This document comprises a prospectus relating to Gulf Keystone Petroleum Limited (the "Company") prepared in accordance with the Prospectus Rules. This document has been approved by the Financial Conduct Authority (the "FCA") in accordance with Part VI of the Financial Services and Markets Act 2000 ("FSMA") and has been filed with the FCA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

Applications have been made to the UK Listing Authority and the London Stock Exchange for all of the Common Shares to be admitted to the standard segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities, respectively. Admission to trading on the Main Market constitutes admission to trading on a UK regulated market. It is expected that admission will become effective and that dealings for normal settlement in the Common Shares will commence on 25 March 2014.

The Company and each of the Directors, whose names appear on page 43 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Investors should read this document in its entirety. In particular, your attention is drawn to Part 2: "*Risk Factors*" for a discussion of the risks that might affect the value of your shareholding in the Company.

GULF KEYSTONE PETROLEUM LIMITED

GULF KEYSTONE
PETROLEUM LTD.

(Incorporated and registered in Bermuda under the Companies Act (Bermuda) with Registered No. 31165)

Admission to the Official List (by way of a Standard Listing under Chapter 14 of the Listing Rules) and to trading on the London Stock Exchange's Main Market for listed securities of 888,933,057 Common Shares

Deutsche Bank

Financial Adviser

The Company is not offering any Common Shares nor any other securities in connection with Admission. This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, any Common Shares nor any other securities in any jurisdiction. The Common Shares will not be generally made available or marketed to the public in the UK or any other jurisdiction in connection with Admission.

The Common Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**"), or under the securities laws or with any securities regulatory authority of any state or other jurisdiction of the United States or of any province or territory of Australia, Canada or Japan. Securities may not be offered or sold in the United States absent: (i) registration under the Securities Act; or (ii) an available exemption from registration under the Securities Act. The Common Shares have not been and will not be offered or sold in the United States, Australia, Canada or Japan or to or for the account or benefit of any person resident in Australia, Canada or Japan and this document does not constitute an offer to sell or a solicitation of an offer to purchase or subscribe for Common Shares in such jurisdictions or in any jurisdiction in which such offer or solicitation is unlawful or would impose any unfulfilled registration, publication or approval requirements on the Company. These materials may not be published, distributed or transmitted by any means or media, directly or indirectly, in whole or in part, in or into the United States, Australia, Canada or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves of and observe any restrictions.

Application has been made for the Common Shares to be admitted to the standard segment of the Official List. A Standard Listing affords investors in the Company a lower level of regulatory protection than that afforded to investors in companies whose securities are admitted to the premium segment of the Official List, which are subject to additional obligations under the Listing Rules.

It should be noted that the UK Listing Authority will not have the authority to (and will not) monitor the Company's compliance with any of the Listing Rules and/or any provision of the Model Code or those aspects of the Disclosure and Transparency Rules which the Company has indicated herein that it intends to comply with on a voluntary basis, nor to impose sanctions in respect of any failure by the Company to so comply.

Deutsche Bank AG, London Branch ("**Deutsche Bank**"), which is authorised in the United Kingdom by the Prudential Regulation Authority (the "**PRA**") and regulated in the United Kingdom by the FCA and the PRA, is acting exclusively for the Company and for no one else in relation to Admission and the arrangements referred to in this document. Deutsche Bank will not regard any other person (whether or not a recipient of this document) as its client in relation to Admission and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Deutsche Bank or for providing any advice in relation to Admission, the contents of this document or any transaction or arrangement referred to herein. No liability whatsoever is accepted by Deutsche Bank for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of the FSMA or Rule 3.4 of the Prospectus Rules, the publication of this document does not create any implication that there has been no change in the affairs of the Group since, or that the information contained herein is correct at any time subsequent to, the date of this document. Notwithstanding any reference herein to the Company's website, the information on the Company's website does not form part of this document.

Dated 20 March 2014

Shaikan production operations


Shaikan-7 deep exploration well


Shaikan production facility PF-1

CONTENTS

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PART 1

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of "not applicable".

Section A – Introduction and warnings		
A.1	**Introduction**	This summary must be read as an introduction to the prospectus. Any decision to invest in Common Shares should be based on consideration of the prospectus as a whole by the investor. Where a claim relating to the information contained in the prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of the prospectus or it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	**Consent for intermediaries**	Not applicable; the Company has not given its consent to the use of this document for the resale or final placement of the Common Shares by financial intermediaries.

Section B – Issuer		
B.1	**Legal and commercial name**	Gulf Keystone Petroleum Limited.
B.2	**Domicile/legal form/legislation/country of incorporation**	The Company was incorporated and registered in Bermuda on 29 October 2001 under the Companies Act (Bermuda) and the regulations made thereunder as an exempted company limited by shares with the name Gulf Keystone Petroleum Algeria, Ltd and with registered number 31165. Pursuant to a Shareholders' resolution dated 18 May 2004, the Company's name was changed to Gulf Keystone Petroleum Limited on 20 May 2004.

B.3	**Current operations/principal activities and markets**	Gulf Keystone Petroleum Limited (the "**Company**") is an independent oil and gas exploration, development and production company with operations in Kurdistan. The Group is in the process of negotiating an orderly exit from the Ferkane PSC, its last remaining link to its historic operations in Algeria. The Group's principal assets are held through the Company's wholly owned subsidiary, Gulf Keystone Petroleum International Limited ("**GKPI**") which holds interests in four contiguous exploration blocks in Kurdistan – the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel Blocks. GKPI is the operator of the Shaikan and Sheikh Adi Blocks. The Company's strategy is to: • Ramp-up commercial production and sales of oil from Shaikan • Become a self-funding business and maintain financial flexibility • Increase reserves through further exploration and appraisal • Complete sale of its interest in Akri-Bijeel and orderly exit from Algeria to focus on core assets The Directors believe that the Company's key strengths include: • Extensive assets in highly prospective region and operator of one of the world's largest independent onshore developments • Proven track record of operational success in exploration and appraisal activities • Demonstratable field development, production and sales growth at Shaikan • Strong stakeholder relationships in Kurdistan and Health, Safety, Security and Environment record • Stable, experienced management with technical expertise, especially in relation to Kurdistan
B.4a	**Significant recent trends**	The following is a list of recent significant developments in respect of the Group's business: • Submission and subsequent approval of the Shaikan FDP to the MNR. • Construction completion of Shaikan PF-1 with PF-2 currently being commissioned. • Commencement of commercial production from PF-1 and commencement of oil exports by truck from the Shaikan Block.

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Spudded Shaikan-7 (first deep exploration well).
Completion of Shaikan-10 (first development well) to be tied into PF-2.
The KRG and Turkey signed an Energy Framework Agreement.
Continuation of the exploration and appraisal programme on the Akri-Bijeel Block (Bijell discovery and Bakrman discovery; operator: MOL Hungarian Oil and Gas plc).
Spudded Bijell-2, Bijell-4, Bijell-1B side-track.
Akri-Bijeel Block where both Bijell-1 and Bakrman-1 were declared Commercial Discoveries.
Sheikh Adi Block seismic data acquisition and processing.
Following Sheikh Adi-2 discovery, Sheikh Adi-3 appraisal well spudded.
Side-track and retest of Ber Bahr-1 resulting in the declaration of a Commercial Discovery (operator: Genel Energy plc).
Handing down of the full judgment and dismissal of all claims asserted by Excalibur against the Group and the hearing of consequential matters.
Completion by the MNR of the regional export pipeline through Turkey to the port of Ceyhan.
Publication of ERC Equipoise Report in respect of the Kurdistan Blocks.

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<td>B.5</td>
<td>Group structure</td>
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The Company is the parent company of the Group. The Subsidiaries of the Company are as follows:
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<tr><th>Name</th><th>Country of incorporation</th><th>Proportion of ownership interest</th><th>Principal activity</th></tr>
<tr><td>Active Subsidiaries</td><td></td><td></td><td></td></tr>
<tr><td>Gulf Keystone Petroleum (UK) Limited</td><td>Great Britain</td><td>100 per cent.</td><td>Geological, geophysical and engineering services and administration</td></tr>
<tr><td>Gulf Keystone Petroleum International Limited</td><td>Bermuda</td><td>100 per cent.</td><td>Exploration, evaluation, development and production activities</td></tr>
<tr><td>Inactive subsidiaries</td><td></td><td></td><td></td></tr>
<tr><td>Gulf Keystone Petroleum HBH Limited</td><td>Bermuda</td><td>100 per cent.</td><td>Exploration and evaluation activities</td></tr>
<tr><td>Gulf Keystone Petroleum Numidia Limited</td><td>Bermuda</td><td>100 per cent.</td><td>Exploration and evaluation activities</td></tr>
<tr><td>Shaikan Petroleum Limited</td><td>Bermuda</td><td>100 per cent.</td><td>Exploration and evaluation activities</td></tr>
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B.6 | **Major Shareholders**

As at 18 March 2014 (being the latest practicable date before publication of this document), the Company is aware that the following Shareholders, directly or indirectly, had interests in 3 per cent. or more of the Company's capital or voting rights:

Name of Shareholder	*Number of Common Shares*	*Percentage of issued share capital (per cent.)*
TD Direct Investing	61,631,833	6.93
Barclays Wealth	57,038,914	6.42
Capital Research Global Investors	49,596,975	5.58
M&G Investment Management	47,973,877	5.40
Hargreaves Lansdown Asset Management	45,738,815	5.15
Halifax Share Dealing	43,440,591	4.89

B.7 | **Selected historical key financial information**

The table below sets out summary financial information of the Company as derived from: (i) the audited consolidated financial statements of the Company as at and for the years ended 31 December 2012, 2011 and 2010; (ii) the reviewed interim consolidated financial statements of the Company as at and for the six months ended 30 June 2013.

	Six months ended 30 June (unaudited)		*Years ended 31 December (audited)*		
	2013	*2012*	*2012*	*2011*	*2010*
			U.S.$'000s		
Consolidated Income statement: Continuing operations					
Revenue	–	15,472	32,190	6,919	808
Cost of sales	–	(15,472)	(32,190)	(6,919)	(808)
Gross profit	–	–	–	–	–
Other operating expenses					
Impairment of assets held for sales	–	–	–	(10,000)	–
General and administrative expenses	(19,256)	(34,061)	(82,137)	(60,350)	(32,595)
Loss from operations	(19,256)	(34,061)	(82,137)	(70,350)	(32,595)
Other gains and (losses)	(543)	4,064	5,210	5,791	5,940
Interest revenue	463	805	1,199	1,239	192
Finance costs	(6,537)	(254)	(4,456)	(473)	(348)
Loss before tax	(25,873)	(29,446)	(80,184)	(63,793)	(26,811)
Tax (charge)/benefit	(528)	(1,915)	(1,638)	1,437	819
Loss after tax for the year	(26,401)	(31,361)	(81,822)	(62,356)	(25,992)
Loss per share (cents)					
Basic	(3.06)	(3.68)	(9.61)	(8.01)	(4.17)
Diluted	(3.06)	(3.68)	(9.61)	(8.01)	(4.17)

Set out below are details of significant changes to the Group's financial condition, operating results and trading position during the period covered by the historical financial information.

From the year ended 31 December 2010 to the year ended 31 December 2012, the Group's revenue increased by U.S.$31.4 million which reflects the sales generated from the growing test production from the Shaikan Block. No sales were generated in the six months ended 30 June 2013, a decrease of U.S.$15.5 million as compared to the six months ended 30 June 2012. This was due to the Company concentrating its efforts on the completion of PF-1 and awaiting the approval of the Shaikan FDP by the Kurdistan Regional Government's Ministry of Natural Resources, which occurred on 25 June 2013. General and administrative costs have increased by U.S.$49.5 million, from the year ended 31 December 2010 to the year ended 31 December 2012, primarily due to a significant increase in advisers' fees incurred in relation to the Company's defence of the claim made by Excalibur Ventures LLC. Administrative costs decreased by U.S.$14.8 million in the first half of 2013 as compared to the first half of 2012 due to lower advisers' fees incurred in relation to the litigation defence, as well as lower costs associated with share bonus awards and the options awarded under the Company Share Options Plan and Long Term Incentive Plan. The increase in the finance costs for the six months ended 30 June 2013 as compared to the same period in 2012 is due to the interest payable in respect of the Convertible Bonds.

	Six months ended 30 June (unaudited)			*Years ended 31 December (audited)*	
	2013	*2012*	*2012*	*2011*	*2010*
			(U.S.$'000s)		
Condensed Cash Flow Statement:					
Net cash used in operating activities	(31,101)	(18,401)	(59,442)	(23,662)	(26,536)
Net cash used in investing activities	(81,490)	(64,376)	(172,304)	(172,471)	(157,186)
Net cash generated by financing activities	2,180	1,063	270,236	197,905	359,895
Cash and cash equivalents at end of the period	141,156	130,437	253,713	208,103	201,268

From the year ended 31 December 2010 to the year ended 31 December 2012, the Group's cash outflows from operating activities increased by U.S.$32.9 million in line with the increase in the general and administrative expenses. The cash used in investing activities went up by U.S.$15.1 million is mostly attributable to the higher level of capital investment in the Group's four Blocks in the Kurdistan Region of Iraq. Cash flows generated by financing activities varied depending on the Group's fundraising activities in the respective years and reflects issue of equity in 2010 and 2011 and the issue of the U.S.$275 million Convertible Bonds in 2012.

For the six-month period ended 30 June 2013 compared to the six-month period ended 30 June 2012, the Group's cash outflows from operating activities increased by U.S.$12.7 million mostly due to the payment of interest on Convertible Bonds and larger than in 2012 spend on the purchase of inventories which reflects the increase in the Group's drilling activity and the construction of PF-1 and PF-2. Cash used in investing activities increased by U.S.$17.1 million reflecting the increasing spend on the Group's exploration and appraisal activities in the Kurdistan Region of Iraq including the construction of production facilities at Shaikan and Akri-Bijeel. The increase in the cash inflow from financing activities of U.S.$1.1 million reflects higher proceeds from the exercises of options under the Company's share option plan.

	Six months ended 30 June (unaudited)			Years ended 31 December (audited)	
	2013	2012	2012	2011	2010
			(U.S.$'000s)		
Condensed Consolidated Balance Sheet:					
Non-current assets	646,801	462,707	555,310	372,277	232,032
Current assets	260,371	211,521	370,589	301,136	240,631
Total assets	907,172	674,228	925,899	673,413	472,663
Current liabilities	(91,666)	(81,119)	(95,669)	(59,269)	(39,423)
Non-current liabilities	(258,343)	(5,456)	(252,539)	(8,070)	(6,399)
Total liabilities	(350,009)	(86,575)	(348,208)	(67,339)	(45,822)
Net assets	557,163	587,653	577,691	606,074	426,841
Equity					
Share capital	7,962	7,848	7,847	7,627	6,628
Share premium account	793,609	791,480	791,479	790,435	593,470
Other reserves	56,107	45,380	55,214	33,504	20,157
Accumulated losses	(300,515)	(257,055)	(276,849)	(225,492)	(193,414)
Total equity	**557,163**	**587,653**	**577,691**	**606,074**	**426,841**

As set out below, certain significant changes to the Group's financial condition and operating results have occurred subsequent to the period covered by the historical information.

On 6 November 2013 the Company issued the New Convertible Bonds in a principal amount of U.S.$50 million on the same terms (save for the issue price) as the Original Convertible Bonds, which have been consolidated with and form a single series with the Original Convertible Bonds. This has enhanced the Group's cash position.

The handing down of the full judgment of the claims asserted by Excalibur against the Company and the hearing of consequential matters, including the arguments on costs and any application for permission to appeal took place on 13 December 2013 where Excalibur confirmed to the Court that it will not be seeking to appeal the judgment. Following this hearing the Group has now received £16.9 million which had been paid into the Court as security for costs. The Court further ordered Excalibur to provide an additional security for indemnity costs of the Company and its two subsidiaries in the sum of £3,209,210 and an additional security for indemnity costs of Texas Keystone Inc. in the sum of £2,402,800 by payment into Court by 31 December 2013. Failing receipt of this additional security the Company, its two subsidiaries and Texas Keystone Inc. (together the "**Defendants**") were given leave to commence proceedings for recovery of such costs, and to the extent necessary to serve proceedings outside of England and Wales against Excalibur's funders. As at the date of this document, the Company understands that Excalibur did not pay the additional security to the Court and accordingly the Defendants have made an application under section 51 of the Senior Courts Act 1981 against Excalibur's funders to recover their costs.

B.8	**Selected key pro forma financial information**	Not applicable; this document does not contain pro forma financial information.
B.9	**Profit forecast**	Not applicable; this document does not contain profit forecasts or estimates.
B.10	**Description of the nature of any qualifications in the audit report on the historical financial information**	Not applicable; the audit reports on the historical financial information for the years ended 31 December 2012, 2011 and 2010 and the review report for the historical financial information for the six months ended 30 June 2013, as set out in Part 13: "*Historical Financial Information*", do not contain any qualifications. The audit reports referred to above were not qualified but draw attention by way of emphasis to the uncertain outcome of certain legal proceedings.
B.11	**Working capital explanation**	The Company is of the opinion that the Group does not have sufficient working capital for its present requirements, that is, at least the next 12 months from the date of this document. In order to address this potential shortfall the Company currently expects cash resources may be enhanced over the next 12 months from the date of this document by realising anticipated future revenues, receiving back costs in relation to Shaikan or Akri-Bijeel, disposal proceeds in the case of Akri-Bijeel and/or the reimbursement of the additional £5.6 million litigation costs by Excalibur Ventures LLC. The Company also expects to seek and obtain additional financing in the form of third party debt financing. The Company's preferred funding of any potential shortfall is via third party debt financing. However, if additional debt financing is not available, or not available on appropriate terms, the Company would also look to achieve funding via a further equity or equity-linked financing. Failure to obtain additional financing and/or realise anticipated future revenues may result in the Group being unable to meet its exploration and development work programme obligations, including its obligations under the Shaikan FDP which could have a material adverse effect on the business, prospects, financial condition and results and operations of the Group. Failure to obtain funding could, ultimately, lead to the insolvency of the Company.

Section C – Securities		
C.1	**Type and class of the securities admitted to trading**	The securities being admitted to trading are the Common Shares of the Company, which have a par value of U.S.$0.01 each, whose ISIN is BMG4209G1087.
C.2	**Currency of the securities issue**	Not applicable; the Company is not issuing securities in connection with Admission.
C.3	**Issued share capital**	The Company has an issued share capital of U.S.$7,974,742, comprising 888,933,057 fully paid Common Shares with a par value of U.S.$0.01 each.

C.4	**Rights attaching to the securities**	The Common Shares rank equally for voting purposes. On a show of hands, each Shareholder has one vote and on a poll each Shareholder has one vote per Common Share held. The Common Shares rank equally for dividends declared and for any distributions on a winding-up. The Common Shares rank equally in the right to receive a relative proportion of shares in the case of a capitalisation of reserves.
C.5	**Restrictions on free transferability of the securities**	The Common Shares are freely transferable and there are no restrictions on transfer.
C.6	**Admission to trading**	Application has been made to the UK Listing Authority and the London Stock Exchange for all of the Common Shares to be admitted to the standard segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities, respectively. The Common Shares were admitted to trading on AIM on 8 September 2004. Application has been made for the cancellation of trading of the Common Shares on AIM to take effect immediately prior to Admission.
C.7	**Dividend policy**	The Company has never declared or paid any dividends on the Common Shares. The Company currently intends to retain future earnings, if any, for future operations, expansion and debt repayment, if necessary. Therefore, at present, there is no intention to pay dividends and a dividend may never be paid. Any decision to declare and pay dividends will be made at the discretion of the Board of Directors and will depend on, among other things, the Group's results of operations, financial condition and solvency and distributable reserves tests imposed by corporate law and such other factors that the Board of Directors may consider relevant.

Section D – Risks		
D.1	**Key information on the key risks that are specific to the Company or its industry**	• The Iraq Oil Ministry has historically disputed the validity of the KRG's PSCs and, therefore, the right and title of the Company to its oil and gas assets. In addition several bills regulating the oil and gas industry have been proposed by the Iraqi Government. It is uncertain which, if any, of these bills will be enacted into law or on what timeframe. Therefore, future laws passed by the Iraqi Government may adversely effect the Group's title to its assets. • Political, social and economic instability in Kurdistan, as well as the surrounding areas of Turkey, Syria and Iran, could have a material adverse

		effect on the Group's business, financial condition, results of operations and prospects. • The Iraqi federal state oil marketing organisation historically controls all export oil sales, including those from the KRG. As a result, the proceeds of such sales are received by the Iraqi Government, which in turn is required to pass on oil contractors' entitlements to such proceeds to PSC contractors through the KRG. To date, the Iraqi Government has not passed on the Kurdistan Region's oil contractors' full entitlements to export sales proceeds and as a consequence no oil from Kurdistan is currently being exported through the federal infrastructure. Whilst the KRG has been exporting oil directly through Turkey to the port of Ceyhan via the regional pipeline since January 2014 and has announced the sale of such exports to the international market through its own marketing firm (thereby controlling the proceeds), this approach has been challenged by the Iraqi Government and consequently there is ongoing uncertainty relating to the payment mechanism for export oil whether remitted through Iraq or Kurdistan. • Access to an oil export pipeline is critical to the Group's ability to maximise revenue from the Kurdistan Blocks due to the cost of exporting oil by truck, the significantly discounted price of sales to the local market and the limited capacity of both the local market and infrastructure to absorb production in excess of near-term targets. If the construction and commissioning of the connecting spur pipeline and/or the blending facilities is or are delayed, incomplete or not constructed at all, oil sales and production will be restricted to the extent that production exceeds truck and/or local market capacity as the Group will have no other means to transport oil and cannot store significant quantities of oil on-site. • The Group currently has all necessary flaring permits but these are due to expire in August 2014. While the Group is currently discussing the terms of a possible extension to these permits and has no reason to believe that the permits will not be extended, there can be no assurance that these permits will be renewed by the MNR. The opportunities to monetise any discovery of natural gas by the Group are currently very limited, and developing such opportunities may be challenging and take a significant amount of time as well as expense. To the extent that re-injection is not possible or justifiable and there is a continuing absence of opportunities to sell and/or monetise natural gas, a failure to gain an extension to the

		flaring permits may have a material adverse effect on the Group's ability to produce oil and hence on its business, financial condition, results of operations and prospects. • Iraq is a developing country and may be subject to political, economic and other uncertainties that may result in economic, political and social considerations outside of the Group's control and which may have a material adverse effect on the Group. • The Company is of the opinion that the Group does not have sufficient working capital for its present requirements, that is, at least the next 12 months from the date of this document. In order to address this potential shortfall the Company currently expects cash resources may be enhanced over the next 12 months from the date of this document by realising anticipated future revenues, receiving back costs in relation to Shaikan or Akri-Bijeel, disposal proceeds in the case of Akri-Bijeel and/or the reimbursement of the additional £5.6 million litigation costs by Excalibur Ventures LLC. The Company also expects to seek and obtain additional financing in the form of third party debt financing. The Company's preferred funding of any potential shortfall is via third party debt financing. However, if additional debt financing is not available, or not available on appropriate terms, the Company would also look to achieve funding via a further equity or equity-linked financing. Failure to obtain additional financing and/or realise anticipated future revenues may result in the Group being unable to meet its exploration and development work programme obligations, which could have a material adverse effect on the business, prospects, financial condition and results and operations of the Group. Failure to obtain funding could, ultimately, lead to the insolvency of the Company. • As its primary source of revenue in the near term, the Group is highly reliant on the Shaikan Block and any adverse development affecting the Shaikan Block may have a material adverse effect on the Group. • Recovery, Reserve and resource estimates are subject to numerous inherent uncertainties, many of which are outside of the Group's control, and investors should not place undue reliance on statements in the Prospectus concerning the Group's resources, production profiles and development plans. • The Group is highly dependent on its executive management, senior management and employees.

