years subsequent to the achievement of a number of operational and market-based performance conditions. If options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

	2014		2013	
	Number of share options '000	Weighted average exercise price (in pence)	Number of share options '000	Weighted average exercise price (in pence)
Outstanding at 1 January	**37,473**	**101.4**	41,873	94.3
Granted during the year	**250**	**99.8**	650	180.8
Exercised during the year	—	—	(4,650)	35.5
Cancelled during the year	—	—	(400)	250.0
Forfeited during the year	**(1,953)**	**75.0**	—	—
Outstanding at 31 December	**35,770**	**102.5**	37,473	101.4
Exercisable at 31 December	**19,435**	**106.0**	21,827	65.2

No options were exercised during the period. In 2013, the weighted average share price at the date of exercise for share options was £1.88. The options outstanding at 31 December 2014 had a weighted average exercise price of £1.01, and a weighted average remaining contractual life of five years.

During April 2014, 250,000 options (2013: 250,000) with market-based performance conditions attached were granted to new employees under the Group's share option plan.

The inputs into the stochastic (binomial) valuation model were as follows:

	2014 (in pence)	2013 (in pence)
Weighted average closing share price on date of grant	**89.75**	180.8
Weighted average exercise price of options granted in the year	**99.75**	180.8

The expected volatility was calculated as 80.7 percent (2013: 85.5 percent) and has been based on the Company's share price volatility averaged for the five years prior to grant date.

The expected term of the new options is three years (2013: three years). The risk free rate was 1.12 percent (2013: 0.55 percent) for the new options.

The weighted average fair value of the options granted in 2014 was £0.45 (2013: £0.87).

The Company has made no dividend payments to date and as there is no expectation of making payments in the immediate future the dividend yield variable has been set at zero for all grants.

24. Share-based payments continued

Share options outstanding at the end of the year have the following expiry date and exercise prices:

		Options ('000)	
Expiry date	Exercise price (pence)	2014	Expiry date 2013
13 February 2018	30.00	**1,100**	1,100
24 September 2018	30.00	**2,006**	2,001
31 December 2018	30.00	**1,345**	1,350
15 March 2019	30.00	**250**	250
30 July 2019	30.00	**1,000**	1,000
23 June 2020	75.00	**16,928**	18,882
22 September 2020	147.50	**250**	250
11 October 2020	175.00	**250**	250
6 February 2021	175.00	**9,440**	9,440
19 June 2021	146.25	**550**	550
7 July 2021	146.25	**250**	250
14 July 2021	146.25	**250**	250
21 July 2021	146.25	**500**	500
19 September 2021	152.50	**250**	250
26 October 2021	146.25	**250**	250
25 November 2021	194.50	**250**	250
20 March 2022	250.00	**400**	400
8 July 2023	158.75	**250**	250
24 April 2017	99.75	**250**	—
		35,769	37,473

Bonus shares

Through the Company's Executive Bonus Scheme, the Group has issued bonus shares to certain employees for $nil consideration. Bonus shares have been generally awarded over three years, vesting in three equal tranches during those years subject to continued employment. These share-based payments are measured at fair value at the date of grant. The fair value of the shares granted is recognised as an employee expense with a corresponding increase in equity. The fair value of the shares granted is the market price on the date of the award and is charged to the income statement over the vesting period taking into account the terms and conditions upon which the shares were granted.

	Bonus shares ('000)	
	2014	2013
Balance at 1 January	**3,306**	3,306
Granted during the year	**—**	—
Forfeited during the year	**—**	—
Issued during the year	**(3,306)**	—
Balance at 31 December	**—**	3,306

Exit Event Awards

On March 2012, the Remuneration Committee recommended that the Company make cash settled awards to certain Executive Directors and employees conditional on the occurrence of an Exit Event (as defined below) up to a maximum amount equivalent to the value of 10.0 million common shares each at the time of an Exit Event, and that a trustee (the "Exit Event Trustee") be appointed to hold and, subject to the occurrence of an Exit Event, to sell sufficient common shares to satisfy the Exit Event Awards.

On 21 March 2012, the Board approved the Exit Event Awards to certain Executive Directors and employees, subject to the occurrence of an Exit Event, equivalent to the value of 2.0 million common shares. The Exit Event Trustee will hold the remaining 8.0 million common shares to satisfy any future Exit Event Awards to full-time employees of the Company and subsidiary companies, subject to the occurrence of an Exit Event, with such beneficiaries to be determined in due course. A further award of 0.9 million common shares was made to staff in December 2013, with no additional Exit Event Awards made to directors. The Exit Event Awards expire in March 2017.

An Exit Event envisages a sale of either the Company or a substantial proportion (i.e. more than 50 percent) of its assets.

