



**EXPLORE
PRODUCE
DELIVER**



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

2013 was another successful year for Gulf Keystone as we made the transition from pure exploration player to exploration, development and production company.

As we head towards a phase of significant production from Shaikan, we strive to continuously improve our operational performance, utilising the funding we have in place, with our ongoing exploration and appraisal activity expected to result in further upside.



visit us online at
gulfkeystone.com



WHAT'S INSIDE ?

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An overview of key actions and events in 2013 and early 2014 together with our priorities as we move forward.



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Introduced by our Chairman, Simon Murray, this section provides information on how the company is governed including risk management and activities of the board.

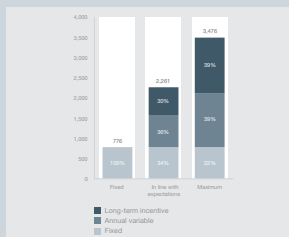


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Front cover
Shaikan production facility
("PF-1")

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PROGRESS DURING THE YEAR



Trucks for loading at Shaikan PF-1

19 June 2013

Drilling Shaikan -7

Shaikan-7 deep exploration well, spudded in June 2013 to gain insight into deep undrilled horizons in the Triassic and potentially the Permian to add to already discovered resources.

26 June 2013

Field Development Plan

The approval of Shaikan Field Development Plan in June 2013 was a historic moment in the evolution of the Company. We are currently ramping up production to achieve the initial target of 40,000 bopd and then on to the Phase-1 target of 100,000 bopd, allowing further expansion of export crude oil sales.



Petroleum engineering students at Shaikan PF-1



24 July 2013

Commercial Production & Exports

In July 2013 the Company commenced commercial production at Shaikan from PF-1. In December 2013 Shaikan crude export deliveries by truck to Turkey, in line with the Company's marketing strategy developed in co-operation with the Kurdistan Regional Government's Ministry of Natural Resources, began.



Gulf Keystone is moving into large-scale phased development of the Shaikan Field

Our target is to increase production capacity to 40,000 bopd in 2014 and 66,000 bopd by 2016 before progressing to the medium-term target of 100,000 bopd in line with the approved Phase 1 of Shaikan FDP



10 September 2013 Litigation success

Completion of the trial in the English Commercial Court in London of all the claims asserted by Excalibur Ventures LLC ("Excalibur") against Gulf Keystone, two of its subsidiaries (together the "Companies") and Texas Keystone Inc. with all claims dismissed and all issues ruled in favour of and costs awarded to the Companies and Texas Keystone Inc.

November 2013 Tap issue of Convertible Bonds

A successful "tap issue" of the unsecured convertible bonds in the amount of US\$50 million, was completed, consolidated with the US\$275,000,000 convertible bonds issued in October 2012 and due October 2017, confirming investor interest to invest in the Company's evolving story.



Shaikan production facility PF-1



PROGRESS CONTINUES IN 2014



Storage tank at Shaikan PF-1

13 March 2014

Competent Person's Report ("CPR")

The release of the CPR in March 2014 was an important step in Gulf Keystone's transition from an independent oil and gas exploration company to an exploration and production company, providing a baseline for continued development of Shaikan and our other assets.

25 March 2014

Move to Main Market

On 25 March 2014 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.



Loading bay at Shaikan PF-1



Acknowledgement of our community investment and engagement from the Mayor of Shaikan

**1 April 2014
CSR Plan**

During 2013 we had a dedicated CSR team working on the development of a corporate social responsibility (“CSR”) long term plan, which was approved by the Ministry of Natural Resources in April 2014, setting out a comprehensive range of actions demonstrating our long-term commitment to the region and its people.

**9 April 2014
Funding in place**

On 9 April 2014 the Company successfully raised US\$250 million in debt financing. This is our first conventional high-yield bond.



ADDRESS OF NON-EXECUTIVE CHAIRMAN



Simon Murray

Non-Executive Chairman

It is a great privilege to address shareholders of Gulf Keystone in this, my first Chairman's statement since joining the Company in July 2013.

In the past twelve months, Gulf Keystone has continued its remarkable journey and has further consolidated its position as one of the leading independent exploration companies in the Kurdistan Region of Iraq. Most significantly, however, your company has successfully transitioned from a pure exploration player into being a meaningful development and production company with a clear path to producing 100,000 bopd. The approval in June 2013 of the Field Development Plan ("FDP") for the world-class Shaikan commercial discovery, the first among the Production Sharing Contracts awarded in or after 2007 in the region, is a clear highlight of the reporting period and a resounding endorsement of the Company by the Kurdistan Regional Government's Ministry of Natural Resources ("KRG" and "MNR").

I am acutely conscious that since the time when commercial production from the Shaikan field began in late July we have not achieved the levels of oil sales that we had hoped to achieve during 2013, despite having a higher level of production capacity available since the summer. However, since December 2013, when Shaikan crude oil deliveries by truck commenced to export markets, our ramp-up in production has been increasing steadily and we are determined to continue in the same vein in 2014.

As one of the genuine early movers into the Kurdistan Region of Iraq, Gulf Keystone is a trusted and long standing partner of the KRG and people of the Kurdistan Region of Iraq. Not only are we playing a key part in the development of Kurdistan's considerable oil wealth, but we continue to make a significant contribution to the economic and social fabric of the region through our community relations programme. As you will read in this report, this includes a number of sustainable initiatives primarily focused around training, education and healthcare, designed to not only improve the standard of living of those closest to our areas of operations, but to ensure that the region's hugely talented population have the opportunities to fulfil their potential, including in future generations having the requisite skillset to develop their extensive natural resources for the long term good of the country. In 2013, in consultation with the MNR, we commenced the work on the Company's long-term corporate social responsibility ("CSR") plan, encompassing all aspects of our operations. We are pleased to report that this work has now been completed and the plan has been submitted to the MNR for final approval.

In addition, in response to the MNR's request to support its activities to alleviate the plight of hundreds of thousands of Syrian refugees fleeing their homeland and crossing the border into the Kurdistan Region of Iraq, we made an industry leading pledge to support the KRG and to help avoid a humanitarian crisis.

In preparation for our transition from AIM to the Standard Segment of the Official List and admission to trading on the Main Market of the London Stock Exchange ("LSE"), which was successfully accomplished in March 2014, considerable progress was made to ensure that the business was structured accordingly. Part of that preparation included the commissioning of a Competent Person's Report ("CPR"), which established an important and understandably conservative initial baseline for Gulf Keystone's reserves and resources and which we can build on going forward. AIM has been a very good home for Gulf Keystone since our IPO in 2004, but as we continue to grow and realise the potential of our world class acreage, we felt it was the appropriate moment to move up. With the support of our advisers (we were pleased to welcome Deutsche Bank AG, London Branch into the team during the year), a considerable amount of endeavour has gone into preparing for life as a Main Market company.

One key work stream has been ensuring the highest standards of corporate governance, a review which started with the splitting of the Chairman and Chief Executive roles. I joined in July and thereafter we welcomed five new Non-Executive Directors during the year. In 2013 and the year to date we have made good progress towards many of our objectives, even though we have a great deal further to go in the year ahead. Among our achievements I would like to underline the establishment of a new remuneration policy in line with the advice of external advisers and a general tightening of internal and external procedures consistent with the move to the Main Market. I should also mention that our executive directors volunteered directly to forego any short-term bonuses in respect of 2013.

On behalf of everyone at Gulf Keystone, I would again like to thank Ali Al-Qabandi, the co-founder of the Company, and Mehdi Varzi, a long-standing Non-Executive Director, for all of their input and contributions in helping to build Gulf Keystone into the company it is today.

I am pleased to report that the Board and its various committees, including the most recent addition of the "Health, Safety, Security and Environment" and CSR Committee, are functioning well and, in advance of the move to the Main Market of the LSE, we have adopted the practices and standards befitting of a Main Market company.

Personally, I am extremely excited about the future. The business is uniquely well placed to build upon its leading position in the region. With the full support of our hosts, our world class asset base and the right team in place, including our 250-strong workforce in-country, we are well positioned to create more value for all of our stakeholders.

On behalf of the Board I would like to thank the KRG and the people of the Kurdistan Region of Iraq for their ongoing faith in us. I would also like to thank all our partners and investors, as well as everyone within the Company for their unswerving commitment to continuing to help Gulf Keystone on its remarkable journey.

Simon Murray

Non-Executive Chairman

26 March 2014

STRATEGIC REVIEW BY THE CEO



Todd F Kozel

Chief Executive Officer

2013 was another year of important operational progress for Gulf Keystone, as the Company completed the transition from explorer to producer with the commencement of commercial oil production at our flagship Shaikan field in the Kurdistan Region of Iraq.

I would like to thank the Government of the Kurdistan Region of Iraq for their support as we move towards our vision of being a significant independent exploration, development and production company listed on the Main Market of the London Stock Exchange.

In 2013, the Company continued to appraise the Sheikh Adi discovery, while two additional discoveries were made by our partners on the Akri-Bijeel and Ber Bahr blocks. This remarkable exploration success means that today Gulf Keystone has a share in four contiguous blocks with five discoveries with one of them already being at an early stage of commercial production.

The commencement of commercial oil production from the Shaikan field followed approval in June of the Shaikan FDP by the MNR. This was a historic moment for Gulf Keystone, and we are proud to be working with the MNR and our partner MOL to continue to develop the field. We have been a pioneer in the region from the outset and this milestone reconfirmed our goal to become a key player in the upstream oil industry in Kurdistan.

The first Shaikan production facility (PF-1), capable of producing 20,000 barrels of oil per day, was fully commissioned in July with domestic sales achieved shortly after in August. The Company continued to monetise its production through domestic sales until December 2013 when crude oil export deliveries by truck to Turkey commenced, in line with the Company's marketing strategy developed in co-operation with the MNR.

Total production from Shaikan, since the early production operations began in late 2010, is now rapidly approaching 2.6 million barrels, out of which three cargoes totalling approximately 690,000 barrels have already been trucked to Turkey and loaded for delivery to international markets with the fourth cargo expected to be loaded by the end of March 2014.

Three wells are currently tied to the facility, namely Shaikan-1, -3 and -4. Production from PF-1 has recently increased from 10,000 bopd to approximately 16,000 bopd and we plan to reach 20,000 bopd of production in the near term. The second Shaikan production facility ("PF-2") is currently being commissioned with two wells, Shaikan-2 and -5, already tied into the facility. Production from PF-2, which ultimately will be capable of producing 20,000 bopd, will commence in Q2 2014. Our immediate focus remains on achieving the target of 40,000 bopd of production capacity by the end of 2014.

These operational highlights were followed early in 2014 by the first third party evaluation of the Reserves, Contingent Resources and Prospective Resources of our interests in the Kurdistan Region of Iraq. The CPR, prepared by ERC Equipoise Limited, 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 Company's portfolio, comprising the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel blocks. It is an important step in the growth of Gulf Keystone, demonstrating the size of our assets and significant potential for future increases in the existing numbers of reserves and resources. Shaikan is a significant industry asset with 2P value of US\$1 billion, as indicated in the CPR, which does not take into account our extensive contingent resources. It is important to remember that we have not yet appraised the full potential of the field. As we drill more wells and increase production we will get a fuller understanding of its geology and the recovery factor assumptions are expected to increase.

Shaikan is a phased development and the Company today is at an important juncture in this process. We have achieved several months of stable production and exports record, following which we are on a clear path to ramp up production from Shaikan, while fully expecting to receive the first payment for Shaikan crude export deliveries in line with the terms of the Shaikan Production Sharing Contract. The increase of production from 20,000 bopd to 40,000 bopd will enable us to generate substantial cash flow and help us progress to the full implementation of Phase 1 of the Shaikan FDP. Being operator of Shaikan means that we control the pace of development and capital expenditure and we will continue to seek funding at an appropriate cost of capital and a structure for the continued development of the Shaikan field and activities related to other fields in which the Company has participating interests. Financing decisions in order to fund the Shaikan Phase 1 activities will be made in conjunction with an anticipated increase in production capacity and sales of up to 40,000 bopd in 2014 and the recurring revenues this will provide.

As Gulf Keystone matures as a producer, an increasingly diversified base of funding opportunities will become available.

In December, we were extremely pleased to have reached the end of the trial of the claims asserted by Excalibur against the Company, its two subsidiaries and Texas Keystone Inc. After a three year long process, which required a lot of time and effort from the Company and created unfortunate and significant uncertainty for our shareholders, the English Commercial Court ruled in our favour in the most unequivocal manner, acknowledging the speculative nature of Excalibur's claims, all of which have been dismissed. We worked hard to defend our position in the interests of our shareholders and the Court ruled all issues in favour of and awarded costs to the Companies and Texas Keystone Inc. In January 2014, the Company received £16.9 million of litigation costs incurred by the Companies and Texas Keystone Inc. and commenced proceedings to recover additional £5.61 million of the litigation costs from Excalibur's funders.

I strongly believe that the Company's move to the Main Market in March 2014 has been an important and necessary hurdle for us to demonstrate the Company's increased size and maturity as an E&P player, as well as our desire to target a broader institutional investor audience. Having now passed this hurdle, the Board and the management team are aligned and focused on delivering the Company's strategy.

I would like to take this opportunity to thank my fellow Board members, my management team and all the Company's employees for their commitment, dedication and hard work over the past twelve months. 2013 was another year of growth and delivery for Gulf Keystone and this is down to the efforts of our team.

Finally, at the end of 2013, important political momentum was gained with the completion of the Kurdistan-Turkey export oil pipeline, which became fully operational early in 2014. It is a major achievement for the Kurdistan Region of Iraq and, having made the significant leap from explorer to producer, Gulf Keystone will continue to progress with the development of the Shaikan field in 2014, making an increasing contribution to Kurdistan's production and exports. We look forward to continuing to work for the benefit of the Kurdistan Region of Iraq and all our stakeholders.

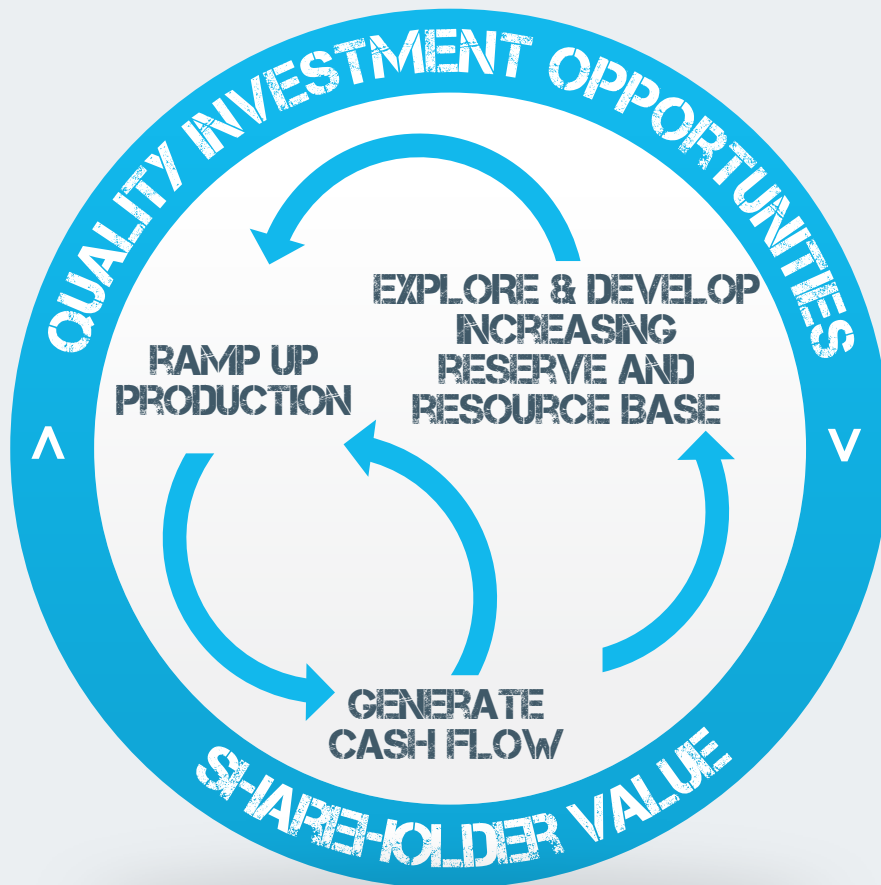
Todd F Kozel

Chief Executive Officer

26 March 2014

BALANCED PORTFOLIO

Our portfolio of exploration, development and production assets enables us to sustain continuous growth and value creation.



OUTLOOK

Production and sales

We aim to ramp-up Shaikan production capacity to 40,000 bopd by the end of 2014 and then to 66,000 bopd in 2016, before progressing to the medium-term target of 100,000 bopd in line with the approved Phase 1 of the Shaikan FDP, which will allow expansion of export sales in order to generate steady revenues. We then aim to utilise cash generated from increasing oil sales, in addition to the available debt financing, for drilling development wells and implementing further production facilities.

Reserves and resources upside

With the potential to add significant further upside to reserves and resources we hope to obtain and evaluate results of the Shaikan-7 exploration well, currently targeting deeper Triassic and potentially Permian horizons in the Shaikan block, we plan to side-track the original Shaikan-6 appraisal well to allow better understanding of the oil water contact levels in Shaikan. Subject to the results from Shaikan-7 we will need to prepare a review of the Shaikan FDP to include Cretaceous, Triassic and potentially Permian developments.

We will continue to appraise the Sheikh Adi discovery and target additional exploration prospects on the block while we make decisions regarding early production and development.

Pipeline

At the end of 2013, important political momentum was gained with the completion of the Kurdistan-Turkey export oil pipeline, which became fully operational early in 2014 and as we continue to progress with the development of the Shaikan field in 2014 we hope to conclude discussions with the MNR on a connection of the Shaikan field to the regional oil export pipeline infrastructure.

ASSET OVERVIEW

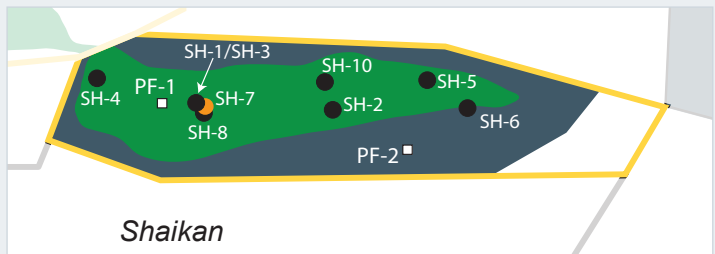
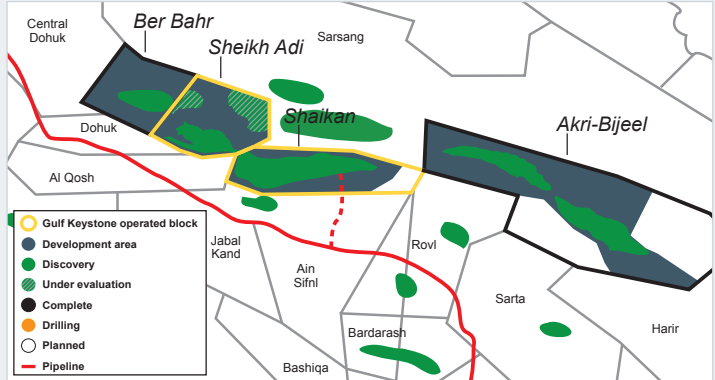
SUMMARY OF CPR

Across the Company's portfolio

Aggregate STOIP	12,500 MMstb
Aggregate 2P + 2C	Over 1.2 bn barrels of recoverable oil

Shaikan block only

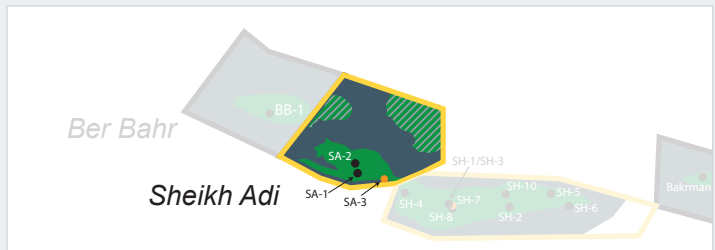
SSTOIP	9,215 MMstb
Jurassic STOIP	6,194 MMstb
2P	299 MMstb
2C	702 MMstb
2P + 2C recoverable	1,001 MMstb
2P based on the Shaikan Phase 1 Jurassic development comprising only first 26 wells	
Indicative Jurassic recovery factor (2P+2C) is 12%	



CPR: OTHER ASSETS

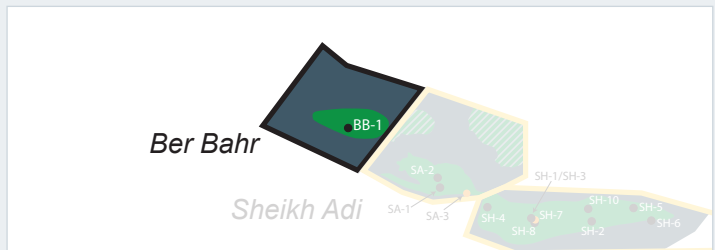
Sheikh Adi

STOIP	2,256 MMstb (discovered)
	657 MMstb (undiscovered)
	2,913 MMstb (total)
2C (Jurassic)	152 MMstb
Indicative Jurassic recovery factor 8% (scope for upward revision)	
Further prospectivity identified	



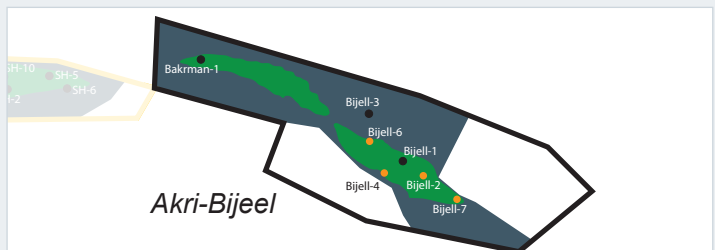
Ber Bahr

STOIP	656 MMstb (discovered)
	102 MMstb (undiscovered)
	758 MMstb (total)
2C (Jurassic)	22 MMstb
3D seismic and further well in 2014	



Akri-Bijeel

STOIP	379 MMstb (discovered)
2C (Jurassic)	41 MMstb
2C (Triassic)	2 MMstb
Early production and FDP in 2014	
Considerable upside; the Company's (and Operator's) OIP estimates are significantly higher than CPR	



Note, all numbers are gross.