		In addition, certain members of the Group's executive management (in particular, Todd Kozel) are considered to be key to the Group's relations with the KRG and the MNR. The loss of any of such executive management with its concomitant loss of institutional and operational knowledge, experience, expertise and possible effect on governmental relations, and its ability to deliver the strategy of the Group could have a disproportionate and material adverse effect on the Group.
D.3	**Key information on the key risks that are specific to the securities**	• The market price of the Common Shares could be negatively affected by sales or an additional offering of substantial numbers of Common Shares in the public market, or the perception or any announcement that such sales or an additional offering could occur. • The issuance of additional Common Shares in the Company in connection with the Convertible Bonds, future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings and their voting interest. • The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Group's control. Financial markets have experienced significant price and volume fluctuations in the last several years that have particularly affected the market price of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. • The Company has never declared or paid any dividends on the Common Shares. The Company currently intends to retain future earnings, if any, for future operations, expansion and debt repayment, if necessary. Therefore, at present, there is no intention to pay dividends and a dividend may never be paid. The Company's ability to institute and pay dividends may be limited by covenants contained in the agreements governing any indebtedness that the Group may have. • On a winding-up of the Company, holders of the Common Shares will be entitled to be paid a distribution out of the assets of the Company available to its members, only after the claims of all creditors of the Company have been met. • The Company is not resident or incorporated in the United Kingdom, the Channel Islands or the Isle of Man and, therefore, Shareholders will not receive the benefit of takeover offer protections provided by the

		Takeover Code save for the "Takeover Offers" provisions of the Bye-Laws. • The ability of Shareholders to bring actions or enforce judgments against the Company or the Directors may be limited as the Company is governed by Bermuda law, a number of the Directors and officers of the Company are not residents of the United Kingdom and substantially all of the Group's assets are located in Kurdistan.

Section E – Offer		
E.1	**Net proceeds/estimate of expenses**	Not applicable; the Company is not offering any Common Shares nor any other securities in connection with Admission and therefore the Company is not receiving proceeds. The total costs (including fees and commissions, but exclusive of VAT) payable by the Company in connection with Admission are estimated to be £2,000,000.
E.2a	**Reasons for the offer/use of proceeds/net amount of proceeds**	Not applicable; the Company is not receiving proceeds in connection with Admission. See also "*Admission to trading*" above.
E.3	**Terms and conditions of the offer**	Not applicable; there is no offering of Common Shares nor any other securities in connection with Admission.
E.4	**Interests material to the issue/conflicting interests**	Not applicable; there are no interests, known to the Company, material to Admission or which are conflicting interests.
E.5	**Name of the offeror/lock-up agreements**	Not applicable; there is no offering of Common Shares nor any other securities in connection with Admission.
E.6	**Dilution**	Not applicable; there is no dilution in connection with Admission.
E.7	**Estimated expenses charged to the investor**	Not applicable; no expenses will be directly charged to investors in connection with Admission.

PART 2

RISK FACTORS

The Group's business, financial condition or results of operations could be materially and adversely affected by the risks described below. In such cases, the market price of the Common Shares may decline due to any of these risks and investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Group. The Directors consider the following risks to be the material risks for potential investors in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company.

Any investment in the Common Shares is speculative and subject to a high degree of risk. Prior to investing in the Common Shares, prospective investors should carefully consider the risks and uncertainties associated with any investment in the Common Shares, the Group's business and the industry in which it operates, together with all other information contained in this Prospectus, including, in particular, the risk factors described below. Any of the risks described below, as well as other risks and uncertainties discussed in this Prospectus, could have a material adverse effect on the Group's business and could therefore have a negative effect on the trading price of the Common Shares. Prospective investors should note that the risks relating to the Group, its industry and the Common Shares summarised in Part 1: "Summary" are the risks that the Company believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Common Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in Part 1: "Summary" but also, among other things, the risks and uncertainties described below.

The following factors do not purport to be a complete list or explanation of all the risk factors involved in investing in the Common Shares and should be used as guidance only. Additional risks and uncertainties that are not currently known to the Group, or that it currently deems immaterial, may individually or cumulatively also have an adverse effect on the Group's business, results of operations, financial condition and prospects. If this occurs, the price of the Common Shares may decline and investors could lose all or part of their investment. Prospective investors should also consider carefully whether an investment in the Common Shares is suitable for them in light of the information in this Prospectus and their personal circumstances.

RISKS RELATING TO IRAQ AND OTHER JURISDICTIONS IN WHICH THE GROUP DOES BUSINESS

The Group cannot completely protect itself against legal risks relating to disputes regarding title or exploration and production rights.

The Group has interests in four licences in Kurdistan pursuant to the Kurdistan PSCs. Although the Company believes that the Group has good title to its oil and gas assets and the rights to explore for and produce oil and gas from such assets, the Iraqi Government has historically disputed the validity of the PSCs granted by the KRG and therefore the Group cannot control or completely mitigate the risk of disputes between Kurdistan and Iraq in relation to the Kurdistan PSCs.

Following the first Gulf War in 1991, Kurdistan became a semi-autonomous, federally recognised, political, ethnic and economic region in Iraq. Kurdistan is the only region of Iraq as yet constitutionally established and expressly recognised pursuant to the Iraqi Constitution.

The political issues of federalism and the autonomy of regions in Iraq are matters about which there are major differences between the various political factions in Iraq and between certain of these factions and the KRG, the official ruling body of Kurdistan. Specifically, in Kurdistan, and notwithstanding the constitutional footing enjoyed by Kurdistan within the federal system of Iraq, the KRG and the Iraqi Government hold differing views in respect of who exercises jurisdiction over oil and gas matters in Kurdistan.

The Iraqi Constitution, which came into force in 2006 after having been approved by referendum in October 2005, provides, among other things, that the "management of oil and gas extracted from present fields" is a shared power between the Iraqi Government and the producing governorates and regional governments, of which only the KRG is recognised to date. The Iraqi Constitution does not define the term "present fields" nor does it include oil and gas (or any other natural resource other than water) among the matters for which the Iraqi Government is granted exclusive powers under the constitution. The Iraqi Constitution further provides that with regard to powers "shared between the federal government and the regional government, priority shall be given to the law of the regions and governorates not organised in a region in case of dispute". The KRG has maintained it has exclusive jurisdiction over the management of oil and gas resources in Kurdistan. As a consequence, in August 2007, the KRG enacted the Kurdistan Oil and Gas Law asserting the jurisdiction of the KRG over the management of oil and gas resources in Kurdistan.

However, in February 2007, the Iraq Federal Oil and Energy Committee of the Council of Ministers proposed the 2007 Draft Bill, asserting the jurisdiction of the Iraqi Government over oil and gas resources in the whole of Iraq, including Kurdistan. Due to disagreements between various factions of the Iraqi Government, as well as the 2010 election in Iraq stalling the process, the 2007 Draft Bill has not yet been passed and to date no federal hydrocarbon law or federal revenue sharing law has been enacted.

As at the date of this Prospectus, the KRG has granted PSCs under which approximately 45 international companies explore for, develop and produce petroleum (including the Kurdistan PSCs). However, in May 2009 the Iraqi Ministry of Oil reiterated its view that such PSCs (including those held by the Group) are "illegal and illegitimate" and that any international companies who have and will enter into any such PSCs will be prohibited from tendering under national laws, resulting in ongoing uncertainty for the Group and the other international companies active in the Kurdistan petroleum sector with respect to the validity and enforceability of their petroleum interests in Kurdistan and ability to participate in exploration and production activities elsewhere in Iraq.

As the KRG contends that the provisions of the Iraqi Constitution support its view that it has jurisdiction in relation to oil and gas matters, the KRG asserts that the Kurdistan Oil and Gas Law is valid and consistent with the provisions of the Iraqi Constitution. In particular, the Iraqi Constitution provides that regional laws that relate to matters over which regional governments have jurisdiction have priority over federal laws to the extent that the latter are inconsistent with the former. Under the Kurdistan Oil and Gas Law, the Minister of Natural Resources (the "**Minister**") has the authority to enter into contracts for the exploration, development and production of oil and gas, subject to the approval of the Kurdistan Region Oil and Gas Council.

On the basis that the KRG has jurisdiction over oil and gas matters and the Kurdistan Oil and Gas Law is a valid law under the Iraqi Constitution, the Directors believe, based on Iraqi legal advice, that the PSCs entered into by the KRG under which approximately 45 international oil companies explore for, develop and produce oil and gas are valid and enforceable pursuant to applicable laws as at the date of this document. So far as the Company is aware, although the Iraqi Ministry of Oil has publicly stated on several occasions that the PSCs entered into by the KRG are not valid, there has been no formal legal challenge to the KRG's view.

In light of the current framework described above and, despite the Directors' belief that the Group has good title to the Kurdistan PSCs, there can be no assurance that the Group's operations, rights and entitlements under the Kurdistan PSCs will not be adversely affected in the future by the actions of the Iraqi Government, including further challenges to the validity of the PSCs or the enactment of any of the draft bills discussed above or the provisions of any future laws enacted in relation to oil and gas regions in Kurdistan. The Iraqi Government and the KRG may also negotiate a new oil and gas law under which the contractor entitlements are different to those set out in the PSCs in order that the Iraqi Government ceases to challenge the validity of PSCs entered into by the KRG. If such challenges are successful or existing contractor entitlements are changed, this could have a material adverse effect on the Group's ability to maintain its current Kurdistan PSCs on their existing terms or at all. In the event that the Iraqi Government successfully challenges the validity of the PSCs, the title to the Group's assets could be deemed invalid, and therefore will have a material adverse effect on the Group's business, financial condition and prospects; in particular, any revenue stream the Group receives from those assets could cease.

On 27 October 2011, it was reported that Iraqi Prime Minister Nouri al-Maliki and Prime Minister Barham Salih of the KRG had agreed to either amend the 2007 Draft Bill or adopt the 2007 Draft Bill in its current form by 31 December 2011. However, the Iraqi Government has not formally retracted prior statements made that PSCs entered into with the KRG under the Kurdistan Oil and Gas Law are "*illegal and illegitimate*" and, more recently, the KRG's Ministry of Natural Resources issued a press release stating that, according to the Iraqi Constitution, neither Iraq's federal oil ministry nor state-owned oil companies had the right to unilaterally award contracts to develop currently producing fields in Kirkuk province or in other adjacent areas. In late August 2012, a new special committee of the Iraqi Government was formed in order to reach a compromise on the oil legislation, and, while the Company sees this as a positive development, there can be no assurance that the Iraqi Government and the KRG will reach a decision in the near future, or when, if ever, the diverging views between the KRG and the Iraqi Government in relation to the validity of the PSCs entered into by the KRG will be resolved. As at the date of this document, the Iraqi Government has not passed a new petroleum law or federal revenue sharing law. National parliamentary elections are scheduled for 30 April 2014 in Iraq. The results of this election, and therefore any alteration to the position of the Iraqi Government with respect to the validity of the PSCs, the 2007 Draft Bill or any other matter which may impact the Group's operation of its licenses, are inherently uncertain.

There can also be no assurance that the Kurdistan PSCs will not be adversely affected by the actions of the governmental authorities, and the effectiveness of and enforcement of such arrangements in Kurdistan and/or Iraq cannot be assured. In particular, the commitment of local businesses, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain and may be susceptible to revision or cancellation, and legal redress may be uncertain or delayed. There is also a question of whether any arbitral award would be recognised and given effect in Kurdistan. Neither Iraq nor Kurdistan (which is not a sovereign entity) is a party to the New York Convention of the Enforcement of Arbitral Awards, and there is no guarantee that an arbitral award (made in London or elsewhere) would be rendered against the KRG or, if rendered, would be enforceable in Kurdistan, Iraq or elsewhere. Equally, there can be no assurance that any legal arrangements of the Group will not be adversely affected by the actions of the KRG or others, and the effectiveness and enforcement of such arrangements cannot be assured.

Political, social and economic instability may affect the Group and its operations and personnel.

Certain countries or regions where the Group has interests, in particular Kurdistan and Iraq as a whole, and the surrounding countries of Turkey, Syria and Iran, have a publicised history of political and social instability which have resulted in and may result in security problems which may affect the Group, its operations and personnel. Consequently, there may be a material adverse effect on the Group's business, financial condition, results of operations and prospects caused in varying degrees by regime change, political and economic instability, economic or other sanctions imposed by other countries or regions, criminal activities, terrorism, civil wars, social unrest, border disputes, guerrilla activities, military repression, civil disorder, refugee crises, crime, instability of the workforce, extreme fluctuations in currency exchange rates and high inflation.

The potential for such internal conflicts is amplified by the high global demand for, and the scarcity of, oil and gas resources, which makes petroleum resources and related infrastructure in the countries in which the Group operates both precious and a target for sabotage attacks which could have a material adverse effect on the Group's business, results of operations or financial condition. There can be no assurance that the Group will be able to obtain or maintain effective security of any of the Group's assets or personnel in the countries in which it operates. If the Group is unable to maintain effective security over its assets or personnel, this could have a material adverse effect on the Group's business, results of operations, financial condition or reputation. In addition, the possible threat of criminal or terrorist actions against the Group, in particular its properties, facilities or third party infrastructure, could have a material adverse effect on the Group's ability to generate revenue or adequately staff its operations, or could materially increase the cost of doing so.

There is uncertainty relating to the payment mechanism for export oil in Kurdistan.

Under the PSCs granted by the KRG, oil contractors, such as the Group, are entitled to a share of production. The contractors are then free to sell their share of production. Such sales may be local sales to purchasers in Kurdistan and/or international export sales.

Historically, all export sales in Iraq, including in Kurdistan, have been conducted by the Iraqi federal State Oil Marketing Organization ("**SOMO**") using pipeline infrastructure controlled by the Iraqi federal authorities. The proceeds of such sales were received by the Iraqi Government, which, in turn, was required to pass on oil contractors' entitlements to the KRG for onward payment to the relevant contractors.

Since December 2012, the export of petroleum from Kurdistan using pipeline infrastructure controlled by the Iraqi federal authorities has been suspended as a result of an ongoing dispute between the KRG and the Iraqi Government over alleged non-payment of revenues by the Iraqi Government. Since January 2013, Kurdistan has been independently exporting oil to Turkey by truck (as far as the Company is aware, based on the latest figures produced by the MNR, approximately 55,034 boepd was exported via truck during October 2013 from an aggregate production of approximately 239,030 boepd for this period).

The Group began exporting crude oil by truck from the Shaikan Block in December 2013 and, to date, three export cargoes totalling in excess of 105,000 tonnes (690,000 barrels) have been delivered from Shaikan PF-1. Currently, the majority of the Group's oil production from the Shaikan Block is transported by a third party to the international market by truck. The third party also arranges for the sale of the oil to the international oil market and remits the revenue to the KRG and the Group after deducting transportation and handling fees. Domestic sales, at prices substantially less than international prices, are loaded onto trucks provided by the purchaser at the Shaikan production facilities where custody transfer of the crude oil takes place; domestic sales are either paid for in advance of lifting or with a maximum of one month's credit.

There can be no certainty of a rapprochement between the KRG and the Iraqi Government in respect of the payment mechanics for oil exports and negotiations are continuing at the date of this document. Consequently, in January 2014, the KRG commenced the export of oil produced in Kurdistan directly to Turkey through the regional pipeline infrastructure from Kurdistan to Turkey. On 8 January 2014, the MNR announced the commencement of the sale of its first shipment of crude oil exported via the regional pipeline to the international market through its own marketing firm, the Kurdistan Oil Marketing Organization ("**KOMO**").

Through KOMO the KRG intends to collect revenues directly from the export of its petroleum. The draft legislation envisages that the KRG will deduct its revenue entitlement thereto before remitting the balance to the Iraqi Government. The legislation is also intended to enable the KRG to compensate its PSC contractors without dependence on funds from the Iraqi Government. The implementation of the law has been challenged by the Iraqi Government although it appears that there is not an exclusive competency reserved to the Iraqi Government to license and manage the export of petroleum.

Consequently, there can be no assurance that PSC operators (whether exports are conducted directly by or on behalf of the KRG (through KOMO) or the Iraqi Government (through SOMO)) will be paid their entire historical or future entitlement or that additional suspensions will not occur in the future. While the Group could make sales to local purchasers to generate an alternative consistent stream of revenues, local prices are significantly lower than prevailing international prices and the local refineries are ill-suited to the heavier oil that the Group produces. This could therefore result in loss of production revenue to the Group and adversely affect the Group's financial condition, results of operations and prospects. Further, any delay in receipt of export payments may result in delays to the Group's development plans over the longer term.

The construction of an oil export pipeline connecting the Kurdistan Blocks to the export market is critical to the long-term future operations of the Group.

The construction of a pipeline connecting the Kurdistan Blocks to the export market is critical to the long-term future operations of the Group.

Currently, oil produced by the Shaikan Block is transported to the domestic and international market by truck. The Shaikan Block currently produces approximately 10,000 bopd and is expected to increase its production capacity to 40,000 bopd by the end of 2014. Once this short-term production capacity target has been met, the Group intends to add a further 60,000 bopd of additional production capacity in order to reach the medium-term target of 100,000 bopd set for Phase 1 of the Shaikan FDP. Access to the export market is critical to ensure the Group's long-term ability to maximise its revenue due to the cost of transporting oil by truck, the significantly discounted domestic price to the international rate and the limited capacity of both the domestic market and infrastructure to absorb any significant increase in oil production beyond 40,000 bopd.

The development of the Shaikan Block is a very significant project, which will require a large number of development and producing wells; additional production; oil and gas processing and blending facilities; and considerable infrastructure, including a pipeline to bring increasing production to market. Significant momentum has been gained since the beginning of 2013 in the development of the regional pipeline infrastructure from Kurdistan to Turkey and, on 8 January 2014, the MNR announced the commencement of the sale of its first shipment of crude oil exported via the regional pipeline to the international market through its own marketing firm, KOMO. The pipeline will have an initial capacity of 300,000 bopd rising to 1 million bopd by 2015. The Company anticipates to reach an agreement with the MNR on the construction of a spur pipeline to connect Shaikan to the regional oil pipeline and requisite blending facilities but completion is not expected until 2015. In the meantime, there is limited capacity that can be transported by truck (although the new regional pipeline from Kurdistan to Turkey has significantly freed up existing trucking capacity) and the cost of doing so is significantly higher than transporting oil production by pipeline. The spur pipeline connection will run from the Shaikan Block to blending facilities and pumping stations, which are expected to be put in place in 2015. While waiting for the construction of the Shaikan spur pipeline infrastructure and blending facilities, the Company's plan is to increase production capacity to 40,000 bopd and achieve steady sales in the domestic and international market.

If the construction and commissioning of the connecting spur pipeline and/or the blending facilities is or are delayed, incomplete or not constructed at all, oil production will be restricted to the extent that production from Shaikan exceeds truck capacity as the Group will have no other means to transport oil and cannot store significant quantities of oil on-site.

The commercial terms upon which the Group will have access to the pipeline and export oil are not known and, accordingly, there may be a material adverse effect on the Group's business, financial condition, results of operations and prospects if permission is withheld or such terms are unfavourable.

Transportation and export of oil by truck carries inherent risks.

Currently, the majority of oil production from the Shaikan Block is transported by a third party to the international market by truck. Domestic sales of oil production from the Shaikan Block are loaded onto trucks provided by the purchaser at the Shaikan production facilities where custody transfer of the crude oil takes place. The Group began exporting crude oil by 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. Oil production will be transported to the export market by truck pending the Group's anticipated access to the regional pipeline infrastructure from Kurdistan to Turkey in 2015. Transport of the Group's oil production by truck is expensive and is subject to limitations on capacity for both the domestic and export markets. It is also not industry best practice to transport oil by truck, as this carries with it inherent risks relating to potential safety and environmental concerns in the event of any accidents. It is also less secure than the transport of oil by pipeline. In Kurdistan, the transport of oil by truck is licensed by the KRG, which may revoke or amend such licences at any time. In the event that a major accident causes environmental damage, or the KRG revokes or amends licences on less favourable terms, the Group may be materially restricted from transporting oil from the Shaikan Block to the local or export market by truck. Whilst pressure on truck capacity has been significantly eased following completion of the regional pipeline infrastructure at the beginning of 2014, to the extent that production exceeds truck capacity and/or any of the other events highlighted above occur, this may lead to a drop in production revenues and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Prohibition on flaring and undeveloped options for monetising natural gas discoveries.

Under the terms of the Kurdistan PSCs, to the extent that the Group is unable to re-inject or sweeten natural gas, or considers that neither re-injecting nor sweetening natural gas for the domestic energy market is justified technically and economically, 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. While the

Group is currently discussing the terms of a possible extension to these permits and has no reason to believe that the permits will not be extended, there can be no assurance that these permits will be renewed by the MNR.

There is currently a limited market for natural gas in Kurdistan and Iraq as a whole and very limited infrastructure to enable companies in Kurdistan to sell or export gas. Uncertainties also exist in relation to the agreement of a universal revenue sharing and payment mechanism for sales of any form of natural gas.

Accordingly, the opportunities to monetise any discovery of natural gas by the Group are currently very limited, and developing such opportunities may be challenging and take a significant amount of time as well as expense. To the extent that re-injection is not possible or justifiable and there is a continuing absence of sufficient opportunities to sell and/or monetise natural gas, a failure to gain an extension to the flaring permits may have a material adverse effect on the Group's ability to produce oil and hence on its business, financial condition, results of operations and prospects.

Developing countries and regions are subject to greater risk than developed countries or regions and the Group may experience changes in economic, political, judicial, administrative, taxation or other regulatory factors.

The Group's oil and gas interests are located in developing countries. Exploration and development activities in developing countries or their political sub-divisions, such as Kurdistan, may require protracted negotiations with host governments, local governments and communities, local competent authorities, national oil companies and third parties and may be subject to economic, social and political considerations outside of the Group's control, such as the risks of expropriation, nationalisation, renegotiation, forced interruption, suspension or shut-in of operations, curtailment of oil sales, forced change or nullification of existing contracts or royalty rates, unenforceability of contractual rights, changing taxation policies or interpretations, adverse changes to laws (whether of general application or otherwise) or the interpretation or enforcement thereof, foreign exchange restrictions, inflation, changing political conditions, the death or incapacitation of political leaders, local currency devaluation, currency controls and foreign governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. See also the risk factor "*The Group is highly dependent on its executive management, senior management and employees*" below in relation to relations with the KRG and MNR. In addition, the Group's operations may be viewed as detrimental due to the impact to the environmental, economic or social circumstances of the local communities, including the need, from time to time, to relocate communities or infrastructure networks such as utility services. Any of the factors detailed above or similar factors could have a material adverse effect on the business, results of operations or financial condition of the Group. If disputes arise in connection with operations in developing countries and, in particular under the terms of the Kurdistan PSCs, the Group may be subject to the exclusive jurisdiction of foreign courts or foreign arbitration tribunals or may not be successful in subjecting foreign persons, especially foreign oil ministries and national oil companies, to the legal jurisdiction of England and Wales.

In addition, while entirely unconnected to the Company or to the oil production and sales of the Group, the Company is aware that another company active in Kurdistan's extractive industries, Dana Gas PJSC, announced on 22 October 2013 that it had commenced arbitration proceedings against the KRG at the London Court of International Arbitration, in order to clarify certain contractual rights under its agreement with the KRG in relation to gas supply receivables.

RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY

Currently the Group has insufficient working capital to meet its requirements for the 12 months from the date of this Prospectus, and the Company may not be able to continue as a going concern, as the Group's business requires significant capital expenditure, and the future expansion and development of the business requires future debt and equity financing.

The Company is of the opinion that the Group does not have sufficient working capital for its present requirements, that is, at least the next 12 months from the date of this document. If the Group is unable to raise a sufficient amount of working capital during this period, the Company may not be able to continue as a going concern.

The Group's business requires substantial capital expenditures for the foreseeable future to finance the exploration, development and production of its existing oil Reserves and resources.

The Group anticipates developing its assets and undertaking its exploration programme in Kurdistan using a combination of existing capital resources and 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 12 months from the date of this document 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.

Whilst the Company believes that one or more of the above events are likely to occur, if none of these events occur, and the Company is unable to otherwise enhance its existing cash resources, then the Directors would expect the Company 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 significantly reduce any potential additional working capital shortfall and, depending on the final proceeds from the event, potentially remove it completely.

In order to address this potential shortfall, the Company is currently seeking additional, cost-effective financing. In view of the Company's growing track record of oil production and sales, any such funding is expected to constitute third party debt financing in the form of one or more of: (i) high yield bonds, (ii) debt financings converting to reserve based loans or commodity backed loans or (iii) a corporate revolving loan facility. The Company is seeking to raise additional debt financing on favourable terms by the end of April 2014 should it be necessary or desirable to do so, on the basis of detailed discussions with potential lenders, following the publication of the ERC Equipoise Report contained within this Prospectus.

The Company's preferred funding of any potential shortfall is via third party debt financing. However, if such debt financing is not available, or not available on appropriate terms, the Company would also look to achieve funding via a further equity-linked or equity financing.