These share-based payments are measured at the fair value of the associated liability at the year end. As at 31 December 2014, the fair value of Exit Event Awards was $nil (2013: $nil) based on the market value of the shares and the probability of the Exit Event occurring assessed as of that date.

25. Related party transactions

Transactions with related parties

The Group has a related party relationship with its subsidiaries and joint operations. The Company and its subsidiaries, in the ordinary course of business, enter into various sales, purchase and service transactions with joint operations in which the Group has a material interest. These transactions are under terms that are no less favourable to the Group than those arranged with third parties.

During the year, Group companies entered into the following transactions with related parties which are not members of the Group.

Texas Keystone Inc.

Texas Keystone Inc. is a related party of the Group because Todd Kozel, a Director of the Company during the year, is also a Director of TKI.

On 21 December 2007, Gulf Keystone Petroleum International Limited ("GKPI") entered into a Joint Operating Agreement ("the Agreement") for the Shaikan block in the Kurdistan Region of Iraq in which TKI holds a 5 percent participating interest. TKI initially led the pursuit of opportunities in the Kurdistan Region of Iraq and participated in the successful signature of the Production Sharing Contract for the Shaikan Block. In return for this and TKI's continuing participation, GKPI was liable to pay for TKI's share of the costs of the Exploration Work Programme and all costs ancillary to the joint operations up until the drilling of the first exploration well. TKI elected not to participate in the drilling of the Shaikan-1 well and as a consequence agreed to assign its interest under the contract to GKPI. Currently TKI holds its interest in trust for GKPI pending the transfer of its interest to GKPI.

Directors' transactions

During 2014, the Company paid for certain personal expenses of $0.2 million (2013: $2.4 million) on behalf of Todd Kozel. No interest was charged on these amounts. These personal expenses were settled during the year through a combination of cash payment to the Company and by offsetting against amounts otherwise owed to Todd Kozel as part of his settlement agreement.

25. Related party transactions continued

Remuneration of key management personnel

The remuneration of the Directors and Officers, the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Those identified as key management personnel include the Directors of the Company and the following key personnel:

J Stafford – Vice President Operations

SM Hood – Deputy Chief Financial Officer

AR Peart – Legal and Commercial Director

U Eminkahyagil – Kurdistan Country Manager

M Messaoudi – Algeria Country Manager

The values below are calculated in accordance with IAS 19 and IFRS 2.

	2014 $'000	2013 $'000
Short-term employee benefits	**6,779**	10,264
Other allowances	**136**	422
Share-based payment – options	**4,617**	5,234
Share-based payment – bonus shares	—	4,197
	11,532	20,117

Further information about the remuneration of individual Directors is provided in the Directors' emoluments section of the Report of the remuneration committee.

26. Financial instruments

	2014 $'000	2013 $'000
Financial assets		
Cash and cash equivalents	**87,835**	81,972
Loans and receivables	**14,106**	30,257
	101,941	112,229
Financial liabilities		
Loans and payables	**103,985**	100,795
Convertible bonds (Level 1)	**303,278**	296,725
2014 Notes (Level 1)	**224,071**	-
	631,334	397,520

All loans and payables, except for the convertible bonds and 2014 Notes, are due to be settled within one year and are classified as current liabilities.

The maturity profile of the convertible bonds and 2014 Notes are disclosed in note 17. The maturity profile of all other financial liabilities is indicated by their classification in the balance sheet as "current" or "non-current". Further information relevant to the Group's liquidity position is disclosed in the Directors' report under "going concern".

Fair value hierarchy

In line with IFRS 13 'Fair Value Measurement' the Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded value that are not based on observable market data.

Capital risk management

The Group manages its capital to ensure that the entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group is not subject to externally imposed capital requirements. The capital structure of the Group consists of cash, cash equivalents and liquid investments, convertible bonds, 2014 Notes and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in note 20, the Consolidated statement of comprehensive income and the Consolidated statement of changes in equity.

Capital structure

The Group's Board of Directors reviews the capital structure on a regular basis and makes adjustments to it in light of changes in economic conditions. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Until 2012, the Group had financed its business by means of internally generated funds and external share capital. On 18 October 2012, the Group raised $275.0 million through an issue of convertible bonds. In November 2013, the Group raised further funds through a $50.0 million a "tap issue" of convertible bonds, which have been consolidated to form a series with the 2012 issue. The net proceeds of the issue of the bonds have contributed, and will continue to contribute to, the Group's move to the large-scale stage development of its Shaikan block and its exploration and appraisal of the Akri-Bijeel, Ber Bahr and Sheikh Adi blocks. On 17 April 2014 the Group raised a further $250.0 million through an issue of three-year senior unsecured notes. As a result, the Group carried a non-current liability of $527.3 million as at 31 December 2014 (2013: $296.7 million) (see note 17).

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the Summary of significant accounting policies.