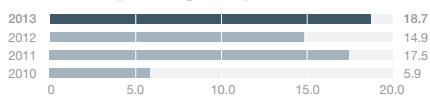
STRATEGY AND KEY PERFORMANCE INDICATORS

Vision to build major independent exploration and production company

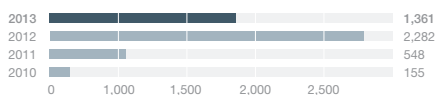
Strategy	Objective	KPIs
<p>Execute development plan, ramp-up production</p>	<ul style="list-style-type: none"> • Increase reserve base • Maximise production • Efficient development and production operations • Achieve positive operating cash flow as we progressively develop our assets 	<ul style="list-style-type: none"> • Reserve additions • Average gross production • Gross operating cost per barrel • Cash flow from operating activities • Shaikan reserves - 299 mmboe gross <small>(first independently assigned in the March 2014 ERC Equipoise CPR)</small>
<p>Increase reserve and resource base</p>	<ul style="list-style-type: none"> • Increase value of assets 	<ul style="list-style-type: none"> • Reserve additions • Contingent resource additions and revisions • Conversion of 2C contingent resources to 2P reserves • Submission of development plans
<p>Pursue quality investment opportunities</p>	<ul style="list-style-type: none"> • Maintain balanced portfolio of assets • Generate value for investors • Seek new exploration opportunities • Market non-core assets 	<ul style="list-style-type: none"> • Assets' NPVs • Share price and debt price
<p>Attain highest levels of corporate governance</p>	<ul style="list-style-type: none"> • Ensure remuneration framework is appropriate • Ensure appropriate independent challenge of executive management • Increase shareholder confidence 	<ul style="list-style-type: none"> • Compliance with the UK Corporate Governance Code • Results of the shareholders' vote at the AGM
<p>Ensure leading corporate social responsibility standards in line with company status</p>	<ul style="list-style-type: none"> • Carry out all operations with openness, integrity and accountability • Creating opportunities to develop and acquire talent • Maintain exceptional relationships with KRG/MNR and other stakeholders in the area of our operation in an environment of mutual respect and co-operation 	<ul style="list-style-type: none"> • Delivery against the Company's long-term CSR plan

Progress made in 2013/14

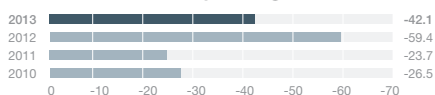
Gross operating cost per barrel \$/bbl



Average gross production bopd



Cash flow from operating activities \$ million



- Construction of PF-1 and -2
- Shaikan FDP approval
- Start of Shaikan commercial production and exports
- Publication of the CPR (first third-party evaluation of the Company's reserves and resources)

- Shaikan reserves –299 mmbob gross (first independently assigned in the March 2014 ERC Equipoise CPR)
- Contingent resource (3C) across four blocks – 2,041 mmbob gross (first independently assigned in the March 2014 ERC Equipoise CPR)

- Publication of the CPR (first third-party evaluation of the Company's reserves and resources)
- Drilling of Shaikan -7 to evaluate the previously undrilled mid to lower Triassic and potentially Permian horizons
- Ber Bahr Jurassic discovery
- Sheikh adi appraisal

- Akri-Bijeel: Bakrman discovery
- Akri Bijeel: declaration of the block as commercial based on Bijell and Bakrman discoveries; FDP under preparation
- Akri Bijeel: commencement of early production from the Bijell discovery

- Shaikan 2P value at 10% discount rate is \$1,064 million (source: March 2014 ERC Equipoise CPR)

- Progress made on all four blocks which are at different stages of exploration, appraisal and/or development
- Divestment of the Company's 20% working interest in the Akri-Bijeel block is ongoing

- Determination of Shaikan NPV based on the reserves as per the March 2014 ERC Equipoise CPR

- The Company currently notes three instances of non-compliance with the UK Corporate Governance Code, which it wants to address
- The vote on the remuneration policy and annual report on remuneration will be first introduced for the 2014 AGM

- Move from AIM to the Main Market in March 2014
- Splitting of Chairman and CEO roles
- Voluntary adoption of the UK Corporate Governance Code

- Appointment of 5 additional Non-Executive Directors to the Board
- Appointment of Non-Executive Chairman Simon Murray

- The Competency based framework (CBF), was rolled out at Shaikan PF-1 in September 2013 with 50 personnel enrolled in the programme. To date there have been 22 promotions as a direct result of the CBF
- 9 community investment projects completed in 2013

- Development and MNR approval of the long-term CSR plan
- Significant increase in community projects
- Competency based training programmes for staff put in place

- Increased manpower on the ground
- Company's launch of a regular CSR newsletter in English, Kurdish and Arabic

SHAIKAN FIELD DEVELOPMENT PLAN

The approval of the Shaikan Field Development Plan in June 2013 by the Kurdistan Regional Government’s Ministry of Natural Resources was a historic moment for the Company.



Additional Wells



Crude oil export deliveries by truck

PHASE 1

Initial stage

The approved Shaikan FDP envisages initial production building from 20,000 bopd at PF-1 to 40,000 bopd by the end of Q4 2014 following the commissioning and ramping up of PF-2 and allowing further expansion of export crude oil deliveries.

40,000 BOPD

The next step

The planned next step of the Shaikan project execution will see production capacity increasing from 40,000 bopd to 66,000 bopd in Q1 2016, which will require more wells and an additional production facility.

66,000 BOPD

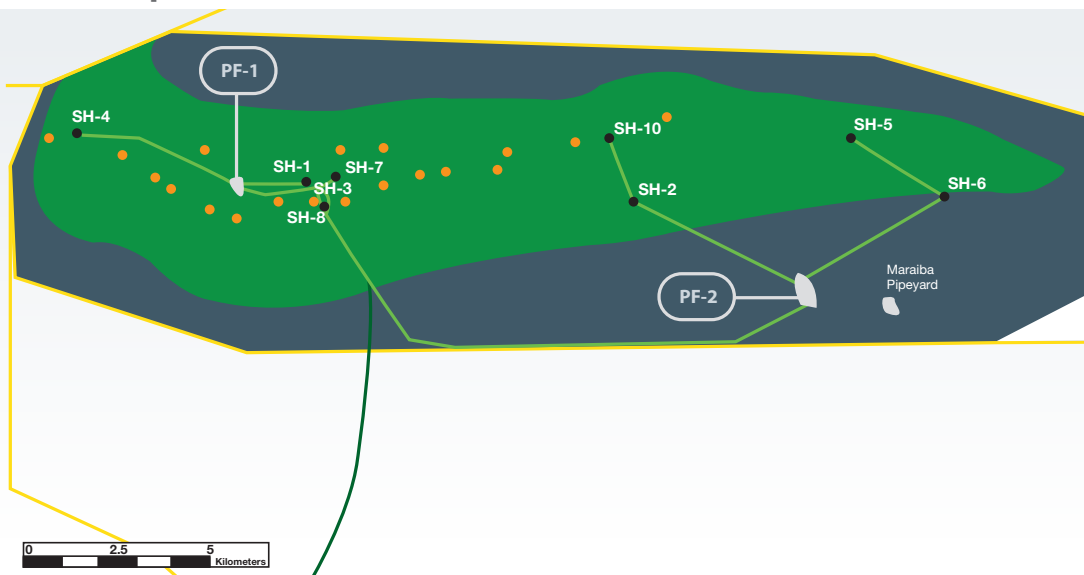
Medium-term target

The medium-term target is 100,000 bopd in line with the approved Phase 1 of Shaikan FDP.

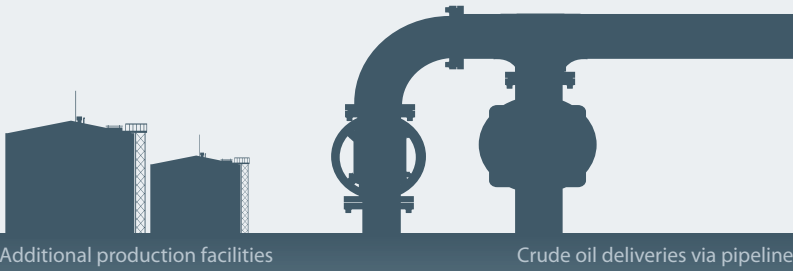
Shaikan Phase 1 is focused on the first 26 development wells targeting 299MMstb of 2P reserves and the ramp-up of commercial production.

100,000 BOPD

Phase 1 development



The approval meant that we could begin Phase 1 of the staged large-scale development of Shaikan and fully permitted us to commence commercial production from the Shaikan field, thus representing a key milestone in the Company's growth.



Additional production facilities

Crude oil deliveries via pipeline

FULL FIELD DEVELOPMENT

Further reserves

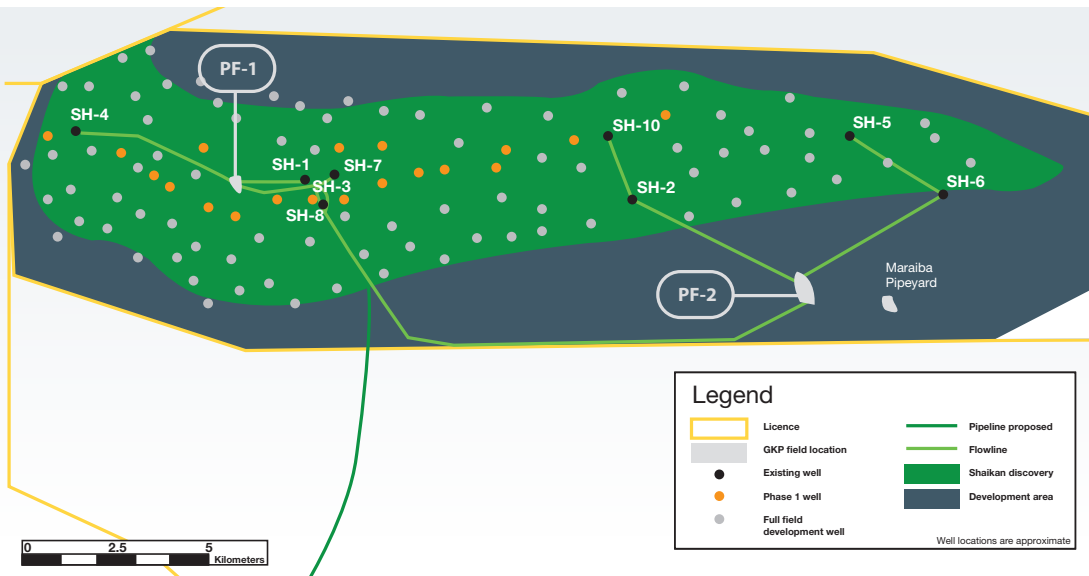
Shaikan Full Field Development envisages approximately 109 development wells targeting 1,001MMstb of 2P + 2C reserves and contingent resources. Further reserves are fully expected in time through drilling more wells and obtaining more production data.

Conversion from 2C contingent resources to 2P reserves will be driven by approval of the next phase of the Shaikan development.

109 WELLS



Full field development



COMPETENT PERSON'S REPORT

Publication of the CPR prepared by ERC Equipoise Limited is the first third-party evaluation of the Company's Reserves, Contingent Resources and Prospective Resources across the portfolio in the Kurdistan Region of Iraq, comprising the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel blocks.

The CPR is an important step in Gulf Keystone's transition from an independent oil and gas exploration company to an exploration and production company providing a baseline for continued development of our assets.

GROSS AND NET OIL IN PLACE, RESERVES & RESOURCES

Gross and net oil in place, reserves & resources	Gross			Working Interest ("WI")			
	Oil (mmbbls)	Gas (bcf)	Total (mmboe) ⁽¹⁾	GKP WI (diluted)	Oil (mmbbls)	Gas (bcf)	Total (mmboe) ⁽¹⁾
STOIP (Best)							
Shaikan	9,215	988	9,380	54.4%*	5,013	537	5,013
Sheikh Adi	2,256	—	2,256	80.0%	1,805	—	1,805
Ber Bahr	656	—	656	40.0%	262	—	262
Bijell	371	—	371	12.8%	47	—	47
Bakrman	8	—	8	12.8%	1	—	1
Total	12,506	988	12,671	54.4%*	7,129	537	7,218
2P reserves							
Shaikan	299	—	299		163	—	163
2C resources							
Shaikan	702	575	798	54.4%*	382	313	434
Sheikh Adi	152	36	158	80.0%	122	29	127
Ber Bahr	22	4	23	40.0%	9	2	9
Bijell	41	10	43	12.8%	5	1	5
Bakrman	2	3	3	12.8%	—	—	—
Total	919	628	1,024		518	345	576
2P + 2C	1,218	628	1,323		681	345	739

Notes:

Reserves and resources as at 1 January 2014

(1) 6bcf of gas = 1 mmboe

Source: March 2014 ERC Equipoise CPR

OPERATOR AND PARTNER

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%*.

THE CPR INCLUDES

- Total 12.5 billion barrels of discovered gross oil-in-place across the portfolio
- 1.2 billion recoverable barrels of gross 2P reserves and 2C contingent resources
- 759 million barrels of undiscovered gross oil-in-place across Sheikh Adi, Ber Bahr and Akri-Bijeel

UPSIDE TO THE CPR

No exploration upside is considered in the CPR

- Significant undiscovered resource in the Cretaceous in the Shaikan block
- Deeper Triassic and Permian prospectivity across the portfolio
- Exploration prospects in the northern part of the Sheikh Adi block
- Possible field extensions in the Sheikh Adi block
- Additional exploration prospects in the Akri-Bijeel block

Oil water contact (“OWC”)

- Deepening of the OWC level by 10 metres in Shaikan will confirm significant volumes of new oil in fractures

Fracture porosity

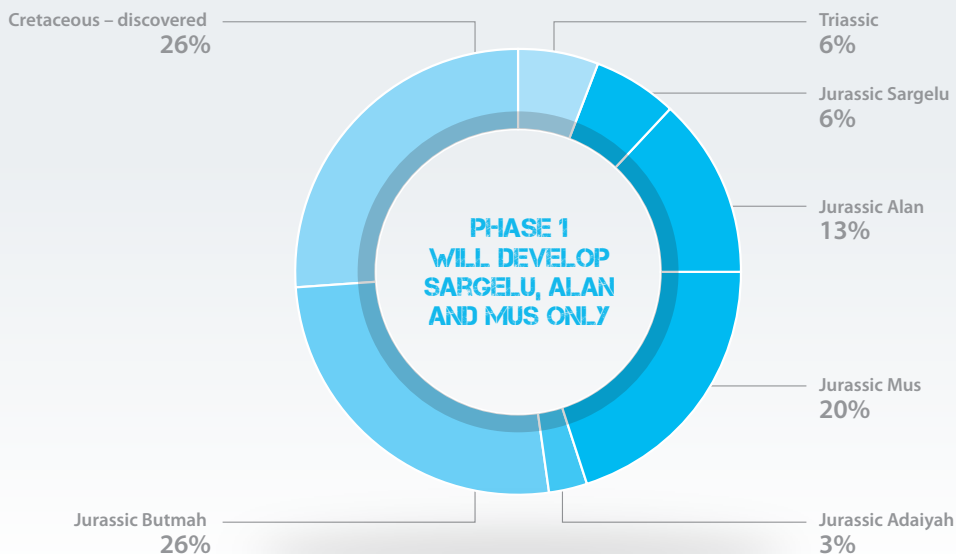
- Current conservative fracture treatment has considerable scope for upward revision
- Increase of 0.2% in fracture porosity will confirm significant volumes of new recoverable oil

UNLOCKING FURTHER POTENTIAL

- Shaikan project execution will drive the move of 2C contingent resources into 2P reserves through the implementation of the FDP
- Shaikan-7 is testing deeper Triassic and potentially Permian horizons
- Shaikan-6 will be side-tracked and re-tested to confirm the Company’s belief of the deeper OWC level
- New drilling and production data will be acquired to support the Company’s belief that fracture porosity is higher
- Shaikan production and exports will generate cash flows and enhance the Company’s financial capacity to exploit the full potential of its resource base

SHAIKAN OIL-IN-PLACE

- Total gross oil-in-place (discovered and undiscovered) of 13.265 billion of barrels
- Shaikan Phase 1 is targeting the Sargelu, Alan and Mus formations only in the Jurassic interval
- Significant undiscovered resource in the Cretaceous, Triassic and Permian



EXPLORE

As the most successful explorer in the Kurdistan Region of Iraq with five discoveries across four contiguous blocks we have now made the complete transition from exploration to production.



PRODUCE

We are increasing production to meet the Company's targets in line with the Kurdistan Regional Government's expectations and generate revenues to grow the business using the best capabilities built over a decade of operations.



DELIVER

We aim to maximise the value of the assets through fast and flexible project execution and additions to the reserve and resource base.





MAKING A POSITIVE CONTRIBUTION

Production from the Shaikan field is set to play a crucial role in helping the Kurdistan Region of Iraq achieve its overall oil production and export targets, which will be of huge significance to the development of the region as a whole.

Alongside our operational progress in the Shaikan field Gulf Keystone has developed a long-term corporate social responsibility (CSR) plan, approved by the Ministry of Natural Resources, outlining ways in which we are working with the Kurdistan Regional Government and local authorities to achieve common corporate responsibility aims, with a particular focus on community engagement and investment, including training, education and healthcare. As the home of our operations, we are fully focused on our commitment to the people and environment of the Kurdistan Region of Iraq.

People

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

Community engagement is also an important part of our business. We need support of surrounding communities in order to run our operations effectively and encouraging mutual respect and co-operation through implementation of our CSR strategy.



For more information please see our Corporate social responsibility report

Health, safety, security and environment

Health, safety, security and environmental considerations are core values for Gulf Keystone. We recognise our obligation to identify and reduce risks, safeguard people and protect the environment, assets and the communities surrounding our operations, through commitment to ensuring positive leadership, hazard assessment, risk management and excellent communication channels on the ground.

Corporate social responsibility report

This year we felt it important to create a separate document in order to report on some of the schemes we are engaged with in greater detail and enhance understanding of our approach to corporate social responsibility. The document contains information about our work to date, key elements of our policy and future plans which include:

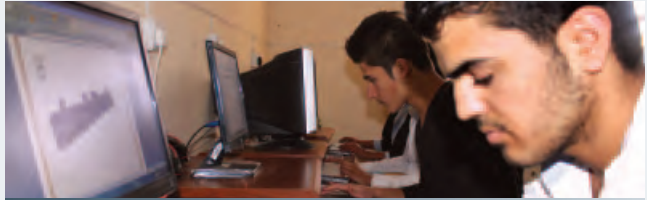
- School and medical supplies
- Water supplies
- Competency based training programmes
- Work experience
- Health and safety procedures
- Environment preservation
- Waste management
- Support of refugee relief effort

The report also addresses the recognition we have received for our community investment and engagement achievements to date.



Refugee crisis

As a company with strong long-standing links to the Kurdistan Region of Iraq, we felt it was important to show solidarity with the KRG's decision to provide emergency relief to the large number of displaced people who arrived in the region from Syria in 2013. Gulf Keystone pledged \$1.00 per each barrel produced from 1 September 2013 for a period of one year to assist the KRG in their humanitarian relief effort



Atrush Youth Centre on Shaikan block



Petroleum engineering students at Shaikan PF-1

Total solid waste incinerated in 2013 stood at 10611.72 KG (approx.) which equates to 884.31 KG per month (approx.). Organic and metallic ash from the incinerator is separated and then recycled, significantly reducing residual waste volumes



community investment projects completed in 2013



Atrush Youth Centre on Shaikan Block

22 promotions

The Competency Based Framework (CBF), was rolled out at Shaikan PF-1 in September 2013 with 50 personnel enrolled in the programme. To date there have been 22 promotions within the in-country workforce as a direct result of the CBF



CHIEF OPERATING OFFICER'S STATEMENT



John Gerstenlauer
Chief Operating Officer

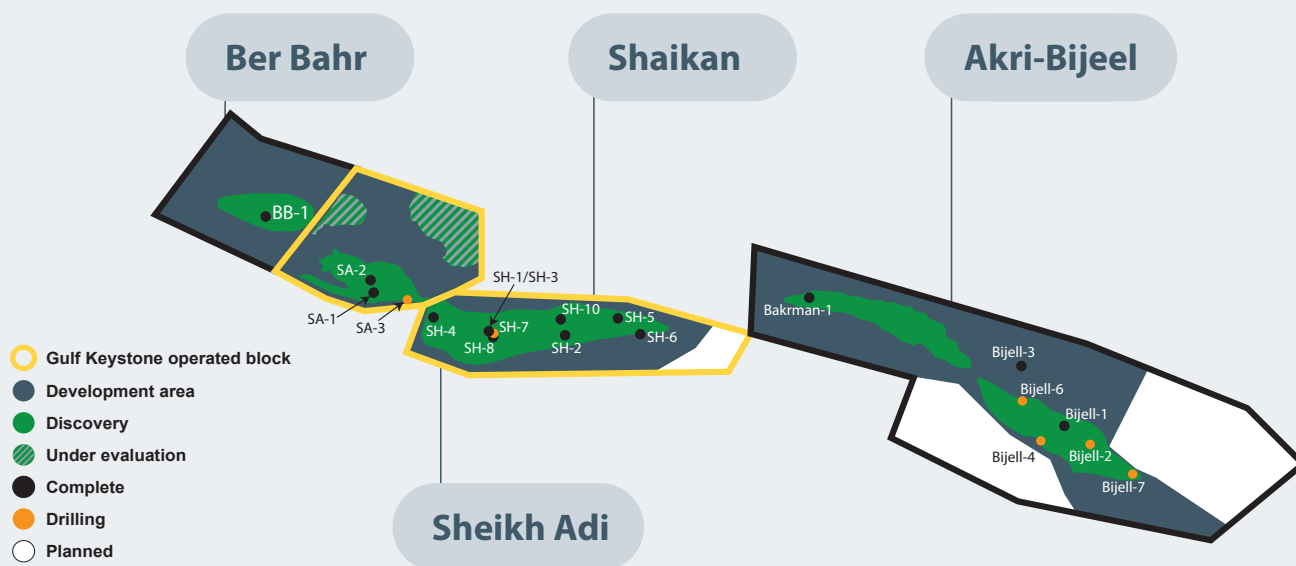
Gulf Keystone achieved a number of significant milestones in its operations in the Kurdistan Region of Iraq in 2013.

After the MNR approved the FDP for the Shaikan field, which the Company operates, commercial production from this key asset began in late July 2013. Against the backdrop of the significant progress being made on the independent pipeline infrastructure from Kurdistan to Turkey, the Company achieved its goal of having Shaikan crude delivered to the export market ahead of 2014. In December 2013, oil crude trucking operations commenced from Shaikan PF-1 with approximately 690,000 barrels delivered by truck to Turkey by mid-March 2014.

Last year, we commenced the implementation of the approved Phase 1 of the staged large-scale development of Shaikan with the drilling of Shaikan-10, our first development well, and achieving stable production levels of 10,000 from PF-1 by early 2014, which are expected to increase to 20,000 in Q2 2014. Shaikan PF-2 is being commissioned and our target is to reach cumulative production capacity of 40,000 bopd by the end of 2014.

In 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, in March 2014 we released the CPR prepared by ERC Equipose Limited. This report provided the Company and the market with the first baseline indication of reserves and resources across our portfolio in the Kurdistan Region of Iraq, against which we will now be measuring our future progress.

KEY STRATEGIC POSITION



Elsewhere across our portfolio, we began appraising the Jurassic discovery on the Sheikh Adi block with the Sheikh Adi-3 well, which spudded in December 2013. Subject to the outcome of the appraisal programme, decisions will be made regarding early development and production from Sheikh Adi, which we operate.