On the basis that there is a cost to service any additional financing and better commercial terms will be available to the Company for a debt financing as further consistent production and oil sales are achieved by the Group from the Shaikan Block, the Company will only enter into financing arrangements when it believes the best possible terms are available and/or as and when capital requirements dictate. If the Group is not able to secure sufficient debt financing and is unable to secure sufficient cash flow from production, the Group will be unable to fund its current capital expenditure plans.

See also the risk factors entitled "*The construction of an oil export pipeline connecting the Kurdistan Blocks to the export market is critical to the long-term future operations of the Group*" and "*Transportation and export of oil by truck carries inherent risks*" above and paragraph 17 of Part 8: "*The Business – Working capital*").

The Group's ability to arrange third party debt financing and the cost of financing generally depends on many factors, including:

- global and local economic and capital markets conditions;
- investor confidence in the oil and gas industry in Kurdistan and in the Group;
- the business performance of the Group, including oil production and sales;

- regulatory developments;
- credit available from banks and other lenders;
- provisions of tax and securities laws that are conducive to raising capital; and
- consistency in levels of oil production, export sales and payments from the Shaikan Block.

The terms and conditions on which future funding or financing may be made available may not be commercially acceptable or economically viable, or funding may not be available at all. Banks and capital markets globally have experienced a significant disruption since 2008 that has been characterised by severe reductions in liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency in money and capital markets interest rates. As a result, many lenders have reduced or ceased providing funding to borrowers, particularly in the emerging markets, and there has been a general increase in the cost of borrowing for private sector borrowers. In addition, the Group competes with other oil exploration and production companies operating in emerging markets for funding. There can be no guarantee that there will be sufficient investor demand to meet the funding requirements of this sector and/or emerging market issuers, including those of the Group. The continuation or worsening of this market disruption may adversely impact the Group's ability to borrow in the banking or capital markets and may further increase the cost of such borrowing. Furthermore, the Company may not be able to mortgage, pledge or otherwise secure its assets in Kurdistan in favour of third party lenders as no current legal framework exists under which this could be effected.

Moreover, if additional funds are raised in the longer term by incurring debt without repayment of existing debt, the Group will become more leveraged and such funding may be made subject to additional or more restrictive financial covenants and ratios. If additional funds are raised in the longer term by issuing new Common Shares, existing holders of Common Shares may be diluted.

If the revenues from the Group's Reserves decrease as a result of lower oil prices, lower than projected sales and/or production levels are met or the Company fails to obtain debt or equity financing on a timely basis, the Group will have to decelerate its exploration and development strategy. The Group may also be unable to drill all of its prospects prior to relinquishment and may be unable to meet its obligations under the Kurdistan PSCs, joint operating agreements, permits, work programmes (including the Shaikan FDP) and budgets set forth therein. Failure to meet such obligations could result in fines being imposed, or a licence or agreement being suspended, revoked or terminated which could have a material adverse effect on the business, prospects, financial condition and results and operations of the Group and, ultimately, lead to the insolvency of the Company.

Exploration and production companies are unprofitable during their early stages.

The Company has incurred losses for each of the years 2010, 2011 and 2012, which reflects the nature of an exploration and production company and, in particular, the phase that the Group is in with regard to activities on the Kurdistan PSCs.

Projects of an exploration, production and development company can take a significant period of time, with the early years characterised by seismic data collection and exploration drilling. In the event of a discovery, a further number of years of appraisal drilling may be required in order to determine the extent and size of the discovery. Engineering plans are also prepared to evaluate the best method of producing the oil and/or gas field and economic models developed to gauge the worthiness of each project and its commercial viability. In the event that a project is commercially viable and approval is obtained to develop the field, the Group may move to full development of the field.

Prior to that time, any revenues from oil and gas test production will be shown in the income statement of the Group but with an equal and offsetting amount recorded against cost of sales. Therefore, the Group will incur losses during that period which reflect the administrative and financing costs of running the business and any unsuccessful exploration and appraisal activities. An amount equal to such revenues will also be credited to the intangible assets of the Group against exploration and evaluation costs, reducing the net book value of such assets in the Group's balance sheet. It will only be once oil and gas production commences at a commercial scale that a gross profit or loss will be recorded in relation to such operations.

The Group has limited actual exploration and production data from which to draw when formulating its exploration and development strategy. See the risk factor entitled "*Recovery, Reserve and resource estimates may prove inaccurate and reporting standards may differ from the standards of other jurisdictions*" below. In addition, the Group may be unable to conduct its exploration, appraisal, development or production activities on commercially reasonable terms. The Group is subject to risks, expenses and uncertainties associated with the implementation of its business plan that are not typically faced by more mature companies. New operations must construct the necessary infrastructure, develop successful business relationships, establish operating procedures, hire staff, install management information and other systems and obtain licences, as well as take other measures necessary to conduct their intended business activities. It is common in new oil operations to experience unexpected problems and delays during construction, development and production start-up.

A material decline in oil prices globally may adversely affect the Group's business, prospects, financial condition and results of operations.

The Group's revenues, profitability and future rate of growth will depend substantially on prevailing oil and gas prices, both of which can be volatile and subject to fluctuation. Changes in oil prices will directly affect the Group's revenues and net income.

Prices for oil and gas are subject to fluctuations and volatility in response to a variety of factors beyond the Group's control, including, but not limited to:

- changes in the global and regional supply and demand for oil and expectations regarding future supply and demand for oil and gas;
- changes in global and regional economic conditions and exchange rate fluctuations;
- political, economic and military developments in oil and gas producing regions (including, in relation to the Company, in Syria, Turkey or Iran);
- the inability of the Organization of Petroleum Exporting Countries and other petroleum producing nations to set and maintain oil price and production controls;
- prevailing weather conditions;
- geopolitical uncertainty;
- the extent of government regulation and actions, in particular export restrictions and taxes;
- the ability of suppliers, transporters and purchasers to perform on a timely basis, or at all, under their agreements (including risks associated with physical delivery);
- the development, availability, price and acceptance of alternative fuels and competition from other energy sources;
- terrorism or the threat of terrorism that may affect supply, transportation or demand for crude oil and refined petroleum products; and
- potential influence on the oil prices due to the large volume of derivative transactions on petroleum exchanges and over-the-counter markets.

It is impossible to accurately predict future oil and gas price movements. The Company can give no assurance that existing prices for oil and gas will be maintained in the future. Any material decline in such prices could result in a reduction of its net production revenue and a decrease in the valuation of its exploration, appraisal, development and production properties. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the production volumes. The Group may also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Group's net production revenue and the financial resources available to it to make planned capital expenditures, resulting in a material adverse effect on its financial condition, business, prospects and results of operations.

In addition, should oil and/or gas prices increase significantly, governments or other counterparties may want to change their commercial terms with the Group. This may result in cancellation, termination or a unilateral change of terms (such as a change in oil pricing policy or the renegotiation or nullification of existing PSCs) by a government or counterparty, which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group's success depends on its ability to locate, explore, appraise and develop oil Reserves and to produce these Reserves commercially and get paid for them.

Oil exploration is capital intensive, inherently uncertain in its outcome and involves a high degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome.

The Group's existing and future oil and gas projects may involve unprofitable efforts, either from dry wells or from wells that are productive but do not produce sufficient net revenues to return a profit after development, operating and other costs.

Furthermore, completion of a well does not guarantee a profit on the investment or recovery of the costs associated with that well. In addition, drilling hazards or environmental damage could significantly affect operating costs, and production from successful wells may be adversely affected by conditions including delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, natural disasters, difficulties arising from environmental or other challenges, equipment or services shortages or failures, insufficient storage or transportation capacity or adverse geological conditions, procurement delays or difficulties arising from the political, environmental and other conditions in the areas where the Reserves are located or through which the Group's products are transported, and those may also make it uneconomical to develop Reserves and Prospective and Contingent Resources.

Production delays and declines, whether or not as a result of the foregoing conditions, may result in lower revenue or cash flows from operating activities until such time, if at all, that the delay or decline is cured or arrested.

In the event that such cash flows are reduced in the future, the Group may be forced to scale back or delay discretionary capital expenditure, resulting in delays to, or the postponement of, the Group's planned production and development activities or making it uneconomical to develop Reserves and Prospective and Contingent Resources, which could have a material adverse effect on its business, results of operations, financial condition or prospects.

Without successful exploration, appraisal and development activities, the Group's Reserves production and revenues are likely to decline over the longer term, and the failure of these activities would have a material adverse effect on the Group's business, financial condition and results of operations.

The Group believes that future increases in the Group's Reserves will depend mainly on its ability to explore, appraise and develop its existing asset base. Therefore, the long-term success of the Group will also depend on its ability to find and develop additional oil Reserves. If the Group is successful in exploiting its existing Reserves, but is unsuccessful in locating and developing new Reserves to replace its existing Reserves, its Reserves (and hence expected future production) would decline over time as its current Reserves are depleted by production. It is difficult to accurately project the costs of implementing an exploratory drilling programme due to the inherent uncertainties of drilling in unknown formations and the costs associated with encountering various drilling conditions, such as over-pressured zones, tools lost in the hole and changes in drilling plans and logistics. There is no assurance that the Group's expenditures on future exploration will result in new discoveries of oil, or in discoveries of oil in commercial quantities that can be economically developed.

The Group is highly reliant on the Shaikan Block.

The Group is entirely dependent upon its exploration and development properties covered by the Kurdistan PSCs and any adverse development affecting these properties or the Kurdistan PSCs would have a material adverse effect on the Group, its business, prospects, results of operations and financial condition. Further, the Group is highly reliant on the Shaikan Block, which is anticipated to be the Group's primary source of revenue earnings in the near term while its other assets are developed. In September 2013, the Group's ability to produce oil at the Shaikan Block was curtailed as, at the request of the local competent authority, oil sales were suspended which resulted in the Group being unable to store significant quantities of oil on-site and therefore continue production. The suspension of oil sales was lifted in early October 2013. The Group may be subject to further curtailments, outside of their control. Any further adverse developments at or affecting the Shaikan Block which lead to a prolonged and material interruption to or cessation of production or sales in the future may have a material adverse effect on the Group's business, results of operations and financial condition. See also the risk factor entitled "*The construction of an oil export pipeline connecting the Kurdistan Blocks to the export market is critical to the long-term future operations of the Group*" above.

The Group does not have control over the actions of counterparties to contractual arrangements.

The exploration and development operations of the Group must be carried out in accordance with the terms of the Kurdistan PSCs, joint operating agreements, licences, permits, annual work programmes and other authorisations as set forth therein. The Group is not the operator of two of its oil and gas properties: the Akri-Bijeel and Ber Bahr Blocks. In relation to those blocks, the Group is dependent on the operators for the timing of activities related to such properties and is not able to unilaterally direct or control the activities of the operators or the costs of production and exploration of such operations.

Where the Group is not the operator of an asset, it has consultation rights in relation to significant or operational matters, although it will not have full control over day-to-day management, so that mismanagement of an asset by the operator may result in significant delays, losses or increased costs to the Group. Although the relevant joint operating agreements contain provisions with respect to removal of an operator in the event of a material default in performing its duties and obligations where the timing and quality of services provided by these third party operators do not meet the expectation of the Group, this may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

There is a risk that other parties with interests in the Group's oil and gas properties may elect not to participate in certain activities relating to those properties and which require that party's consent. While the Group is not aware of any specific matters at the date of this document, in these circumstances it may not be possible for such activities to be undertaken by the Group alone or in conjunction with other participants at the desired time or at all.

If such partners breach the terms of the Kurdistan PSCs or any other documents relating to their interest in the fields, or other participants who have invested in the Group's oil and gas properties default in their obligations to fund capital or other funding obligations in relation to such properties, the Group may be required under the terms of the relevant operating agreement to contribute all or part of any such funding shortfall. The relevant legislation in Kurdistan provides that fines may be imposed and a licence or agreement may be suspended, revoked, or terminated if a licence holder, or party to a related agreement, fails to comply with its obligations under such licence or agreement, or fails to make timely payments of levies and taxes for the licensed or agreed activity, provide the required geological information or meet other reporting requirements.

In addition, the success of the Group will be largely dependent upon the performance of the operator's key employees. While the Group is not aware of any specific matters at the date of this document, any mismanagement of an oil or gas property by the operator may result in delays or increased costs to the Group's non-operated exploration, development and production activities, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. In addition, failure by any party to comply with the obligations under the relevant licences or the agreements pursuant to which the oil and gas assets are operated may lead to fines, penalties, restrictions, withdrawal of licences and termination of such agreements, and/or the obligation for the Group to meet other parties' obligations under the relevant licence or agreement. In the event that any indigenous partner or joint venture partner becomes insolvent or otherwise unable to pay its debts as they come due, licences or agreements awarded to them may revert back to the relevant government authority, who will then re-allocate the licence. This could lead to the disruption or suspension of operations in the relevant licence area.

Failure to comply with international sanctions could materially adversely affect significant parts of the Group's business, financial condition, results of operations, liquidity and prospects.

Sanctions regimes imposed by governments, including those imposed by the European Union, the United States (including the Office of Foreign Assets Control), or other countries or international bodies, could operate to restrict the Group from engaging in trade or financial transactions with certain countries, businesses, organisations and individuals. The legislation, rules and regulations which establish sanctions regimes are often broad in scope and difficult to interpret, and in recent years, governments have increased and strengthened such regimes. Among numerous other provisions and restrictions, United States sanctions legislation and regulation severely restrict the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. Sanctions imposed by the European Union include restrictions on the import, purchase or transport of Iranian crude oil, petroleum and petrochemical products to any country and restrictions on the provision of certain support services to the oil and natural gas industries in Iran.

There have been reports that oil produced and sold on the domestic Iraqi market may in some circumstances be transported and re-sold into Iran. The Group's oil sales, whether domestic or export, are structured in a manner such that the Group believes title to the barrels sold transfers at the point of sale, which is the time when the oil is collected by truck for onward delivery. As a result, the Group has no control over the uses to which its production is put after it has been collected by truck either for transport to the export market or by the purchaser for use in the domestic market. However, in the case of export sales, the Group believes that its counterparty will deliver the oil for sale into the export market in Turkey.

Currently and for the foreseeable future, the Group's intention is to sell all or nearly all of its production into the export market. Historically, however, domestic sales were a more significant portion of the Group's sales and while the Group does not intend to have significant domestic sales in the future, it does have certain legacy contracts under which it his committed to selling certain amounts of oil to the domestic market. While none of the Group's direct counterparties are Iranian entities and the Group believes that its direct sales are made to entities and jurisdictions which are not the subject of relevant sanctions, the possibility cannot be excluded that some such counterparties, particularly with respect to domestic sales, may have on sold oil to Iranian entities in circumstances in which the Group was unable to prevent such third-party on-sales.

Should the Group be deemed to have violated any existing or future European, United States or international sanctions, this could result in fines or other penalties that may have a negative impact on the Group's reputation and financial position as well as its ability to conduct business in certain jurisdictions or access international capital markets and therefore could have a material adverse effect on the Group's business, financial condition and results of operations.

Activities in the oil and gas sectors can be dangerous and may be subject to interruption.

The Group's operations are subject to the significant hazards and risks inherent in the oil and gas sector and countries in which it operates. These hazards and risks include:

- explosions and fires;
- blowouts and other operational disruptions in relation to the Company's upstream exploration;
- disruption to production operations. For example, in September 2013, the Group's ability to produce oil at the Shaikan Block was curtailed, at the request of the local competent authority, through the suspension of oil sales. The suspension of oil sales was lifted in early October 2013;
- spills, release of gas or soil contamination from site operations and storage;
- natural disasters;

- ruptures and spills from crude and product carriers or storage tanks;
- equipment break-downs and other mechanical or system failures;
- improper installation or operation of equipment;
- transportation accidents or disruption of deliveries of crude oil, fuel, equipment and other supplies;
- disruption of electricity, water and other utility services;
- acts of political unrest, war or terrorism;
- labour disputes; and
- community opposition activities.

In addition, the Group's operations are subject to all of the risks normally incidental to the drilling of oil wells and the operation and development of oil properties, including encountering unexpected formations or pressures, differential sticking of drilling assemblages, premature declines of reservoirs, equipment failures and other accidents (including vehicle accidents during equipment and rig moves), sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, diseases impacting the health of personnel, pollution and other environmental risks.

If any of these events were to occur, they could result in environmental damage, injury to persons and loss of life and a failure to produce oil or gas in commercial quantities. They could also result in significant delays to drilling programmes, a partial or total shutdown of operations, significant damage to the Group's equipment and equipment owned by third parties and personal injury or wrongful death claims being brought against the Group. These events could also put at risk some or all of the Group's licences or PSCs which enable it to explore and develop, and could result in the Group incurring significant civil liability claims, significant fines or penalties, as well as criminal sanctions potentially being enforced against the Group and/or its officers.

In addition, the Group's operations, including the Group's drilling programme and other exploration activities, as well as the transport and other logistics on which the Group is dependent, may be adversely affected and severely disrupted by climatic conditions. Natural disasters or adverse conditions may occur in those geographical areas in which the Group operates, including severe weather, earthquakes, cyclones, excessive rainfall, tropical storms, floods, bridge or road washouts, droughts or epidemic and disease.

The terms of the Kurdistan PSCs which govern the Group's interest in its licenses in Kurdistan include change of control provisions which, upon the occurrence of an insolvency or entrance into receivership, could be interpreted as having been triggered.

Under the terms of the Kurdistan PSCs which the Group has entered into with the MNR, including the Shaikan PSC, upon the occurrence of an unapproved change of control (which includes insolvency or receivership), as defined therein, the Kurdistan PSCs may lapse and the MNR can retake active control of the respective fields and enter into negotiations with third parties to further develop the field. As a result, in the case an insolvency or receivership which led to a lapse of the Kurdistan PSCs, the Common Shares could experience a substantial diminution in value or could become worthless, and the available assets which a shareholder may recover could be substantially reduced.

See paragraph 14 of Part 16: "*Additional Information – Material contracts*" for details of the Kurdistan PSCs.

The Group's insurance and indemnities may not adequately cover all risks or expenses.

The Group maintains insurance with respect to its operations in accordance with international oil field practice, including third party liability insurance up to specified limits, and it believes that its insurance programme is adequate to cover the consequences of the insurable hazards and risks to which the Group's operations are subject. However, the Group is unable to insure against all risks and may be exposed under certain circumstances to uninsurable hazards and risks which may result in financial liability, property damage, personal injury or other hazards or liability for the acts or omissions of sub-contractors, operators and joint venture partners. Although indemnities may have been provided by sub-contractors, operators and joint venture partners, such indemnities may be difficult to enforce given the financial positions of those giving the indemnities or due to the jurisdiction in which the Group seeks to enforce the indemnities, leaving the Group exposed to claims by third parties.

There is also no guarantee that the Group will be able to maintain adequate insurance in the future at rates the Group considers reasonable. Accordingly, the Group could incur substantial losses if an event which is not fully covered by insurance occurs, which would have a material adverse effect on the Group's business, results of operations and financial condition.

Environmental liabilities could be significant.

Significant liability could be imposed on the Group for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased or used by the Group, acts of sabotage by third parties or non-compliance with environmental laws or regulations by the Group. Such liabilities could have a material adverse effect on the Group. While the current legislation to which the Group is subject is limited, it is expected that additional environmental protection laws will be implemented in the future. It is not possible to predict what future environmental regulations will provide; however, these laws could impose additional obligations on the Group which may, for example, result in the Group incurring significant expenditures for the installation and operation of pollution control systems, as well as equipment for remedial measures and a penalty regime in the event of a breach of those laws, which could adversely affect the Group's business, financial condition and results of operations. It is also not possible to predict how environmental regulations will be applied or enforced in the future.

Furthermore, no assurance can be given that changes to environmental laws and regulations outside the Group's control will not result in a curtailment of production, a material increase in the cost of production, development or exploration activities, or increase compliance and remediation costs or otherwise adversely affect the Group's business, financial condition, results of operations or prospects.

The Group may encounter interruptions in the availability of exploration, production or supply infrastructure.

Oil and gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities are conducted. Historically, high demand for such limited equipment or access restrictions has affected the availability and cost of such equipment to the Group and operators of production facilities in which the Group has an interest, which, from time to time, has resulted in delays to exploration and development activities. Future interruptions or delays in the availability of infrastructure, including drilling rigs (in particular), pipelines and storage tanks, on which the Group's exploration and production activities are dependent, could result in disruptions to the Group's projects, thus adversely impacting the Group's ability to optimise the anticipated benefits currently projected for these projects, increase costs and, accordingly, prevent the Group from delivering oil and gas to commercial markets and adversely affect the cash flows of the Group, which, in turn, would have an adverse effect on the Group's income stream and profitability.

Recovery, Reserve and resource estimates may prove inaccurate and reporting standards may differ from the standards of other jurisdictions.

Unless stated otherwise, the Reserves and resources data and production estimates included in this Prospectus have been derived or extracted from the ERC Equipoise Report, which has been prepared in accordance with the standards established by the PRMS (the "**ERC Equipoise Report**").

There are numerous uncertainties the Group faces that are inherent in estimating quantities of Reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Group. Estimation of underground accumulations of hydrocarbons (which cannot be measured in an exact manner) is a subjective process aimed at understanding the statistical probabilities of recovery.

The Reserves and resources estimates contained in this Prospectus are derived from the interpretation of seismic and other geo-scientific data and, where appropriate, well test results and logs. Such interpretation and estimates of the amounts of oil Reserves and resources are subjective and the results of drilling, testing and production subsequent to the date of any particular estimate may result in substantial revisions to the original interpretation and estimates. The Reserves and resources information set out in this Prospectus represent estimates only. Moreover, different reservoir engineers may make different estimates of Reserves, resources and cash flows based on the same available data. Actual production, revenues and expenditures with respect to Reserves and resources will vary from estimates, and the variances may be material.

In general, estimates of economically recoverable oil Reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate Reserve recovery, timing and amount of capital expenditures, marketability of oil, oil quality (including, without limitation, API gravity and sulphur content), royalty rates, assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are, to some degree, speculative, and classifications of Reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil Reserves attributable to any particular group of properties, classification of such Reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Group's actual production, revenues and development and operating expenditures with respect to its Reserves will vary from estimates thereof, and such variations could be material.

Estimates of Proved and Probable Reserves that may be developed and produced in the future are often based upon volumetric estimates without the benefit of actual production history. Estimates based solely on volumetric methods are, in some cases, more uncertain than estimates also supported by actual production history. The estimates assume that the Group's assumptions as to its capital expenditure and operating costs are accurate and that the capital expenditure strategy of the Group is successfully implemented by it. There can be no assurance that actual capital expenditures will not vary significantly from current estimates or that the Group will be able to implement its capital expenditure strategy on the timetable currently envisaged.

Furthermore, there are also numerous uncertainties in estimating the timing and quantity of development expenditures and associated production projections. The production profiles and development plans in this Prospectus and in the ERC Equipoise Report are based on a number of assumptions which, together with the estimates, may prove to be materially incorrect. As a result, investors should not place undue reliance on the forward-looking statements contained in this Prospectus and in the ERC Equipoise Report concerning the Group's resources, production profiles and development plans. In addition, nothing in this Prospectus should be interpreted as assurances of the Group's Reserves or resources, the production profiles of the Group's assets or the development plans of the Group.

Special uncertainties exist with respect to the estimation of Prospective Resources in addition to those set forth above that apply to Reserves. Prospective Resources are defined as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources. Volumes associated with Prospective Resources included in the ERC Equipoise Report should, therefore, be considered highly speculative, and there can be no guarantee that the Group will be able to develop these resources commercially.

If the actual Reserves or resources of the Group are less than the current estimates or of lesser quality than expected, the Group may be unable to recover and produce the estimated levels or quality of oil or gas and, as a result, the Group may not recover its initial outlay of capital expenditures and operating costs of any such operation and there may be a material adverse effect on the business, prospects, financial condition or results of operations of the Group.

The Company does business in countries with inherent risks relating to fraud, bribery and corruption.

In certain jurisdictions, fraud, bribery and corruption are more common than in others. In addition, the oil and natural gas industry has, historically, been shown to be vulnerable to corrupt or unethical practices. The Group operates in Kurdistan which has been allocated a low score on Transparency International's "Corruption Perceptions Index" (albeit Iraq as a whole, rather than Kurdistan specifically).