Financial risk management objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group. These financial risks include market risk (including commodity price, currency and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group currently has no currency risk or other hedges against financial risks as the benefit of entering into such agreements is not considered to be significant enough as to outweigh the significant cost and administrative burden associated with such hedging contracts. The Group does not use derivative financial instruments for speculative purposes.

The risks are closely reviewed by the Board on a regular basis and steps are taken where necessary to ensure these risks are minimised.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, oil prices and changes in interest rates in relation to the Group's cash balances. The operating currencies of the Group are Great British pounds (GBP), US dollars (USD), Algerian dinars (DZD) and Iraqi dinars (IQD).

The Group's exposure to currency risk is decreased due to the convertible bonds and 2014 Notes which are denominated in USD, which is the main currency for the Group's transactions, and following the utilisation of sterling funds from previous equity raises. Previously, currency hedges were entered into to address foreign currency risk arising when entering into funding transactions in GBP.

There have been no changes to the Group's exposure to other market risks or any changes to the manner in which the Group manages and measures the risk. The Group does not hedge against the effects of movement in oil prices. The risks are monitored by the Board on a regular basis.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, being any currency other than the functional currency of the Group subsidiary concerned. Hence, exposures to exchange rate fluctuations arise.

At 31 December 2014, a 10 percent weakening or strengthening of the US dollar against the other currencies in which the Group's monetary assets and monetary liabilities are denominated would not have a material effect on the Group's net current assets or loss before tax.

26. Financial instruments

Interest rate risk management

The Group's policy on interest rate management is agreed at the Board level and is reviewed on an ongoing basis. The current policy is to maintain a certain amount of funds in the form of cash for short-term liabilities and have the rest on relatively short-term deposits, usually one month notice to maximise returns and accessibility. The Group pays fixed coupon interest rate on the convertible bonds and 2014 Notes and has no floating rate financial liabilities.

Interest rate sensitivity analysis

Based on the exposure to the interest rates for cash and cash equivalents at the balance sheet date, a 0.5 percent increase or decrease in interest rates would have resulted in $0.4 million decrease or increase in the Group's loss for the year (2013: $0.8 million). A rate of 0.5 percent is used as it represents management's assessment of the reasonably possible changes in interest rates.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2014, the maximum exposure to credit risk from a trade receivable outstanding from one customer is $4.9 million.

The credit risk on liquid funds is limited because the counterparties for a significant portion of the cash and cash equivalents at the balance sheet date are banks with good credit ratings assigned by international credit-rating agencies.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors. It is the Group's policy to finance its business by means of internally generated funds, external share capital and debt. In common with many exploration companies, the Group raises finance for its exploration and appraisal activities in discrete tranches to finance its activities for limited periods. The Group seeks to raise further funding as and when required.

27. Events after the balance sheet date

On 31 March 2015, the Company raised gross proceeds of US$40,693,235 through a conditional placing of 85,900,000 new Common Shares of US$ 0.01 each in the Company at a placing price of 32p per share.

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 dealings in the placing shares commenced, at 8.00am on 7 April 2015.

Consent solicitation

On 8 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 17) and from the conditions contained therein. Holders representing over 89 percent of the principal amount of the 2014 Notes outstanding participated in the Consent Solicitation, with over 99 percent 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 the 2014 Notes to holders whose Consent was validly delivered prior to 3.00pm (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 2014 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.

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Additional information

Glossary

AGM	annual general meeting
BB	Ber Bahr
bbl	barrel
bopd	barrels of oil per day
CBF	competency based framework
CPR	competent persons report
CR	corporate responsibility
CSOP	company share option plan
CSR	corporate social responsibility
DD&A	depreciation, depletion and amortisation
DGA	Dynamic Global Advisers
E&E	exploration and evaluation
E&P	exploration and production
EBT	employee benefit trust
EWT	extended well test
Excalibur	Excalibur Ventures LLC
FDP	field development plan
HSSE	health, safety, security and environment
IFRS	international financial reporting standards
KRG	Kurdistan Regional Government
KRI	Kurdistan Region of Iraq
LSE	London Stock Exchange
LTIP	long-term incentive plan
mmstb	million stock tank barrels
MNR	Ministry of Natural Resources
PF -1	Shaikan production facility-1
PF -2	Shaikan production facility-2
PSCs	production sharing contracts
SA	Sheikh Adi
SH	Shaikan
STOIIP	stock tank oil initially in place
TKI	Texas Keystone Inc.
TSR	total shareholder return
UKLA	United Kingdom Listing Authority
UOP	unit of production
WI	working interest
2C	best estimate of contingent resources
3D seismic	3 dimensional data that are acquired by reflecting sound from underground strata
2P	proved plus probable reserves

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Our corporate website has key information about our business, operations, investors, media, corporate responsibility and our people.