In May 2013, Genel Energy, the operator of the Ber Bahr block, announced that Ber Bahr-1, the first exploration well on the block, confirmed existence of a Jurassic commercial discovery. A 3D seismic survey is ongoing and the first appraisal well is expected to spud by the end of 2014. Earlier in 2013, MOL, the operator of the Akri-Bijeel block, announced a new Triassic discovery made with the Bakrman-1 exploration well, before declaring the block commercial in October 2013, based on the Bijell-1 and Bakrman-1 discoveries. Finally, early production from the Bijell Extended Well Test facility commenced with initial flow rates of 3,500 bopd, while the operator is planning to submit an FDP for the Bijell and Bakrman discoveries in Q2 2014.

Reserves and Resources

The 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 reserves and resources, based on current information, are in the Jurassic formation. 299 million barrels of gross 2P oil reserves in the Jurassic formation of the Shaikan field, with 163 million barrels of net 2P reserves to Gulf Keystone, have been assigned on the basis of the planned 26 development wells of the Shaikan FDP Phase 1.

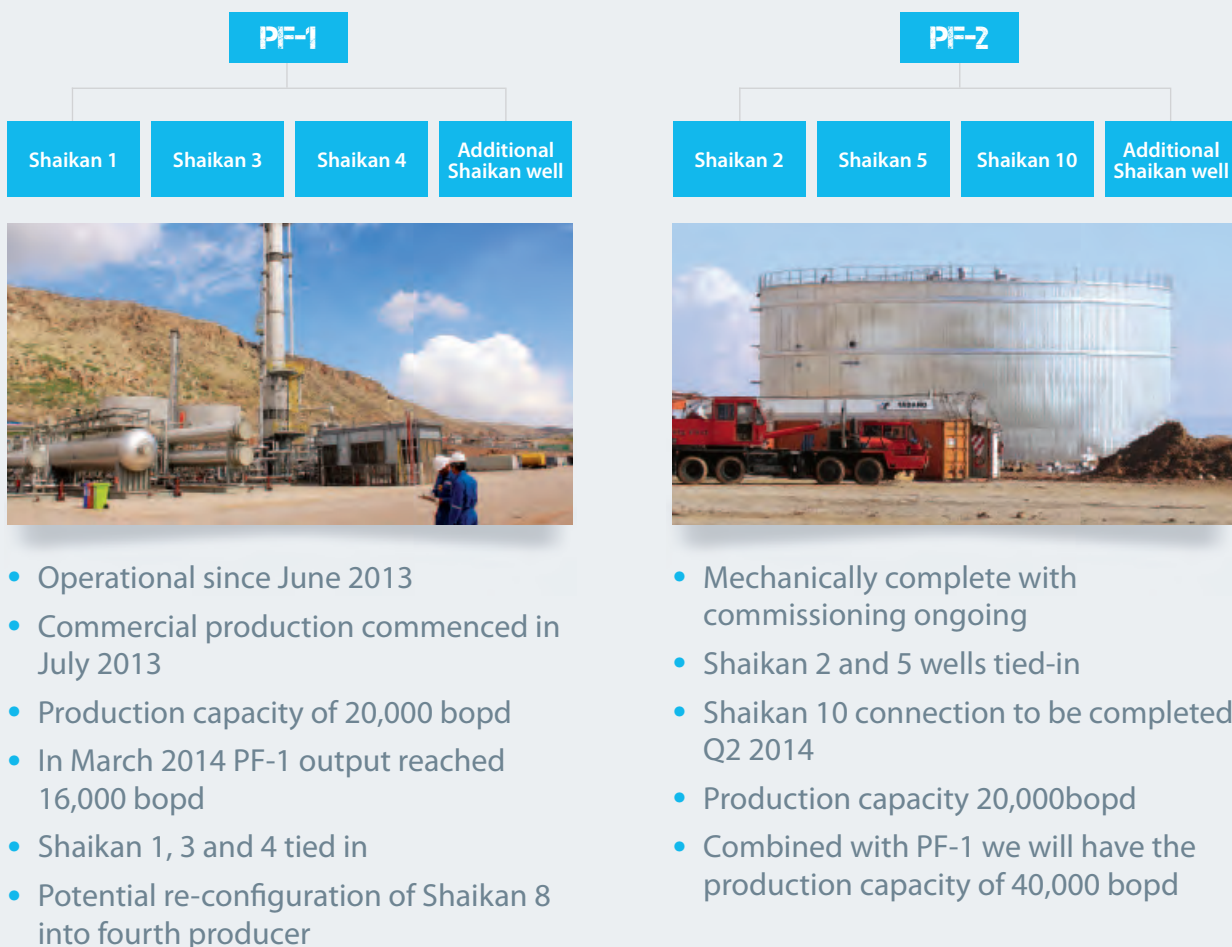
These wells, which will mainly target the Sargelu, Alan and Mus formations only in the Jurassic, represent fewer than 25% of approximately 109 wells currently envisaged for the Shaikan full field development. The CPR establishes an NPV valuation using a 10% discount rate of US\$1,004 million nominal based on the Company's net entitlement and a "base case" oil price scenario. The assumptions dealing with the derivation of the 2P valuation are contained in the CPR Section 9 "Shaikan Fiscal Terms" and should be referred to in order to understand the basis of calculation. The CPR is available on Gulf Keystone's website at <http://www.gulfkeystone.com/investor-centre/presentations-and-technical-reports>.

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 Field Development Plan 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 are currently being targeted by our first 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 and the actual fracture porosity. We also anticipate that our 2C contingent resources will be converted to 2P reserves as the next phase of the Shaikan development gets approved.

SHAIKAN

The Shaikan block is situated about 85 km to the north-west of Erbil covering an area of 283 km² and is one of the largest onshore developments in the world today. Significant operational progress has been made on the Shaikan block since the Shaikan-1 world-class discovery in 2009 to the approval of the Shaikan field Development Plan and commencement of commercial production in July and export deliveries in December 2013.

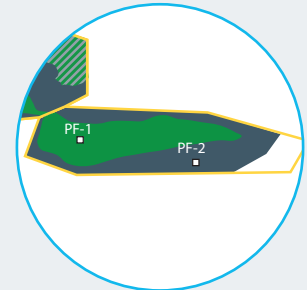
UNLOCKING VALUE THROUGH PHASED DEVELOPMENT



Further to the MNR's approval of the Shaikan FDP, Gulf Keystone obtained the right to commence commercial production from the field in June 2013. The approved Phase 1 of the Shaikan FDP envisages the first initial stage with production building from 20,000 bopd to 40,000 bopd and then progressing to 100,000 bopd. The Company's immediate target is to reach 40,000 bopd of production capacity by the end of 2014, before initiating the next stage of the Shaikan project execution and increasing production capacity from 40,000 bopd to 66,000 bopd by Q1 2016.

Shaikan PF-1 became operational in late July and achieved a steady ramp-up of production resulting in total gross production of 183,000 barrels as at 1 September 2013, at which point production had increased to 12,400 bopd. By late December production operations and sales from PF-1 stabilised and continued in January, February and March 2014 at the level of approximately 10,000 bopd (gross) with total cumulative production from late 2010 to early 2014 from the early Jurassic Sargelu producers Shaikan-1 and -3 having surpassed 2.1 million barrels. In addition to the Shaikan-1 and Shaikan-3 wells, Shaikan-4, also a Jurassic Sargelu producer, was tied into PF-1 in March 2014, increasing total PF-1 output to about 16,000 bopd with a further increase to 20,000 bopd anticipated in Q2 2014. With the addition of Shaikan-4, our cumulative production from the field to date is approaching 2.6 million barrels.

75%
Working interest;
Operator



Shaikan
Location of Shaikan production facilities

Performance review



Shaikan production facility PF-1

SHAIKAN

The Shaikan-2 and Shaikan-5 wells are tied into PF-2 and the production facility is currently being commissioned with first Jurassic production, initially of approximately 10,000 bopd, expected in Q2 2014.

The connection of Shaikan-10 to PF-2 will be completed in Q2 2014, increasing PF-2 production capacity. In order to achieve 40,000 bopd of production capacity from PF-1 and PF-2 in 2014, the Company intends to re-configure Shaikan-8, initially drilled as a gas injection well, into a fourth producer tied into PF-1, as well as to tie in the deep exploration well Shaikan-7, which is currently being drilled, to become the fifth producing well at PF-1. Additionally, productivity of the Shaikan-1 and Shaikan-3 wells will be enhanced through the replacement of the existing 3 ½" tubing by 4 ½" tubing. An additional production well will be drilled and connected to PF-2, alongside Shaikan-2, -5 and -10, the latter being our first development well drilled and completed as a producer in October 2013.

Since Shaikan crude oil export deliveries commenced in December 2013, three cargoes totalling in excess of

105,000 tonnes (690,000 barrels) of oil have been delivered from PF-1 to Turkey by truck and loaded at the port of Dortyol. The fourth cargo of approximately 33,000 tonnes (215,000 barrels) of Shaikan crude is expected to be loaded by the end of March 2014.

The move to 40,000 bopd of production capacity will allow further expansion of export crude oil sales and the additional cash generated, in addition to the Company's near term debt financing options, will facilitate the move to the next stage of the Shaikan project execution. This next stage envisages a further 60,000 bopd of additional production capacity in order to reach the medium-term target of 100,000 bopd, which will require construction of additional production facilities with gas injection and water handling capabilities, as well as the drilling of a substantial number of development and production wells.



Trucks loading at Shaikan PF-1

SHEIKH ADI

The Sheikh Adi block covers an area of 180 km² and lies to the west and on trend with the Shaikan structure. In November 2012, Gulf Keystone made a discovery following a successful well testing programme of the second exploration well.

After making the Jurassic discovery with the Sheikh Adi-2 well in November 2012, the Company and the KRG, our partner in the block, unanimously agreed to move to an appraisal programme for the Sheikh Adi field to appraise Jurassic targets and evaluate the Triassic upside. Sheikh Adi-3, the first well to appraise the Sheikh Adi discovery, spudded in December 2013, and is currently drilling below 2,240 metres in the Alan formation in the Jurassic. A well testing programme to evaluate the potential of the Jurassic reservoirs in the Sheikh Adi footwall is currently being designed, before the well enters the Triassic. Subject to the outcome of the appraisal programme, decision will be made regarding early development and production from Sheikh Adi.

Approximately 111 km of new 2D seismic data acquired in the north of the block during 2013, has been processed to evaluate potential new structures.

80%
working interest;
Operator



Sheikh Adi
Location of Sheikh Adi



Sheikh Adi-3 appraisal well

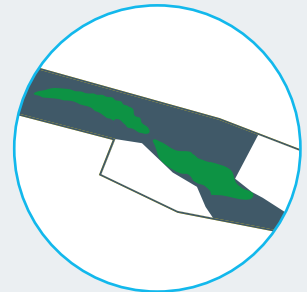
AKRI-BIJEEL

The Akri-Bijeel block is situated to the east of the Shaikan block and covers an area of 889 km². Significant progress has been achieved in the extensive exploration and appraisal programme of the massive block with two commercial discoveries made to date, Bijell and Bakrman-1.

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. While appraisal drilling continues, the operator is in the process of preparing the Field Development Plan for the Bijell and Bakrman discoveries, which is expected to be submitted to the MNR in Q2 2014 and approved later in 2014.

In early 2014, following the successful side-tracking and testing of the Bijell-1B well and the completion and commissioning of the Bijell Extended Well Test ("EWT") facility, early production operations began from the Bijell field. Early flow rates from the Bijell-1B well are around 3,500 bopd with an anticipated increase to the facility's full capacity of 10,000 bopd by the end of 2014.

20%
working interest;
operator: MOL



Akri-Bijeel
Location of Akri-Bijeel



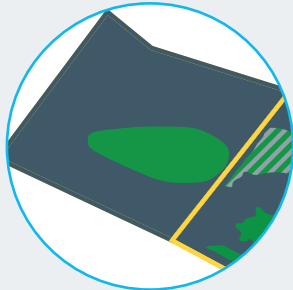
Bijell Early well test facility (EWT)

BER BAHR

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 Ber Bahr-1 exploration well made a commercial Jurassic discovery in May 2013. The first appraisal well will spud in 2014.

The Ber Bahr-1 exploration well 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 that the results of the Ber Bahr-1 well confirmed the existence of a commercial oil discovery. A 3D seismic survey is underway, planned for completion by mid-year 2014. The operator plans to spud an appraisal well in the fourth quarter of 2014.

40%
Working interest;
operator: Genel



Performance review

John Gerstenlauer
Chief Operating Officer
26 March 2014

Ber Bahr
Location of Ber Bahr



Ber Bahr-1 exploration well

MANAGING RISK

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.

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 2013, 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. Executive and 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 2013, please refer to the Audit Committee Report on page 60.

Strategic risks continued

Key risk factor	Potential impact	Mitigation
<p>Political and regional risk, including risks relating to disputes regarding title and exploration and production rights</p>	<p>Unfavourable developments in politics, laws and regulations can affect our operations, earnings and our ability to deliver the strategy.</p> <p>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.</p> <p>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.</p>	<p>The history of political and social instability of Iraq, 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.</p> <p>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.</p>
<p>Risks associated with infrastructure and export market</p>	<p>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.</p> <p>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.</p>	<p>The Group continues to have a regular dialogue with the KRG as part of its engagement with stakeholders.</p> <p>Gulf Keystone has been selling into the local market in the Kurdistan Region of Iraq, which has provided a reliable revenue stream for the Group to date. The export of crude oil by the KRG via truck from the Shaikan Block in December 2013 and, to date, three exports totalling in excess of 105,000 tonnes (690,000 barrels) have been delivered from Shaikan PF-1.</p> <p>The Group monitors the developments in the Kurdistan Region of Iraq infrastructure and availability of transport options. As a short-term solution, Gulf Keystone can rely on transportation by truck pending the Group's anticipated access to the regional pipeline infrastructure from Kurdistan to Turkey in 2015. However, the Group recognises all the limitations associated with trucking.</p>
<p>Business conduct and bribery act</p>	<p>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.</p> <p>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.</p>	<p>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.</p> <p>PwC performed an independent Bribery Act compliance review in 2013. The Audit Committee is monitoring the timely implementation of PwC's recommendations.</p> <p>A detailed bribery risk assessment has been performed by management and reviewed by the Board.</p>

Management of principal risks and uncertainties continued

Operational risks

Key risk factor	Potential impact	Mitigation
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.	<p>Technical, financial and Board approvals are required for all projects, and for all dedicated project teams.</p> <p>The technical team analyse results from appraisal wells and determine the appropriate course of action in terms of drilling programme and facility design.</p> <p>All projects are closely monitored to ensure the project delivers against plan and to enable actions to be taken to maintain progress.</p> <p>Project finances are monitored against budget to minimise overruns.</p>
Health, safety, security and environment (HSSE)	<p>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.</p> <p>Identified risk areas include H2S leaks at the production facilities, road traffic accidents and other accidents at production facilities and well sites.</p> <p>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.</p>	<p>The Group has 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.</p> <p>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.</p> <p>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.</p>
Security	<p>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.</p> <p>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.</p>	<p>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.</p>
Prohibition on flaring and undeveloped options for monetising natural gas discoveries	<p>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. The Group currently has all necessary flaring permits but these are due to expire in August 2014.</p> <p>Expiration of the flaring permit will result in the suspension of production and sales.</p>	<p>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.</p> <p>The Group is currently discussing the terms of a possible extension to the flaring permits and has no reason to believe that the permits will not be extended. However, there can be no assurance that these permits will be renewed by the Kurdistan Ministry of Natural Resources.</p>

Financial risks

Key risk factor	Potential impact	Mitigation
<p>Capital availability and expenditure control</p>	<p>Access to financing to maintain the ongoing operations of the business is critical.</p> <p>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.</p> <p>In the extreme case, this could impact the Group's ability to continue as a going concern.</p>	<p>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.</p> <p>All significant expenditure is approved by the Board.</p> <p>Short-term and long-term cash forecasts are monitored and reported regularly to senior management and the Board.</p> <p>Active dialogue is maintained with financial institutions and investors and potential sources of funding the Group's ongoing work programme are considered.</p> <p>Gulf Keystone's management have a strong track record of successful fundraisings.</p>
<p>Liquidity and credit risk</p>	<p>The Group's required capital expenditures exceed the currently available working capital.</p> <p>The Directors believe that a material uncertainty exists around the Group's ability to continue as a going concern.</p> <p>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.</p> <p>The Group also has convertible bonds in issue, thereby increasing its exposure to credit risk.</p>	<p>In order to address this potential shortfall in working capital, the Group is currently seeking to raise additional debt financing by the end of April 2014. The Group has mandated Deutsche Bank and Pareto Securities to arrange a series of fixed income investor meetings in the US, Europe and Asia, which commenced on 20 March 2014. A debt offering of up to US\$250 million in accordance with Reg S/144A is expected to follow, subject to market conditions.</p> <p>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.</p> <p>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.</p>

RESULTS FOR THE YEAR



KE Ainsworth

Finance Director

2013 has been a year in which the Company achieved important operational and financial milestones including the approval of the Shaikan FDP and the commencement of commercial production.

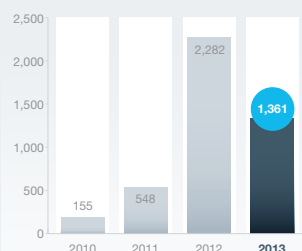
Operating results

2013 was a landmark year for Gulf Keystone Petroleum. Following the approval of the Shaikan FDP in June 2013, the Group has entered a critical phase in its development as it transitions from pure explorer to oil producer. The approval of the FDP, together with the commissioning of the PF-1 in the summer of 2013, has led to the Group recognising commercial production from the Shaikan block in July 2013 and commercial sales thereafter. Commercial production and sales have been shortly followed by the commencement of the export of crude oil in December 2013.

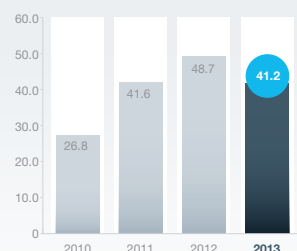
Gross production for the year totalled 496,921 barrels of oil (2012: 832,859 barrels of oil) and gross sales were 304,680 barrels of oil (2012: 825,485 barrels of oil). These sales, all of which came from domestic sales from the Shaikan block, generated \$6.7 million of revenue in 2013 (2012: \$32.2 million). Revenue for sales from commercial production was recognised in line with the terms of Shaikan PSC, with the price achieved on domestic sales in 2013 being \$41.2/bbl. For all commercial production during 2013, the point of delivery to the customer is considered to be the metering point at the Shaikan field.

Selected operational and financial data

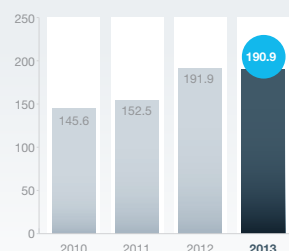
Average gross production
bopd



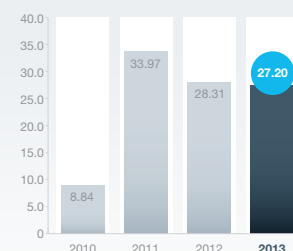
Price per bbl achieved on sales
\$/ bbl



Total cash capital investment
\$ million



Operating costs per barrel
\$/ bbl



Trucking of Shaikan crude to the export market commenced in December 2013 with a total of 189,746 barrels (gross) leaving the Shaikan facility by 31 December 2013. Given the payment mechanism for sales to the export market is currently developing within the Kurdistan Region of Iraq, and the fact that the Group is in the early stages of producing oil for this market, revenue is being recognised on the basis of cash receipt, consistent with our producing peers in the region. The Group expects to receive its full entitlement for Shaikan crude trucked to international markets and estimates that the value of the production sent during 2013, net to the Group, is approximately \$7 million, gross of royalty. Further details of sales revenues and the assumptions associated with their recognition and measurement can be found in the summary of significant accounting policies, critical accounting estimates and judgements and note 2 to the consolidated financial statements.

The recognition of commercial sales has resulted in the Group recognising a gross profit margin associated with Shaikan block production for the first time in 2013. In contrast, during 2012, all \$32.2 million of revenue related to test production, where test production revenue is recognised with an equal and offsetting amount against cost of sales. This resulted in an amount equal to revenue being credited to intangible assets against exploration and evaluation costs, reducing the net book value in the balance sheet and showing a \$nil gross profit.

Operating costs on a per barrel basis, excluding royalty, inventory movements, production payments due under the PSC terms to the KRG, depreciation, depletion and amortisation costs and share-based payment charges were \$44.00 per barrel on an entitlement basis reflecting the lack of consistent production achieved throughout 2013 (2012: \$28.31 per barrel) and the production sent to the export market, for which no entitlement has been recognised until the associated cash is received. Adjusting for the production sent to the export market, operating costs would be \$27.20 per barrel net to the Group.

At 30 June 2013, the Shaikan block assets, with a carrying value at time of transfer of \$443.5 million (31 December 2012: \$357.7 million), were transferred from intangible assets to property, plant and equipment. This reflects the fact that assets in this block are now considered developing and producing assets following the Group's criteria for the transfer being met with the approval of the FDP. The Group's internal determination of commercial reserves has been supplemented by the CPR report from ERC Equipose, which was finalised during the first quarter of 2014 (see Operational Review for further details). The property, plant and equipment balance for the Shaikan block is now being depreciated using the unit of production method based on entitlement production and reserves. The depreciation charge relating to these assets for 2013 was \$2.4 million (2012: \$nil), and is recorded within cost of sales; see notes 3, 10 and 11 to the consolidated financial statements for further details.



Trucks loading at Shaikan PF-1

Cumulative production mboe



Non-operating results

General and administrative expenses for 2013 were \$15.8 million (2012: \$82.1 million), a reduction of \$66.3 million. This can be attributed to a number of factors as discussed below.

On 13 December 2013, the English Commercial Court (the "Court") handed down its full judgment dismissing all the claims asserted by Excalibur Ventures LLC ("Excalibur") and deciding all issues in favour of the Group and Texas Keystone (the "Defendants") (see Excalibur Claims section for further details). 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) has been credited against 2013 administrative expenses (see note 4 to the consolidated financial statements). 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. As at the date of this report, these funds have not yet been received, and while the Company intends to pursue these claims, it cannot be certain that any further amounts will be paid by Excalibur and its financial backers. For further details of the claim, and the circumstances of its resolution, please refer to note 23 to the consolidated financial statements. This refund of legal costs has resulted in a reduction of administrative expenses of \$45.8 million (2013: \$19.0 million net credit to costs incurred in relation to the Excalibur litigation; 2012: \$26.8 million costs incurred).

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 \$25.9 million in 2012 to \$12.6 million, reflecting no new grants during the year. Of these costs, \$2.9 million has been included within intangible assets and property plant and equipment (2012: \$6.0 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 \$6.4 million to \$7.6 million (2012: \$14.0 million), in line with Group remuneration policy and no new awards granted to Executive Management for the year ended 31 December 2013.