While the Group maintains anti-corruption training programmes, codes of conduct, procedures and other safeguards designed to prevent the occurrence of fraud, bribery and corruption, and no members of the Group or the Directors have been subject to fraud, bribery or corruption proceedings, it may not be possible for the Group to detect or prevent every instance of fraud, bribery and corruption in every jurisdiction in which its employees, agents, sub-contractors or joint venture partners are located. The Group may, therefore, be subject to civil and criminal penalties and to reputational damage. Instances of fraud, bribery and corruption, and violations of laws and regulations in the jurisdictions in which the Group operates, including the UK Bribery Act 2010, could have a material adverse effect on its results of operations and financial condition.

The Group is highly dependent on its executive management, senior management and employees.

The Group is highly dependent upon its executive management, as well as its senior management team and employees having relevant oil and gas experience. In addition, certain members of the Group's executive management (in particular, Todd Kozel) are considered to be key to the Group's relations with the KRG and the MNR. The loss of any of such executive management with its concomitant loss of institutional and operational knowledge, experience, expertise and possible effect on governmental relations, and its ability to deliver the strategy of the Group could have a disproportionate and material adverse effect on the Group.

Furthermore, the Group has no key-man insurance policy in place, and, therefore, there is a risk that the unexpected loss of the services of any member of its key personnel (through serious injury, death or resignation) could have a material adverse effect on the Group.

The loss of or diminution in the services of qualified oil and gas specialists or of members of the Group's senior management team or an inability to attract and retain additional senior management and/or oil and gas personnel could have a material adverse effect on the Group's business, financial condition and results of operations.

There is no assurance that the Group will successfully continue to retain existing specialised personnel and executive and senior management or attract additional qualified executive and senior management and/or oil and gas personnel required to successfully execute and implement the Group's business plan, which will be particularly important as the Group expands. Competition for such personnel is intense. The loss of such personnel and the failure to successfully recruit replacements would have a material adverse effect on its business, prospects, financial condition and results of operations.

In 2013, in advance of the Company's annual general meeting, certain significant institutional shareholders publicly discussed the need for changes to the Board and proposed new potential directors to the Board to further reinforce the Company's governance structure. Following the Company's appointment of Simon Murray as independent Chairman and after discussion with the relevant shareholders, the Company announced in July 2013 that its then current Board had agreed with the relevant shareholders to endorse for election to the Board candidates proposed for election. The relevant changes to the composition of the Board were approved by the annual general meeting of the Company held on 25 July 2013.

While the Company seeks to maintain an open relationship and dialogue with all shareholders, there can be no assurance that no future changes may be proposed by shareholders or that any changes that are brought about by shareholders would not have an adverse impact on the Company or on the holders of its debt or equity securities.

The Group relies on the services of third parties to implement its growth and development.

The Group relies to a large extent on external contractors to carry out drilling activities and seismic acquisition, as well as the construction, operation and maintenance of its facilities. As a result, the Group is dependent on external contractors performing satisfactorily and fulfilling their obligations. While the Group is not aware of any specific matters, any such failure by an external contractor may lead to delays or curtailment of the production, transportation, refining or delivery of oil and gas and related products. In addition, the costs of third party operators may increase, leading to higher production and transportation expenses for the Group. Any such failure in performance or increase in costs could have an adverse effect on the Group's results of operations.

Some of the services required for the Group's operations and strategic developments are currently only available on commercially reasonable terms from a limited number of providers. These operations and developments may be interrupted or otherwise adversely affected by failure to supply, or delays in the supply of, services that meet the Group's quality requirements. While the Group currently has no plans to do so, if the Group is forced to change a provider of such services, there is no guarantee that this would not result in the Group experiencing additional costs, interruptions to supply continuity or other adverse effects on its business. There is also no guarantee that the Group will be able to find adequate replacement services on a timely basis or at all. Any failure in performance by third party service providers, external contractors or consultants, increase in costs or inability to find adequate replacement services on a timely basis, if at all, could have a material adverse effect on the Group's business prospects, financial condition and results of operations.

The Group may be subject to labour disruptions.

The Group's workforce is not currently unionised and the Group generally enjoys good labour relations with its employees. However, there can be no assurance that the Group's operations will not be affected by strikes, lock-outs or labour disruptions involving its own employees or the employees of third parties, including employees of contractors retained by the Group and the employees of operators of transportation infrastructure needed to run the Group's operations. Labour disruptions may be used not only for reasons specific to the Group's business, but also to advocate labour, political or social goals. Furthermore, labour disruptions could increase operational costs and decrease revenues by delaying the Group's business activities or increasing the cost of substitute labour, which may not be available. If such disruptions are material, they could adversely affect the Group's results of operations and financial condition.

Oil production companies, including the Company, may be adversely affected by current global economic conditions.

The current global economic environment and the volatility of international markets have caused governments and central banks to undertake unprecedented interventions designed to stabilise global and domestic financial systems, stimulate new lending and support structurally important industries and institutions, such as banks, which are at risk of failing. Many developed economies have experienced recessions over the past several years and growth has slowed in many emerging economies with serious adverse consequences for asset values, employment levels, consumer confidence and levels of economic activity. Numerous governments and central banks have responded to these economic conditions by proposing programmes to make substantial funds and guarantees available to boost liquidity and confidence in their financial systems. It is not known whether these responses will be effective in addressing the economic and market conditions that exist at present. The impact of the reversal or withdrawal of such programmes is also uncertain. Any further deterioration of the global economic environment could have a material adverse effect on the Group's business, results of operations and financial condition, particularly to the extent it impacts upon the price of oil and/or affects the Group's ability to access the capital markets or obtain credit for future funding on commercially acceptable terms.

Foreign Subsidiaries.

The Group conducts most of its operations through the Company's Bermuda subsidiaries. The Company may be or may become dependent on distributions and loans from these subsidiaries to meet its obligations. The ability of a subsidiary to make payments to the Company may be constrained by, among other things: (i) the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which it operates, (ii) the introduction of exchange controls or repatriation restrictions or the availability of hard currency to be repatriated and (iii) local law requirements in relation to the payments of distributions.

RISKS RELATING TO THE TAXATION OF THE GROUP

Future changes in tax legislation applicable to Group entities may reduce net returns to Shareholders.

The Group has entities incorporated and resident for tax purposes in England and Wales, and Bermuda. The tax treatment of Group entities is subject to changes in tax legislation or practices in territories in which the Group entities are resident for tax purposes. Such changes may include (but are not limited to) the taxation of operating income, investment income, dividends received or (in the specific context of withholding tax) dividends paid.

Any changes to tax legislation or practices in which the Group entities are resident for tax purposes may have a material adverse effect on the financial position of the Company, reducing net returns to Shareholders.

In many jurisdictions, the resources sector is subject to particular taxation regimes which sometimes impose a comparatively heavy burden on activities within the sector and the comments made above with regard to change are particularly salient in relation to such regimes.

The uncertainty of the tax system in Kurdistan may adversely impact taxation of the Group, reducing net returns to Shareholders.

The principal operating activities of the Group are undertaken in Kurdistan. The tax system in Iraq may be subject to change, particularly in relation to the oil and gas sector. Taxation of the Group's operating activities in Kurdistan is pursuant to the KRG's oil and gas legislation and governed by terms within the Kurdistan PSCs. However, it is possible that the terms of the Kurdistan PSCs may cease to be recognised as valid or otherwise may not be enforceable in Kurdistan. It is also possible that the arrangements under the Kurdistan PSCs may be overridden or adversely affected by enactment of any future oil and gas law in Iraq. In either case, this could materially impact the financial position of the Group and reduce net returns to Shareholders.

Any change in the Company's tax status or in taxation law could negatively affect the Company's ability to provide returns to Shareholders.

Statements in this document concerning the taxation of the Group or of Shareholders are based on current tax law and practice which is subject to change. The taxation of an investment in the Company also depends on the individual circumstances of the relevant Shareholder. Any Shareholder who is in doubt as to its tax position should consult an appropriate adviser.

Any change in the Company's United Kingdom tax status or any change in United Kingdom taxation law could affect the Company's ability to provide returns to Shareholders.

Statements in this document concerning the United Kingdom taxation of Shareholders are based on current United Kingdom tax law and practice, which are subject to change. The taxation of an investment in the Company depends on the individual circumstances of Shareholders.

The Company is not incorporated in the United Kingdom. Accordingly, the Company should not be treated as being resident in the United Kingdom for corporation tax purposes unless its central management and control is exercised in the United Kingdom. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. The Company intends to manage its affairs so that it is not resident in the United Kingdom for United Kingdom tax purposes.

A company not resident in the United Kingdom for corporation tax purposes can, nevertheless, be subject to United Kingdom corporation tax if it carries on a trade through a permanent establishment in the United Kingdom, but the charge to United Kingdom corporation tax is limited to profits (including revenue profits and capital gains) attributable directly or indirectly to such permanent establishment.

The Company intends to operate in such a manner that it does not carry on a trade through a permanent establishment in the United Kingdom. Nevertheless, because neither case law nor United Kingdom statute completely defines the activities that constitute trading in the United Kingdom through a permanent establishment, HMRC might contend successfully that the Company is trading in the United Kingdom through a permanent establishment in the United Kingdom.

The United Kingdom has no income tax treaty with Bermuda. There are circumstances in which companies that are neither resident in the United Kingdom nor entitled to the protection afforded by a double tax treaty between the United Kingdom and the jurisdiction in which they are resident may be exposed to income tax in the United Kingdom (other than by deduction or withholding) on the profits of a trade carried on there even if that trade is not carried on through a permanent establishment. However, the Company intends to operate in such a manner that it will not fall within the charge to income tax in the United Kingdom (other than by deduction or withholding) in this respect.

If the Company was treated as being resident in the United Kingdom for United Kingdom corporation tax purposes, or if the Company was to be treated as carrying on a trade in the United Kingdom through a permanent establishment or otherwise subject to United Kingdom income tax, the results of the Group's operations could be materially adversely affected.

Taxation of returns from Group assets located outside Bermuda may reduce any net return to Shareholders.

As the Group's operations are located outside Bermuda, it is possible that the Company's return from the operations undertaken by the Group will be reduced by irrecoverable withholding tax or other local taxes, which would reduce the net return derived by investors from a shareholding in the Company.

RISKS RELATING TO THE COMMON SHARES

Substantial future sales or additional offerings of Common Shares could impact the market price of Common Shares.

The Board cannot predict what effect, if any, future sales of Common Shares, or the availability of Common Shares for future sale, or the offer (by way of further issuance) of additional Common Shares in the future, will have on the market price of Common Shares. Sales or an additional offering of substantial numbers of Common Shares in the public market, or the perception or any announcement that such sales or an additional offering could occur, could adversely affect the market price of Common Shares and may make it more difficult for shareholders to sell their Common Shares at a time and price which they deem appropriate.

The issuance of additional Common Shares in the Company may dilute all other shareholdings.

The Group may issue additional equity whether in connection with the Convertible Bonds, further convertible equity securities, share incentive or option plans or otherwise. The Bye-Laws of the Company do not contain any rights of pre-emption in favour of existing Shareholders. As a result, the Company's existing Shareholders would suffer dilution in their percentage ownership. Shareholders may also suffer dilution in their voting interest upon the conversion of the Convertible Bonds into Common Shares.

There may be volatility in the value of an investment in Common Shares and the market price for Common Shares may fluctuate.

The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Group's control, including the following: (i) actual or anticipated fluctuations in the Group's quarterly results of operations; (ii) actual or anticipated changes in oil prices and/or in the capital markets; (iii) recommendations by securities research analysts; (iv) changes in the economic performance or market valuations of other companies that investors deem comparable to the Company; (v) addition or departure of the Company's executive officers and other key personnel; (vi) sales or perceived sales of additional Common Shares; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Group or its competitors; (viii) changes in laws, rules and regulations applicable to the Group and its operations; (ix) general economic, political and other conditions, in particular in Kurdistan (and Iraq more broadly); (x) the Group's involvement in any litigation; and (xi) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Group's industry or target markets.

Financial markets have experienced significant price and volume fluctuations in the last several years that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies.

Accordingly, the market price of the Common Shares may decline even if the Group's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. Also, certain institutional investors may base their investment decisions on consideration of the Group's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Common Shares by those institutions, which could adversely affect the trading price of the Common Shares. There can be no assurance that continuing fluctuations in the price and volume of publicly traded equity securities will not occur. If such increased levels of volatility and market turmoil continue, the Group's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

The Company does not currently intend to pay dividends and its ability to pay dividends in the future may be limited.

The Company has never declared or paid any dividends on the Common Shares. The Company currently intends to retain future earnings, if any, for future operations, expansion and debt repayment, if necessary. Therefore, at present, there is no intention to pay dividends and a dividend may never be paid. Any decision to declare and pay dividends will be made at the discretion of the Board and will depend on, among other things, the Group's results of operations, financial condition and solvency and distributable reserves tests imposed by corporate law and such other factors that the Board may consider relevant.

In addition to the foregoing, the Company's ability to institute and pay dividends now or in the future may be limited by covenants contained in the agreements governing any indebtedness that the Group may incur in the future, including the terms of any credit facilities the Group may enter into with third party lenders. It is not uncommon that credit facilities will prevent a borrower from declaring or paying any dividends (excluding stock dividends) to any of its shareholders or returning any capital (including by way of dividend) to any of its shareholders.

As a result of the foregoing factors, purchasers of the Common Shares may not receive any return on an investment in the Common Shares unless they sell such Common Shares for a price greater than that which they paid for them.

If the Company is wound up, distributions to Shareholders will be subordinated to the claims of creditors.

On a winding-up of the Company, holders of the Common Shares will be entitled to be paid a distribution out of the assets of the Company available to its members only after the claims of all creditors of the Company have been met.

The Common Shares may rank behind the Preferred Shares of the Company in respect of dividends and other distributions, including on a winding-up of the Company.

The Company's authorised share capital includes 60,000 Preferred Shares, of which 40,000 have been designated as Series A Preferred Shares. No Preferred Shares are currently in issue as at the date of this document but the Board has the power to issue the Series A Preferred Shares and any further series of preferred share out of its authorised share capital.

The Company is applying for a Standard Listing and, accordingly, the Company will not be required to comply with those protections applicable to a Premium Listing or a listing on AIM.

The Company is seeking a Standard Listing and, as a consequence, additional ongoing requirements and protections applicable to a Premium Listing will not apply to the Company. In particular, the provisions of Chapters 6 to 13 of the Listing Rules, being additional requirements for listing of equity securities (listing principles, sponsors, continuing obligations, significant transactions, related party transactions, dealing in own securities and treasury shares and contents of circulars), will not apply. In addition, a Standard Listing will not permit the Company to gain UK FTSE indexation. Furthermore, on or immediately prior to Admission, the listing of the Common Shares on AIM will be cancelled, and, as a consequence, the AIM Rules for Companies will no longer apply to the Company. Therefore, the ongoing requirements and protections of the AIM Rules for Companies (in particular, retention of a Nominated Adviser, substantial transactions, related party transactions, reverse takeovers, fundamental changes of business, dealings in a close period and company information disclosure on a website) will cease to apply.

Further details regarding the differences in protections afforded by a Premium Listing as against a Standard Listing are set out in Part 4: "*Consequences of a Standard Listing*".

The Company may be unable to transition to a Premium Listing.

The Directors intend to seek a Premium Listing for the Company, subject to meeting the eligibility criteria contained in Chapter 6 of the Listing Rules.

However, as at the date of this document, the Company has not yet entered into any discussions with the UKLA regarding a Premium Listing. There can be no assurance that the Company will meet the eligibility criteria for a Premium Listing or that a transition to a Premium Listing will be achieved. In addition, there may be a delay between the date of listing and the Company's current intended date by which it wishes to achieve a Premium Listing.

If the Company does not achieve a Premium Listing, the Company will not be obliged to comply with the higher standards of corporate governance or other requirements which it would be subject to upon achieving a Premium Listing and, for as long as the Company continues to have a Standard Listing, it will only be required to continue to comply with the lesser standards applicable to a company with a Standard Listing. Further details regarding the differences in protections afforded by a Premium Listing as against a Standard Listing are set out in Part 4: "*Consequences of a Standard Listing*".

In addition, if the Company was unable to achieve a Premium Listing this may have an adverse effect on the valuation of its Common Shares.

Shareholders are not entitled to the takeover offer protections provided by the Takeover Code.

The Takeover Code applies to offers for, among other companies, listed public companies which are either: (i) considered by the Takeover Panel to be resident in the United Kingdom, the Channel Islands or the Isle of Man or (ii) from 30 September 2013, incorporated in the United Kingdom, the Channel Islands or the Isle of Man and listed on an Member State's regulated market, traded on a multilateral trading facility in the United Kingdom or traded on a stock exchange in the Channel Islands or the Isle of Man.

While application has been made to list the Common Shares on the regulated market of the London Stock Exchange, the Company is not so resident or incorporated and, therefore, Shareholders will not receive the benefit of the takeover offer protections provided by the Takeover Code save for the "Takeover Offers" provisions of the Bye-Laws which seek to replicate certain core provisions of the Takeover Code. For further details, see paragraph 7 of Part 16: "*Additional Information – Major Shareholders*".

Shareholders may be exposed to fluctuations in currency exchange rates.

The Common Shares are priced in pounds sterling and will be quoted and traded in pounds sterling. Accordingly, a Shareholder whose functional or local currency is a currency other than pounds sterling is subject to risks arising from adverse movements in such currency against pounds sterling, which may reduce the value of the Common Shares in such currency.

Enforcement of judgments in Bermuda may be difficult.

As the Company is a Bermuda exempted company, the rights of Shareholders will be governed by Bermuda law and the Company's Memorandum of Association and Bye-Laws. The rights of Shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions. A number of the Directors and officers of the Company are not residents of the United Kingdom and substantially all of the Group's assets are located in Kurdistan. As a result, it may be difficult for Shareholders to effect service of process on those persons in the United Kingdom or to enforce in the United Kingdom judgments obtained in UK courts against the Company or those persons who may be liable under the laws of England and Wales. The current position with regard to enforcement of judgments in Bermuda is set out below but this may be subject to change. A final and conclusive judgment of a superior foreign court against the Company, under which a sum of money is payable (not being a sum of money payable in respect of multiple damages, or a fine, penalty tax or other charge of a like nature) may be enforceable in the Supreme Court of Bermuda against the Company if the foreign court is situated in a country to which the Judgments (Reciprocal Enforcement) Act 1958 of Bermuda (the "**1958 Act**") applies. The procedure provided for in the 1958 Act must be followed if the 1958 Act applies. The 1958 Act applies to the United Kingdom. Under the 1958 Act, a judgment obtained in the superior courts of a territory to which it applies would be enforced by the Supreme Court of Bermuda without the necessity of any retrial of the issues, the subject of such judgment or any re-examination of the underlying claims. Where such foreign judgment is expressed in a currency other than Bermuda dollars, registration of the judgment will involve the conversion of the judgment debt into Bermuda dollars on the basis of the exchange rate prevailing at the date of such judgment as is equivalent to the judgment sum payable. The present policy of the Bermuda Monetary Authority is to give consent for the Bermuda dollar award made by the Supreme Court of Bermuda to be paid in the original judgment currency. No stamp duty or similar or other tax or duty is payable in Bermuda on the enforcement of a foreign judgment. Court fees will be payable in connection with proceedings for enforcement.

Holders of Depositary Interests must rely on the Depositary or the Custodian to exercise rights attaching to the underlying Common Shares for the benefit of the holders of Depositary Interests.

The Company has entered into depositary arrangements to enable investors to settle and pay for Common Shares through the CREST system. The rights of holders of Depositary Interests will be governed by, among other things, the relevant provisions of the CREST Manual and the CREST Rules (as defined in the CREST Terms and Conditions issued by Euroclear UK & Ireland). As the registered shareholder, the Depositary will have the power to exercise voting and other rights conferred by Bermuda law and the Bye-Laws of the Company on behalf of the relevant holder. Consequently, the holders of Depositary Interests must rely on the Depositary to exercise such rights for the benefit of the holders of Depositary Interests. Although the Company will enter into arrangements whereby Euroclear UK & Ireland will make a copy of the register of the names and addresses of holders of Depositary Interests available to the Company to enable the Company to send out notices of shareholder meetings and proxy forms to its holders of Depositary Interests and pursuant to Euroclear UK & Ireland's omnibus proxy arrangements, subject to certain requirements, the Depositary will be able to give each beneficial owner of a Depositary Interest the right to vote directly in respect of such owner's underlying Common Shares, there can be no assurance that such information, and consequently, all such rights and, entitlements, will at all times be duly and timely passed on or that such proxy arrangements will be effective.

The Company may be a "passive foreign investment company" for US federal income tax purposes and US Holders could suffer adverse tax consequences.

For United States federal income tax purposes, the Company may be classified as a "passive foreign investment company" ("**PFIC**") and adverse tax consequences could apply to beneficial owners of Common Shares who are subject to United States federal income tax ("**US Holders**"). If the Company were so classified, the Company may, but it is not obliged to, provide to such owners the information that would be necessary in order for such persons to make a qualified electing fund election with respect to the Common Shares for any year in which the Company is a PFIC. US Holders or potential US Holders should consult their own tax advisers about the US federal income tax consequences of holding Common Shares.

Restrictions on sale for Shareholders in the United States may make it difficult to resell the Common Shares or may have an adverse impact on the market price of the Common Shares.

The Common Shares have not been registered in the United States under the Securities Act or under any other applicable securities laws and are subject to restrictions on transfer contained in such laws.

There are additional restrictions on the resale of Common Shares by Shareholders who are in the United States and on the resale of Common Shares by any Shareholders to any person who is in the United States. These restrictions will make it more difficult to resell the Common Shares in many instances and this could have an adverse effect on the market value of the Common Shares. There can be no assurance that Shareholders in the United States will be able to locate acceptable purchasers or obtain the required certifications to effect a sale.

PART 3

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

1. General

No person has been authorised to give any information or to make any representations in connection with Admission other than the information and representations contained in this document and, if any other information is given or representations are made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company or the Directors.

The Company does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding Admission, the Common Shares, the Company or the Group. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Without prejudice to any obligation of the Company under the FSMA, the Prospectus Rules, the Listing Rules or the Disclosure and Transparency Rules, the delivery of this document shall not, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Group taken as a whole since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The contents of this document or any subsequent communications from the Company, the Group or any of their respective affiliates, officers, advisers, directors, employees or agents are not to be construed as advice on legal, business, taxation, accounting, regulatory, investment or any other matters. Each investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice, as appropriate.

This document does not constitute, and may not be used for the purposes of, an offer to sell or an invitation or the solicitation of an offer or invitation to subscribe for or buy, any Common Shares by any person in any jurisdiction.

The Common Shares have not been and will not be registered under the Securities Act, or under any relevant securities laws of any state or other jurisdiction in the United States, or under the applicable securities laws of Australia, Canada or Japan.

Investors should read this document in its entirety.

2. Presentation of financial information

The financial information presented in this document includes:

- audited consolidated financial information for the Group as at and for the years ended 31 December 2012, 2011 and 2010; and
- unaudited condensed consolidated interim financial information for the Group as at and for the six months ended 30 June 2013,

in each case, prepared in accordance with IFRS as adopted by the European Union. Unless otherwise indicated, the financial information presented in this document has been prepared in accordance with IFRS as adopted by the European Union.

3. Non-financial information operating data

The non-financial operating data included in this document has been extracted without material adjustment from the management records of the Group and is unaudited.

4. Currencies

In this document, references to "**pounds sterling**", "**£**", "**pence**" or "**p**" are to the lawful currency of the UK; and references to "**US dollars**", "**U.S. dollars**", "**dollars**", "**U.S.$**", "**cents**" or "**c**" are to the lawful currency of the United States.

The basis of translation of any foreign currency transactions and amounts in the financial information set out in Part 13: "*Historical Financial Information*" is described in that Part 13.

5. Rounding

Percentages and certain amounts in this document, including financial, statistical and operating information, have been rounded to the nearest thousand whole number or single decimal place for ease of presentation. As a result, the figures shown as totals may not be the precise sum of the figures that precede them. In addition, certain percentages and amounts contained in this document reflect calculations based on the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages or amounts that would be derived if the relevant calculations were based upon the rounded numbers.

6. Third party information

The Company confirms that all third party information contained in this document has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where third party information has been used in this document, the source of such information has also been identified.