Other losses of \$1.2 million (2012: other gains of \$5.2 million) comprise foreign exchange losses of \$1.2 million (2012: \$6.4 million gain), with the Group holding no derivative financial instruments at year end requiring mark-to-market valuation (2012: \$1.2 million mark-to-market valuation loss). The currency and interest rate hedges which the Company entered into to partially mitigate the risk associated with converting US dollars to sterling were all held to maturity.

Interest revenue remains low in accordance with prevailing interest rates and has reduced from 2012 due to a lower average cash balance (2013: \$0.8 million; 2012: \$1.2 million). Finance costs of \$10.4 million (2012: \$4.5 million) are made up of the accretion charge on the decommissioning provision of \$0.4 million (2012: \$0.3 million) and interest payable in respect of the Convertible Bonds of \$23.4 million (2012: \$4.6 million) out of which \$13.4 million (2012: \$0.5 million) was capitalised within intangible assets.

The increase in convertible bond interest expense is due to the fact that the original \$275.0 million issue was in place for the whole of 2013, compared to the last two months of 2012, and a "tap" issue of \$50 million was completed during November 2013 (see Convertible Bonds section).

The tax cost for 2013 is \$0.1 million (2012: \$1.6 million) and arises on UK activities.

The results for 2013 show a decreased loss after tax of \$32.0 million (2012: \$81.8 million) reflecting the reduction in administrative expenses discussed previously, offset by a gross operating loss of \$5.3 million and increased finance costs.

Cash Flow

Net cash outflow from oil and gas operations after operational and administrative expenses was \$25.1 million (2012: \$59.0 million). The loss from operations of \$21.1 million (2012: \$82.1 million) was adjusted for non-cash expenditure of \$13.0 million (2012: \$25.4 million), that includes share-based payments and depreciation, depletion and amortisation costs. Non-cash expenditure was reduced by a decrease in share-based payment expense from \$20.0 million to \$9.8 million, there being no change to the value of the Algeria decommissioning provision (2012: \$3.5 million) but offset by an increase in depreciation to \$3.0 million (2012: \$0.6 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 \$17.0 million cash outflow (2012: \$2.2 million outflow) increasing operational cash outflow relative to accounting loss from operations. The increases in inventories and payables are in line with the level of increase in the Company's activities during the year, while the significant increase in receivables results from the outstanding Court costs receivable, which was paid shortly after year end.

Convertible bond coupon payments of \$17.2 million were made during 2013 (2012: \$nil) and are included within cash used in operating activities.

Tax paid in 2013 was \$0.7 million (2012: \$1.7 million) and interest received was \$0.8 million (2012: \$1.2 million). Net cash outflow from operating activities after tax and interest was \$42.1 million (2012: \$59.4 million).

Cash used in investing activities totalled \$182.3 million (2012: \$172.3 million), which comprises \$131.8 million spent on intangible assets (2012: \$191.9 million) and \$59.0 million (2012: \$1.3 million) spent on property, plant and equipment offset by a reduction in liquid investments of \$8.6 million (2012: \$20.9 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. All Shaikan block capitalised spend during the second half of the year has been recorded as property, plant and equipment.

The majority of the \$131.8 million 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, Akri-Bijeel surface facility construction and the acquisition and processing of seismic data as well as additions to the Shaikan block in the first half of 2013. Overall, cash spend on intangible assets and property plant and equipment was comparable to 2012 (2013: \$190.9 million; 2012: \$193.2 million).

Cash generated by financing activities amounted to \$53.9 million (2012: \$270.2 million) and primarily results from the "tap" issue of the \$50 million convertible bonds during November 2013. In 2012, significant funds were raised through the \$275.0 million convertible bonds in October 2012 to fund the Group's capital work programme throughout 2013. A further \$4.7 million was raised in 2013 through the funds received following the exercises of the warrants previously granted and options under the Company's share option plan (2012: \$1.3 million).

The net overall decrease in cash and cash equivalents during the period was \$170.4 million (2012: \$38.5 million increase). Foreign exchange losses on cash balances were \$1.3 million (2012: \$7.1 million gain).

Cash and cash equivalents totalled \$82.0 million at 31 December 2013 (31 December 2012: \$253.7 million). Cash, cash equivalents and liquid investments totalled \$82.0 million at 31 December 2013 and \$141.1 million at 30 June 2013 (31 December 2012: \$262.3 million).

Excalibur claims

On 13 December 2013, the English Commercial Court handed down its full judgment dismissing all of the claims asserted by Excalibur against the Defendants. Excalibur has announced that it does not intend to appeal this judgment. Up until the date of the judgment, Excalibur had paid £17.5 million into the court as security for costs, comprising £10.7 million for Gulf Keystone and £6.8 million for Texas Keystone. The court ordered that the defendants should receive the £17.5 million in its entirety, in addition to a further £5.6 million indemnity costs recoverable from Excalibur and its backers. To date, the £5.6 million has not been recovered and the Company is launching legal proceedings to recover the balance. Further details of the claim and its resolution are given in note 23 to the consolidated financial statements.

On 9 April 2014, Gulf Keystone raised \$250 million in debt financing. The privately placed debt offering, issued in accordance with Reg S/144A to institutional investors in Europe, the US and Asia consists of three-year senior unsecured notes carrying a coupon of 13% per annum and freely tradeable and detachable warrants relating to 40 million common shares in the Company.

Deutsche Bank and Pareto Securities acted as joint bookrunners on the transaction, which came two weeks after the Company's admission to the Official list of the UKLA and trading on the Main Market of the LSE.

The proceeds from this transaction will enable Gulf Keystone to continue to develop the Shaikan field and achieve planned gross production of 40,000 bopd by the end of 2014. Further, along with expected cash flows from oil sales, the proceeds will enable the Company to initiate the next stage of Shaikan field development, with the aim of increasing production capacity from 40,000 bopd to 66,000 bopd by 2016.

Convertible bonds and capital structure

In October 2012, in order to fund the Company's ongoing work programme through 2013, the Company completed an oversubscribed offering of Convertible Bonds, raising \$275.0 million gross proceeds. These Convertible Bonds were admitted to the Official List of the Luxembourg Stock Exchange in January 2013. In November 2013, the Company completed an additional offering of Convertible Bonds (the "tap" issue), raising a further \$50.0 million gross proceeds. The bonds issued in 2013 have been consolidated with those issued in 2012 to form a single series. All of the Convertible Bonds are due to mature on the fifth anniversary of the initial bond issue in October 2017; see note 17 to the consolidated financial statements for further details.

Funds raised via the offering of the Convertible Bonds enhanced the Company's liquidity position and have contributed to the Company's strategy of developing the production capabilities of the Shaikan block to the level where future development will be funded by ongoing, stable production and export sales.

This is the second time Gulf Keystone has accessed the debt capital markets, with an equity-linked product, and the success of the offering demonstrates investors' confidence in the Company's continuing development of the Shaikan block and other opportunities.

No changes were made to the authorised share capital during 2013. At the date of this report, 888,933,057 common shares are in issue.

During February 2013, 7.1 million common shares were issued including 6.5 million to the Employee Benefit Trust ("EBT"), to satisfy awards made under the 2010 and 2011 Executive Bonus Scheme that were deemed to have vested. Further details of the awards granted and vested are given in the Directors' report and notes 20 and 24 to the consolidated financial statements. These issues were reported in the 2012 Annual report and accounts.

During 2013, 4.6 million common shares were issued in response to option exercises by the Company's employees and directors.

The common shares issued during 2013 to satisfy awards under the Company's bonus and option incentive schemes represent 1.32% of the Company's share capital as at the date of this report. There were no additional share bonuses or LTIP options granted in 2013.

Corporate activities

During 2013, the Company continued to work towards obtaining admission to trading on the London Stock Exchange plc's ("LSE") Main Market for listed securities. The late 2013 resolution of the Excalibur case in the Company's favour removed a significant amount of uncertainty that had previously held the Company back from applying for admission to the Official List of the United Kingdom Listing Authority ("UKLA"). The Competent Person's Report ("CPR"), prepared by ERC Equipoise and released on 14 March 2014 was an important step towards admission to the Official List. The admission to the Official List occurred at 8.00am on 25 March 2014, just prior to the date of this report. Trading in the Company's common shares on AIM was simultaneously cancelled.

Other and further events

The Company continues to explore options for the disposal of its 20% working interest in the Akri-Bijeel block together with its appointed corporate advisers, who 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 recently 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. 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 (2013: \$103.1 million; 2012: \$64.6 million), including the associated working capital balances, continues to be classified as an asset held for sale. Further details of this asset, and the facts and circumstances of the proposed sale, are given in note 12 to the consolidated financial statements.

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

Financial strategy and outlook for 2014

2013 has been a year of significant progress for Gulf Keystone, a year in which the Company achieved important operational and financial milestones. These milestones include the \$50 million "tap" issue follow-up to the highly successful 2012 Convertible Bonds issue, the approval of the Shaikan FDP and the commencement of commercial production from this block.

The Group's current committed capital work programme and immediate focus remains on achieving its target of 40,000 bopd of production capacity from the Shaikan block's PF-1 and PF-2 by the end of 2014, which will allow further expansion of export crude oil sales. The first Shaikan production facility is already producing oil for commercial sale and the second is due to produce "first oil" in the second quarter of 2014. Gulf Keystone, together with its partners, continues to carry on its exploration and appraisal programmes on the prospects identified in the Sheikh Adi, Akri-Bijeel and Ber Bahr blocks aimed at unlocking significant value and increasing reserves and resources across all of the Company's licence interests.

The Group's business is highly capital intensive and on 20 March 2014, the Company included a statement in its announcement of the publication of its prospectus in connection with the admission to the Official List, that it was of the opinion that the Group does not have sufficient working capital for its present requirements, representing a material uncertainty over the going concern assumption (see the Directors' Report for further details).

Existing cash resources at 1 March 2014 were \$76.0 million. It is expected that these may be enhanced over the next 12 months by:

- achieving further consistent oil production and domestic and export sales from Shaikan increasing up to 40,000 bopd;
- the exercise of the Shaikan Government Option, the Shaikan Third Party Option, the Akri-Bijeel Government Option and/or the Akri-Bijeel Third Party Option under the terms of the Shaikan and Akri-Bijeel PSCs;
- any proceeds from the potential sale of the Group's interest in the Akri-Bijeel Block; and/or
- reimbursement of the additional £5.6 million litigation costs by Excalibur.

With reference to the above, under the terms of the Shaikan and the Akri-Bijeel PSCs, the KRG has the option (the "Government Option") to participate in an undivided interest in the petroleum operations of the relevant block. In addition to the Government Option, the KRG also has the option to nominate a third party to have an undivided interest in the petroleum operations of the Shaikan block and the Akri-Bijeel block (the "Third Party Option").

However, in order to address a potential shortfall in working capital, the Company is currently seeking additional, cost-effective financing in the form of high yield bonds. Prior to this report, on 19 March 2014, the Company announced that it has mandated Deutsche Bank and Pareto Securities to arrange a series of fixed income investor meetings in the US, Europe and Asia commencing 20 March 2014. A debt offering of up to US\$250 million in accordance with Reg S/144A is expected to follow, subject to market conditions; investor meetings are ongoing at the date of this report.

The Company expects to utilise cash generated from increasing oil sales, in addition to the funds from the contemplated raising of up to US\$250 million in debt financing, to initiate the next stage of the Shaikan project execution and increase production capacity to 66,000 bopd by Q1 2016. The increase of Shaikan production capacity to 66,000 bopd is the Company's next step towards reaching the medium-term target of 100,000 bopd set for Phase 1 of the approved Shaikan FDP.

KE Ainsworth

Finance Director

26 March 2014

COMMITTED TO OUR STAKEHOLDERS



Simon Murray

Non-Executive Chairman

We will continue to implement sound principles of good governance in the way we run the Company and build upon the high standards that we have implemented to date.

Dear Shareholder

In my first year as Chairman, we have made progress towards strengthening our governance arrangements. On 25 March 2014, the Company's common shares were admitted to the standard segment of the Official List. As a consequence of 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 anticipation of a standard listing and in order to strengthen the governance framework of the Group, the Board resolved in December 2013 to follow all the requirements of the Code voluntarily. Therefore, I am pleased to confirm to you that the reporting in this annual report follows the requirements of the Code, except as set out in the "Statement of compliance with the UK Corporate Governance Code" section of the Corporate Governance Report on page 54.

The Board is ultimately responsible to shareholders for all the Group's activities, its strategy and financial performance, for the efficient use of the Group's resources and for social, environmental and ethical matters. The Board, with the assistance of the Audit Committee, approves the Group's governance framework and reviews its risk management and internal control processes.

The most significant reporting changes have been to our Directors' remuneration report together with the introduction of the advisory vote on our remuneration policy and annual report on remuneration at the 2014 AGM. The 2013 report consists of the Remuneration Committee Chairman's introduction regarding the work performed by the Committee during the year, a policy report stating the Company's revised policy on remuneration as well as an annual remuneration report detailing the elements of Directors' remuneration for the year.

The additional reporting required by the Code also includes the statement made by the Directors in the Directors' responsibilities statement that they consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable. The processes which underpin and support the Directors' confidence in making this statement are long established and embedded into our business and include the review of the narrative sections of the annual report and accounts by our external advisers who verify its accuracy and consider the tonality and balance of approach. In addition, our external Auditors read the narrative sections of the Annual report and accounts to identify any material inconsistencies with the financial statements. Our Board members receive drafts of the Annual report and accounts in sufficient time to facilitate their review and input.

Additional disclosures in respect of how the Audit Committee addresses the key issues it has considered during the year can be found in the Audit Committee report on page 60. A separate Nominations Committee report also forms part of this year's Corporate governance report. The Nominations Committee report describes the work of this Committee during the year and the principles applied in determining the most appropriate structure and suitable candidates for the Board (see page 65).

In 2013, our Board was further strengthened with five 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. Furthermore, a new Health, Safety, Security, Environment and Corporate Social Responsibility Committee ("HSSE and CSR Committee") was established in September 2013 to enhance Board oversight on the management of safety and security issues at GKP.

With this new stronger Board we will continue to implement sound principles of good governance in the way we run the Company and build upon the high standards that we have implemented to date.

Simon Murray
Chairman

FROM VISION TO DELIVERY



From left to right:

Simon Murray, Todd Kozel, John B. Gertenlauer, Ewen Ainsworth, Jeremy Asher, Andrew Simon, John Bell, Lord Charles Guthrie, Philip Dimmock, Thomas Shull, Mark Hanson

Simon Murray Non-Executive Chairman

Simon Murray C.B.E., joined Gulf Keystone as Independent Non-Executive Chairman and Senior Independent Director in July 2013, he is Chairman of the Company's Remuneration Committee and will appoint third party remuneration consultants to review every aspect of the remuneration and incentivisation of the Board and senior management team to ensure that the Company's remuneration is appropriate. Simon will make certain that Gulf Keystone meets the highest standards of corporate governance and that the structure and experience of the Board are suitable for a company listed on the Main Market, he will also work with the Nominations Committee, led by Lord Guthrie and is committed to improving the ongoing dialogue between the Company and both its institutional and private shareholders and will endeavour to meet as many of the Company's institutional shareholders as possible. Furthermore he and the Board, will seek to strengthen key close relationships in Kurdistan further to develop shareholder value.

Simon has over forty years of international business experience and a strong network of contacts, both globally and across the Far East, built up over the past four decades. His specific oil and gas experience includes his role as Vice Chairman and Non-Executive Director of FTSE 250 Essar Energy Plc., an integrated energy company, where he is also Chairman of the Nomination and Governance Committee and his former roles as Chairman of FTSE 100 Glencore International Plc., where he oversaw the IPO of the company on the Main Market, and as an Advisory Board Member of the China National Offshore Oil Corporation. Simon was the long-term Managing Director of Hutchinson Whampoa, a Fortune Global 500 Company, where he expanded Hutchinson Whampoa's energy interests with the acquisition of one of Canada's largest integrated energy companies, Husky Oil. Simon's current roles include positions as Non-Executive Director of Cheung Kong Holdings Ltd., one of the largest listed companies on the Hong Kong Stock Exchange and Chairman of GEMS Limited. He is a former Non-Executive Director of FTSE 100 company Vodafone and previous Executive Chairman of Deutsche Bank Group for Asia Pacific. He is a Chevalier de la Légion d'honneur.

Todd Kozel Chief Executive Officer

Todd Kozel co-founded Gulf Keystone where he serves as Chief Executive Officer.

In 1988 Todd founded Texas Keystone Inc., an independent oil and gas exploration, development and production company, headquartered in Pittsburgh, USA. Todd served as Texas Keystone's President from 1995 to 2004 and has served as a director since 1988.

Todd also co-founded Falcon Drilling Company LLC, an American independent drilling and oilfield services company, in 2001 and serves on its Board of Directors.



John B. Gerstenlauer Chief Operating 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, 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 & 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, where he was responsible for 50,000 bopd of operated offshore production, and a further 120,000 bopd of non-operated offshore production.

John returned to Shell Offshore East and Coastal Divisions, New Orleans in 1989 as Production Superintendent before transferring to Shell Oil subsidiary Pecten do Brasil Ltd. as Engineering Manager in 1990, and then in 1993 he was seconded to Canadian Occidental Yemen ("CanOxy Yemen") as Operations Manager. At CanOxy Yemen John managed the project from start-up to full production of 210,000 bopd. In 1996, John joined UMC Petroleum firstly as International Engineering Manager and then International Operations Manager focussed mainly on West African offshore projects.

Following UMC's planned takeover by Ocean Energy in 1998, John joined Wintershall AG, Kassel, Germany as Project Manager then Consultant before becoming Managing Director of Wintershall Nederland Group, The Hague in 2003.

Ewen Ainsworth Finance Director

Ewen Ainsworth joined Gulf Keystone as Finance Director in January 2008.

Ewen has over 20 years of experience in finance roles within the oil and gas industry. Prior to joining the Company, Ewen was Finance Director of the London AIM-listed Europa Oil & Gas (Holdings) Plc.

Ewen has held increasingly senior finance positions within a number of oil and gas companies, including Conoco (UK) Ltd. (London), Murco Petroleum Ltd. (London), Texaco Ltd. (London and Aberdeen) and CIECO Exploration & Production (UK) Ltd. where he was responsible for all aspects of North Sea projects accounting and providing financial support for the Algeria and Azerbaijan operations.

Ewen joined Europa Oil & Gas (Holdings) Plc. in September 2004 where he provided support to the business across a wide brief, including preparation and submission of a successful licence application in Egypt, business development, compliance, legal and HR issues.

A qualified accountant, Ewen gained ACMA accreditation in 1993. He has strong technical skills in managing public company finances and regulatory obligations as well as international transaction and funding experience.

Board of Directors continued

Jeremy Asher

Non-Executive Director and Deputy Chairman

Jeremy Asher was re-appointed as a Non-Executive Director of Gulf Keystone Petroleum Ltd. in September 2013 and as Deputy Chairman in March 2014 having previously been appointed by the Company as Deputy Chairman and Chairman of the Audit Committee between 2007 and 2010.

Jeremy is Chairman of Agile Energy Limited, a privately held energy investment company; Chairman of Tower Resources Plc., an AIM-listed oil explorer; and a director of Pacific Drilling SA, an NYSE-listed operator of ultra-deepwater drill-ships, where he chairs the Nomination and Remuneration Committees.

He is a member of the London Business School's UK regional advisory board and the Engineering Advisory Board of Imperial Innovations, the commercial arm of Imperial College. Following several years as a management consultant, he was co-head of the global oil products trading business at Glencore AG and then acquired, developed and sold the Beta oil refinery at Wilhelmshaven in Germany.

Between 1998 and 2001 he was CEO of PA Consulting Group, and since that time has been an investor and director in various public and private companies. He holds a BSc (Econ) from the LSE and an MBA from Harvard Business School.

Andrew Simon

Senior Independent Non-Executive Director

Andrew Simon O.B.E. was appointed as a Non-Executive director of Gulf Keystone Petroleum Ltd. in September 2013 and appointed Senior Independent Director of the Company in March 2014.

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.

Andrew 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 where he is Chairman of the Remuneration and Health & Safety Committees.

John Bell

Non-Executive Director

John Bell was appointed as a Non-Executive Director of Gulf Keystone Petroleum Ltd. in September 2013.

He has a First Class Honours Degree from Strathclyde University in Scotland and attended a one year Executive Leadership Program at Haas Business School at UC Berkeley, California. He is a registered Chartered Engineer, C.Eng. and a member of The Institute of Engineering & Technology as well as a member of the Institute of Directors.

John has been a senior oil executive for over 20 years, working on and delivering conventional and non-conventional multi-billion dollar Operational Assets & Projects for major oil companies including BP, Statoil AS and Suncor Energy Plc. at Vice President/Managing Director Level. He is currently Chief Executive of Babylon Petroleum, a private-equity-backed exploration company with a focus on Iraq and the Middle East. Most recently prior to the civil war and sanctions in Syria. John was Managing Director of Suncor Energy's US \$1.2 billion exploration and production business in Syria, significantly increasing reserves, production and substantially improving IRR, while also successfully negotiating additional licenses. John was the winner of the Suncor Presidents Award 2010, for the best performing Business Unit.

John has significant board level and corporate governance experience having served as a director on several boards and joint ventures. He is passionate about developing and sustaining safe reliable operations, and has spent a large part of his career in the Middle East, as well as time in the Americas, the UK North Sea, Scandinavia, North Africa & the Caribbean.

Lord Charles 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 Ltd. in October 2011 and is Chairman of the Nominations Committee, he was appointed as Deputy Chairman between September 2013 and March 2014.

Lord Charles 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. He was, for ten years, Colonel Commandant of the Intelligence Corps and is currently Colonel of The Life Guards, Gold Stick to The Queen and was Colonel Commandant of the SAS from 2001 to 2010.

He was Director of NM Rothschild & Sons Limited from 2001 to 2011 and is currently a Director of Sciens Capital (US), Colt Defense (US), Petropavlosk Plc. He is a Council Member of The International Institute of Strategic Studies; a Visiting Professor and Honorary Fellow of King's College London University and Chairman of the Trustees of the Liddell Hart Centre for Military Archives.

He is President of The Army Benevolent Fund; Action Research; Federation of London Youth Clubs and a Governor of The Charterhouse, Clerkenwell. He is a Board Member of the Moscow School of Political Studies.

Philip Dimmock

Non-Executive Director

Philip Dimmock was appointed as a Non-Executive Director of Gulf Keystone Petroleum Ltd. 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, and at Ranger Oil where he also held the post of vice president of the international division, and served as chairman. He has also been an executive officer of the UK Offshore Operators Association. Philip was a Non-Executive Director of Nautical Petroleum Plc. until its acquisition by Cairn Energy in 2012. Between 2005 and 2012 he served as chairman of the Remuneration, Nomination and Strategy Committees and was a member of the Audit Committee. He holds an MA in Physics from the University of Oxford where he was an Open Scholar at Pembroke College.