7. Reserves and resources reporting – basis of preparation

ERC Equipoise has reviewed the Reserves and resources statements compiled by the Company and has stated the Reserves and resources as set out in Part 19: "*Competent Person's Report*" to be in compliance with the Prospectus Rules and recommendations of the European Securities Markets Authority (formerly known as the Committee of European Securities Regulators) and in accordance with the criteria for internationally recognised Reserve and resource categories as included in the PRMS. The Company has provided to ERC Equipoise raw data, analyses, interpretations and estimates in relation to the Reserves and resources. These estimates have been audited by ERC Equipoise and where relevant they have also provided their own analyses and estimates of volumes.

The Company confirms that between the date of publication of the ERC Equipoise Report and the date of publication of this Prospectus no material changes have occurred, the omission of which would make the ERC Equipoise Report misleading.

Investors should not place undue reliance on the forward-looking statements in the ERC Equipoise Report or on the ability of ERC Equipoise to predict actual Reserves or resources. Contingent Resources relate to undeveloped accumulations and may include non-commercial resources. It should be noted that Prospective Resources relate to inferred, undiscovered and/or undeveloped resources and accordingly by their nature are highly speculative. A possibility exists that the prospects will not result in the successful discovery of economic resources, in which case there would be no commercial development.

Statements relating to Reserves and resources are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the Reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future. The ERC Equipoise Report employs ERC Equipoise pricing assumptions as at 31 December 2013, which may differ from the pricing assumptions used in prior Reserves and resources evaluations.

Proved Reserves are those Reserves which are most certain to be recovered. There is at least a 90 per cent. probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves. Probable Reserves are those additional Reserves that are less certain to be recovered than Proved Reserves. There is at least a 50 per cent. probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved Reserves plus Probable Reserves. Possible Reserves are those additional Reserves that are less certain to be recovered than Probable Reserves. There is a 10 per cent. probability that the quantities actually recovered will equal or exceed the sum of Proved Reserves plus Probable Reserves plus Possible Reserves.

Contingent Resource estimates are not currently classified as Reserves primarily due to economic considerations. See paragraph 7 of Part 8: "*The Business – Summary of key information from the ERC Equipoise Report*" for information on the specific contingencies that prevent the classification of the Contingent Resources as Reserves. Contingent Resources entail more commercial risk than Reserves and adjustments for commercial risks have not been incorporated in the summaries of Contingent Resources set forth in this document. Although discovered, there is no certainty that it will be commercially viable to produce any portion of the Contingent Resources. Moreover, the volumes of Contingent Resources reported herein are very sensitive to economic assumptions, including capital, operating costs and commodity pricing. Removal of the contingency that allows classification of Reserves may have a material effect on the assignability of the Company's Contingent Resources.

Prospective Resources entail more commercial and exploration risks, as they are not yet discovered, than those relating to Reserves and Contingent Resources. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to the timing of such development.

The information on resources in this document and in the ERC Equipoise Report is based on economic and other assumptions that may prove to be incorrect. The basis of preparation for the ERC Equipoise Report is set out in more detail therein.

ERC Equipoise have used standard petroleum evaluation techniques in the preparation of the ERC Equipoise Report. These techniques combine geophysical and geological knowledge with assessments of porosity and permeability distributions, fluid characteristics and reservoir pressure. There is uncertainty in the measurement and interpretation of basic data. ERC Equipoise have estimated the degree of this uncertainty and determined the range of petroleum initially in place and recoverable hydrocarbons. Their methodology adheres to the guidelines of the PRMS. ERC Equipoise have evaluated the development scheme for the Shaikan field presented by the Company and have conducted an audit of the capital and operating costs. ERC Equipoise have audited production forecasts prepared by the Company for the 26 production well development of the Jurassic interval of the Shaikan field. Audited production, Capex and Opex forecasts have then been used as input into the economic model. ERC Equipoise's economic analysis is based on the Kurdistan PSC applicable to Shaikan on a standalone basis and does not take into account any outstanding debt, nor future indirect corporate costs of the Company.

At the effective date of the ERC Equipoise Report, the Company had not yet signed any oil or gas sales agreements. In the estimation of future cash flows, ERC Equipoise have relied upon oil prices and contract terms assumed and provided by the Company, which may not reflect future signed contract values. There is no guarantee that actual economic parameters will match the assumed values. Note that the economic values associated with the Reserves calculations contained within the ERC Equipoise Report do not necessarily reflect a fair market value. Values presented in the report have been calculated using the economic interest method.

The accuracy of estimates of volumes of oil and gas and production forecasts is a function of the quality and quantity of available data and of engineering interpretation and judgement. While estimates of Reserves and production forecasts, Contingent Resources and Prospective Resources presented in the ERC Equipoise Report are considered reasonable, these estimates should be accepted with the understanding that reservoir performance subsequent to the date of the estimate may justify revision, either upward or downward.

In the case of Contingent Resources, there is no certainty that it will be commercially viable to produce any portion of the volumes of oil and gas. In the case of Prospective Resources, there is no certainty that any portion of the volumes of oil and gas will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the volumes of oil and gas.

The ERC Equipoise Report contains statements of the estimated oil and gas Reserves and resources attributed to the Group as at 31 December 2013. These estimates are based on technical information supplied by the Group to ERC Equipoise. The technical information supplied by the Group to ERC Equipoise was not independently verified by ERC Equipoise and is the responsibility of the management of the Group. In accordance with standard industry practice, all technical information that was obtained from the Group or from public sources was accepted without further investigation. It is ERC Equipoise's opinion that the technical information received from the Group was reasonable, based on similar evaluations prepared by ERC Equipoise.

ERC Equipoise used the technical information to produce the Reserves and resource estimates that formed the basis of the ERC Equipoise Report. The Reserves estimates comprise the Proved, Probable and Possible Reserves and estimated Reserves net present values, which are based on the technical information, and continue to be the responsibility of the Group. The Reserves and resources were estimated by ERC Equipoise in accordance with standards set out in PRMS.

Having carried out the evaluation on the basis set out above, ERC Equipoise has provided independent Reserves and resources estimates which have been determined and presented in accordance with PRMS.

8. Forward-looking statements

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will", "target", "plan", "continue" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company concerning, amongst other things, the investment objectives and policies, financing strategies, performance, results of operations, financial condition, prospects, and dividend policy of the Company and the markets in which it and the other companies in the Group operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual performance, results of operations, financial condition, dividend policy and the development of its financing and operational strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the performance, results of operations, financial condition and dividend policy of the Company, and the development of its financing and operating strategies, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Important factors that could cause these differences include, but are not limited to the risk factors (which are not exhaustive) set forth above in Part 2: "*Risk Factors*".

Assumptions have also been made regarding, among other things: the political, economic, social and business stability of Kurdistan and Iraq; a common understanding and interpretation of the terms of the Kurdistan PSCs; environmental compliance and remediation; the KRG's participation in the Group's development activities; the timeframe within which the Group expects to receive payment for its production; the Group's ability to obtain and retain qualified staff in a timely and cost-efficient manner; the Group's ability to obtain and retain necessary equipment in a timely and cost-efficient manner; the construction of export infrastructure and the Group's ability to gain access; transport production from its properties and the terms and timing thereof; the application to the Group and changes to the regulatory framework governing royalties, taxes and environmental matters in Iraq and Kurdistan; anticipated demand and the Group's ability to market, sell and receive payment for its production, future crude oil and natural gas prices and the prices to be received for such production sales; the Group's plans, targets, objectives and goals, including those relating to future production levels, operations and sales; the expected results of the Group's exploration, development, production and other related capital expenditures and investments and the recoverability of the Group's Reserves and resources; future and budgeted capital expenditures and investments to be made by the Group; future production capacity and cash flows from production; future sources of funding for the Group's capital programme; the Group's future debt levels, if any; the Group's future use of derivative instruments, if any; geological and engineering estimates or classification in respect of the Group's Reserves and resources; the geography of the areas in which the Group is conducting exploration and development activities; the intentions of the Group's directors with respect to the executive compensation plans and corporate governance programmes currently established; the impact of competition on the Group; and the Group's ability to obtain required financing on acceptable terms. Readers are cautioned that the foregoing list of assumptions should not be construed as being exhaustive.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Group, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. In addition, even if the Group's results of operations and financial condition, and the development of the industry in which the Group operates, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Investors are cautioned that forward-looking statements are not guarantees of future performance. The Company makes no representation, warranty or prediction that the results predicted by such forward-looking statements will be achieved and these forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this document speak only as at the date of this document, reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy, liquidity and the availability of new credit. Investors should specifically consider the factors identified in this document that could cause actual results to differ. All of the forward-looking statements made in this document are qualified by these cautionary statements.

Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules, or applicable law, the Company explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in the Group's expectations or to reflect events or circumstances after the date of it.

9. No incorporation of website

The contents of the Company's website, any website mentioned in this document or any website directly or indirectly linked to these websites have not been verified and do not form part of this document and investors should not rely on such information.

10. Definitions and technical terms

A list of defined terms and technical terms used in this document is set out in Part 17: "*Definitions*" and Part 18: "*Glossary of Technical Terms*".

PART 4

CONSEQUENCES OF A STANDARD LISTING

Application has been made for the Common Shares to be admitted to the standard segment of the Official List. A Standard Listing affords Shareholders and investors in the Company a lower level of regulatory protection than that afforded to investors in companies whose securities are admitted to the premium segment of the Official List, which are subject to additional obligations under the Listing Rules.

It should be noted that the UK Listing Authority will not have the authority to (and will not) monitor the Company's compliance with any of the Listing Rules and/or any provision of the Model Code or those aspects of the Disclosure and Transparency Rules which the Company has indicated herein that it intends to comply with on a voluntary basis, nor to impose sanctions in respect of any failure by the Company to so comply.

The Common Shares will be admitted to listing on the standard segment of the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for Standard Listings and does not require the Company to comply with, *inter alia*, the provisions of Chapters 6 to 13 of the Listing Rules. The Company intends to comply with the Listing Principles set out in Chapter 7 of the Listing Rules, notwithstanding that they only apply to companies which obtain a Premium Listing on the Official List. The Company is not, however, formally subject to such Listing Principles and will not be required to comply with them by the UK Listing Authority.

1. Listing Rules which are not applicable to a Standard Listing

Such non-applicable Listing Rules include, in particular:

- Chapter 8 of the Listing Rules regarding the appointment of a listing sponsor to guide the Company in understanding and meeting its responsibilities under the Listing Rules in connection with certain matters. In particular, the Company is not required to appoint a sponsor in relation to the publication of this document or Admission;
- Chapter 9 of the Listing Rules relating to further issues of shares, issuing shares at a discount in excess of 10 per cent. of market value, notifications and contents of financial information;
- Chapter 10 of the Listing Rules relating to significant transactions which requires Shareholder consent for certain acquisitions;
- Chapter 11 of the Listing Rules regarding related party transactions.
- Chapter 12 of the Listing Rules regarding purchases by the Company of its Common Shares; and
- Chapter 13 of the Listing Rules regarding the form and content of circulars to be sent to Shareholders.

2. Listing Rules with which the Company must comply under a Standard Listing

There are, however, a number of continuing obligations set out in Chapter 14 of the Listing Rules that will be applicable to the Company. These include requirements as to:

- the forwarding of circulars and other documentation to the UKLA for publication through the document viewing facility and related notification to a regulatory information service;
- the provision of contact details of appropriate persons nominated to act as a first point of contact with the UKLA in relation to compliance with the Listing Rules and the Disclosure and Transparency Rules;
- the form and content of temporary and definitive documents of title;
- the appointment of a registrar;

- the making of regulatory information service notifications in relation to a range of debt and equity capital issues; and
- at least 25 per cent. of the Common Shares being held by the public.

In addition, as a company whose securities are admitted to trading on a regulated market, the Company will be required to comply with the Disclosure and Transparency Rules.

PART 5

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	20 March 2014
Listing of Common Shares on AIM cancelled	8.00 a.m. on 25 March 2014
Admission to the Official List	8.00 a.m. on 25 March 2014

These dates and times are indicative only, subject to change and may be brought forward as well as moved back, in which case new dates and times will be announced. The times referred to above are references to the time in London, UK.

PART 6

DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

Directors	Simon Murray	*Non-Executive Chairman*
	Todd F Kozel	*Chief Executive Officer*
	John B Gerstenlauer	*Chief Operating Officer*
	Ewen Ainsworth	*Finance Director*
	Jeremy Asher	*Non-Executive Deputy Chairman*
	Mark Hanson	*Non-Executive Director*
	Lord Guthrie	*Non-Executive Director*
	Thomas Shull	*Non-Executive Director*
	John Bell	*Non-Executive Director*
	Philip Dimmock	*Non-Executive Director*
	Andrew Simon	*Non-Executive Director and Senior Independent Director*
Company Secretary	Theresa Grant Coson Corporate Services Limited Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	
Registered office of the Company	Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	
Head office of the Company	Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	
Financial Adviser	Deutsche Bank AG, London Branch Winchester House 1 Great Winchester Street London EC2N 2DB	
English legal advisers to the Company	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP	
Bermudan legal advisers to the Company	Cox Hallett Wilkinson Limited Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	

English legal advisers to the Financial Adviser	Linklaters LLP One Silk Street London EC2Y 8HQ
Auditors to the Company	Deloitte LLP 2 New Street Square London EC4A 3BZ
Kurdistan legal advisers to the Company	Nuri Yaba Law Office English Village, Villa No. 405 Erbil Kurdistan Region Iraq
Algerian legal advisers to the Company	Thompson & Knight LLP Residence PTT, Villa 45 A Hydra 16035 Algeria

PART 7

IRAQ AND KURDISTAN

Section A: Information on Iraq and Kurdistan

1. Introduction and brief history of Kurdistan

Kurdistan is a semi-autonomous, constitutionally recognised, political region in Iraq. Kurdistan is the only region of Iraq as yet constitutionally established and expressly recognised pursuant to the constitution of Iraq (the "**Iraqi Constitution**").

Until recently, the history of the region has been defined by cycles of ethnic and political conflict. Initial calls for an independent Kurdish province in northern Iraq began in the 1920s when Kurdish leaders clashed with the British authorities in the region over the establishment of a united and independent region. Following a series of revolts, the region was ultimately incorporated within the new state of Iraq with a limited level of autonomy. A new series of revolts against the federal government of Iraq (the "**Iraqi Government**") were launched in the 1960s with the aim of securing Kurdish autonomy. A peace plan was announced in March 1970 and provided for broader Kurdish autonomy, establishing the Kurdish Autonomous Region. Despite this, the Ba'athist government in Baghdad, headed by Saddam Hussein, took an aggressive position against the Kurdish population, which continued until 1991, when, following the first Gulf War, the United Nations Security Council designated the region a safe haven and the Iraqi Government withdrew its military from the region. The region gained de facto autonomy but suffered hardships from embargos imposed by both the United Nations on Iraq and by Saddam Hussein on the region. In 2003, Kurdish troops fought alongside foreign military powers overthrowing Saddam Hussein's regime. The invasion of Iraq in 2003 allowed Kurdistan to consolidate its position as an autonomous political entity. The Iraqi Constitution granted Kurdistan executive, legislative and judicial powers, as well as authority over the region's administrative requirements. Kurdistan now functions as an autonomous region with its own flag, military force (the Peshmerga) and international border controls. Broadly, under the Iraqi Constitution, the Iraqi Government has exclusive competency over certain matters, the KRG has joint competency with the Iraqi Government over certain matters and the KRG has sole competency over all matters which are not either exclusively reserved to the Iraqi Government or the subject of the joint competency between the Iraqi Government and the KRG. See Section B – "*The Iraqi and Kurdistani oil and gas industry*" for a discussion regarding competency in relation to oil and gas matters.

Like the entirety of Iraq, Kurdistan's economy is highly dependent on the production and sale of petroleum. It is estimated by the US Geological Survey that in Kurdistan there are as yet undiscovered hydrocarbons of approximately 40 billion barrels of oil and 60 trillion cubic feet of gas. Due to disputes between the Iraqi Government and the KRG on the regulation of the oil industry in Kurdistan, international oil companies active in the sector are subject to ongoing uncertainty with respect to their interests in Kurdistan. See Section B – "*The Iraqi and Kurdistani oil and gas industry*" for a detailed description of the regulation of the petroleum industry in Kurdistan. Furthermore, in the current global economic climate and the political climate within Iraq, Kurdistan's high dependency on the oil industry makes its economy vulnerable to fluctuations in the oil price and also to sabotage attacks on the oil infrastructure.

2. Geography and population

Iraq itself is bordered to the north by Turkey, to the east by Iran, to the south-east by Kuwait and the Persian/Arabian Gulf, to the south and south-west by Saudi Arabia and Jordan and to the north-west by Syria. The country covers an area of approximately 437,000km^2 (roughly the size of California) and has a short coastline of 56km which gives it access to the Persian Gulf. Iraq has three distinct topographical regions: the Mesopotamian plain south of Baghdad between the Tigris and Euphrates rivers, the desert plains of the north-west and south and the north-east uplands and the Kurdistan mountains.

The population of Iraq is approximately 32 million people, with Arabs forming between 75 per cent. and 80 per cent. of the country's population and Kurds forming between 15 per cent. and 20 per cent. (Source: CIA World Factbook: 2013-14).

Kurdistan is, in principle, made up of the three governorates of Duhok, Erbil and Sulaimaniyah but, as defined by the Iraqi Constitution and retained Articles from the antecedent Transitional Administrative Law of 2004, comprises all areas of Iraq under the jurisdiction of the KRG on 19 March 2003. As referred to below, the boundaries of the region are a matter of dispute, including, particularly, whether the Tamim governorate, including the Kirkuk area, forms part of Kurdistan. The region itself covers approximately 40,000km^2 – approximately twice the size of Wales and larger than the Netherlands. Kurdistan is geographically diverse, with its terrain ranging from hot plains to cooler mountainous areas. Currently, Kurdistan has a population of around 4 million people made up of several different ethnic groups, such as the Kurds, Assyrians, Chaldeans, Turkmen, Armenians and Arabs. The Kurdish language is in the family of Iranian languages, such as Persian and Pashto. There are two main dialects, Sarani and Kurmanji.

3. Governance of Iraq and Kurdistan

Iraq is a parliamentary democracy with a federal system of government. The Iraqi Constitution guarantees all Iraqis basic rights in many areas. The executive branch consists of the Presidency Council (one President and two Deputy Presidents) and a Council of Ministers (the "**Iraqi Cabinet**") (one Prime Minister, two Deputy Prime Ministers and 34 cabinet ministers). The President is the head of state, protecting the Iraqi Constitution and representing the sovereignty and unity of the state, while the Prime Minister is the direct executive authority and commander-in-chief. The current President and Prime Minister of Iraq are Jalal Talabani and Nouri al-Maliki, respectively.

The Council of Representatives is Iraq's legislature (the "**Iraqi Parliament**"). The Iraqi Parliament currently has 325 elected members. The most recent elections for the Iraqi Parliament were held in March 2010. In contrast to the December 2005 elections, which operated a closed regional party list electoral system, the 2010 elections were conducted under the open regional party list electoral system. Broadly, this allowed voters not only to cast a vote for a party, but also to indicate their preference for particular candidates on the regional party list.

In the 2010 elections, 10 Kurdish parties, including the Kurdistan Democratic Party (the "**KDP**") and the Patriotic Union of Kurdistan, together with a Turkmen party, the Turkmen Democratic Movement, stood as a coalition known as the Kurdistan Alliance and included their candidates on a single party list. Three other Kurdish parties (the Goran (Change) Movement, Kurdistan Islamic Union and the Islamic Group in Kurdistan) ran on separate party lists. The Kurdistan Alliance was allocated 43 seats and the other Kurdish parties were allocated a total of 14 seats in the Iraqi Parliament. Accordingly, Kurdish parties currently hold 57 seats in the Iraqi Parliament.

Kurdistan's legislature is the Kurdistan Parliament, a unicameral parliament with 111 seats. The executive body of Kurdistan is the KRG. The KRG cabinet and Prime Minister are selected by the majority party or list in the assembly. The President of Kurdistan is directly elected by the electorate. The current president is Massoud Barzani who was initially elected during the Iraq/Kurdistan 2005 elections and assumed office on 7 May 2006. Massoud Barzani was re-elected as President as a result of the regional elections that took place on 25 July 2009. The current Prime Minister of the KRG is Nechirvan Idris Barzani, who was appointed Prime Minister on 7 March 2012. The KRG is based in Erbil, the capital of Kurdistan.

As at the date of this document, Kurdistan does not have a formalised constitution. A draft constitution is awaiting approval by the KRG and a subsequent referendum in Kurdistan.

Politics in Kurdistan have long been dominated by the KDP, headed by Massoud Barzani, and the Patriotic Union of Kurdistan, headed by Jalal Talabani, the current President of Iraq. These two parties have worked together since 2003 and, in 2005, they formed the above-mentioned unified electoral coalition, the "Kurdistani Alliance", which won an estimated 70 per cent. of the vote in the 2009 regional elections. However, at this same election, the Goran (Change) Movement, a political party established in 2006, won about a quarter of the seats in the Kurdistan Parliament.

The parliamentary and presidential elections that took place on 25 July 2009 were monitored by more than 320 international observers from more than 35 organisations, all of which were registered with the Independent Electoral Commission of Iraq (the "**IECI**"), the national body overseeing and verifying electoral results. This included observers from the United Nations, the United States, Japan and the European Commission. Additionally, more than 30 international media outlets were accredited to observe and report on the election. The head of the Department of Foreign Affairs of the KRG acknowledged that it is important for the international community to be aware of the democratic process in Kurdistan. The IECI confirmed that the electoral process took place in accordance with international standards and that voter turnout was estimated at 78.5 per cent. of the nearly 2.5 million eligible voters.

Kurdistan held parliamentary elections on 21 September 2013 with the IECI reporting that the KDP garnered the most votes, with the Goran (Change) Movement second, followed by the PUK and two Islamist parties. As at the date of this document, a new government has not been formed following the September 2013 elections. It has been reported that the formation and announcement of a new government is imminent.

4. Kurdistan's relationship with the rest of Iraq

Kurdistan first gained autonomy from central Iraq in 1970, but the autonomy agreement collapsed five years later. As stated above, in 1991 (after the first Gulf War), Kurdistan became a *de facto* autonomous region, which is still the case today. On 30 June 2004, the Transitional Administrative Law recognised and reaffirmed the autonomous status of Kurdistan.

In 2005, the Iraqi Constitution was negotiated and was approved by the Iraqi people in a referendum on 15 October 2005. The Iraqi Constitution, which came into force in May 2006, contains a fundamental principle that Iraq is a single, federal, independent and fully sovereign state. Within this concept of the Iraq federation enshrined in the Iraqi Constitution, only Kurdistan is so far recognised as a region, although the Iraqi Constitution allows for future regions to be established. Nevertheless, the political issues of federalism and the autonomy of regions within Iraq are matters about which there are major differences between the various political factions in Iraq and between certain of these factions and the KRG. See Section B – "*The Iraqi and Kurdistani oil and gas industry*" for a discussion of the disputes relating to jurisdiction over the oil and gas sector.

In addition, according to the Iraqi Constitution, a referendum should be held (following a census) in the Kurdish-populated areas of certain Iraq governorates in northern Iraq (including Kirkuk) to determine whether they should be under Baghdad's control or form part of Kurdistan. The Iraqi Constitution states that that a referendum should be held no later than 31 December 2007; however, it has not taken place.

The Iraqi Constitution also provides that the demographics of the areas in question must be normalised and a census must be conducted before the referendum can take place. The Iraqi Government has postponed the proposed census and referendum several times, stating that it could create further instability within Iraq. The census was scheduled to take place in December 2010, but was postponed. It is currently uncertain when the census and referendum will be held. Because the constitutional deadline has already passed, the dates for the census and the referendum will have to be resolved through political negotiations, as constitutional guidance no longer applies in a clear-cut fashion.

The Directors will continue to monitor political events in Iraq and Kurdistan and assess their potential impact on the Group's business and interests within Kurdistan. Nonetheless, the Group cannot completely protect itself against title disputes in Kurdistan and Iraq. For further information, see Part 2: "*Risk Factors*".

5. Kurdistan's relationship with Turkey

Kurdistan shares a border with Turkey and has experienced periods of political friction with Turkey. A major cause of the political friction has been the terrorist activities of the PKK (an organisation which is listed as a terrorist organisation by states and organisations, including Turkey, the European Union and the United States). The government of Turkey has, in the past, authorised Turkey's military to make incursions into Iraq in order to carry out cross-border assaults, limited shelling and air strikes against the PKK. In October 2011, the Prime Minister of Turkey, Recep Tayyip Erdogan, ordered air strikes against PKK targets in Kurdistan.