Thomas Shull

Non-Executive Director

Thomas Shull was appointed as a Non-Executive Director of Gulf Keystone Petroleum Ltd. in September 2013 and is currently Chief Executive of the Army and Air Force Exchange Service (Exchange). The Exchange is the 47th largest retail organisation in the US with current revenue of \$10 billion and employing 43,000 civilians. It manages retail outlets on military installations in all 50 US states, 5 US Territories and more than 30 other countries, including 44 facilities operating in the Middle East.

Thomas had a distinguished career in the US Army, culminating in an active duty assignment as Military Assistant to Robert C. Macfarlane, Assistant to the President for National Security Affairs. Subsequently Tom built a highly successful business career as a turnaround specialist including as President of Barneys, New York and CEO and Chairman of other leading US consumer concerns. During this period he also co-founded and served as CEO of Meridian Ventures Inc where he advised numerous clients both in the retail sector and elsewhere. These included Mobil, whom he had advised on developing Caspian Sea pipeline strategies to monetise oil and gas in landlocked regions. From 2004 –2010 he was also a director of NYSE-listed Zale Corporation, where he served on the Compensation Committee and was Chairman of the Audit Committee for three years.

Mark Hanson

Non-Executive Director

Mark Anthony Crump Hanson was appointed as a Non-Executive Director of Gulf Keystone Petroleum Ltd. in November 2011.

He is a qualified barrister and solicitor and was Chief Executive Officer of Global Banking Corporation in Bahrain from 2006 to 2008.

Mark has extensive regulatory and corporate governance experience having served as a director on several boards and having advised a number of clients in the Middle and Far East during his 34 year career.

His previous experience includes the listing in Hong Kong and New York of Shanghai Petrochemical Company, the first mainland upstream Chinese oil company to list outside of the People's Republic of China, and oil and gas projects in Saudi Arabia. Mark served as Chief Executive of Bain Securities Limited, Managing Director of Peregrine Capital Limited, Deputy CEO at the Hong Kong Stock Exchange and COO of Crosby Financial Holdings. In addition, he was responsible for the establishment of ABN AMRO's investment banking and equity capital market operations in Saudi Arabia.



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.

Chris Garrett Vice President Operations

Chris joined the Company in 2004 as Managing Director of the UK entity and Operations Manager for Algeria.

Chris's background is in geology and geophysics. He spent 12 years overseas working in the USA and the Middle East.

He brings to the Company over 35 years of oilfield experience gained with Core Laboratories and Western Geophysical and latterly with Baker Hughes and Randall & Dewey where he assumed a number of roles ranging from international exploration and operations management through to property and prospect evaluation.

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 11 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.

John Stafford Manager, Geology and Geophysics

John joined the Company in early 2009 as Manager, Geology & 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 Mr Stafford 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 advisor to PGS.

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.

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 2013. A review of the business is set out in the preceding sections of this Annual report, including the statement of Non-Executive Chairman and Statement of Chief Executive Officer, 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 2013 are set out in the consolidated financial statements. The Group made a net loss after taxation for the year of \$32.0 million (2012: \$81.8 million loss) and the Directors do not recommend a dividend for the year (2012: \$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:

Todd Kozel	Chief Executive Officer ⁽³⁾
Simon Murray	Non-Executive Chairman (joined the Board in July 2013) ⁽²⁾⁽³⁾
John Gerstenlauer	Chief Operating Officer ⁽⁴⁾
Ewen Ainsworth	Finance Director
Lord Guthrie	Non-Executive Director ⁽³⁾
Mark Hanson	Non-Executive Director ⁽¹⁾⁽²⁾⁽³⁾
Jeremy Asher	Non-Executive Deputy Chairman (joined the Board in July 2013) ⁽¹⁾⁽³⁾
John Bell	Independent Non-Executive Director (joined the Board in July 2013) ⁽¹⁾⁽²⁾⁽³⁾
Philip Dimmock	Independent Non-Executive Director (joined the Board in July 2013) ⁽¹⁾⁽³⁾⁽⁴⁾
Thomas Shull	Independent Non-Executive Director (joined the Board in July 2013) ⁽³⁾⁽⁴⁾
Andrew Simon	Non-Executive Director and Senior Independent Director (joined the Board in September 2013) ⁽¹⁾⁽²⁾⁽³⁾
Ali Al Qabandi	Business Development Director (retired by rotation in June 2013)
Mehdi Varzi	Non-Executive Director (retired by rotation in June 2013)

(1) Member of the Audit Committee

(2) Member of the Remuneration Committee

(3) Member of the Nominations Committee

(4) Member of Health, Safety, Security and Environment Committee

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 2013 had the following interests in the common shares of the Company, including family interests:

Name of Director	Number of common shares ⁽¹⁾						
	At 1 January 2013	Shares issued/purchased in 2013	Shares sold/transferred in 2013	At 31 December 2013	Shares issued post year end	Shares sold/transferred post year end	At date of report
Todd Kozel	5,307,503	5,947,501	(11,000,000)	255,004	—	—	255,004
John Gerstenlauer	1,154,611	589,500	—	1,744,111	—	—	1,744,111
Ewen Ainsworth	2,160,131	589,500	(11,000)	2,738,631	—	—	2,738,631
Simon Murray	—	160,000	—	160,000	—	—	160,000
Lord Guthrie	—	—	—	—	—	—	—
Mark Hanson	—	—	—	—	—	—	—
Jeremy Asher	15,200,000	—	—	15,200,000	—	—	15,200,000
Thomas Shull	—	—	—	—	—	—	—
John Bell	—	72,200	—	72,200	—	—	72,200
Philip Dimmock	—	—	—	—	—	—	—
Andrew Simon	—	—	—	—	—	—	—

(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 EBT held 9,402,442 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 2013 are disclosed in the report of the Remuneration Committee.

Significant Shareholdings

The Company has been notified of the following significant shareholdings as at 18 March 2014:

	Number of common shares	Percentage of issued share capital
TD Waterhouse	61,631,833	6.93%
Barclays Wealth	57,038,914	6.42%
Capital Research Global Investors	49,596,975	5.58%
M&G Investment Mgt	47,973,877	5.40%
Hargreaves Lansdown Asset Management	45,738,815	5.15%
Halifax Share Dealing	43,440,591	4.89%

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement, Strategic review by the Chief Executive Officer and Operational review. The financial position of the Group at the year end, 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 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. The Group's business requires substantial capital expenditures for the foreseeable future, being at least the next twelve months, to finance the exploration, development and production of its existing oil reserves and resources.

The Group is dependent on existing cash resources, which totalled \$76.0 million at 1 March 2014, together with production revenues from its interest in the Shaikan Block in order to meet its future working capital requirements. Existing cash resources may be enhanced over the next twelve months from the date of this report by achieving further consistent oil production and domestic and export sales from Shaikan, increasing up to 40,000 bopd; the exercise of the Shaikan Government Option, the Shaikan Third Party Option, the Akri-Bijeel Government Option and/or the Akri-Bijeel Third Party Option under the terms of the Shaikan and Akri-Bijeel PSCs; any proceeds from the potential sale of the Group's interest in the Akri-Bijeel Block and/or the reimbursement of an additional £5.6 million of litigation costs by Excalibur Ventures LLC (see note 23 to the financial statements).

Whilst the Group believes that one or more of the above events are likely to occur, if none of these events occur, and the Group is unable to otherwise enhance its existing cash resources, then the Directors would expect the Group to require additional working capital by the end of May 2014. If only one of these events occurs in the next 12 months from the date of this document, this would reduce any potential working capital shortfall and, depending on the final proceeds from the event, potentially remove it completely.

In order to address this potential shortfall in working capital, the Group is currently seeking to raise additional debt financing by the end of April 2014. The Group has mandated Deutsche Bank and Pareto Securities to arrange a series of fixed income investor meetings in the US, Europe and Asia, which commenced on 20 March 2014. A debt offering of up to \$250 million in accordance with Reg S/144A is expected to follow, subject to market conditions.

Whilst there can be no certainty that a debt transaction will follow the Group's investor meetings, any debt raised will enhance the Group's liquidity position and support the Group's ongoing capital work programmes, including increasing sales to up to 40,000 bopd by the completion and commissioning of Shaikan PF-1 and PF-2. If such debt financing is not available or not available on appropriate terms, the Group would also look to achieve funding via a further equity-linked or equity financing.

The Directors have concluded that the early stage of fundraising and the insufficiency of the current working capital to fulfil the Group's current working programme 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.

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 ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

By order of the Board

Todd F Kozel

Chief Executive Officer

26 March 2014

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

Although Gulf Keystone, as a Bermuda incorporated Company, is not required to comply with the UK Corporate Governance Code, the Board resolved that, in the view of the Company's recent move from AIM to the Standard Segment of the Official List of the United Kingdom Listing Authority of The London Stock Exchange (the "Main Market"), the principles and provisions of the UK Corporate Governance Code will be applied and followed across the Group.

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 matters:

- 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, excluding the Chairman, four Non-Executive Directors out of ten Board members are independent, i.e. less than half of the Board (B.1.2). In addition, 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 non-compliance is the result of the limited time the Company had, between the adoption of the Code and the date of this report, to address this issue. The Company is seeking to appoint at least one additional Independent Non-Executive Director which will improve the Board balance.
- The Company does not have Non-Executive Directors' contracts available for inspection at the registered office in Bermuda as it was deemed impracticable to do so, but will make these contracts available at the AGM.
- Given the recent changes to the Board composition and the voluntary adoption of the Code, the Board are looking into the most appropriate ways of conducting a formal Board evaluation (B.6). For further details please refer to the "Performance evaluation of the Board and its Committees" section of the Corporate governance report.

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>.

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, interim management statements, 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 2013, 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 three Executive Directors and eight Non-Executive Directors (including the Chairman). The Company regards four 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 eight 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 ("HSE 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.

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 2013, the Audit Committee members were Mark Hanson (Chairman), Andrew Simon, Jeremy Asher and John Bell. Mark Hanson has served as the Chairman of the Committee throughout the year. In March 2014, Philip Dimmock was appointed to the Committee and Mark Hanson stepped down as Chairman of the Audit Committee to be replaced by Philip Dimmock. 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 three times per year and, during the year ended 31 December 2013 the Committee met three 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 (see page 60).

Nominations Committee

As at 31 December 2013, the Nominations Committee members were Field Marshal the Lord Guthrie of Craigiebank (Chairman) and Mark Hanson, who served on the Committee for the full year joined by Simon Murray, Todd Kozel, Philip Dimmock and Thomas Schull in September 2013. In March 2014, Jeremy Asher, John Bell and Andrew Simon, were appointed to the Committee and Lord Guthrie stepped down as Chairman of the Nominations Committee to be replaced by Simon Murray. The Nominations Committee formally met once during the year. In addition to the formal meetings, Lord Guthrie and Mark Hanson were actively involved in the search for the Non-Executive Chairman and Non-Executive Directors with the assistance of Odgers Berndtson, one of the UK's pre-eminent executive search firms. 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 (see page 65).

Remuneration Committee

As at 31 December 2013, the Remuneration Committee comprised four Non-Executive Directors: Andrew Simon (Chairman), Simon Murray, John Bell and Mark Hanson. 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. PricewaterhouseCoopers ("PwC") was appointed as Gulf Keystone's remuneration consultant in March 2014. The Remuneration Committee has met four 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 Remuneration Committee report on page 67. The terms of reference for the Remuneration Committee are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com.

HSSE & CSR Committee

The HSSE & CSR Committee was set up in September 2013 to ensure that appropriate systems are in place to manage health, safety, security and environmental risk and the corporate social responsibility of the Group. The Committee comprises two Non-Executive Directors, Philip Dimmock (Chairman) and Thomas Shull and the Group's COO, John Gerstenlauer. The Committee meets at least four times a year. In 2013, the Committee met two times as it was in existence for less than half of the 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.

Board Committees continued
HSSE & CSR Committee continued

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 2013, 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.

Division of responsibilities of Chairman and Chief Executive

In May 2013, the Board resolved that, as part of the move from AIM to the Main Market, and in keeping with the best practice of the Official List, the roles of Chairman and Chief Executive Officer, previously fulfilled by Todd Kozel, would be split. On 4 July 2013, Simon Murray was appointed to the Board of Gulf Keystone as Non-Executive Chairman. This appointment represented a significant step forward for the Company as it expanded and strengthened its Board in advance of its recent admission to the Official List of the London Stock Exchange.

Whilst retaining a close working relationship, the Chairman and Chief Executive have clearly defined and separate responsibilities divided between running the Board and the business. They meet regularly between Board meetings to ensure a full understanding of evolving issues and to facilitate effective decision making. They are responsible to the Company's shareholders for the successful delivery of the strategy.

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 2013, 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

Supported by the Executive Directors and senior management team, the Chief Executive, 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

Andrew Simon holds 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 2013, the Company welcomed five new Non-Executive Directors and a Non-Executive Chairman to the Board. Simon Murray was appointed to the Board as Non-Executive Chairman in July 2013. Jeremy Asher, John Bell, Philip Dimmock and Thomas Shull were each elected as a Non-Executive Director at the 2013 Annual General Meeting, having been proposed by a major shareholder in accordance with Bye-Law 94.2 of the Company's Bye-Laws. Andrew Simon was appointed as a Non-Executive Director in September 2013.

The search, selection and appointment process for Non-Executive Directors is described in the section on the Nominations Committee.

Mehdi Varzi and Ali Al-Qabandi retired from the Board by rotation in July 2013.

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 2013 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	Nomination Committee	HSSE and CSR Committee (established September 2013)
Simon Murray ⁽¹⁾	5(5)		2(2)	1(1)	
Todd Kozel	9(9)			1(1)	
John Gerstenlauer	9(9)				2(2)
Ewen Ainsworth	9(9)				
Mark Hanson	9(9)	3(3)	3(3)	1(1)	
Lord Guthrie	9(9)	2(2)	1(1)	1(1)	
Jeremy Asher ⁽²⁾	3(3)	1(1)			
John Bell ⁽²⁾	3(3)	1(1)	2(2)		
Philip Dimmock ⁽²⁾	3(3)			1(1)	2(2)
Thomas Shull ⁽²⁾	3(3)			1(1)	1(2)
Andrew Simon ⁽³⁾	3(3)	1(1)	2(2)		

(1) Appointed as a Director with effect from 4 July 2013

(2) Appointed as a Director with effect from 25 July 2013

(3) Appointed as a Director with effect from 1 September 2013

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, four out of seven 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.

Given the recent changes to the Board's composition and the Company's recently stated intent to comply with all aspects of the Code, the Board has been considering the most appropriate methodology for formal evaluation of the Board and its Committees' effectiveness with a view to implementation in 2014-2015. As a start of the process, the Audit Committee performed internal evaluation of its effectiveness at its December meeting.

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 2013:

- 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 auditors 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 2013 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 Operating Officer, Finance Director, 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 <http://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 are 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 2013, the Company has given a number of investor presentations, which are available to view on the Company's website. Since the Annual General Meeting in 2013 was held in Bermuda, the Board and management hosted a dedicated shareholder event in London on 4 July 2013 particularly tailored for private investors. 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 <http://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 AIM 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.

By order of the Board

Simon Murray

Non-Executive Chairman

26 March 2014



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.

Mark Hanson

Non-Executive Director

Role

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 auditors.

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, two of whom are considered to be independent. The members of the Audit Committee during the year were as follows:

- Mark Hanson (Chairman)⁽¹⁾
- John Bell (joined the Audit Committee 17 September 2013)
- Andrew Simon (joined the Audit Committee 17 September 2013)
- Jeremy Asher (joined the Audit Committee 17 September 2013)
- Philip Dimmock (joined the Audit Committee 18 March 2014)
- Lord Guthrie (retired from the Audit Committee 17 September 2013)
- Mehdi Varzi (retired from the Board by rotation 20 June 2013)

(1) Mark Hanson stepped down as Chairman of Audit Committee to be replaced by Philip Dimmock in March 2014. Mark Hanson remains a member of the Committee.

Meetings

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

Month	Key issues considered
April 2013	<ul style="list-style-type: none"> ● 2012 full year results; ● principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditors; and ● review of internal audit progress; and considerations of areas and timings for future reviews.
September 2013	<ul style="list-style-type: none"> ● 2013 half year results; ● review of principal accounting judgements and estimates; ● update on the ongoing internal audit reviews, including: <ul style="list-style-type: none"> ● IT strategic review; ● health and safety review; ● UK Bribery Act 2010 review; and ● consideration of potential conflict of interest or issues associated with auditor independence and objectivity arising from engaging Deloitte to provide one off remuneration advisory services. No such conflict or issues were deemed to arise.
December 2013	<ul style="list-style-type: none"> ● external audit planning and reports for 2013 annual report; ● internal audit plans and reports, including: <ul style="list-style-type: none"> ● key internal audit reports; ● follow up of internal audit recommendations; ● internal financial control assessments; ● future areas of review; ● consideration and roll out of Anti-Bribery Action Plan; ● risk profile and mitigation; ● external audit effectiveness, independence and reappointment; and ● Audit Committee annual evaluation.
March 2014	<ul style="list-style-type: none"> ● 2013 full year results; ● assessment of the implications of the voluntary compliance with the revised Corporate Governance Code; and ● update on internal audit progress.

The meetings were also regularly attended by Ewen Ainsworth (Finance Director), Tony Peart (Legal and Commercial Director), senior finance management, Deloitte LLP (external auditor) and PricewaterhouseCoopers LLP ("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 an 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 audit did not raise any significant areas of concern and indicated that the Group have appropriate processes in place.

The Committee has, where necessary, taken 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 2013 and early 2014

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
<p>Going concern: The appropriateness of preparing the Group financial statements for the half year and full year on a going concern basis.</p>	<p>The Committee considered papers prepared by management, taking into account the external auditors' review of these papers and their observations. The Committee also reviewed the working capital models and statement as part of the move up to the Main Market. 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</p>
<p>Accounting policy and measurement of depreciation, depletion and amortisation ("DD&A"): the charge is recognised for the first time in 2013 following the commencement of commercial production from Shaikan</p>	<p>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 2013. The Committee was satisfied that the charge recognised in 2013 was appropriate</p>
<p>Revenue: review of the policy for recognition of revenue from commercial production for both domestic and export sales</p>	<p>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, in the absence of any cash receipts to date, it was not appropriate to recognise revenue in relation to oil sent for export during the year. They were satisfied that the revenue balance recognised for domestic oil sales for the year ended 31 December 2013 was appropriate</p>
<p>Carrying value of exploration and evaluation ("E&E") assets: an annual assessment of E&E assets for impairment is required under International Financial Reporting Standards. Such assessment involves management making a number of judgements and assumptions</p>	<p>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 E&E assets for 2013</p>
<p>Classification of Akri-Bijeel as an asset held for sale: Akri-Bijeel was classified as asset held for sale in both the 31 December 2011 and 2012 accounts. The appropriateness of retaining such a classification in the current year was assessed by the Committee</p>	<p>The Committee reviewed the management paper that considers the appropriateness of continuing to classify Akri-Bijeel as an asset held for sale. In particular, the Committee assessed the likelihood of the sale taking place in the next twelve months and concluded that it remained appropriate to treat Akri-Bijeel as an asset held for sale</p>

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 there from 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.

From its establishment in 2012 to the date of this report, the internal audit function has 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 12 months.

Financial controls

A review of the design and operating effectiveness of the Group's financial controls around month-end reporting, payroll and reconciliations of major accounts.

Selected administrative expenses

A review of the design and operating effectiveness of key controls in place relating to a number of selected administrative expenses.

Health and safety

A review of the Group's controls around ensuring the compliance with various operational health and safety regulations, information maintenance and reporting of health and safety matters to executive management.

IT strategy

A review of the design and operating effectiveness of key controls in place relating to the IT infrastructure.

Bribery Act compliance

A review of Group's response to the UK Bribery Act, the overall bribery risk assessment, training, communication and ongoing compliance reporting protocols in place in the areas of Group's operations.

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.

Audit Committee report continued

Effectiveness of external auditor

To assess the effectiveness of the external audit process, the auditors are asked on an annual basis to articulate the steps that they have taken to ensure objectivity and independence, including where the auditor provides non-audit services. Gulf Keystone monitors the auditors' 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 2013, Deloitte LLP provided the following services to the Group:

- advisory services to the Remuneration Committee (see page 82 for details);
- 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 assessment of operational efficiencies in Kurdistan.

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.

By order of the Board

Mark Hanson

Chairman of the Audit Committee

26 March 2014



Following the Board's decision to split the roles of Chairman and Chief Executive Officer, the Nominations Committee initiated, led and successfully completed the search for a Non-Executive Chairman and an Independent Non-Executive Director.

Field Marshal the Lord Guthrie of Cragiebank

Chairman of the Nominations Committee

Role

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 four Non-Executive Directors, the Non-Executive Chairman and the CEO. The members of the Nominations Committee during the year were as follows:

- Lord Guthrie (Chairman)⁽¹⁾
- Mark Hanson
- Simon Murray (joined the Nominations Committee 17 September 2013)
- Philip Dimmock (joined the Nominations Committee 17 September 2013)
- Thomas Shull (joined the Nominations Committee 17 September 2013)
- Todd Kozel (joined the Nominations Committee 17 September 2013)
- Jeremy Asher (joined the Nominations Committee 18 March 2014)
- John Bell (joined the Nominations Committee 18 March 2014)
- Andrew Simon (joined the Nominations Committee 18 March 2014)
- Mehdi Varzi (retired from the Board by rotation 20 June 2013)

(1) In March 2014, Lord Guthrie stepped down as Chairman of Nominations Committee to be replaced by Simon Murray. Lord Guthrie remains a member of the Committee.

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. In May 2013, the Board decided to split the roles of Chairman and Chief Executive Officer. Following this decision, a search for a Non-Executive Chairman and at least one other Independent Non-Executive Director was initiated and led by the Nominations Committee. Odgers Berndtson were provided with a detailed brief of the desired candidate profile based on merit and against objective criteria (including an assessment of the time commitment expected) and their services were used to conduct a thorough search to identify suitable candidates for both Chairman and Senior Independent Non-Executive Director positions. The Nominations Committee considered a list of potential candidates and the balance of skills, knowledge, independence, diversity and experience on the Board to ensure that a suitable balance was maintained. Those shortlisted were interviewed by members of the Board including the Nominations Committee and the Legal and Commercial Director. Following this process, Simon Murray and Andrew Simon were invited to join the Board and to become Gulf Keystone's Chairman and Senior Independent Non-Executive Director. Mr Murray's and Mr Simon's other significant commitments were disclosed to the Board before their respective appointments and can be found in their biographies (see page 46). The Board was and continues to be satisfied that Mr Murray and Mr Simon would allocate sufficient time to the Company to discharge their responsibilities effectively. Mr Murray's and Mr Simon's wealth of public company board experience, valuable commercial expertise, knowledge of capital markets and strong network of contacts, both globally and across the Far East, were the main factors taken into account in the Board's decision.

In addition to the appointments of Chairman and Senior Independent Non-Executive Director, Jeremy Asher, Thomas Shull, John Bell and Philip Dimmock were each elected as a Non-Executive Director of the Company at the 2013 Annual General Meeting, having been proposed by a major shareholder in accordance with Bye-Law 94.2 of the Company's Bye-Laws.

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 Company is continuing the search process, with the assistance of Odgers Berndtson, one of the UK's pre-eminent executive search firms, for at least one other independent non-executive director, and a further announcement on that process will be made in due course. 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. In identifying suitable candidates to fill the Non-Executive Director position, the Committee will seek candidates from a range of backgrounds, with the final decision being based on merit against objective criteria. The Committee notes that the Company has no female Directors on its Board at present and therefore is looking to address this in the future Board appointments.

By order of the Board

Field Marshal the Lord Guthrie of Cragiebank

Chairman of the Nominations Committee

26 March 2014



We believe that the new remuneration policy will make it easier for shareholders to understand what directors are paid and will be paid, whilst ensuring that pay is linked to performance and the executive team is rewarded at an appropriate level for delivering the Company's strategic objectives.

Andrew Simon

Chairman of the Remuneration Committee

REMUNERATION COMMITTEE CHAIRMAN'S STATEMENT

Dear Shareholder,

I hope that 2013 will be seen as a turning point in the way Gulf Keystone approaches remuneration. There has in the past been some investor concern about certain aspects of executive remuneration. On my appointment as Chair of the Remuneration Committee, we agreed to undertake a detailed review of past and future remuneration policies, with the objective of developing a forward looking remuneration policy which satisfies best practice standards of corporate governance, whilst keeping the ability to attract and retain top quality executives to deliver the Company's business strategy.

During the last quarter of 2013, the Committee engaged Deloitte's remuneration practice on a one off basis to provide a thorough analysis of the Company's historical remuneration practice and payments to Executive Directors together with an external market context. Deloitte were asked to comment on the current remuneration framework and remuneration policy in the light of this review. The results of their work were taken into account by the Committee when developing the new remuneration policy. On an ongoing basis PricewaterhouseCoopers LLP ('PwC') will be the independent remuneration advisor to the Committee.

As a Bermudan domiciled company we are not under an obligation to follow the Regulations. However, we have elected to seek an advisory vote at the 2014 AGM on the Company's remuneration policy report and the annual report on remuneration. It is not currently possible under the Company's bye-laws to have a binding vote on the policy report as required under the Regulations. We will also include a resolution to

change the Company's Bye-Laws to enable future votes on the policy to be binding with effect from the 2015 AGM.

Whilst basic salary levels have been kept low in the past, the benchmarking exercise carried out by Deloitte helped us to conclude that the level of long-term incentives and short-term bonuses were notably above the market range. It should be noted that there are ongoing obligations in respect of awards already granted. In this context, deferred cash and share bonus awards will vest in 2014 and the remaining outstanding Long Term Incentive Plan ("LTIP") options will vest on satisfaction of the applicable performance conditions. In addition, the Executive Directors decided on their own initiative that no short term bonuses were to be paid for 2013 given the performance of the business.

Gulf Keystone is an entrepreneurial company operating in one of the last and most challenging frontiers of the oil exploration industry. The Company is moving from exploration to production, with significant future capital expenditure to move production from 10,000 bopd towards 40,000 bopd by the end of 2014, with a target of 100,000 bopd set for Phase 1 of the Shaikan FDP in the medium term. Our ability to achieve these targets and move to even greater production levels will be dependent not only on the significant investment in infrastructure required both by Gulf Keystone and the KRG, but also on the complex regional geopolitical situation. Consequently we will always need to retain a considerable element of flexibility in ensuring the right level of fairness for all of our stakeholders.

Remuneration Committee Report continued

Remuneration Committee Chairman's statement continued

In designing the new policy, we have benchmarked ourselves against a group of oil and exploration companies of similar size on the London market, recognising the entrepreneurial nature of the business, whilst seeking to establish a remuneration policy which is compatible with the Code and which demonstrates clearly how the Directors have been and will be paid and how this relates to the Company's performance.

The work done by the Remuneration Committee has resulted in the following proposals.

1. Basic salaries will not increase significantly in 2014 and will be reviewed annually.
2. Pension provision.
Historically there has been no provision for pension benefits and it is proposed to make a 15 percent cash allowance for this effective from 1st January 2014.
3. Annual Bonus (short-term)
The maximum bonus potential for the CEO would be 200 percent of salary and for the other executive directors 150 percent of salary, with a set of demanding quantified metric targets.
4. LTIP

Since the existing scheme is due to mature in August 2014, we will be introducing a new LTIP, which will be subject to shareholder approval at the next AGM and will be effective from July 2014. As with the Short-term Bonus, the maximum entitlement for the CEO will be an LTIP award of 200 percent of salary, with 150 percent of salary for the other executive directors.

In designing the new annual bonus and LTIP arrangements, the metrics were selected to reflect the Company's strategic objectives. For the annual bonus, it was decided that, the metric most likely to generate shareholder value and cash flow at this stage of the company's development is production based on bopd. In addition to production, a number of qualitative objectives will be set for each of the Executive Directors. For the LTIP, the performance metrics will be based on comparative total shareholder return ("TSR"), production and increase in contingent resources, which are considered the best basis for generating shareholder value over the medium term.

Furthermore, I will be undertaking a consultation with our major shareholders prior to the 2014 AGM to seek their feedback on the revised remuneration policy.

We believe that the new policy will make it easier for shareholders to understand what directors are paid and will be paid, whilst ensuring that pay is linked to performance and the executive team is rewarded at an appropriate level for delivering the Company's strategic objectives.

Andrew Simon

Remuneration Committee Chairman

REMUNERATION COMMITTEE REPORT OVERVIEW

This report is on the activities of the Remuneration Committee for the period to 31 December 2013 and early 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.

POLICY

Introduction

In light of the change to the Corporate Governance approach, the Directors' Remuneration Policy (the "Policy") as set out below will operate from 1 January 2014 and be put to an advisory shareholders vote. It will become formally effective at the 2014 Annual General Meeting and will apply for the period of 3 years from the date of approval.

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 new 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 remuneration policies. This includes the exit event awards set out below.

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%) 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 to 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 per cent 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.

Policy table (for determination of Executive Directors' pay)

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: <ul style="list-style-type: none"> ● Role, experience and individual performance ● Pay awards elsewhere in the Group ● External market (benchmarked against exploration and production comparator group) ● General economic environment 	The policy of the Remuneration Committee ('The 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 (see page 80)	None	The Committee retains discretion to: <ul style="list-style-type: none"> ● 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; ● 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 Committee report continued

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% 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% 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 (see aside). Total bonus level is determined after the year end, based on achievement of targets	Maximum bonus opportunity under the plan is 200% of annual salary for the CEO and 150% for all other executive directors. The threshold opportunity at which bonus starts to be earned is 25% of salary. The on target opportunity for achievement of the KPIs is 120% 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 the following financial year" the nature of the targets and their weighting for each year (see page 80). 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

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 3 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% of annual salary for the CEO and 150% for other participants. At threshold performance 25% of the award vests. For on target performance 50% 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% of an award vests at median and 100% vests at upper quartile with a straight line increase between those two points. The weighting used for performance measures is: <ul style="list-style-type: none"> comparative TSR – 40% production – 35% increase in contingent resources – 25% 	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: <ul style="list-style-type: none"> the selection of participants; the timing of awards; the level of awards; the selection, review and amendment of performance measures and targets; adjustments in the event of a capital variation In the event of a material misstatement of the Company's results or gross misconduct of a participant, the Committee may decide to claw back all or part of the value which has already been delivered to a participant on exercise of an award or to reduce the value of unvested awards including to zero
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% salary holding required for the CEO and 150% 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 5 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 2013 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 ⁽²⁾
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.

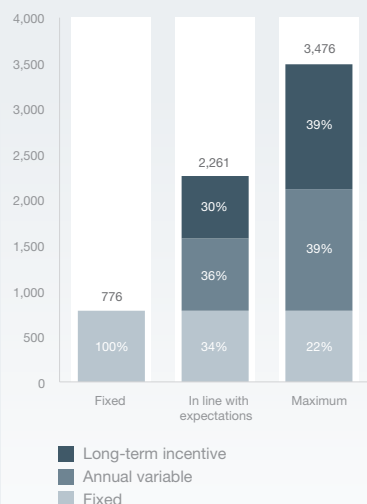
(2) Chairman's fee was set at £500,000 on appointment and was reduced to £350,000 per annum as of 1 January 2014.

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.

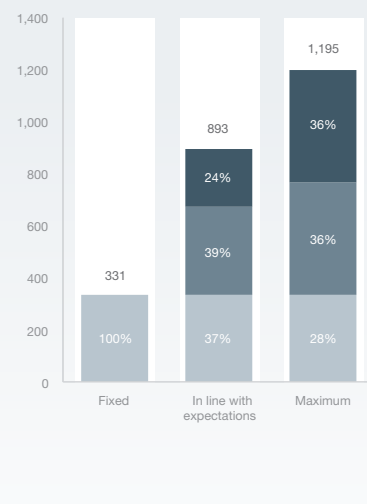
Illustration of the application of the Remuneration Policy

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.

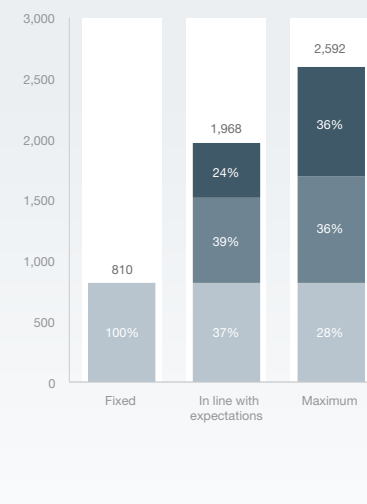
Chief Executive Officer \$'000



Finance Director \$'000



Chief Operating Officer \$'000



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

Fixed

- Consists of base salary, benefits and pension
- Base salary is latest 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 latest salary for all executives.

	Base salary (\$'000)	Benefits (\$'000)	Pension (\$'000)	Total fixed (\$'000)
CEO	675	—	101	776
Finance Director ⁽¹⁾	288	—	43	331
COO	594	127	89	810

(1) Finance Director'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% for on-plan performance.
- Long-term incentive performance at mid-range relative to the targets set for plan, therefore 50% vesting of awards. The value of LTIP does not allow for share price appreciation and uses 31 December 2013 share price.

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% 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% of salary per annum.

Remuneration Committee report continued

Recruitment Remuneration continued

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 benefits 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.

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 2014 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 2013 for Directors are as follows:

Director	Effective date of current service contract or letter of appointment	Unexpired term at 31 December 2013
Todd Kozel	June 2004	rolling contract
John Gerstenlauer	October 2008	rolling contract
Ewen Ainsworth	January 2008	rolling contract
Simon Murray	July 2013	6 months ⁽¹⁾⁽²⁾
Lord Guthrie	July 2013	2 years 7 months ⁽¹⁾⁽³⁾
Mark Hanson	July 2013	2 years 7 months ⁽¹⁾⁽³⁾
Jeremy Asher	July 2013	2 years 7 months ⁽¹⁾⁽⁴⁾
Thomas Shull	July 2013	2 years 7 months ⁽¹⁾⁽⁴⁾
John Bell	July 2013	2 years 7 months ⁽¹⁾⁽⁴⁾
Philip Dimmock	July 2013	2 years 7 months ⁽¹⁾⁽⁴⁾
Andrew Simon	September 2013	1 year 8 months ⁽¹⁾⁽³⁾

(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 6 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 six 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.

Remuneration Committee report continued

Policy on payment for Directors leaving employment continued

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 on a pro-rata basis (full vesting 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 current LTIP scheme, under which 2009 and 2010 LTIP awards were made and which expires in August 2014, stipulates that any Option not exercised by the time of cessation shall remain exercisable until the expiry of the exercise period unless within the three months after such cessation the Board in its absolute discretion shall determine that the Option in whole or in part shall cease to be exercisable on a specified date within the exercise period.

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 six 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,

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 2014, we intend to hold shareholder consultation with our largest shareholders regarding our new remuneration policy.

Feedback on the remuneration policy received by way of the advisory vote at the 2014 AGM will be considered at the first Remuneration Committee meeting after the AGM. Feedback received annually in 2014 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 2013	Salary 2012	Benefits 2013 ⁽⁵⁾	Benefits 2012 ⁽⁵⁾	Cash bonus 2013	Cash bonus 2012 ⁽⁸⁾	LTIP 2013 ⁽⁹⁾	LTIP 2012 ⁽¹⁰⁾	Other 2013 ⁽⁶⁾	Other 2012	Total 2013	Total 2012
Todd Kozel	675	675	—	—	—	13,582	2,261	6,595	—	—	2,936	20,852
John Gerstenlauer	594	594	127	224	—	2,476	452	1,319	—	—	1,173	4,613
Ewen Ainsworth	281	285	5	4	—	1,340	452	1,319	—	—	738	2,948
Ali Al Qabandi ⁽¹⁾	158	270	—	—	—	—	—	—	—	—	158	270
Simon Murray ⁽²⁾⁽³⁾⁽⁷⁾	391	—	—	—	—	—	—	—	—	—	391	—
Mark Hanson	172	159	—	—	—	—	—	—	124	—	296	159
Lord Guthrie	168	159	—	—	—	—	—	—	124	—	292	159
Jeremy Asher ⁽³⁾	65	—	—	—	—	—	—	—	—	—	65	—
John Bell ⁽³⁾	67	—	—	—	—	—	—	—	—	—	67	—
Philip Dimmock ⁽³⁾	70	—	—	—	—	—	—	—	—	—	70	—
Thomas Shull ⁽³⁾	67	—	—	—	—	—	—	—	—	—	67	—
Andrew Simon ⁽⁴⁾	53	—	—	—	—	—	—	—	—	—	53	—
Mehdi Varzi ⁽¹⁾	98	136	—	—	—	—	—	—	—	—	98	136
Total	2,858	2,278	132	228	—	17,398	3,165	9,233	248	—	6,404	28,867

(1) Ali Al Qabandi and Mehdi Varzi retired by rotation from the Board on 20 July 2013

(2) Simon Murray was appointed as Non-Executive Chairman on 4 July 2013

(3) Jeremy Asher, John Bell, Philip Dimmock and Thomas Shull were appointed as Non-Executive Directors on 25 July 2013

(4) Andrew Simon was appointed as a Non-Executive Director on 1 September 2013

(5) Benefits include personal travel and accommodation associated with work in a number of locations and medical insurance

(6) Other payments include the one-time payments made to Non-Executive Directors for additional duties performed during the calendar year

(7) Chairman's fee was set at £500,000 on appointment and was reduced to £350,000 per annum as of 1 January 2014

(8) The cash bonus quantum represents the full value of cash bonus awarded in relation to 2012 performance. This includes the value of the deferred portion of the bonus

(9) This relates to 50% of the third tranche of the 2009 LTIP options which vested in 2013. For the purpose of this table, the award has been valued using the share price on the two dates when the respective operational targets were achieved and announced. These targets were satisfied in 2011 and 2012 respectively. However, the vesting was deferred, as only one-third of the total award can vest in any one financial year

(10) This relates to the second tranche of the 2009 LTIP options which vested in 2012 on the achievement of the share price target of 200 pence per share

Remuneration Committee report continued

Director's pension entitlements

No payments have been made in 2013 or prior years. From 2014 onwards, subject to 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% of Executive Directors' gross salary.

Benefits

The benefits provided included the following:

- Medical insurance – \$10,765
- Travel and accommodation – \$121,123

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 2013.

Payments for loss of Office

There were no payments for loss of office made during 2013.

Director's shareholding and share interests

The Company's Remuneration Policy will also introduce 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 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 2013 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							
Todd Kozel	200% (No)	255,004	1,459,167	5,822,745	—	8,138,728	15,675,644
John Gerstenlauer	150% (Yes)	1,744,111	291,833	1,164,549	—	3,627,746	6,828,239
Ewen Ainsworth	150% (Yes)	2,738,631	291,833	1,164,549	—	2,627,746	6,822,759
Non-Executive Directors							
Simon Murray		160,000	—	—	—	—	160,000
Mark Hanson		—	—	—	250,000	—	250,000
Lord Guthrie		—	—	—	250,000	—	250,000
Jeremy Asher		15,200,000	—	—	—	—	15,200,000
John Bell		72,200	—	—	—	—	72,200
Philip Dimmock		—	—	—	—	—	—
Thomas Shull		—	—	—	—	—	—
Andrew Simon		—	—	—	—	—	—

(1) Includes any shares owned by connected persons

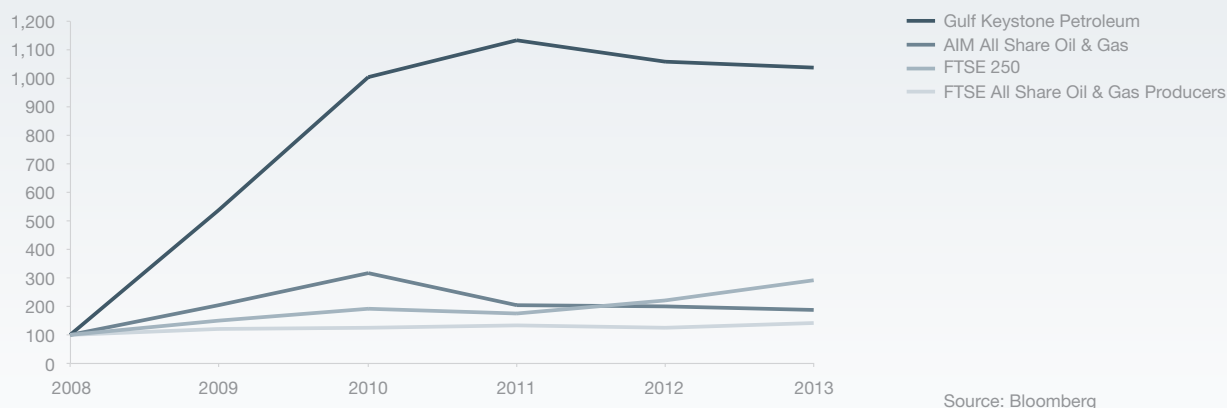
(2) Includes all of 2010 LTIP options and the remaining 50% of the third tranche of 2009 LTIP options

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

The details of the option exercised during the year are set out below:

Executive Director	Number of shares exercised	Exercise price	Market price on date of exercise	Gain
Todd Kozel	3,000,000	£0.3	£1.8875	£4,762,500

Performance graph and table



The performance graph below shows the Company's TSR performance against the performance of the AIM Oil and Gas Index, FTSE 250 and FTSE All Share Oil & Gas Producers over the five year period to 31 December 2013. The AIM Oil and Gas Index has been chosen as a broad equity market index of which the Company has been a constituent member throughout the period. FTSE indices were chosen in the view of the Company's move up to the Standard Segment of the Official List.

Historic CEO Pay \$'000s

	2009	2010	2011	2012	2013
Single figure remuneration	\$6,287	\$12,955	\$20,931	\$14,257	\$675
LTIP percentage of Maximum Number of Shares capable of vesting that vested	n/a	100%	0%	35%	22%

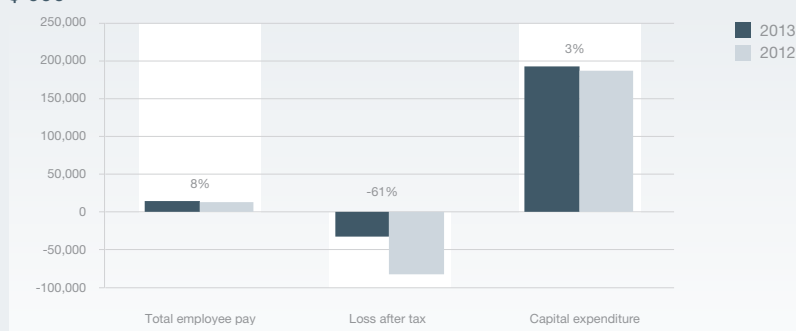
Change in remuneration of the Director undertaking the role of CEO

	Percentage change in gross salary earned (2013 full year compared to 2012 full year) ⁽¹⁾	Percentage change in bonus earned (2013 full year compared to 2012 full year)
CEO	0%	-100%
All Group employees and Directors (excluding CEO)	8%	-72%

(1) Includes benefits

Remuneration Committee report continued

Relative importance of spend on pay \$'000



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 2014

The Company's remuneration practices are managed in accordance with the remuneration policy set out above, a policy for which the Remuneration Committee is seeking shareholder approval of at this year's 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 2014.

Salaries benefits and pension

No change from policy set out.

The following table sets out the entitlements for 2014:

Executive	Salary for 2014	Benefits	Pension allowance (introduced in 2014)
Todd Kozel	\$675,000 (no change)	No change	15%
John Gerstenlauer	\$594,000 (no change)	No change	15%
Ewen Ainsworth	\$281,000 (no change)	No change	15%

Annual bonus

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

Executive	Maximum bonus potential (percentage of salary)
Todd Kozel	200%
John Gerstenlauer	150%
Ewen Ainsworth	150%

Performance conditions and weighting

The performance metric used for the determination of the annual bonus is production based on bopd. In addition to production, a number of qualitative objectives will be set for each of the Executive Directors.

The targets for the bonus plan participants in 2014 have been set by the Remuneration Committee. Owing, however, to their commercial sensitivity the targets will not be disclosed until the 2014 Directors' Remuneration report is published in 2015, when statements regarding the extent to which the targets have been attained will be published.

LTIP grants

It is the intention of the Remuneration Committee to make the following grants to the Executive Directors in 2014:

Executive	Award (percentage of salary)
Todd Kozel	200%
John Gerstenlauer	150%
Ewen Ainsworth	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)	Maximum performance (percentage of element of award vesting)
Comparative TSR	40%	To be determined on the day of grant	To be determined on the day of grant
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% 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 2013, the Remuneration Committee met three times. The committee discussed, amongst others, the following matters:

Month	Key issues considered
February	<ul style="list-style-type: none"> ● Bonuses in respect of 2012 financial year ● Review of 2012 performance ● Introduce deferred cash bonus ● LTIP Awards ● Recommend that no awards are made in 2013
November	<ul style="list-style-type: none"> ● Review of past incentive arrangements ● Initial Company pay review 2014
December	<ul style="list-style-type: none"> ● Approach to 2013 remuneration report ● Review of 2013 performance and bonus recommendations ● Discussion on targets for 2014 plans ● Discussions on 2014 remuneration policy ● Review of executive salaries for 2014

Remuneration Committee report continued

Consideration by the Directors of matters relating to directors' remuneration continued

During the first half of the year the committee comprised Mehdi Varzi (Chairman), Mark Hanson and Lord Guthrie. On 20 July 2013, Mehdi Varzi retired by rotation from the Board and consequently the Remuneration Committee and Simon Murray, Non-Executive Chairman of the Board, was appointed as an intermediate Chairman of the Remuneration Committee. In September 2013, the Committee's membership was revised to comprise Simon Murray (Chairman), Andrew Simon, Mark Hanson and John Bell. On 1 October 2013, Simon Murray stepped down as Chairman of the Remuneration Committee and Andrew Simon was appointed to Chairman's role. As at 31 December 2013, the Committee comprised Andrew Simon (Chairman), Simon Murray, Mark Hanson and John Bell.