In the spring of 2013, the PKK announced that it would cease its armed uprising against the Turkish government and withdraw its armed fighters from Turkey to northern Iraq. Although the pace of withdrawal has been slow and the ceasefire remains tentative, there is continued hope that PKK armed activities in Turkey will be relegated to the past.

There are markedly improving political relations between Turkey and Kurdistan. The first Turkish consulate in Kurdistan was officially opened in Erbil in March 2011 by Mr Erdogan, who also met with President Barzani on the same visit. The improving relationship between Kurdistan and Turkey has now opened up commercial opportunities for both parties. Turkish investment in Kurdistan is considerable and there exist close business and cultural relationships between the two. The KRG and Turkey signed an Energy Framework Agreement in March 2013. Since the signing of the agreement:

- independent exports of crude oil from Kurdistan have commenced by truck to the Mediterranean coast in Turkey where the crude was sold on behalf of the KRG on the international market. The Group began exporting crude oil by 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;
- a Turkish state-backed energy company has entered the upstream market in Kurdistan, signing six PSCs with the KRG and partnering with Exxon in a number of licences;
- Final completion of the independent oil export pipeline infrastructure from Kurdistan to Turkey occurred at the beginning of 2014 and on 8 January 2014, the MNR announced the commencement of the sale of its first shipment of crude oil exported via the regional pipeline to the international market through its own marketing firm, KOMO; and
- Turkey and the KRG have agreed a framework for the export of Kurdistan gas to the Turkish gas market with a formal gas sales agreement expected to be signed in 2014.

6. Kurdistan's relationship with the international community

Kurdistan is seeking to build strong relationships with the international community, as evidenced by recent visits by several diplomats to Kurdistan and the opening of several consulates in Erbil. Italy and the United States are the latest countries to open a consular office in Erbil and join other countries, such as France, Germany, Russia and the UK.

7. Iraq and Kurdistan's economy

Since May 2003, there has been significant post-war economic and financial recovery and the gross domestic product of Iraq as a whole has rebounded quickly following the conflict. Economic growth in Iraq is estimated to have reached 9 per cent. in 2008 but slowed down subsequently to 4 per cent. in 2009 and 1 per cent. in 2010 (Source: World Bank Group – August 2011).

In November 2004, the Paris Club, an informal group of official creditors from 19 of the world's wealthiest nations, announced the agreement of a deal to write off 80 per cent. of Iraq's debt, built up by the Saddam Hussein regime (which totalled around U.S.$120 billion), which will deliver U.S.$100 billion of debt relief to Iraq.

In December 2004, the World Trade Organisation agreed to open membership talks with Iraq. If Iraq joins the World Trade Organisation, it should open up other members' markets and would have the effect of making Iraq a more attractive option for foreign investment, which has been an important part of Iraq's reconstruction in the post-war years.

Like Iraq, Kurdistan's economy is highly dependent on the successful development of the region's petroleum sector. A liberal investment law ratified by the KRG in July 2006 offers foreign investors incentives, including customs relief, tax holidays and the freedom to repatriate profits. In August 2007, the Kurdistan Parliament passed the Kurdistan Oil and Gas Law, which the KRG contends is consistent with the Iraqi Constitution, allowing the KRG the authority to manage its oil and gas resources in Kurdistan.

Section B: The Iraqi and Kurdistani oil and gas industry

1. Overview of the oil and gas industry in Iraq and Kurdistan

The economies of Iraq and Kurdistan are highly dependent on the development, production and export of oil and gas. The oil sector currently provides Iraq with about 80 per cent. of its foreign exchange earnings and 90 per cent. of government revenue (Source: CIA World Factbook – August 2013–14). Iraq has an estimated 143.1 billion barrels of Proved Reserves of oil and 3.17 trillion cubic metres of Proved Reserves of gas (Source: CIA World Factbook – August 2013-14). The US Geological Survey estimates that Kurdistan holds as yet undiscovered hydrocarbons of approximately 40 billion barrels of oil and 60 trillion cubic feet of gas and that Iraq holds the world's fourth largest oil Reserves.

Iraq's high dependency on oil makes the economy vulnerable to fluctuations in the oil price and also to sabotage attacks on the oil infrastructure. However, the overall decrease in insurgent attacks and an improving security environment in many parts of Iraq are helping to stimulate economic activity. In particular, the relative security and stability of Kurdistan (when compared to the remainder of Iraq) has allowed Kurdistan to focus on procuring investment in the petroleum sector with foreign companies.

The first international oil and gas companies to enter Kurdistan following the Iraq invasion in 2003 were DNO, Genel Energy, Addax and WesternZagros. All signed exploration contracts with the KRG between 2004 and 2007 before the enactment of the Kurdistan Oil and Gas Law. These initial moves into Kurdistan proved successful. In 2005, DNO drilled the first new oil well in Kurdistan since the 2003 invasion at its Tawke field. Genel Energy and Addax began drilling at the Taq Taq field in 2006.

The next post-invasion phase in the development of oil and gas in Kurdistan followed the enactment of the Kurdistan Oil and Gas Law, when seven new PSCs were issued, with Gulf Keystone, OMV Group, MOL Hungarian Oil and Gas plc, Heritage Oil and Reliance Industries Limited taking the bulk of the exploration acreage. Over the last five years, approximately 45 international oil companies have operated under PSCs in Kurdistan, including Marathon Oil Corporation, Murphy Oil Corporation, Talisman Energy Inc., Sterling Energy plc, Korean National Oil Corporation, Sinopec International Petroleum Exploration and Production Corp., US-based Hunt Oil Company, Longford Energy, ShaMaran Petroleum, Oil Search Limited and Dana Gas. More recently, other large international oil companies, including Exxon Mobil, Total, Chevron, Gazprom, Hess Corporation, Repsol YPF and Maersk Oil have entered into PSCs in Kurdistan. This influx of foreign investment is in line with the policy of the Department of Foreign Relations in Kurdistan. This department, established in September 2006, is responsible for promoting the KRG's foreign relations policy and the stimulation of foreign investment.

2. Regulation of the Kurdistan oil and gas industry and validity of PSCs

The Iraqi Constitution came into force in 2006 and contains a list of those powers which are reserved exclusively for the Iraqi Government and a list of those powers which are shared by the Iraqi Government and the governments of the Iraqi regions. Jurisdiction over matters that are not within the exclusive powers granted to the Iraqi Government resides with the Iraqi regions and governorates. With regard to powers shared by the Iraqi Government and the Iraqi regional governments, priority is given to the laws of the regions and the governorates in the event of a dispute. Since jurisdiction over the awarding of oil and gas production agreements and management of oil and gas resources is not reserved exclusively to the Iraqi Government nor included in the list of matters in relation to which power is to be shared by the Iraqi Government and the Iraqi regions, the KRG contends that jurisdiction over oil and gas matters in Kurdistan falls under the KRG's jurisdiction. However, in relation to oil and gas, the Iraqi Constitution provides, amongst other things, that the "management of oil and gas extracted from present fields" is to be undertaken jointly between the Iraqi Government and the producing governorates and regional governments. What this means is debatable, as the Iraqi Constitution does not define the term "present fields", oil and gas extracted from which would be subject to joint management, and the Iraqi Constitution does not clarify what joint management would involve. Since joint management applies to oil and gas "extracted" from present fields, it would, arguably, apply only to fields that were producing at the time the Iraqi Constitution came into effect. In the case of Kurdistan, the only region of Iraq that is currently recognised by the Iraqi Constitution, none of the Company's fields were producing fields at the date the Iraqi Constitution came into force.

Accordingly, such fields in Kurdistan could arguably be excluded from the meaning of "present fields" in the Iraqi Constitution and, therefore, not be subject to the provision requiring joint management between the KRG and the Iraqi Government. As a result, the KRG contends that control over such fields lies with the KRG exclusively, rather than being subject to joint management or exclusive Iraqi Government control.

In February 2007, the Iraq Federal Oil and Energy Committee of the Iraqi Cabinet proposed the 2007 Draft Bill relating to the whole of Iraq, including Kurdistan. This asserts the jurisdiction of the Iraqi Government over oil and gas resources, but has not been enacted. Due to disagreements between various factions of the Iraqi Government, as well as the 2010 election in Iraq stalling the process, the 2007 Draft Bill remains to be passed. In August 2007, the KRG enacted the Kurdistan Oil and Gas Law asserting the jurisdiction of the KRG over oil and gas resources in Kurdistan. Since, as discussed above, the KRG contends that the provisions of the Iraqi Constitution support its view that it has jurisdiction in relation to oil and gas matters, the KRG asserts that the Kurdistan Oil and Gas Law is valid and consistent with the provisions of the Iraqi Constitution. The Iraqi Constitution provides that regional laws that relate to matters over which regional governments have jurisdiction, have priority over federal laws to the extent that the latter are inconsistent with the former. Under the Kurdistan Oil and Gas Law, the KRG Minister of Natural Resources has the authority to enter into contracts for the exploration, development and production of oil and gas subject to the approval of the Kurdistan region oil and gas council.

On the basis that the KRG has jurisdiction over oil and gas matters and the Kurdistan Oil and Gas Law is a valid law under the Iraqi Constitution, the Directors believe, based on Iraqi legal advice, that the PSCs entered into by the KRG under which approximately 45 international oil companies explore for, develop and produce oil and gas are valid. In addition, Article 141 of the Iraqi Constitution provides that, amongst other things, any contracts signed before the date of the Iraqi Constitution are valid, unless amended or annulled by a competent authority in Kurdistan or such contracts contradict the Iraqi Constitution. Accordingly, the Directors believe, based on Iraqi legal advice, that PSCs entered into prior to the date of the Iraqi Constitution are also valid under this express grandfathering provision, provided that they have been ratified or affirmed pursuant to the Kurdistan Oil and Gas Law. So far as the Directors are aware, although the Iraq Oil Ministry has publicly stated on several occasions that the PSCs entered into by the KRG are not valid, there has been no formal legal challenge to the KRG's contention, nor has any substantive legal case been put forward to contradict the KRG contention, which has been upheld by internationally respected legal opinions.

Although various drafts of a federal hydrocarbon law have been produced since 2007, none has been enacted and, at the present time, there seems no imminent prospect of its enactment, or, indeed, of a federal revenue sharing law on which a federal hydrocarbon law would be dependent.

3. Export payments

As noted above, the Iraq Oil Ministry has, historically, disputed the validity of PSCs entered into with the KRG. This stance has applied both to PSCs entered into prior to the date of the Iraqi Constitution (to which the Directors believe, based on Iraqi legal advice, that the "grandfathering" provision in Article 141 of the Iraqi Constitution applies, as explained above, subject to their affirmation pursuant to the Kurdistan Oil and Gas Law, and to PSCs granted by the KRG since 2005).

The dispute has impeded progress in the region. In May 2009, when the KRG announced the launch of oil exports from Kurdistan, the Iraq Oil Ministry reiterated its belief that the contracts signed with the KRG since August 2007 (when the KRG enacted the Kurdistan Oil and Gas Law) are "illegal and illegitimate" and it publicly stated that, out of principle, it opposes the PSCs which the KRG had signed prior to that date with DNO and Addax, who are developing the Tawke and Taq Taq fields. Exports were subsequently suspended from those fields in September and October 2009, respectively, amid uncertainty as to when and how contractors would be paid their entitlements under the PSCs (including cost recovery) for such oil exports.

With regard to export oil revenues, the revenues relating to all oil produced in Iraq (including from Kurdistan) has, hitherto, been collected in a single fund, which is administered by the Iraqi Government through SOMO. Under the Iraqi Constitution, the regions of Iraq, such as Kurdistan, are entitled to a portion of all revenues generated by Iraq. Historically, payments to the KRG pursuant to this entitlement have been set at a net 17 per cent. of such revenues. Part of the disagreement between the KRG and the Iraqi Government in the past has been on whether the costs of the extraction of oil in Kurdistan (including the costs incurred by contractors under the PSCs) should be taken from the KRG's 17 per cent. share or whether such costs should be deducted (and paid by the Iraqi Government to the contractors) prior to calculating that share. The ongoing uncertainty on this issue has meant that contractors in Kurdistan had not received payment for exported oil, and, as a result, the export of oil through the Iraqi Government controlled pipelines has been suspended since December 2012. Consequently, all crude oil produced in Kurdistan was either exported to Turkey, or sold locally for a significantly cheaper price than the international market price.

Since January 2013, Kurdistan has been independently exporting oil to Turkey by truck (as far as the Company is aware, based on the latest figures produced by the MNR, approximately 55,034 boepd was exported by truck during October 2013 from an aggregate production of approximately 239,030 boepd for this period). The Group began exporting crude oil by 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. Currently, the majority of the Group's oil production from the Shaikan Block is transported by a third party to the international market by truck. The third party also arranges for the sale of the oil to the international oil market and remits the revenue to the KRG and the Group after deducting transportation and handling fees. Domestic sales, at prices substantially less than international prices, are loaded onto trucks provided by the purchaser at the Shaikan production facilities where custody transfer of the crude oil takes place; domestic sales are either paid for in advance of lifting or with a maximum of one month's credit.

The current prospects for a rapprochement between the KRG and the Iraqi Government in respect of export payments are poor and in January 2014 the KRG commenced the export of oil produced in Kurdistan directly to Turkey through the regional pipeline infrastructure from Kurdistan to Turkey. On, 8 January 2014, the MNR announced the commencement of the sale of its first shipment of crude oil exported via the regional pipeline through to the international market through its own marketing firm, KOMO.

Through KOMO the KRG intends to collect revenues directly from the export of its petroleum. The legislation envisages that it will deduct its entitlement thereto before remitting the balance to the Iraqi Government. The legislation is also intended to enable the KRG to compensate its PSC contractors without dependence on funds from the Iraqi Government. The implementation of the law has been challenged by the Iraqi Government, although it appears that there is not an exclusive competency reserved to the Iraqi Government to licence and manage the export of petroleum.

PART 8

THE BUSINESS

Investors should read this Part 8: "The Business" in conjunction with the more detailed information contained in this document, including the financial and other information appearing in Part 11: "Operating and Financial Review".

1. Business overview

Introduction

The Company is an independent oil and gas exploration, development and production company with operations in Kurdistan. The Group is in the process of negotiating an orderly exit from the Ferkane PSC, its last remaining link to its historic operations in Algeria.

The Group's principal assets are held through the Company's wholly owned subsidiary, Gulf Keystone Petroleum International Limited ("**GKPI**"), which holds interests in four contiguous exploration blocks in Kurdistan – the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel Blocks. GKPI is the operator of the Shaikan and Sheikh Adi Blocks. Five discoveries have been made across the four blocks to date, including Shaikan, which is a Commercial Discovery and where first commercial production commenced in July 2013 and exports commenced in December 2013, Akri-Bijeel, where Commercial Discoveries were declared in October 2013 on both the Bijell-1 and Bakrman-1 well, and Ber Bahr, where a Commercial Discovery was declared in May 2013.

After GKPI was awarded its first two PSCs for the Shaikan and Akri-Bijeel Blocks in November 2007, and just prior to a significant discovery being made on the Shaikan Block in August 2009, the Group announced its intention to exit Algeria in order to focus on exploration, appraisal and production opportunities in Kurdistan. The Group is one of the most successful exploration companies and a leading oil operator in Kurdistan with a plan to become a major independent exploration and production company.

Key events in the Company's history

Key events in the Company's history are summarised below.

2001	
October	Company incorporated. Group begins operating in the Republic of Algeria.
2004	
September	Company's shares admitted to trading on AIM.
2007	
November	GKPI awarded its first two PSCs for the Shaikan and Akri-Bijeel Blocks by the KRG.
2009	
March	Ber Bahr PSC awarded by the KRG.
April	Shaikan-1, the Company's first exploration well in Kurdistan, spudded.
July	Sheikh Adi PSC awarded by the KRG.
	Group announced intention to exit Algeria.
August	Significant discovery made on the Shaikan Block.

2010	
March	Discovery made on the Akri-Bijeel Block with the Bijell-1 well (operator: MOL Hungarian Oil and Gas plc).
Early 2010	Group relinquished blocks 108 and 128b under the Ben Guecha Permit in Algeria.
August	First exploration well on the Sheikh Adi Block spudded.
October	Commencement of the Shaikan EWT early production operations.
2011	
January-December	5-well appraisal campaign for the Shaikan discovery.
Summer	Work on the Shaikan FDP commenced.
September	Group seeks buyer for its 20 per cent. interest in the Akri-Bijeel Block. Process ongoing as at the date of this Prospectus.
2012	
February	Transfer of the Company's interest in the Hassi Ba Hamou Permit in Algeria to BG Group plc.
April	Construction of the first Shaikan PF-1 commenced.
May	Second exploration well on the Sheikh Adi Block spudded.
	First exploration well on the Ber Bahr Block, completed drilling and initial testing (operator: Genel Energy plc).
August	Submitted a declaration of Commercial Discovery to the Shaikan Block Management Committee.
	First post-appraisal well on the Shaikan Block spudded.
September	Submission of the Shaikan Appraisal Report to the MNR.
October	Commencement of the trial in the English Commercial Court of claim asserted by Excalibur.
November	Discovery made on the Sheikh Adi Block (operator: GKPI).
2013	
January	Submitted the Shaikan FDP to the MNR.
January-December	Continuation of the exploration and appraisal programme on the Akri-Bijeel Block (Bijell discovery and Bakrman discovery).
February	Bakrman-1 (Akri-Bijeel Block) discovery (operator: MOL Hungarian Oil and Gas plc).
March	Sidetrack and retest of Ber Bahr-1.
	Spudded Bijell-2.
	The KRG and Turkey signed an Energy Framework Agreement.
May-December	Sheikh Adi Block seismic data acquisition and processing.
May	Ber Bahr-1 declared a Commercial Discovery (operator: Genel Energy plc).

June	Approval of the Shaikan FDP.
	Completed the construction of Shaikan PF-1.
	Spudded Shaikan-7 (first deep exploration well).
July	Commencement of commercial production from the Shaikan Block.
September	Dismissal of all claims asserted by Excalibur against the Group and Texas Keystone Inc.
October	Bijell-1 and Bakrman-1 (in the Akri-Bijeel Block) were declared Commercial Discoveries.
	Completion of Shaikan-10 (first development well).
December	Handing down of the full judgment of the Excalibur claim and confirmation of no further appeal by Excalibur.
	Commencement of the first tendered crude oil exports from the Shaikan Block by truck.
	Following Sheikh Adi-2 discovery, Sheikh Adi-3 appraisal well spudded.
	Spudded Bijell-4.
2014	
January	Commencement of the sale of crude oil exported via truck and the regional pipeline through Turkey to the port of Ceyhan.
	Application made under section 51 of the Senior Courts Act 1981 against Excalibur's funders to recover costs to the Excalibur proceedings.
March	Publication of ERC Equipoise Report in respect of the Kurdistan Blocks.

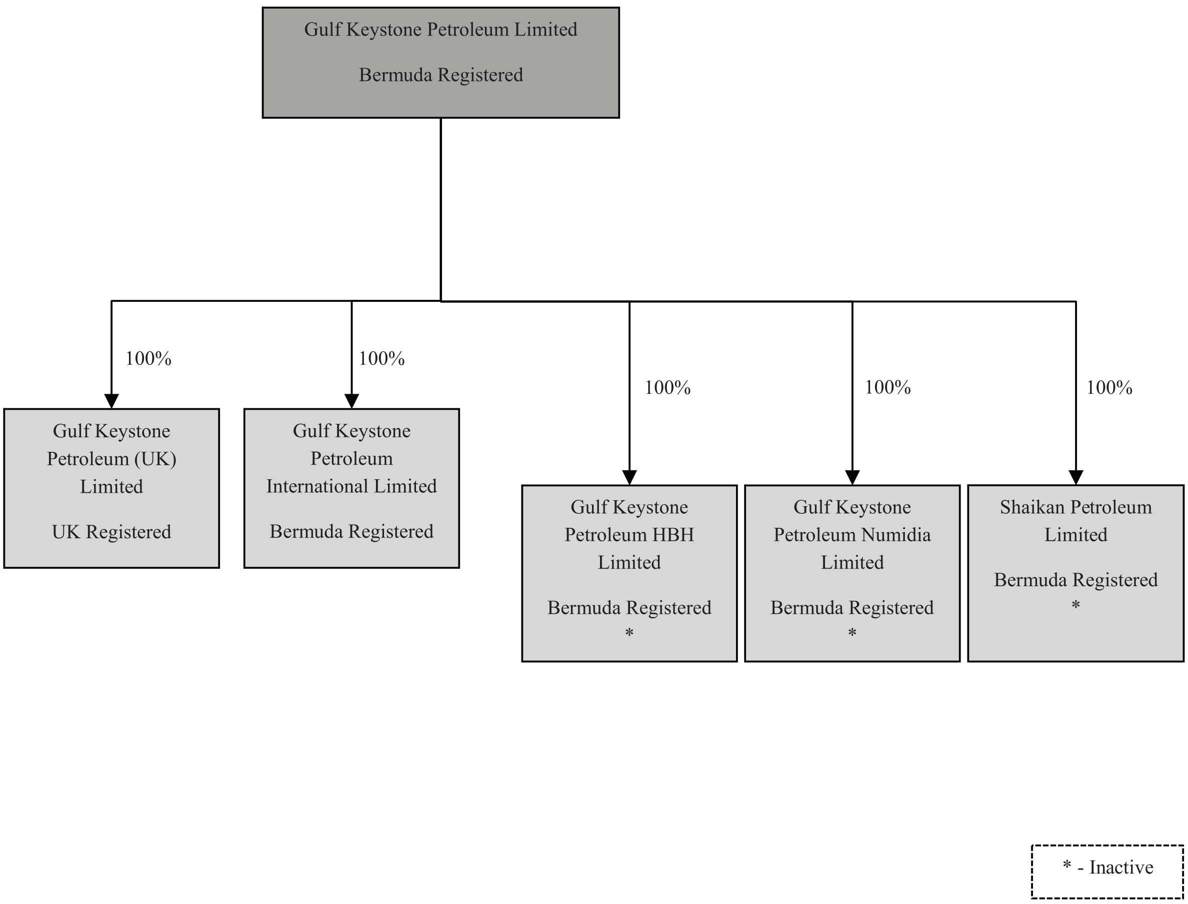
Group structure

The Company acts as the holding company of the Group. The Company has the following significant subsidiary undertakings:

Name of Subsidiary	*Place of incorporation and registered office*	*Issued share capital and proportion of ownership interest*	*Principal activity*
Active Subsidiaries			
Gulf Keystone Petroleum (UK) Limited	Great Britain 16 Berkeley Street Mayfair London W1J 8DZ UK	100 per cent. £2 (2 £1 Shares)	Geological, geophysical and engineering services and administration
Gulf Keystone Petroleum International Limited	Bermuda Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	100 per cent. U.S.$10,000 (10,000 U.S.$1 Shares)	Exploration, evaluation, development and production activities

Name of Subsidiary	*Place of incorporation and registered office*	*Issued share capital and proportion of ownership interest*	*Principal activity*
Inactive Subsidiaries			
Gulf Keystone Petroleum HBH Limited	Bermuda Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	100 per cent. U.S.$10,000 (10,000 U.S.$1 Shares)	Exploration and evaluation activities
Gulf Keystone Petroleum Numidia Limited	Bermuda Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	100 per cent. U.S.$10,000 (10,000 U.S.$1 Shares)	Exploration and evaluation activities
Shaikan Petroleum Limited	Bermuda Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	100 per cent. U.S.$10,000 (10,000 U.S.$1 Shares)	Exploration and evaluation activities

Group structure diagram



2. Key Strengths

The Directors believe that the Group has the following key strengths:

Extensive assets in highly prospective region and operator of one of the world's largest independent onshore developments

The Company's current focus is on development, exploration and production in Kurdistan where the Group is the operator of two of its four assets in Kurdistan, notably the Shaikan Block, a Commercial Discovery, as well as the adjacent Sheikh Adi Block, which is also a discovery. Kurdistan is a highly prospective oil province with very limited exploration and production activity prior to 2007 and where approximately 45 international oil companies are in operation today.