In addition, Todd Kozel (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 the last quarter of 2013, the Remuneration Committee engaged Deloitte to provide a thorough analysis of the Company's historical remuneration practice and payments to Executive Directors together with an external market context. Deloitte were asked to comment on the current remuneration framework and remuneration policy in the light of this review. The results of this work have been taken into account by the Remuneration Committee when devising a remuneration policy for the Group for 2014. This engagement with Deloitte was a one off arrangement with no intention to retain Deloitte as ongoing Remuneration Committee advisers, to avoid any potential conflict of interest as the wider Deloitte practice are also engaged as the Group's auditor. Deloitte did not give advice on the overall amounts to be paid to directors or those in key management position or on specific quantitative measurement criteria in the remuneration packages. The Board was satisfied that this work was not inconsistent with Deloitte's role as auditor to the Company. Deloitte is a member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The fees for this project were based on a fixed project fee of £65,000.

In early 2014, PricewaterhouseCoopers ("PwC") was appointed by the Committee as their independent advisor. 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. No fees were incurred in the provision of remuneration advice by PwC to the Committee during 2013.

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. MM&K were previously engaged by the Company to advise on the design and implementation of the current CSOP that is due to expire in August 2014. No fees were incurred in the provision of advice by MM&K to the Committee during 2013.

By order of the Board

Andrew Simon

Chairman of the Remuneration Committee

26 March 2014

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.

By order of the Board

Todd F Kozel

Chief Executive Officer

26 March 2014

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 2013 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

The "Basis of accounting" section of the Summary of significant accounting policies explains the position of the Group as requiring additional, currently uncommitted, funding.

As part of their move up to the Standard segment of the Official List, the Group issued a prospectus dated 20 March 2014 which contained a qualified working capital statement (the "Statement") as a result of the substantial capital expenditures required for the foreseeable future to develop its existing oil reserves and resources. The Statement outlined a number of factors which could enhance the levels of working capital available but also indicated that, if these did not occur, the directors would expect the group to require additional working capital by the end of May 2014.

In order to help address this potential shortfall the Group is in the advanced stages of obtaining additional, but currently uncommitted, third party debt financing.

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:

Risk	How the scope of our audit responded to the risk
<p>Going concern</p> <p>Given the Group's ongoing funding requirements which are explained further above in the Emphasis of matter – Going concern, we considered going concern to be a significant risk.</p>	<p>To assess the appropriateness of the going concern assumption we:</p> <ul style="list-style-type: none"> ● considered management's going concern paper which was presented to 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 including the forecast oil price, production profile, operating costs and committed capital expenditure; and ● considered the Group's available funding and planned activities to address the identified shortfall, which includes the raising of further funds. <p>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.</p> <p>We have highlighted above the level of uncertainty identified by the Directors in respect of going concern.</p>

Risk	How the scope of our audit responded to the risk
<p>Depreciation, depletion and amortisation (DD&A)</p> <p>The calculation of DD&A is a judgemental area which requires consideration of several inputs such as total depreciable oil and gas assets, commercial (2P) reserves and an estimate of future development costs necessary to access those reserves. This was considered a key risk as this is the first period in which DD&A is being charged, and due to the significant judgements around the determination of the appropriate cost base and reserves.</p>	<p>We have obtained supporting evidence for the key assumptions underlying the DD&A charge through:</p> <ul style="list-style-type: none"> ● agreeing commercial 2P reserves to the 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; ● agreeing the depreciable base as being the sum of historic costs incurred to date together with future capital expenditure as set out in the approved field development plans, latest internal budgets and the CPR; and ● testing the mechanical accuracy of management's DD&A calculation.
<p>Revenue recognition for export deliveries</p> <p>No revenue has been recognised by the Group in respect of export deliveries during 2013. There are significant judgements around whether the criteria required to recognise revenue under IAS 18 Revenue are satisfied as:</p> <ul style="list-style-type: none"> ● the only contract specifying the mechanism by which crude oil is delivered and title is passed is the Production Sharing Contract (PSC); ● the payment mechanism for crude export sales is currently developing within the Kurdistan Region of Iraq; and ● to date, the Group has not received payment for these export sales. 	<p>We have assessed whether the Group's decision to not book revenue for export deliveries is consistent with IAS 18 through:</p> <ul style="list-style-type: none"> ● reading the terms of the PSC to assess the extent to which it represents a binding sales arrangement; ● confirming that no payment has been received to date for export deliveries; and ● obtaining market based evidence to confirm the existence of uncertainties in relation to the payment mechanism for crude sales and hence whether it is probable that economic benefits will ultimately flow to the Group.
<p>Recoverability of intangible Exploration and Evaluation (E&E) assets</p> <p>In accordance with the relevant accounting standards, all costs relating to the exploration and appraisal of oil and gas interests, are initially capitalised as intangible fixed assets. They remain capitalised whilst activities in an area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, and subject to there being no impairment.</p> <p>This was considered a key risk due to the significant judgements and estimates that are required to be assessed and the highly material nature of the related balances in the Financial statements.</p>	<p>Management has performed a review of the E&E assets to assess if there were any indicators of impairments for any of the Group's material field interests. We assessed the outcome of this review by participating in meetings with key operational and finance staff to understand the current status and future intention for each asset, confirming that all assets which remain capitalised are included in future budgets and are considered to contain potentially commercial volumes of hydrocarbons and identifying any fields where the Group's right to explore is either at, or close to, expiry.</p> <p>Further details of amounts capitalised at year end are provided in note 10 to the Financial statements.</p>

Independent auditor's report to the members of Gulf Keystone Petroleum Limited continued

Risk	How the scope of our audit responded to the risk
<p>Assets held for sale</p> <p>The classification of assets as held for sale is highly judgemental as, in order for an asset to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.</p>	<p>We evaluated whether classifying the Group's interest in the Akri-Bijeel field as held for sale at 31 December 2013 was appropriate by:</p> <ul style="list-style-type: none"> ● obtaining supporting evidence for the status of the disposal process, including evidence of offers received to date; ● confirming with the Board of Directors that they were committed to a plan to sell the asset and that the offers received to date were under active consideration; and ● corroborating that an active programme to locate a buyer and complete the disposal was on-going and the Group had engaged professional advisors to assist in this regard. <p>We also obtained supporting evidence to determine whether an impairment of this disposal group had arisen at year end.</p> <p>Further details of the status of the disposal programme are provided in note 12 to the Financial statements.</p>

The Audit Committee's consideration of these risks is set out in the Audit Committee report on page 60.

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 \$12 million, which is approximately 2% of net assets.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$0.24 million, 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. Senior members of the UK audit team visited the key assets in Kurdistan, which is the main operational focus of the Group, and also directly supervised specified audit procedures in respect of the Group's inventory balance which were performed by a Deloitte member firm based in Kurdistan.

Matters on which we are required to report by exception

Our duty to read other information in the Annual report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual report is:

- materially inconsistent with the information in the audited Financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual report is fair, balanced and understandable and whether the Annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

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, strategically focused second partner reviews 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 Company'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

26 March 2014

Consolidated income statement

For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Continuing operations			
Revenue	2	6,696	32,190
Cost of sales	3	(11,950)	(32,190)
Gross loss		(5,254)	—
Other operating expenses			
General and administrative expenses		(15,843)	(82,137)
Loss from operations	4	(21,097)	(82,137)
Other (losses) and gains	6	(1,186)	5,210
Interest revenue	2	828	1,199
Finance costs	7	(10,392)	(4,456)
Loss before tax		(31,847)	(80,184)
Tax charge	8	(118)	(1,638)
Loss after tax for the year		(31,965)	(81,822)
Loss per share (cents)			
Basic	9	(3.69)	(9.61)
Diluted	9	(3.69)	(9.61)

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Loss for the year		(31,965)	(81,822)
Items that may subsequently be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		279	1,010
Total comprehensive loss for the period		(31,686)	(80,812)

Consolidated balance sheet

As at 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Non-current assets			
Intangible assets	10	220,963	546,229
Property, plant and equipment	11	516,437	2,285
Deferred tax asset	19	3,680	6,796
		741,080	555,310
Current assets			
Assets classified as held for sale	12	103,086	64,612
Inventories	14	20,654	19,783
Trade and other receivables	15	34,023	23,674
Liquid investments		—	8,600
Cash and cash equivalents		81,972	253,713
Derivative financial instruments	26	—	207
		239,735	370,589
Total assets		980,815	925,899
Current liabilities			
Trade and other payables	16	(100,795)	(90,872)
Current tax liabilities		—	(444)
Provisions	18	(4,185)	(4,185)
Liabilities directly associated with assets classified as held for sale	12, 18	(1,378)	—
Derivative financial instruments	26	—	(168)
		(106,358)	(95,669)
Non-current liabilities			
Convertible bonds	17	(296,725)	(243,495)
Provisions	18	(15,365)	(9,044)
		(312,090)	(252,539)
Total liabilities		(418,448)	(348,208)
Net assets		562,367	577,691
Equity			
Share capital	20	7,975	7,847
Share premium account	20	796,099	791,479
Share option reserve		33,486	29,280
Convertible bonds reserve		21,488	25,485
Exchange translation reserve		728	449
Accumulated losses		(297,409)	(276,849)
Total equity		562,367	577,691

The Financial statements were approved by the Board of Directors and authorised for issue on 26 March 2014 and signed on its behalf by:

Todd F Kozel
Chief Executive Officer

KE Ainsworth
Finance Director

Consolidated statement of changes in equity

For the year ended 31 December 2013

	Notes	Attributable to equity holders of the Company						Total equity \$'000
		Share capital \$'000	Share premium account \$'000	Share option reserve \$'000	Exchange translation reserve \$'000	Accumulated losses \$'000	Convertible bonds reserve \$'000	
Balance at 1 January 2012		7,627	790,435	34,065	(561)	(225,492)	—	606,074
Net loss for the year		—	—	—	—	(81,822)	—	(81,822)
Other comprehensive income for the year		—	—	—	1,010	—	—	1,010
Total comprehensive income/(loss) for the year		—	—	—	1,010	(81,822)	—	(80,812)
Transfer relating to share-based payments		—	—	(29,591)	—	29,591	—	—
Share-based payment expense	24	—	—	25,899	—	—	—	25,899
Deferred tax on share-based payment transactions	19	—	—	(1,093)	—	—	—	(1,093)
Share conversion and issue	20	220	1,044	—	—	—	—	1,264
Own shares held by EBT	20	—	—	—	—	(202)	—	(202)
Issue of convertible bonds	17	—	—	—	—	—	26,561	26,561
Convertible bonds equity amortisation	17	—	—	—	—	1,076	(1,076)	—
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 bond	17	—	—	—	—	—	1,383	1,383
Convertible bond equity amortisation	17	—	—	—	—	5,380	(5,380)	—
Balance at 31 December 2013		7,975	796,099	33,486	728	(297,409)	21,488	562,367

Consolidated cash flow statement

For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Operating activities			
Cash used in operations	21	(25,072)	(58,974)
Tax paid		(675)	(1,667)
Interest received		828	1,199
Convertible bond coupon payments		(17,188)	—
Net cash used in operating activities		(42,107)	(59,442)
Investing activities			
Purchase of intangible assets		(131,844)	(191,887)
Purchase of property, plant and equipment		(59,008)	(1,345)
Decrease/(increase) in liquid investments ⁽¹⁾		8,600	20,928
Net cash used in investing activities		(182,252)	(172,304)
Financing activities			
Proceeds on issue of share capital		4,748	1,264
Proceeds on issue of convertible bonds		49,189	268,972
Net cash generated by financing activities		53,937	270,236
Net (decrease)/increase in cash and cash equivalents		(170,422)	38,490
Cash and cash equivalents at beginning of year		253,713	208,103
Effect of foreign exchange rate changes		(1,319)	7,120
Cash and cash equivalents at end of the year being bank balances and cash on hand		81,972	253,713

(1) Liquid investments comprise short-term liquid investments of between three to twelve months maturity while cash and cash equivalents comprise cash at bank and other short-term highly liquid investments of fewer than three months maturity. The combined cash, cash equivalents and liquid investments balance at 31 December 2013 was \$82.0 million (2012: \$262.3 million).

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). Subsequent to the year end, 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 depository 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 1 (amended)	Government Loans
IFRS 7 (amended)	Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurements
IFRIC 20	Stripping Costs in the Production Phase of Surface Mine
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income
IAS 19 (revised)	Employee Benefits
Annual Improvements 2009-2011 Cycle	

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

IFRS 9	Financial Instruments
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

The Directors do 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.

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, Strategic review by the Chief Executive Officer and Operational review. The financial position of the Group at the year end, its cash flows and liquidity position are included in the Financial review. In addition, note 26 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 exposures to credit risk and liquidity risk.

Following commencement of first commercial production in July 2013 and sales thereafter from the Shaikan Block, the Group has entered a critical phase in its development as it transitions from pure explorer to oil producer. The Group's business requires substantial capital expenditures for the foreseeable future, being at least the next twelve months, to finance the exploration, development and production of its existing oil reserves and resources.

The Group is dependent on existing cash resources, which totalled \$76.0 million at 1 March 2014, together with production revenues from its interest in the Shaikan Block in order to meet its future working capital requirements. Existing cash resources may be enhanced over the next twelve months from the date of this report by achieving further consistent oil production and domestic and export sales from Shaikan, increasing up to 40,000 bopd; the exercise of the Shaikan Government Option, the Shaikan Third Party Option, the Akri-Bijeeel Government Option and/or the Akri-Bijeeel Third Party Option under the terms of the Shaikan and Akri-Bijeeel PSCs; any proceeds from the potential sale of the Group's interest in the Akri-Bijeeel Block and/or the reimbursement of an additional £5.6 million of litigation costs by Excalibur Ventures LLC (see note 23 to the Financial statements).

Whilst the Group believes that one or more of the above events are likely to occur, if none of these events occur, and the Group is unable to otherwise enhance its existing cash resources, then the Directors would expect the Group to require additional working capital by the end of May 2014. If only one of these events occurs in the next twelve months from the date of this document, this would reduce any potential working capital shortfall and, depending on the final proceeds from the event, potentially remove it completely.

In order to address this potential shortfall in working capital, the Group is currently seeking to raise additional debt financing by the end of April 2014. The Group has mandated Deutsche Bank and Pareto Securities to arrange a series of fixed income investor meetings in the US, Europe and Asia, which commenced on 20 March 2014. A debt offering of up to \$250 million in accordance with Reg S/144A is expected to follow, subject to market conditions.

Whilst there can be no certainty that a debt transaction will follow the Group's investor meetings, any debt raised will enhance the Group's liquidity position and support the Group's ongoing capital work programmes, including increasing sales to up to 40,000 bopd by the completion and commissioning of Shaikan PF-1 and PF-2. If such debt financing is not available or not available on appropriate terms, the Group would also look to achieve funding via a further equity-linked or equity financing.

The Directors have concluded that the early stage of fundraising and the insufficiency of the current working capital to fulfil the Group's current working programme 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, being at least the next twelve months. For these reasons, they continue to adopt the going concern basis in preparing this Annual report and financial statements.

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.

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 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.

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.

Summary of significant accounting policies continued

Taxation continued

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 and is not remeasured. 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.

Trade payables

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

Summary of significant accounting policies continued

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

Assets relating to the Shaikan block were transferred to property, plant and equipment as at the end of June 2013 following the approval of the Shaikan Field Development Plan ("FDP"). Commercial production commenced on this block in July 2013. 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. For 2013, management determined that there are no indicators of impairment by comparing management's estimate of the discounted future cash flows that the Group expects to derive from the Shaikan field to its carrying value. Key judgements in deriving the future cash flows include future oil and gas prices, production volumes, future costs and the appropriate discount rate to be used. Further details are provided in note 11.

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 proved and probable reserves on an entitlement basis at the end of the period plus production in the period, on a field-by-field basis. Proved and probable 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.

Revenue

The recognition of revenue during 2013, 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 December 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. As at the date of this report, no cash receipts have been received for oil sent for export. However, given that exports by the KRG via truck only commenced in December 2013, management do not consider that the payment is past due and the Group expects to receive its full entitlement for trucked exports.

Share-based payments

The share-based payments charge is determined based on a number of assumptions which include but are not limited to the fair value of awards, vesting period and number of shares to vest. Further details are provided in note 24.

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.

Classification of assets as held for sale

The classification of Akri-Bijeel asset as an asset held for sale is one of the critical accounting judgements made by the Group's Directors. The Directors believe that the Akri-Bijeel block continues to meet the criteria of an asset held for sale as set out in IFRS 5, notwithstanding the fact that this intangible asset was classified as held for sale at 31 December 2011 and 2012. Further details are provided in note 12.

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 Operating Officer, the Finance Director, the Legal and Commercial Director and the Vice President of Operations as well as the Country Managers in the Kurdistan Region of Iraq and Algeria.

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 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

31 December 2012	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
Revenue						
Oil sales	—	32,190	—	—	—	32,190
Inter-segment sales	—	—	16,132	—	(16,132)	—
Total revenue	—	32,190	16,132	—	(16,132)	32,190
Cost of sales						
Production costs	—	(32,190)	—	—	—	(32,190)
Gross profit	—	—	16,132	—	(16,132)	—
General and administrative expenses						
Allocated general and administrative expenses	(4,946)	(1,577)	(16,862)	(75,697)	17,678	(81,404)
Depreciation and amortisation expense	—	(535)	(197)	(1)	—	(733)
(Loss)/profit from operations	(4,946)	(2,112)	(927)	(75,698)	1,546	(82,137)
Other gains and (losses)	(7)	(117)	—	5,334	—	5,210
Interest revenue	—	68	289	1,132	(290)	1,199
Finance costs	(159)	(189)	(290)	(4,616)	798	(4,456)
(Loss)/profit before tax	(5,112)	(2,350)	(928)	(73,849)	2,054	(80,184)
Tax expense	—	—	(1,638)	—	—	(1,638)
(Loss)/profit after tax	(5,112)	(2,350)	(2,566)	(73,849)	2,054	(81,822)
Capital expenditure	—	215,993	206	1	—	216,200
Total assets	102	671,680	40,465	1,061,637	(847,985)	925,899

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:

	2013 \$'000	2012 \$'000
Algeria	—	—
Kurdistan	737,047	548,021
Bermuda	2	3
United Kingdom	351	490
	737,400	548,514

Information about major customers

Included in revenues arising from the Kurdistan segment are revenues of approximately \$5.5 million (2012: \$17.5 million) and \$1.1 million (2012: \$9.2 million) which arose from sales to the Group's two largest customers.

Notes to the consolidated Financial statements continued

2. Revenue

	2013 \$'000	2012 \$'000
Oil sales	6,696	32,190
Interest revenue	828	1,199
	7,524	33,389

During 2013, the Company sold Shaikan oil domestically, with exports commencing in December 2013. Of oil sales revenues, \$5.5 million (2012: \$nil) arose from commercial oil production following the approval of the Shaikan FDP on 25 June 2013. The remaining \$1.2 million (2012: \$32.2 million) sales revenues arose from test production prior to the approval of the Shaikan FDP. All revenues are from domestic sales.

Revenue for commercial sales was recognised in line with the terms of Shaikan PSC, the applicable sales contracts and the Group's accounting policy. The price achieved on domestic sales in 2013 was \$41.2/bbl. Revenue is recognised on cash receipt for export sales (see Critical accounting estimates and judgements for further details).

In arriving at the value of sales revenues, management have used the following assumptions:

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

3. Cost of sales

	2013 \$'000	2012 \$'000
Production costs	8,685	32,190
Royalty costs	888	—
Depreciation of oil & gas properties	2,377	—
	11,950	32,190

Following the approval of the Shaikan FDP at the end of June 2013, the Shaikan block asset was transferred from intangible assets to oil and gas properties within property, plant and equipment. This asset has been depreciated from 1 July 2013 on a unit of production basis, with a depreciation charge of \$2.4 million being recorded within cost of sales (2012: \$nil). See notes 10 and 11 for further details.

As all revenues resulted from test production in 2012, in accordance with the Company's accounting policy for test production, an equal and offsetting amount to revenue of \$32.2 million was recognised in cost of sales.

4. Loss from operations

	2013 \$'000	2012 \$'000
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	2,981	559
Amortisation of intangible assets	194	175
(Credit)/Charge in relation to Excalibur litigation (see note 23)	(18,973)	26,782
Staff costs (see note 5)	26,289	38,642
Auditor's remuneration for audit services (see below)	158	106
Operating lease rentals (see note 22)	1,769	2,235

	2013 \$'000	2012 \$'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	134	85
Fees payable to the Company's auditor for other services to the Group		
– the audit of the Company's subsidiaries pursuant to legislation	24	21
Total audit fees	158	106
Other assurance services	59	—
Remuneration advisory services	104	—
Corporate finance services	373	62
Other services	56	8
Total fees	750	176

5. Staff costs

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

	2013 Number	2012 Number
Office and management	78	63
Technical and operational	109	88
	187	151

Employee benefits recognised as an expense during the year comprised:

	2013 \$'000	2012 \$'000
Wages and salaries	13,917	15,005
Social security costs	2,534	3,663
Share-based payment (see note 24)	9,838	19,974
	26,289	38,642

6. Other gains and (losses)

	2013 \$'000	2012 \$'000
Exchange (losses)/gains	(1,186)	6,355
Mark-to-market valuation of foreign exchange contracts	—	(794)
Change in the fair value of the SEDA derivative financial instrument	—	(351)
	(1,186)	5,210

Notes to the consolidated Financial statements continued

7. Finance costs

	2013 \$'000	2012 \$'000
Interest payable in respect of convertible bonds (see note 17)	23,433	4,617
Unwinding of discount on provisions (see note 18)	378	348
Capitalised finance costs	(13,419)	(509)
	10,392	4,456

The amount of finance costs capitalised was determined in accordance with IAS 23 by applying the effective interest rate of 9.26% on an annual basis applicable to the borrowings under the \$275 million convertible bond to the expenditures on the qualifying asset (see note 17). The proceeds from the \$50 million further issue in 2013 have not yet been utilised to generate a qualifying asset.

8. Tax

	2013 \$'000	2012 \$'000
Corporation tax		
Current year credit/(charge)	706	(1,092)
Adjustment in respect of prior years	(12)	(203)
Deferred UK corporation tax expense	(812)	(343)
Tax expense attributable to the Company and its subsidiaries	(118)	(1,638)

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 PSCs and is therefore not reflected in the tax charge for the year.