The Group has one of the largest acreage positions in Kurdistan with a total area of 1,560km^2 across four adjacent blocks where five discoveries, including the Shaikan, Akri-Bijeel (Bijell-1 and Bakrman-1) and Ber Bahr (Ber Bahr-1) Commercial Discoveries, have been made by the Group and its partners between August 2009 and November 2013. As operator of two of those assets, the Group has a degree of control (subject to the terms of its agreements relating to those assets) over exploration activity and flexibility to progress the relevant projects at the most advantageous rate and to the most appropriate point of value creation at any given time. The Group's assets in the region are at different stages of exploration, appraisal, early production and development.

With the Shaikan Commercial Discovery alone, the Group has one of the world's largest onshore conventional oil and gas developments with 163 MMstb of Proved plus Probable (2P) working interest oil Reserves on a fully diluted basis. The Directors believe that the Group's production from Shaikan and other discoveries, as they get appraised and developed, will make a significant contribution to the KRG's planned production of 1 million bopd in 2015 and 2 million bopd by 2019. The Directors also believe that the Group is well positioned to take advantage of developments in regional oil and gas infrastructure planning.

Proven track record of operational success in exploration and appraisal activities

To date, the Group has drilled or participated in 21 wells across the Kurdistan Blocks. On 19 of the wells, the operator has confirmed an encounter with hydrocarbons.

The Group's asset portfolio in the region retains significant remaining exploration potential, as demonstrated by the three additional discoveries made between October 2012 and May 2013. In addition to Shaikan, the Group has made four further discoveries in Kurdistan: the Bijell-1 and Bakrman-1 discoveries on the Akri-Bijeel Block; the Sheikh Adi-1 discovery; and the Ber Bahr-1 discovery. The discoveries at Bijell-1, Bakrman-1 and Ber Bahr-1 were later declared Commercial Discoveries.

Additional exploration potential of the Shaikan Block is currently being explored by the Shaikan-7 deep well, while exploration upside of the Sheikh Adi, Ber Bahr and Akri-Bijeel Blocks will be evaluated in 2014-2015.

Demonstratable field development, production and sales growth at Shaikan

Significant and rapid operational progress has been made at the Shaikan field since the Shaikan significant discovery in 2009, including the five-well appraisal programme and the preparation and approval of the Shaikan FDP by the MNR in June 2013. Commercial production from the Shaikan Block commenced in July 2013, as well as the development drilling campaign with the completion of the Shaikan-10 development well. Domestic sales were then achieved shortly after from the Shaikan Block in August 2013. The Group began exporting from the Shaikan Block in December 2013. Shaikan's production capacity is expected to increase up to 40,000 bopd by the end of 2014, once the Shaikan PF-2 has become operational. The Company intends to add a further 60,000 bopd of additional production capacity in order to reach the medium-term target of 100,000 bopd set for Phase 1 of the Shaikan FDP.

Strong stakeholder relationships in Kurdistan and Health, Safety, Security and Environment record

The Company fosters and maintains strong contacts within, and transparent and constructive relationships with, the KRG, the MNR and oil and gas industry participants in Kurdistan.

The Group seeks to employ Kurdistan nationals where practicable and has significantly increased its training initiatives for national staff, who now account for approximately 93 per cent. of the Group's workforce. The Group also maintains good relations with local communities. For example, the Group spends time working with local communities and their leaders to understand where the Group's assistance is most needed as well as supporting local employment and training initiatives. Additionally, the Company has fostered goodwill by taking corporate actions such as pledging U.S.$1.00 per each barrel of oil produced by the Group from 1 September 2013 for a period of one year to assist the KRG in their humanitarian relief effort.

The Company has developed robust processes and procedures, as well as a health, safety and environment (an "**HSE**") training programme to ensure health and safety practices. The Company has also established a Health, Safety, Security, Environment and CSR Committee to develop policies and guidelines for the management of health, safety, security, environmental risks and corporate social responsibility ("**CSR**") within the Group's operations.

The Company has also adopted a number of environmental improvement programmes, including its waste management, bio-remediation, evaporation and de-watering systems that meet international standards and benefit surrounding communities. The Group is also a leader among oil and gas operators in Kurdistan in the area of waste disposal, having developed a waste management initiative across the Shaikan and Sheikh Adi Blocks. The Group purchased and installed an industrial incinerator which meets European Union guidelines for air emissions, giving the Company the ability to monitor and control the disposal of all solid waste.

The Directors believe that these relationships, bolstered by their HSE initiatives, assist in maintaining the sustainability of the Group's operations in Kurdistan, its relationships with the KRG and the MNR, and make the Company an attractive partner for other oil and gas companies, which may provide competitive advantages in securing access to funding and to new investment opportunities in the future.

Stable, experienced management with technical expertise, especially in relation to Kurdistan

The Company's Senior Management and other senior operational staff have an extensive combined technical knowledge and geoscience expertise gained by working for a diverse range of oil and gas companies, including Shell, Occidental, Expro Group, Core Laboratories, Western Geophysical and Baker Hughes and Randall & Dewey. The Company's Senior Management also has a strong understanding of the oil and gas industry in Kurdistan and, more broadly, in Iraq. The Directors believe the Company has strong geology and geoscience teams that have been able to provide a competitive advantage to prospect selection resulting in efficient de-risking of frontier acreage and their history of operating in the region, and in these particular petroleum fields have given them a in-depth technical understanding of the particular technical challenges that they face in further developing their petroleum assets in Kurdistan.

3. Strategy

Following commencement of commercial production from the Shaikan Block, the Company's intention is to transition to being a significant oil producer while continuing to explore and appraise its existing acreage. The Directors believe that the Group's existing assets offer significant near-term production and medium-term exploration opportunities with significant resource potential, while revenues generated through increased production will be re-invested to grow the operations in Kurdistan and seek attractive business development opportunities internationally. The Directors believe that the Group's existing asset base and Senior Management team will contribute significantly to value growth for shareholders. The key elements of the Company's strategy for achieving this goal are set out below.

Ramp-up in commercial production and sales of oil from Shaikan

The Company is seeking to implement a large-scale, phased development of the Shaikan Block over the next five years. Initial production capacity of the Shaikan PF-1 and PF-2 is expected to increase up to 40,000 bopd by the end of 2014, and the Company intends to add a further 60,000 bopd of additional production capacity in order to reach the medium-term target of 100,000 bopd set for Phase 1 of the Shaikan FDP. The Company also plans to appraise the Sheikh Adi discovery, taking into account clear future synergies with Shaikan in terms of production facilities, infrastructure and logistics.

Become a self-funding business and maintain financial flexibility

The Group's financial strategy is to achieve and maintain a robust, well-funded business with the financial flexibility to fund high-impact exploration, appraisal and development programmes in order to realise the full potential of its oil resources. The Group plans to apply a cash-neutral approach to growing its current operations, including the Shaikan development drilling campaign, investment decisions on additional production facilities and infrastructure, and increased activity across the remainder of its operations in the region.

The Group may look to broaden its sources of funding while ensuring an appropriate capital structure. Allied to this, the Group intends to ensure that its cost base remains appropriate as it continues to build organisational capacity required for the implementation of the phase of large-scale development of Shaikan.

The Company's goal is to finance its future operational activities in full from revenues generated as a result of increasing production, primarily from the Shaikan Block, and steady oil sales into the domestic market in Kurdistan and to the international markets.

Further funds will become available to the Company in the event that the KRG exercises 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/or Akri-Bijeel PSCs (see also paragraph 17 "*Working capital*" of this Part 8).

Increase Reserves through further exploration and appraisal

The Company intends to continue the exploration, appraisal and development of the Shaikan, Sheikh Adi and Ber Bahr Blocks to provide further growth and realise Reserves potential. The Company plans to add a further 60,000 bopd of additional production capacity in order to reach the medium-term target of 100,000 bopd set for Phase 1 of the Shaikan FDP. In addition, the Group will drill its first appraisal well on the Sheikh Adi Block and continue targeting its additional exploration prospects.

Complete sale of its interest in Akri-Bijeel and orderly exit from Algeria to focus on core assets

In order to focus on the funding and effective management of its core assets, the Company continues to explore options for the disposal of the Group's 20 per cent. working interest in the Akri-Bijeel Block. In December 2011, it appointed corporate advisers responsible for the co-ordination of, and advice on, the process. The disposal process remains ongoing at the date of this Prospectus.

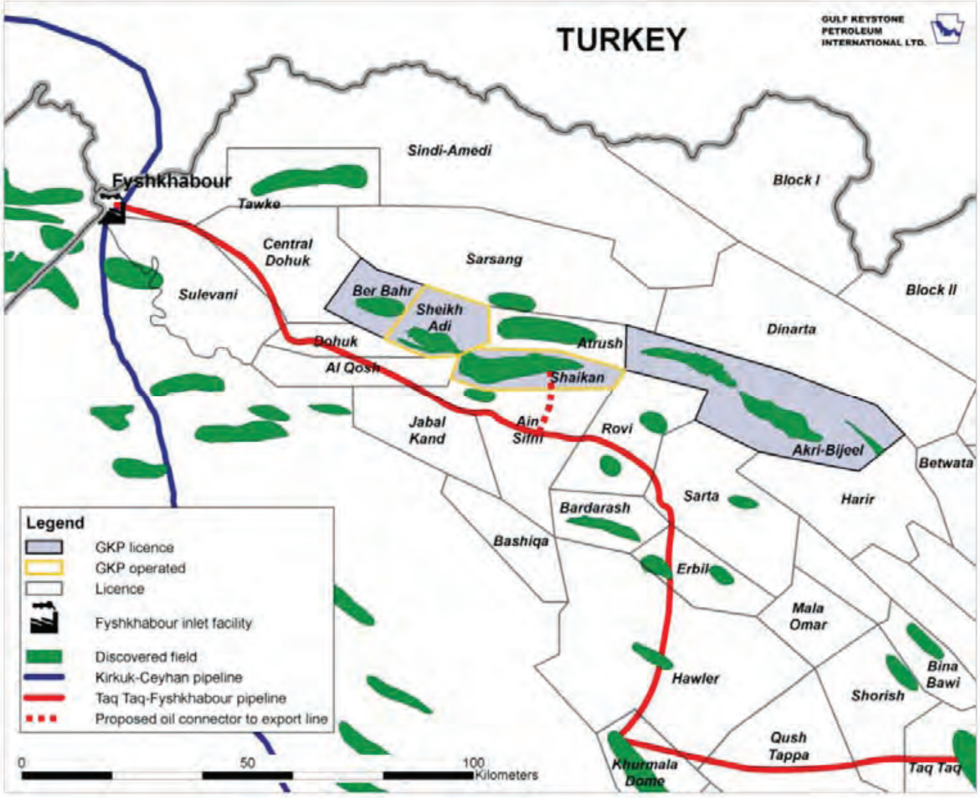
The Company is seeking an orderly exit from its obligations under the Ferkane PSC in Algeria and continues the discussions with Sonatrach in this regard.

4. Summary of key assets and operations

The Group is focused on oil exploration and production in Kurdistan, where a Commercial Discovery was made on the Company's Shaikan Block in 2012. Further discoveries were made on the Akri-Bijeel Block in 2010 and 2013, the Sheikh Adi Block in 2012 and Ber Bahr in 2013. In October 2013, declarations of Commercial Discoveries were made on both the Bijell-1 and Bakrman-1 wells on the Akri-Bijeel Block.

Taking into account current resource estimates for the Shaikan discovery and Akri-Bijeel, Ber Bahr and Sheikh Adi Blocks, today the Group has a share of gross mean oil-in-place resources of up to 19 billion barrels in one of the last frontier oil provinces in the world.

The following map shows the location of the Kurdistan Blocks:



The table below summarises details of each of the Kurdistan Blocks and the Group's ownership interest in them:

Block	*GKPI's working interest (per cent.)*	*GKPI's fully diluted interest (per cent.)*	*Partners and interest (per cent.)*	*Area (km^2)*
Shaikan Block[(2)]	75[(1)]	51[(3)]	Kalegran – 20 Texas – 5[(2)]	283
Sheikh Adi Block	80	80	The KRG – 20	180
Ber Bahr Block	40	40	Genel Energy plc – 40 (operator) The KRG – 20	208
Akri-Bijeel Block	20[(1)]	12.8	Kalegran – 80 (operator)	889

Notes:

(1) GKPI holding subject to the KRG back-in rights and third party options, further details of which are summarised under "Interest" in the summary of the Shaikan Block and Akri-Bijeel Block (below).

(2) Texas holds its interest in trust for GKPI, pending transfer of its interest to GKPI.

(3) Inclusive of Texas' holding, increases to 54.4 per cent.

Shaikan Block

Overview

The Shaikan Block is situated about 85km to the north-west of Erbil, covering an area of $283km^2$. The Shaikan PSC was awarded in November 2007. Since its significant discovery in 2009, the estimated size of the Shaikan field has significantly increased and now stands at Proved plus Probable (2P) gross field oil Reserves of 299 MMstb.

Geology

The Shaikan field is an anticline sitting at the north-west end of the Zagros Foldbelt, extending 30km from east to west and 10km from north to south. To date, the discovery well and five further appraisal wells have identified six oil-bearing reservoirs in the Cretaceous, Jurassic and Triassic, of which the most significant is the Jurassic reservoir with approximately 60 per cent. of the estimated resources.

The Jurassic consists of the Sargelu-Alan-Mus and Butmah reservoirs with some of these zones currently producing high gravity oil at rates of approximately 9,000 to 10,000 bopd at Shaikan-1 and Shaikan-3 combined. GKPI intends to concentrate initially on producing from the Sargelu-Alan-Mus reservoir. Shaikan-1 and Shaikan-3, were initially connected up to an EWT facility and produced from October 2010 until early May 2012 and from October 2012 until January 2013 via the EWT facility. The EWT facility was replaced by Shaikan PF-1 as noted below.

In the Cretaceous interval, the oil is very heavy or bituminous in nature and no pressure volume temperature experiment analysis has been reported. In the Jurassic interval the oil is medium to heavy with a gravity of between 16 and 19 ºAPI and relatively high in-situ viscosity. In the Triassic interval, hydrocarbons are light oil, with a gravity of between 36 and 57 degrees API, and gas. Associated gas contained within all intervals of the field has a high content of H2S and CO2.

Interest

The PSC between: (i) the KRG; and (ii) GKPI, Texas and Kalegran in respect of the Shaikan Block became effective on 6 November 2007. Texas now holds its interest in trust for GKPI, pending transfer of its interest to GKPI. GKPI is the operator under the Shaikan PSC.

Under the terms of the Shaikan PSC, the KRG holds the Shaikan Government Option (as defined and described in greater detail in paragraph 14 of Part 16: "*Additional Information – Material contracts*") to participate through a public company in the petroleum operations of the Shaikan Block. The Shaikan Government Option must be exercised in respect of an interest of between 5 and 20 per cent. and – subject to such extensions as may be agreed between the parties – within 180 days of the first Commercial Discovery being declared. In addition to the Shaikan Government Option, the KRG holds the Shaikan Third Party Option (as defined and described in greater detail in paragraph 14 of Part 16: "*Additional Information – Material contracts*") to nominate a third party to have an undivided interest of between 5 and 15 per cent. in the petroleum operations of the Shaikan Block. As at the date of the document, neither the Shaikan Government Option nor the Shaikan Third Party Option had been exercised but the Company and GKPI remained in discussions with the KRG about them being exercised. If the KRG exercised the Shaikan Government Option and the Shaikan Third Party Option in full, the fully diluted interest of GKPI would be 54.4 per cent (including the 5 per cent. interest held on trust by Texas for GKPI). The ERC Equipoise Report has been prepared on the assumption of full dilution.

See paragraph 14 of Part 16: "*Additional Information – Material contracts*" for details on the royalties payable and the profit shares of Profit Petroleum.

As described in greater detail in paragraph 14 of Part 16: "*Additional Information – Material contracts*", a Commercial Discovery was announced by the Company in August 2012 and, so, GKPI, Texas and Kalegran as contractors have the exclusive right to develop and produce such Commercial Discovery for a period of 20 years from the date of such Commercial Discovery, with an automatic right to extend for an additional period of five years.

Exploration and appraisal

GKPI completed the field appraisal programme for Shaikan following the completion of the Shaikan-5 and Shaikan-6 appraisal wells and the testing of Shaikan-6. Following this, GKPI and its partners, submitted a declaration of a Commercial Discovery, with effect from 1 August 2012, to the Shaikan Block Management Committee under Clause 12.6(a) of the Shaikan PSC. This was the first step in the process of the Group's transition from the exploration and appraisal phase to the large-scale staged development of the Shaikan field in 2013 onwards. Evaluation of the drilling results of Shaikan-6 continues. Further data and drilling will be required to evaluate the correct explanation for water encountered during flow-tests. Accordingly, Shaikan-6 side-tracking and re-testing is being planned.

Development and forward plan

Following approval of the Shaikan FDP on 25 June 2013, GKPI is moving into the first phase of field development, aiming to move production capacity from the initial planned 40,000 bopd to the medium-term target of 100,000 bopd set for Phase 1 of the Shaikan FDP. The Shaikan FDP estimates the cost of the full field development to be in the order of U.S.$9 billion to U.S.$13 billion gross, although a significant amount of that will be offset by revenue from production with the first 100,000 bopd of production estimated to cost less than 10 per cent. of that gross amount.

The Shaikan FDP involves the construction of two additional central processing facilities and the drilling of a large number of development wells in order to increase field production up to plateau rates and maintain the plateau during at least the first half of the production period allowed under the Shaikan PSC.

The Shaikan PF-1 was commissioned in July 2013 and is capable of producing at least 20,000 bopd. Shaikan PF-1 is connected to Shaikan-1, Shaikan-3 and Shaikan-4. Production operations from the newly commissioned Shaikan PF-1 commenced on 24 July 2013, which currently produces approximately 10,000 bopd. Shaikan PF-2 is currently being commissioned with first production from the Shaikan-2 and Shaikan-5 wells which have been tied into PF-2 expected in Q2 2014. The connection of Shaikan-10 to PF-2 will also be completed in Q2 2014. Together, Shaikan PF-1 and PF-2 will allow GKPI to achieve the Group's immediate short-term production capacity target of 40,000 bopd by the end of 2014. The Group began exporting crude oil by 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 PF-1.

Shaikan-8, the first post-appraisal well, spudded in the vicinity of the Shaikan-1 and Shaikan-3 wells/producers in August 2012. Shaikan-8 was drilled as a gas injector allowing the associated sour gas not used as fuel to be re-injected in a safe and environmentally responsible manner. The Group has put out to tender gas compressing equipment required to increase plant production capacity from the near-term target of 40,000 bopd to the first phase Shaikan FDP target of 100,000 bopd. The sour gas injection project is expected to be finalised in 2015. Shaikan-7, the first deep exploration well on the Shaikan Block, spudded on 16 June 2013. The well is being drilled with a Weatherford Rig 319 (3000HP) close to the crest of the Shaikan structure, approximately 1km east of the Shaikan-1 discovery well. Shaikan-7 is being drilled to the lower Triassic to evaluate the potential for significant quantities of light oil and to identify commerciality of the deeper Triassic reservoir. Drilling is currently below 2,600 metres in the upper Triassic. Shaikan-7 will drill into the Triassic and is then expected to penetrate the Permian, the deepest undrilled horizon to date on the Shaikan structure with a potential to add to already discovered resources, with first results expected in Q2 2014.

The Company commenced its development drilling programme with the spudding of Shaikan-10 on 5 July 2013 and its later completion. Shaikan-10 will be followed by a development and production drilling programme. The medium-term strategy of the Group is to move production capacity from the initial planned 40,000 bopd to the 100,000 bopd set for Phase 1 of the Shaikan FDP, which would require significant additional capital expenditure. The commencement of this additional expenditure, however, will be entirely conditional upon the Group's ability to achieve consistent and significant commercial production, sales and cash receipts up to 40,000 bopd and will only become committed and commence once further financing has been secured.

Estimated Reserves and resources

The ERC Equipoise Report estimates that gross field Reserves from the first phase of the development of the Jurassic interval of the Shaikan Block, comprising 26 production wells, are 198 MMstb (Proved), 299 MMstb (Proved plus Probable) and 389 MMstb (Proved plus Probable plus Possible) and 47 MMstb (Proved), 58 MMstb (Proved plus Probable) and 67 MMstb (Proved plus Probable plus Possible) on the basis of GKPI's net entitlement. The remaining volumes have been classified as Contingent Resources, contingent only upon refinement of the additional phases of the development at which time the further amounts being developed and recovered commercially will be reclassified as reserves. The gross field Contingent Resources on a best estimate basis as estimated by ERC Equipoise in the ERC Equipoise Report for the Jurassic interval amount to 440 MMstb (best estimate) of oil and 164 Bscf (best estimate) of solution gas (239 MMstb (best estimate) and 89 Bscf (best estimate) on a working-interest basis). The reported Contingent Resources for the Shaikan triassic interval are 138 MMstb (best estimate) of oil and 411 Bscf (best estimate) of gas. GKPI's working interest is 75 MMstb and 224 Bscf respectively.

See paragraph 7 of Part 3: "*Presentation of Financial and Other Information – Reserves and resources reporting – basis of preparation*" and paragraph 7 "*Summary of key information from the ERC Equipoise Report*" in this Part 8 together with Part 19: "*Competent Person's Report*".

Infrastructure

In the short term, the Group will rely on transportation of oil for export by truck. However, this is more expensive and is likely to be a less safe, secure and environmentally sound transportation channel than transport by pipeline. Transportation by truck also has a more limited capacity than transport via a pipeline, although the Group anticipates that the available capacity to export oil by truck will be sufficient to absorb the production capacity of Shaikan PF-1 and PF-2 (expected to be up to 40,000 bopd by the end of 2014). The Group began exporting crude oil by 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 PF-1.

The KRG has constructed an independent oil export pipeline to the border with Turkey, which was completed at the beginning of 2014 and is expected to have an initial capacity of 300,000 bopd rising to 1 million bopd capacity by 2015. Further, the Company anticipates reaching an agreement with the MNR in relation to the construction of a spur pipeline and blending facilities to connect the Shaikan Block to the export oil pipeline, but completion is not expected until at least 2015.

There is currently a limited market for natural gas in Kurdistan and Iraq as a whole and very limited infrastructure to enable companies in Kurdistan to sell or export gas. Uncertainties also exist in relation to the agreement of a universal revenue sharing and payment mechanism for sales of any form of natural gas.

Sheikh Adi Block

Overview

The Sheikh Adi Block covers an area of 180km^2 and lies to the west and on trend with the Shaikan structure. The Sheikh Adi PSC was awarded in July 2009.

Interest

See paragraph 14 of Part 16: "*Additional Information – Material contracts*" for details on the royalties payable and the profit shares of Profit Petroleum.

Geology

Sheikh Adi is a faulted structure with a single major fault. The Cretaceous interval interpreted as oil-bearing from logs includes the Samord, Garagu and Chia Gara formations, which comprise a mixture of dolomite and limestone, and are often argillaceous and shaley. These intervals are oil-bearing in both the hanging wall and the footwall.

Exploration and appraisal

Exploration

The first exploration well on the Sheikh Adi Block spudded on 4 August 2010 and then drilled to a total depth of 3,800 metres and tested.

Sheikh Adi-2, the second exploration well on the Sheikh Adi Block, spudded in May 2012. The well is located immediately to the west of the Shaikan Block and 1.45km to the north of Sheikh Adi-1. The location for this well was selected as a result of the analysis of extensive 3D seismic data acquired over the block in 2010 and 2011. By drilling Sheikh Adi-2, GKPI was looking for a well-developed system of natural fractures similar to Shaikan. Sheikh Adi-2 was drilled to a measured depth of 2,754 metres, following which we successfully tested four out of seven target reservoir zones at measured depths of between 1,420 metres and 1,700 metres, achieving total stabilised aggregate flow rates of 4,345 bopd of approximately 15 to 17 degrees API gravity across the Upper Butmah, Adaiyah, Mus and Sargelu formations in the Jurassic. The oil gravity is similar to that found in the same formations in the Shaikan Block.

Appraisal

The Company notified the MNR of the Jurassic discovery in November 2012. In early 2013, the Company and the KRG, its partner in the Sheikh Adi Block, agreed to move to an appraisal programme. Furthermore, GKPI plans to target two additional exploration leads, comprising potential extensions of the Atrush and Swara Tika discoveries, following the planned acquisition of 111.4km of additional 2D seismic data which was completed in September 2013 and the processing was completed in December 2013. Sheikh Adi-3, the first appraisal well, spudded in December 2013. Sheikh Adi-3 is being drilled with the Weatherford 842 rig to target the Jurassic and Triassic with an additional aim to test the potential connection between the Sheikh Adi Block and Shaikan Block. The well is currently operating 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 it enters the Triassic. The Directors believe that the Shaikan field shows signs of a significant extension into the Sheikh Adi Block.