In the Kurdistan Region of Iraq, the Group is subject to corporate income tax on its income from petroleum operations under the PSCs. The rate of corporate income tax is currently 15% on total income. However, any corporate income tax arising from petroleum operations will be paid from the Kurdistan Regional Government of Iraq'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 23.25% (2012: 24.5%) 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 24% to 23% effective from 1 April 2013. The Government has enacted a further 2% reduction to 21% at 1 April 2014 in the Finance Bill 2013 as well as an additional reduction to 20% on 1 April 2015. The 21% rate and the 20% rate were substantively enacted as at 31 December 2013 and have been reflected in the deferred tax calculation, in accordance with IAS 12.

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 \$2.3 million deferred tax charge (2012: \$1.1 million charge) relating to estimated excess tax deductions related to share-based payments has been recognised directly in equity (see note 19). All deferred tax arises in the UK.

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

	2013 \$'000	2012 \$'000
Loss before tax	(31,847)	(80,184)
Tax at the Bermudian tax rate of 0% (2012: 0%)	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	(118)	(1,638)
Tax (charge)/benefit for the year	(118)	(1,638)

9. Loss per share

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

	2013 \$'000	2012 \$'000
Loss		
Loss after tax for the purposes of basic and diluted loss per share	(31,965)	(81,822)
	2013 Number (000s)	2012 Number (000s)
Number of shares		
Weighted average number of common shares for the purposes of basic loss per share	865,480	851,486
Adjustments for:		
– bonus shares	n/a	n/a
– share options	n/a	n/a
– warrants	n/a	n/a
– ordinary shares held by the Employee Benefit Trustee	n/a	n/a
– ordinary shares held by the Exit Event Trustee	n/a	n/a
– shares issuable under convertible bonds	n/a	n/a
Weighted average number of common shares for the purposes of diluted loss per share	865,480	851,486

The Group followed the steps specified by IAS 33 in determining whether potential common shares are dilutive or anti-dilutive. It was determined that all of the potential common shares including bonus shares, share options, convertible bonds and common shares held by the Employee Benefit Trustee ("EBT") and the Exit Event Trustee have an anti-dilutive effect on loss per share. As a result, there is no difference between basic and diluted earnings per share.

As at 31 December 2013, 37.5 million share options (2012: 41.9 million), 3.3 million unissued bonus shares (2012: 6.6 million), 9.4 million common shares held by the EBT (2012: 12.9 million), 10 million common shares held by the Exit Event Trustee (2012: 10.0 million), and 74.0 million common shares to be issued if the bonds are converted at the initial conversion price of \$4.39 (2012: 62.6 million) were excluded from the loss per share calculation as they were anti-dilutive. As at 31 December 2013, the Company had no warrants outstanding (2012: 1.0 million).

Notes to the consolidated Financial statements continued

10. Intangible assets

	Exploration & evaluation costs \$'000	Computer software \$'000	Total \$'000
Year ended 31 December 2012			
Opening net book value	359,557	448	360,005
Additions	186,383	109	186,492
Reclassified to income statement	—	(125)	(125)
Amortisation charge	—	(175)	(175)
Accumulated amortisation eliminated on reclassification	—	14	14
Foreign currency translation differences	—	18	18
Closing net book value	545,940	289	546,229
At 31 December 2012			
Cost	545,940	858	546,798
Accumulated amortisation	—	(569)	(569)
Net book value	545,940	289	546,229
Year ended 31 December 2013			
Opening net book value	545,940	289	546,229
Transfer of Shaikan assets to property, plant and equipment	(443,470)	—	(443,470)
Additions	118,286	110	118,396
Amortisation charge	—	(194)	(194)
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

The net book value at 31 December 2013 includes intangible assets relating to: Ber Bahr \$61.1 million (2012: \$51.0 million), and Sheikh Adi \$159.6 million (2012: \$137.2 million).

At 30 June 2013, the intangible assets relating to the Shaikan block were transferred from intangible assets to property, plant and equipment upon approval of the FDP. Prior to this point, all additions to the Shaikan assets were recorded in intangibles. Subsequent to the transfer, all additions to the Shaikan assets were recorded in property, plant and equipment. The balance relating to the Shaikan block at 30 June 2013 was \$443.5 million (31 December 2012: \$357.7 million).

The additions to oil and gas exploration and evaluation costs in the year include the acquisition and processing of 2-D seismic data on the Sheikh Adi block, and the commencement of drilling Sheikh Adi-3, as well as the drilling and side-tracking of the Ber Bahr exploration well.

The amortisation charge of \$194,000 (2012: \$175,000) for computer software has been included in general and administrative expenses.

11. Property, plant and equipment

	Oil & gas properties \$'000	Fixtures & equipment \$'000	Total \$'000
Year ended 31 December 2012			
Opening net book value	2,690	1,605	4,295
Additions	—	1,345	1,345
Disposals	—	(169)	(169)
Depreciation charge	—	(559)	(559)
Accumulated depreciation eliminated on disposals	—	53	53
Revaluation of Algerian oil and gas decommissioning assets	(2,690)	—	(2,690)
Foreign currency translation differences	—	10	10
Closing net book value	—	2,285	2,285
At 31 December 2012			
Cost	—	4,939	4,939
Accumulated depreciation	—	(2,654)	(2,654)
Net book value	—	2,285	2,285
Year ended 31 December 2013			
Opening net book value	—	2,285	2,285
Transfer of Shaikan exploration and evaluation assets from intangibles	443,470	—	443,470
Additions	73,545	118	73,663
Disposals	—	—	—
Depreciation charge	(2,377)	(604)	(2,981)
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

The net book value of oil & gas properties at 31 December 2013 is comprised of property, plant and equipment relating to the Shaikan block and has a carrying value of \$514.6 million. At 30 June 2013, the assets relating to Shaikan were transferred from intangible assets to property, plant and equipment (see note 10) following the approval of the FDP on 25 June 2013 and in accordance with the Group's accounting policies. Additions to the Shaikan assets subsequent to this transfer have been recorded as additions to property, plant and equipment.

The additions to the Shaikan block in the year include the construction of the Shaikan production facilities, PF-1 and PF-2, the drilling of Shaikan -7 and -10, workovers of Shaikan -2 and -4 and work associated with tie-in of the Shaikan -2, -4 and -5 wells to PF-1 and PF-2.

The depreciation, depletion and amortisation charge of \$2.4 million on oil and gas properties (2012: \$nil) has been included within cost of sales (note 3).

The depreciation charge of \$0.6 million on fixtures and equipment (2012: \$0.6 million) has been included in general and administrative expenses.

Notes to the consolidated Financial statements continued

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% 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.

The Akri-Bijeel asset of \$103.1 million (2012: \$64.6 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 2013 and presented separately in the balance sheet. The value of the asset held for sale as at 31 December 2013 includes \$7.1 million (2012: \$5.9 million) that relates to a prepayment balance to the operator. The additions in the year include the drilling and testing of exploration and appraisal wells, which include Bakrman-1, Bijell -2, -4, -7 as well as the workover and sidetrack of Bijell-1, the construction of the Akri-Bijeel Extended Well Test Facility and the acquisition and processing of seismic data.

The proceeds of disposal are expected to exceed the book value of the related net assets and, accordingly, no impairment losses have been recognised on the classification of this asset as held for sale. A further amount of \$1.4 million (2012: \$0.9 million), representing the net present value of the decommissioning costs associated with this asset is presented separately on the balance sheet as a liability directly associated with assets classified as held for sale at 31 December 2013 (see note 18).

At 31 December 2013, all of the liability on the balance sheet associated with the assets held for sale is comprised of provisions. At 31 December 2012, this balance was included within the non-current provisions balance.

	2013 \$'000	2012 \$'000
Akri-Bijeel assets:		
Intangible assets	96,007	58,718
Prepayments to operator	7,079	5,894
	103,086	64,612
Akri-Bijeel liabilities:		
Decommissioning provisions	1,378	—

The Group is continuing to actively market its interest in Akri Bijeel and a number of interested parties have made enquiries during 2013 and to date. The block was declared commercial in October 2013 by the operator. Early production has recently 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 as stated by the operator. These developments, together with the Bakrman discovery in 2013 which is due to be appraised this year, and the expected completion of the field development plan in April 2014 are the reasons why management continue to 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 and 2012.

13. Subsidiaries

Details of the Company's subsidiaries at 31 December 2013, and 31 December 2012, 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

14. Inventories

	2013 \$'000	2012 \$'000
Exploration materials	19,893	19,063
Crude oil	761	720
	20,654	19,783

15. Trade and other receivables

	2013 \$'000	2012 \$'000
Trade receivables	—	6,983
Other receivables	30,257	12,759
Prepayments and accrued income	3,766	3,932
	34,023	23,674

Trade receivables relate to amounts due from oil sales with no outstanding debtors as at 31 December 2013 (2012: \$7.0 million). Included within other receivables for 2013 is an amount of \$27.9 million (2012: \$nil) being the legal costs that are owed to the Company following the resolution of the Excalibur case in December 2013 (see note 23).

Also included within other receivables for 2013 is an amount of \$0.3 million (2012: \$0.7 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 2013 (2012 \$10.6 million) (see note 25). No impairments have been recognised during the year (2012: \$1.2 million).

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.

	2013 \$'000	2012 \$'000
Trade payables	14,495	21,908
Other creditors	3,518	—
Accrued expenses	82,782	68,964
	100,795	90,872

Accrued expenses include interest payable of \$4.2 million (2012: \$3.5 million) in respect of convertible bonds (see note 17).

Notes to the consolidated Financial statements continued

17. Convertible bonds

On 18 October 2012, the Group issued senior unsecured convertible bonds at a par value of \$275 million which will be convertible into common shares of the Company, at the option of the bondholder, at any time from 18 October 2012 until 10 days prior to the final maturity date, 18 October 2017 (the "original bonds"). As described in the convertible bonds listing particulars, available on the Bourse de Luxembourg website, the Company can redeem all or some of the bonds under certain conditions. At the initial conversion price of \$4.39 per common share (£2.72 at the prevailing USD:GBP spot rate at the time of pricing), there were 62,642,369 common shares of the Company underlying the bonds. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 18 October 2017. Interest of 6.25% per annum will be paid bi-annually in arrears up to that date.

On 6 November 2013 (the "closing date"), the Group issued further senior unsecured convertible bonds (the "new bonds") at 100% of par in an aggregate principal amount of \$50 million, plus accrued interest from and including 18 October 2013, to but excluding, the closing date. The new bonds were issued on the same terms (save for the issue price) as the original bonds and have been consolidated with the original bonds to form a single series. At the initial conversion price of \$4.39 per common share (£2.72 at the prevailing USD:GBP spot rate at the time of pricing), there were 11,389,521 common shares of the Company underlying the bonds.

As with the 2012 issue, the 2013 net proceeds received from the issues of the convertible bonds were split between a liability element and equity component at the date of issue. The fair value of the liability component was 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, was included in equity reserves.

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

	2013 \$'000	2012 \$'000
Liability component at 1 January	247,028	—
Liability component of the new bonds at issue	47,627	242,411
Interest charged during the year	23,433	4,617
Interest paid during the year	(17,188)	—
Liability component at 31 December	300,900	247,028

Liability component reported in:

	2013 \$'000	2012 \$'000
Interest payable in current liabilities (see note 16)	4,175	3,533
Non-current liabilities	296,725	243,495
	300,900	247,028

The equity component of the 2013 New Bonds at issue of \$1.4 million has been credited to equity reserves.

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 bond issue in October 2012 is 9.26%. The effective interest rate for the \$50 million tap issue is 7.20%. Each year, an amount equal to the difference between the total interest charge and the coupon rate charge (at 6.25% per annum) is transferred within equity from the convertible bonds reserve to accumulated losses.

There is no material difference between the carrying amount of the liability component of the convertible bonds, which is carried at amortised cost, and their fair value. This fair value is calculated by discounting the future cash flows at the market rate.

The Group's remaining contractual liability comprising principal and interest, based on undiscounted cash flows at the earliest date on which the Group is required to pay and assuming the bonds are not purchased and cancelled, redeemed or converted prior to 18 October 2017, is as follows:

	2013 \$'000	2012 \$'000
Within one year	20,313	17,188
Within two to five years	385,937	343,750
	406,250	360,938

18. Provisions

	2013 \$'000	2012 \$'000
Current provisions	4,185	4,185
Non-current provisions	15,365	9,044
Assets held for sale provision	1,378	—
	20,928	13,229

Decommissioning provision	Current provisions (Algeria) \$'000	Non-current provisions (Kurdistan) \$'000	Assets held for sale provision \$'000	Total \$'000
At 1 January 2013	4,185	9,044	—	13,229
Transfer of Akri-Bijeel provision	—	(1,217)	1,217	—
New provisions and changes in estimates	—	7,179	142	7,321
Unwinding of discount	—	359	19	378
At 31 December 2013	4,185	15,365	1,378	20,928

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.

At 30 June 2013, the provision associated with Akri-Bijeel (note 12), an asset held for sale, was transferred to current liabilities. It is presented separately on the balance sheet as a liability associated with assets classified as held for sale. The decommissioning provision is the sole component of this liability balance.

Notes to the consolidated Financial statements continued

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 2012	(32)	8,009	7,977
(Charge)/credit to income statement	33	(376)	(343)
Charge direct to equity	—	(1,093)	(1,093)
Exchange differences	—	255	255
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 31 December 2013	14	3,666	3,680

20. Share capital

	2013 \$'000	2012 \$'000
Authorised		
Common shares of \$0.01 each	10,500	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
	71,000	71,000

There was no change to the authorised common share capital during 2013.

	Common shares		Share capital \$'000	Share premium \$'000
	No. of shares 000	Amount \$'000		
Issued and fully paid				
Balance at 1 January 2012	854,119	798,062	7,627	790,435
Bonus scheme shares issued	10,980	110	110	—
Shares issued under option scheme	322	170	3	167
Exit Event shares issued	10,000	100	100	—
Warrant exercise	761	884	7	877
Balance 31 December 2012	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

During the year, a total of 7,125,837 shares were issued as part of the Company's bonus share scheme (2012: 10,979,672), of which 6,459,169 new common shares were issued to the Gulf Keystone Employee Benefit Trust ("EBT") at par value of \$0.01 (see note 24). Following exercises of warrants in September 2013, 975,350 common shares were issued at a price of £1.40 per share.

A further 4,650,250 common shares were issued following exercise of options by employees, Directors, former employees and former Directors of the Company during the year. The details of the options exercised are as follows:

Date of issue	Number of shares issued	Weighted average option exercise price	Weighted average share price realised on issue
1 March 2013	4,379,500	32.90 pence	187.75 pence
23 September 2013	20,750	30.00 pence	206.58 pence
12 December 2013	250,000	80.75 pence	182.50 pence
Total	4,650,250	35.46 pence	187.55 pence

At 31 December 2013, a total of 9,444,109 common shares were held by the EBT and 10,000,000 shares were held by the Exit Event trustee. All 19,444,109 common shares were included within reserves.

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

	2013 \$'000	2012 \$'000
Loss from operations	(21,097)	(82,137)
Adjustments for:		
Depreciation, depletion and amortisation of property, plant and equipment	2,981	559
Amortisation of intangible assets	194	175
Increase in Algerian decommissioning provision	—	3,462
Share-based payment expense	9,838	19,974
Impairment of overdue receivables	—	1,212
Increase in inventories	(871)	(2,550)
Increase in receivables	(10,561)	(14,845)
Increase/(decrease) in payables	(5,556)	15,176
Net cash used in operating activities	(25,072)	(58,974)

Notes to the consolidated Financial statements continued

22. Commitments

Operating lease commitments – the Group as a lessee

	2013 \$'000	2012 \$'000
Minimum lease payments under operating leases recognised as expense for the year	1,769	2,235

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

	2013 \$'000	2012 \$'000
Within one year	1,299	1,345
In the second to fifth years inclusive	82	566
After five years	—	—
	1,381	1,911

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 leases are for five and four years from February 2010 and April 2011 respectively. The office equipment lease is for five years and commenced in 2009. 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 2014 for the Group is approximately \$208.8 million (2013: \$197 million) of which the majority is contracted. This includes the minimum amounts required to retain the relevant licences.

23. Contingent liabilities

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% 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 judgment 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 Judgment.

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% 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. As at the date of this report, the funds have not been received. Gulf Keystone intends to pursue the claimants, and their financial backers, for the full sum. These sums have not been recognised in the 31 December 2013 consolidated Financial statements.

As at 31 December 2012, due to uncertainty surrounding the outcome of the legal proceedings and the wide range of potential financial outcomes, the ultimate outcome of the legal case could not be reliably estimated and a contingent liability was disclosed. Following the outcome of the legal proceedings, the Company no longer has any contingent liability associated with the Excalibur claims.

24. Share-based payments

	2013 \$'000	2012 \$'000
Bonus shares charge	5,281	15,881
Share options charge	7,287	10,018
	12,568	25,899

During the year \$2.9 million (2012: \$6.0 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 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

	2013		2012	
	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	41,873	94.3	41,795	91.9
Granted during the year	650	180.8	650	250.0
Exercised during the year	(4,650)	35.5	(322)	33.0
Cancelled during the year	(400)	250.0	—	—
Forfeited during the year	—	—	(250)	175.0
Outstanding at 31 December	37,473	101.4	41,873	94.3
Exercisable at 31 December	21,827	65.2	22,472	55.8

The weighted average share price at the date of exercise for share options exercised during the period was £1.88. The options outstanding at 31 December 2013 had a weighted average exercise price of £1.01, and a weighted average remaining contractual life of six years.

In February 2013, 400,000 options that were issued in 2012, with an exercise price of £2.50 per share, were replaced with the same number of new options, which were granted with an exercise price of £1.95 per share and an expiry date 20 March 2022. The fair value of the modified options has been calculated using the assumptions stated below and has resulted in an immaterial incremental charge. During July 2013, a further 250,000 options with market-based performance conditions attached were granted to new employees under the Group's share option plan.

Notes to the consolidated Financial statements continued

24. Share-based payments continued

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

	2013	2012
Weighted average closing share price on date of grant (in pence)	180.8	272.6
Weighted average exercise price of options granted in the year (in pence)	180.8	250.0

The expected volatility was calculated as 85.5% (2012: 85.5%) 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 2013 awards is two years for the replacement options and three years for the new options (2012: three years). The risk free rate was 0.28% for the replacement options and 0.55% for the new options (2012: 0.61%).

The weighted average fair value of the options granted in 2013 was £0.88 for the replacement options and £0.87 for the newly issued options (2012: £1.54).

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.

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

Expiry date	Exercise price (pence)	Options ('000)	
		2013	2012
13 February 2018	30.00	1,100	1,450
24 September 2018	30.00	2,001	2,110
31 December 2018	30.00	1,350	4,391
15 March 2019	30.00	250	250
30 July 2019	30.00	1,000	1,650
25 March 2020	80.75	—	250
3 June 2020	80.75	—	250
23 June 2020	75.00	18,882	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
20 March 2022	194.50	400	—
8 July 2023	158.75	250	—
		37,473	41,873

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.

As in 2012, no new grants have been made during the year. Awards of 7,125,837 relating to the 2010 and 2011 Executive Bonus Schemes, as reported in 2010 and 2011 Annual reports and accounts, vested in February 2013 and were included in the 2012 Annual report and accounts as they represented bonuses for the period from 1 January 2010 to 31 December 2012. The final awards of the 2011 Executive Bonus Scheme have not yet vested at the date of this report.

	Bonus shares ('000)	
	2013	2012
Balance at 1 January	3,306	10,474
Granted during the year	—	—
Forfeited during the year	—	(42)
Issued during the year	—	(7,126)
Balance at 31 December	3,306	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%) 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 2013, the fair value of Exit Event Awards was \$nil (2012: \$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

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 Mr Todd Kozel, a Director of the Company, is also a Director of Texas Keystone, Inc. ("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% 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.

Notes to the consolidated Financial statements continued

25. Related party transactions continued

Directors' transactions

During 2013, the Company paid for certain personal expenses of \$2.4 million (2012: \$2.8 million) on behalf of Todd Koziel that will be refunded to the Company at its demand. No interest was charged on these amounts. These personal expenses, together with the amounts outstanding at 31 December 2012 were settled during the year through a combination of cash payment to the Company and by offsetting against amounts otherwise owed to Todd Koziel in respect of the second tranche of his 2012 bonus award.

In 2012, the Group issued an interest-bearing loan of \$7.0 million to Todd Koziel and \$0.7 million to another Director. The loans were taken out in order to meet the Directors' tax and other liabilities and bore an annual interest charge of 7.5%. All outstanding loan balances at 31 December 2012, together with interest due to the date of repayment, were paid in full during 2013.

The individuals concerned, by virtue of their directorships, are related parties to the Company.

	2013 \$'000	2012 \$'000
Personal expenses of key management personnel to be refunded to the Group	—	2,846
Loans to key management personnel	—	7,710
Interest on loans to key management personnel	—	68
	—	10,624

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:

CH Garrett – Vice President Operations
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.

	2013 \$'000	2012 \$'000
Short-term employee benefits	10,264	17,310
Other allowances	422	169
Share-based payment – options	5,234	8,085
Share-based payment – bonus shares	4,197	14,305
	20,117	39,869

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

	2013 \$'000	2012 \$'000
Financial assets		
Cash and cash equivalents	81,972	253,713
Liquid investments	—	8,600
Loans and receivables	30,257	19,742
Other derivative assets (Level 2)	—	207
	112,229	282,262
Financial liabilities		
Loans and payables	100,795	90,872
Other derivative liabilities (Level 2)	—	168
Convertible bonds (Level 1)	296,725	243,495
	397,520	334,535

All loans and payables, except for the convertible bonds, are due to be settled within one year and are classified as current liabilities. The maturity profile of the convertible bond is 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 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 \$50m “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-Bijeeel, Ber Bahr and Sheikh Adi blocks. As a result, the Group carried a non-current liability of \$296.7 million as at 31 December 2013 (2012: \$243.5 million) (see note 17).

Notes to the consolidated Financial statements continued

26. Financial instruments continued

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 has entered into no new currency risk hedges and interest rate hedges during 2013. The Group does not presently hedge against other 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 decreased in 2012 following the issue of the convertible bonds where the proceeds were received 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 2013, a 10% 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.

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 entered into liquid investments of up to twelve months maturity during 2012, which have matured in 2013, to maximise interest returns. No such investments have been entered into during 2013. The Group pays fixed coupon interest rate on the convertible bonds 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% increase or decrease in interest rates would have resulted in \$0.8 million decrease or increase in the Group's loss for the year. A rate of 0.5% 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. Similar to 31 December 2012, as at 31 December 2013, the Group does not have any significant trade receivables outstanding from any one customer.

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 25 March 2014, the Company's common shares were admitted to the Official List of the UKLA and commenced trading on the Main Market of the LSE at 8.00am. Trading in the Company's common shares on AIM was simultaneously cancelled.

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Andrew Simon

Senior Independent
Non-Executive Director

Lord Charles Guthrie

Non-Executive Director

Mark Hanson

Non-Executive Director

John Bell

Non-Executive Director

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Glossary

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

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