The ERC Equipoise Report estimates 152 MMstb (best estimate) of gross field oil Contingent Resources and 36 Bscf (best estimate) of solution gas in the Jurassic formation (with GKPI's working interest being 122 MMstb (best estimate) and 29 Bscf (best estimate) respectively).

See paragraph 7 of Part 3: "*Presentation of Financial and Other Information – Reserves and resources reporting – basis of preparation*" and paragraph 7 "*Summary of key information from the ERC Equipoise Report*" in this Part 8 together with Part 19: "*Competent Person's Report*".

Infrastructure and forward plan

GKPI intends to appraise the Sheikh Adi discovery and continue to target additional exploration prospects on the block, taking into account potential future synergies with the Shaikan Block in terms of production facilities, infrastructure and logistics.

Ber Bahr Block

Overview

The Ber Bahr Block covers an area of 208km^2 and lies to the north-west and on trend with the Shaikan and the Sheikh Adi Blocks. The Ber Bahr PSC was awarded in March 2009.

Interest

See paragraph 14 of Part 16: "*Additional Information – Material contracts*" for details on the royalties payable and the profit shares of Profit Petroleum.

Geology

The Cretaceous interval interpreted as oil-bearing from logs includes the Samord, Garagu and Chia Gara formations, which comprise a mixture of dolomite and limestone, and are often argillaceous and shaley.

Exploration and appraisal

Ber Bahr-1, the first exploration well on the Ber Bahr Block, completed drilling and initial testing in May 2012. The well was drilled to a total depth of 3,933 metres in the Chia Zairi formation. According to Genel Energy plc, the operator, the well encountered a 300 metre oil column in the Jurassic with matrix porosity of 17 per cent., but two drill stem tests over the interval failed to flow and yielded inconclusive results, with evidence of perforations plugged with heavy oil.

In order to determine the commercial viability of the well, the operator drilled a side-track in early 2013. In May 2013, the Ber Bahr-1 well made a Commercial Discovery achieving a sustainable flow rate of 2,100 stb per day of 15 degree API oil from the Middle Jurassic age Sargelu formation. A 3D seismic survey is currently underway and is planned for completion in mid-year 2014. Ber Bahr-2, an appraisal well, is planned to spud in Q4 2014.

The ERC Equipoise Report estimates 22 MMstb (best estimate) of gross field unrisked oil Contingent Resources in the Triassic formation and 4 Bscf of gross field gas Contingent Resources in the Jurassic prospect (with GKPI's working interest being 9 MMstb (best estimate) and 2 Bscf of solution gas (best estimate)). Oil has also been found in the Cretaceous interval, but information is insufficient to ascertain whether or not the oil is moveable, and consequently, ERC Equipoise has estimated volumes of oil in place but has not reported resources for the Cretaceous.

See paragraph 7 of Part 3: "*Presentation of Financial and Other Information – Reserves and resources reporting – basis of preparation*" and paragraph 7 "*Summary of key information from the ERC Equipoise Report*" in this Part 8 together with Part 19: "*Competent Person's Report*".

Forward plan

The operator has also stated its intention to begin a phased development of the field. Appraisal plans include acquiring 160km^2 of 3D seismic data in the third quarter of 2013 followed by an appraisal well (Ber Bahr-2) in early 2014. The operator expects early oil production to begin from the middle of 2014.

Akri-Bijeel Block

Overview

The Akri-Bijeel Block is situated to the east of the Shaikan Block and covers an area of 889km^2. The Akri-Bijeel PSC was awarded in November 2007.

Geology

The Cretaceous interval comprises largely limestone and marl with frequent dolomite and shale. Occasional sand beds occur in the Chia Gara. The Jurassic and Triassic intervals comprise a typical mix of dolomite and anhydrite with occasional limestone and shale.

Interest

See paragraph 14 of Part 16: "*Additional Information – Material contracts*" for details on the royalties payable and the profit shares of Profit Petroleum.

Exploration and appraisal

The first exploration well on the Akri-Bijeel Block, Bijell-1 well made a discovery on 9 March 2010, with a flow rate of 3,200 bopd of 18 degrees API oil (and 150 boepd of gas) from the Upper Jurassic.

Significant progress was achieved in 2012 in the extensive exploration and appraisal programme of the massive Akri-Bijeel Block by the operator, Kalegran, a 100 per cent. subsidiary of MOL Hungarian Oil and Gas plc. Most notably, a new Triassic discovery was made with the Bakrman-1 exploration well in February 2013. This is the second discovery on the block following the Bijell discovery made in 2010.

Commercial Discoveries were announced by the Company in November 2013 on both the Bijell-1 and Bakrman-1 wells and so GKPI and Kalegran as contractors have the exclusive right to develop and produce such Commercial Discovery for a period of 20 years from the date of the Commercial Discovery, with an automatic right to extend for an additional period of five years. Following the declaration of commerciality, appraisal drilling continues and work is ongoing on 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.

Bakrman-1, the first exploration well to target the Bakrman structure on the block, spudded in May 2012, 32km to the north-west of the Bijell-1 discovery well. The Bakrman structure is a large anticline in the western portion of the Akri-Bijeel Block and appears to be on trend with the nearby Atrush discovery, which is immediately to the north of the Shaikan Block. The well was drilled to a total depth of 4,100 metres in the Kurra Chine B formation in the Triassic, following which a well-testing programme commenced, targeting reservoir zones in the Jurassic and Triassic. According to the operator, the second open hole well test performed at 3,930 to 4,100 metres MD (measured depth) in the Kurra Chine B formation in the Triassic resulted in calculated daily flow rates of approximately 2,616 bopd of light oil (32 to 35 degrees API gravity) and a gas rate of approximately 5.86 million standard cubic feet per day continuing long-term reservoir deliverability. A side track well bore in the Jurassic level resulted in a dry test.

Bijell-3, the first well to appraise the Bijell discovery, spudded in January 2012. It has been drilled 8km to the north-west of the Bijell-1 discovery well and 26km to the south-east of the Bakrman-1 discovery well to a total depth of 4,980 metres in the Sarki formation in the Lower Jurassic. Bijell-3 did not encounter commercial inflow of hydrocarbons, thus marking the northern boundary of the field discovered by the Bijell-1 well. Bijell-1B is a side-track well in the Sargelu formation in the Jurassic tied into the EWT facility for the Bijell discovery. Construction and commissioning of an EWT facility for the Bijell discovery commenced in 2012 and was completed in Q2 2013. Initial flow rates of 3,500 bopd of 23 degrees API oil have been recorded. Kalegran expects that production from the Bijell EWT facility will reach its full capacity of 10,000 bopd of export quality crude by the end of 2014. The extensive appraisal programme of the Bijell discovery continues with Bijell-2 spudded in March 2013 and Bijell-4 spudded in December 2013. Bijell-2 is a deep appraisal well which, after reaching the Triassic horizons of the Bijell discovery is planned to be tied into the EWT by the end of August. Bijell-4 is an appraisal well targeting the Jurassic horizons of the Bijell discovery is currently drilling below 2,800 metres in the Tanjero formation. Two further appraisal wells are scheduled to spud in Q2 2014: Bijell-6 and Bakrman-2, with the Bakrman-3 appraisal well scheduled for Q4 2014.

The acquisition of 200km^2 of 3D seismic data is continuing.

ERC Equipoise estimates that the gross field Contingent Resources for: (i) Bijell are 41 MMstb (best estimate) of oil and 10 Bscf (best estimate) of solution gas (with GKPI's working interest being 5 MMstb (best estimate) of oil and 1 Bscf (best estimate) respectively) and (ii) Bakrman are 2 MMstb of oil (best estimate) and 3 Bscf (best estimate) of solution gas with GKPI's working interest being 0 MMstb (best estimate) and 0 Bscf (best estimate) respectively). While there is evidence of oil in the Cretaceous in both Bijell and Bakrman, the limited technical data available has precluded quantitative assessment such that oil initially in place has not been quantified.

See paragraph 7 of Part 3: "*Presentation of Financial and Other Information – Reserves and resources reporting – basis of preparation*" and paragraph 7 "*Summary of key information from the ERC Equipoise Report*" in this Part 8 together with Part 19: "*Competent Person's Report*".

Forward plan

The Company continues to explore options for the disposal of its 20 per cent. working interest in the Akri-Bijeel block and appointed corporate advisers in December 2011 who are responsible for co-ordination of, and advice on, the process. The disposal process remains ongoing at the date of this Prospectus.

5. PSCs relating to key assets

GKPI holds PSCs for the four Kurdistan Blocks. See paragraph 4 "*Summary of key assets and operations*" in this Part 8 for a description of the assets covered by the PSCs.

See paragraph 14 of Part 16: "*Additional Information – Material contracts*" for detail on the contractual terms of the PSCs, including the economics of the PSCs. The PSCs are similar with respect to the processes and timelines in which exploration and exploitation are to be approved by the KRG and conducted by the relevant operator.

The PSCs set forth similar mechanisms and formulae for the KRG to participate in exploration and exploitation activities, the royalties payable to the KRG and the profit-sharing formula between the contractors and the KRG (which includes the KRG's entitlement to 40 per cent. of GKPI's entitlement to

Profit Petroleum (further details of which are set out in paragraph 14 of Part 16: "*Additional Information – Material contracts*"). The only material differences are:

(i) the signing bonuses paid to the KRG;

(ii) the cost recoverability of certain expenses;

(iii) the presence or absence of back-in rights and third party options for the KRG; and

(iv) the minimum work commitment.

Furthermore, the Shaikan FDP was approved on 25 June 2013, permitting GKPI to move into the first phase of field development for the Shaikan Block.

See also the risk factor entitled "*The Group cannot completely protect itself against legal risks relating to disputes regarding title or exploration and production rights*" in Part 2: "*Risk Factors*".

6. Algeria

The Group started operating in the Republic of Algeria in 2001 acquiring exploration and appraisal rights over six blocks and two producing fields, totalling approximately 17,600km^2. In July 2009, the Group announced its intention to undertake a strategic exit from Algeria in order to focus on its extensive operations in Kurdistan. In early 2010, the Group relinquished blocks 108 and 128b under the Ben Guecha Permit. In February 2012, the Company announced that the Algerian government and Sonatrach approved an agreement reached in 2010 between the Company and BG Group plc, the operator, providing for the transfer of the Company's interests in the Hassi Ba Hamou Permit to BG Group plc.

The Group is currently in negotiations with Sonatrach to seek an orderly exit from its obligations under the Ferkane PSC.

7. Summary of key information from the ERC Equipoise Report

In June 2013, the Company commissioned an independent competent persons report on its oil and gas assets by ERC Equipoise in respect of the Kurdistan Blocks. The full report is set out in Part 19: "*Competent Person's Report*".

The summary tables below have been extracted without material adjustments from the ERC Equipoise Report. The following information does not purport to be complete and is derived from, qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing in Part 19: "*Competent Person's Report*".

There are numerous risks and uncertainties inherent in estimating quantities of oil and gas Reserves and resources and the future cash flows attributed thereto. See paragraph 7 of Part 3: "*Presentation of financial and other information – Reserves and resources reporting – basis of preparation*"

Reserves, Contingent Resources and Prospective Resources

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development projects applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates as: Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P).

Contingent Resources entail more commercial risk than Reserves and adjustments for commercial risks have not been incorporated in the summaries of Contingent Resources set forth in this document. Although discovered, there is no certainty that it will be commercially viable to produce any portion of the Contingent Resources. Moreover, the volumes of Contingent Resources reported herein are very sensitive to economic assumptions, including capital, operating costs and commodity pricing. Removal of the contingency that allows classification of Reserves may have a material effect on the assignability of the Company's

Contingent Resources. Contingent Resources are further categorised in accordance with the level of certainty associated with the estimates as 1C, 2C and 3C.

Prospective Resources entail more commercial and exploration risks, as they are not yet discovered, than those relating to Reserves and Contingent Resources. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to the timing of such development.

The following tables use pricing and other assumptions based on "*Chapter 9: Review of Economic Parameters*" of the ERC Equipoise Report which can be found at Part 19: "*Competent Person's Report*".

Summary table of oil classified as Reserves

Oil Reserves shown in the below table are for the first phase of the development of the Jurassic interval of the Shaikan Block, comprising 26 production wells:

		Gross Field Oil Reserves (MMstb)			*GKP WI (per cent.)*	*GKP Working Interest Oil Reserves (MMstb)*			*GKP Net Entitlement Oil Reserves (MMstb)*		
Field	*Formation*	*1P*	*2P*	*3P*		*1P*	*2P*	*3P*	*1P*	*2P*	*3P*
Shaikan	Jurassic	198	299	389	54.4	108	163	212	47	58	67

Notes:

(1) "Gross Field Reserves" are 100 per cent. of the volumes estimated to be economically recoverable from the field from 31 December 2013 onwards.

(2) "GKP Working Interest (WI) Reserves" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs this asset.

(3) "GKP Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the contractor's share of profit oil under the PSC terms in Kurdistan.

(4) GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments.

(5) The evaluation of Net Entitlement Barrels includes an additional entitlement from "Tax Barrels" arising from the deemed Corporate Income Tax under the PSC paid on GKPI's behalf from the Government's share of Profit Petroleum.

(6) The working interest used in this report for the Shaikan PSC is 54.4 per cent., comprising the fully diluted interest of GKP (51.0 per cent.) plus the fully diluted interest of Texas (3.4 per cent.) which is held in trust for GKP.

Summary table of oil classified as Contingent Resources

		Gross Field Oil Contingent Resources (MMstb)			*GKP WI (per cent.)*	*GKP WI Oil Contingent Resources (MMstb)*		
Field	*Formation*	*1C*	*2C*	*3C*		*1C*	*2C*	*3C*
Shaikan	Cretaceous	36	124	373	54.4	20	68	203
	Jurassic	153	440	980		83	239	533
	Triassic	55	138	273		30	75	149
Sheikh Adi	Jurassic	66	152	273	80.0	53	122	218
Ber Bahr	Jurassic	10	22	38	40.0	4	9	15
Bijell	Jurassic	10	41	155	12.8	1	5	20
Bakrman	Triassic	0	2	6	12.8	0	0	1
Totals		330	919	2,098		191	518	1,139

Notes:

(1) "Gross Field Contingent Resources" are 100 per cent. of the volumes estimated to be economically recoverable from the field without any economic cut-off being applied.

(2) "GKP Working Interest (WI) Contingent Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.

(3) Contingent Resources are estimates of volumes that might be recovered from the field under as yet undefined development scheme(s). It is not certain that the fields will be developed or that the volumes reported as Contingent Resources will be recovered.

(4) The volumes reported here are unrisked in that they have not been multiplied by a chance of development.

(5) The working interest used in this report for the Akri-Bijeel PSC (Bijell and Bakrman) is the fully diluted interest of 12.8 per cent.

Summary table of gas classified as Contingent Resources

		Gross Field Gas Contingent Resources (Bscf)			GKP WI (per cent.)	GKP WI Gas Contingent Resources (Bscf)		
Field	*Formation*	*1C*	*2C*	*3C*		*1C*	*2C*	*3C*
Shaikan	Cretaceous	0	0	0	54.4	0	0	0
	Jurassic	77	164	304		42	89	166
	Triassic	157	411	880		86	224	479
Sheikh Adi	Jurassic	16	36	65	80.0	13	29	52
Ber Bahr	Jurassic	2	4	7	40.0	1	2	3
Bijell	Jurassic	2	10	36	12.8	0	1	5
Bakrman	Triassic	1	3	9	12.8	0	0	1
Totals		255	628	1,301		142	345	706

Notes:

(1) "Gross Field Contingent Resources" are 100 per cent. of the volumes estimated to be economically recoverable from the field without any economic cut-off being applied.

(2) "GKP Working Interest (WI) Contingent Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.

(3) Contingent Resources are estimates of volumes that might be recovered from the field under as yet undefined development scheme(s). It is not certain that the fields will be developed or that the volumes reported as Contingent Resources will be recovered.

(4) The volumes reported here are unrisked in that they have not been multiplied by a chance of development.

(5) Gas Contingent Resources are estimates of recoverable hydrocarbon gas volumes and exclude any non-hydrocarbon volumes that might be produced.

(6) The working interest used in this report for the Akri-Bijeel PSC (Bijell and Bakrman) is the fully diluted interest of 12.8 per cent.

(7) To the extent that gas is flared after the effective date of this report, the gas Contingent Resources reported for Shaikan Jurassic will be reduced.

Summary table of unrisked oil classified as Prospective Resources

	Gross Field Unrisked Oil Prospective Resources (MMstb)			GKP WI	GKP WI Unrisked Oil Prospective Resources (MMstb)			COS (per cent.)
Prospect	*Low*	*Best*	*High*	*(per cent.)*	*Low*	*Best*	*High*	
Sheikh Adi Jurassic HW	3	5	12	80.0	2	4	10	80
Sheikh Adi Triassic	38	84	202	80.0	30	67	162	80
Ber Bahr Triassic	14	55	186	40.0	6	22	74	80

Notes:

(1) Prospects are features that have been sufficiently well defined through analysis of geological and geophysical data that they are considered drillable targets.

(2) "Gross Field Unrisked Prospective Resources" are 100 per cent. of the volumes estimated to be recoverable from an accumulation.

(3) "GKP Working Interest Prospective Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.

(4) The geological chance of success (COS) reported here is an estimate of the probability that drilling the Prospect would result in a discovery as defined under the PRMS.

(5) Prospective Resources reported here are "unrisked" in that the volumes have not been multiplied by the COS.

(6) Sheikh Adi Triassic and Ber Bahr Triassic intervals intersected by the wells are classified as Prospective Resources. No successful flow tests have been achieved, precluding their classification as discoveries (and Contingent Resources).

(7) Further Prospective Resources have been identified in the Akri-Bijeel PSC area. However, these are sub-classified as Leads due to immaturity and have not been quantified in this report.

8. Litigation

For details of certain recent litigation relating to the Group, see paragraph 18 of Part 16: "*Additional Information – Litigation*".

9. Anti-corruption policies

Due to the nature of the industry sector and the regions in which the Group operates, the Group is potentially exposed to accusations of poor practice when it comes to the requirements introduced by the UK Bribery Act 2010. Violations of this Act may result in a criminal case against the Company, GKPI and/or the Company's employees, leading to reputational damage, possible imprisonment and fines. The Group believes that it 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.

A detailed bribery risk assessment has been performed and reviewed by the Board with measures to mitigate the risks identified and implemented. Additionally, PwC performed an independent UK Bribery Act 2010 compliance review during 2013 and their recommendations have been considered by the Audit Committee.

10. Health, safety, security and the environment

The safety of the Company's employees, contractors and those in the local communities in which it operates is critical to the effective running of its operations. The Company has developed processes and procedures, as well as an HSE training programme and a Health, Safety, Security, Environment and CSR Committee to ensure health and safety practices are of the highest standard.

See also "*Strong stakeholder relationships in Kurdistan and Health, Safety, Security and Environment record*" under paragraph 2 of this Part 8.

11. Competition

The Directors believe that the primary competitors of the Company are the approximately 45 other independent exploration and production companies operating in Kurdistan. While GKPI, along with its partners, have exclusive access to the acreage within the Kurdistan Blocks pursuant to the terms of the Kurdistan PSCs, the Group faces competition for local personnel, services and infrastructure from other companies operating in Kurdistan.

12. Corporate social responsibility

By implementing a number of local employment and training initiatives, the Company expects to ensure the sustainability of its operations in Kurdistan through the skills of its workforce.

The Company has adopted a number of environmental improvement programmes, including its waste management, bio-remediation, evaporation and de-watering systems that meet international standards and benefit surrounding communities. See also "*Strong stakeholder relationships in Kurdistan and Health, Safety, Security and Environment record*" under paragraph 2 of this Part 8.

13. Insurance

The Group's operations are subject to numerous operating risks normally associated with exploration activities. The Directors believe that its existing insurance coverage is reasonable to cover all general material risks associated with the Company's operations (and that of the operators of assets in which it has an interest).

14. Employees

In the past three financial years, the Group has employed, on average, the following numbers of people:

Category of activity	*2010*	*2011*	*2012*
Office and management	43	41	63
Technical and operational	108	98	88
Total	151	139	151

As of 18 March 2014, being the latest practicable date prior to the publication of this Prospectus, the number of employees of the Group in: (i) office and management and (ii) technical and operational roles was 82 and 150 respectively.

15. Properties, leases, plant and drilling equipment

The Group's material assets are its exploration and exploitation claims, licences and permits, further details of which are contained in this Part 8 and in paragraph 14 of Part 16: "*Additional Information – Material contracts*".

16. Tax

Further details relating to taxation are set out in Part 15: "*Taxation*".

17. Working capital

The Company is of the opinion that the Group does not have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

Following commencement of first commercial production in July 2013, commencement of domestic sales in August 2013 and commencement of crude oil exports and sales in December 2013 from the Shaikan Block, the Company has entered a critical phase in its development as it transitions from pure explorer to oil producer. The Company's initial focus and current committed capital work programme is to increase sales from the Shaikan Block to up to 40,000 bopd by the completion and commissioning of Shaikan PF-1 and PF-2. The Company also intends to continue the Group's exploration, appraisal and early development of the Sheikh Adi and Ber Bahr Blocks to provide further growth and realise Reserves potential.

The Group is dependent on its existing cash resources, which totalled U.S.$81.9 million at 31 January 2014, together with production revenues from its interest in the Shaikan Block in order to meet its future working capital requirements. Existing cash resources at 31 January 2014 include the £16.9 million reimbursement of the Group's litigation costs by Excalibur, which was received in early January 2014. Further litigation costs may be recovered as discussed in paragraph 18 of Part 16: "*Additional Information – Litigation*", but receipt of these further amounts has not been assumed as part of the Group's working capital calculation.

Existing cash resources may be enhanced over the next 12 months from the date of this document 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.

Whilst the Company believes that one or more of the above events are likely to occur, if none of these events occur, and the Company is unable to otherwise enhance its existing cash resources, then the Directors would expect the Company to require additional working capital by the end of May 2014. On that basis, the

Company would be expected to have a shortfall of approximately U.S.$20 million by the end of May 2014, which would increase throughout the working capital period by between U.S.$10 million and U.S.$15 million per month, on average, until 31 January 2015, where an estimated maximum cash deficit of approximately U.S.$103 million would be reached. Subsequent to this date, the cash deficit is forecast to decrease. These shortfalls are calculated on a reasonable worst-case scenario basis with the Company applying available mitigations. This conservative scenario assumes:

- completion of the current committed capital work programme including the completion and commissioning of Shaikan PF-1 and PF-2 and the continuation of exploration and appraisal activities on the Sheikh Adi and Ber Bahr blocks;
- sales increasing from current rates to 40,000 bopd gross in January 2015 at a realised price of U.S.$38.50 per barrel;
- no sales for a three month period during mid-2014;
- no further capital spend on Akri-Bijeel from 1 June 2014; and
- average operating, administrative and finance cash costs of U.S.$8 million per month.

The Company believes that the total proceeds from the exercise of the Government and Third Party Options as described above would be approximately U.S.$100 million at 1 January 2014. Whilst potential proceeds from the sale of Akri-Bijeel are unknown, the asset's carrying value in the Group's financial statements as at 30 June 2013 was U.S.$77.3 million; any disposal would provide further working capital. Therefore, if such events were to occur, including further consistent oil production and export sales from Shaikan, and payments in relation to them were received, the Company believes that this would remove any working capital shortfall for its present requirements, that is, for at least the next 12 months from the date of this document. If only one of these events occurs in the next 12 months from the date of this document, this would significantly reduce any potential additional working capital shortfall and, depending on the final proceeds from the event, potentially remove it completely.

In order to address this potential shortfall, the Company is currently seeking additional, cost-effective financing. In view of the Company's growing track record of oil production and sales, any such funding is expected to constitute third party debt financing in the form of one or more of: (i) high yield bonds, (ii) debt financings converting to reserve based loans or commodity backed loans or (iii) a corporate revolving loan facility. The Company is seeking to raise additional debt financing on favourable terms by the end of April 2014 should it be necessary or desirable to do so, on the basis of detailed discussions with potential lenders, following the publication of the ERC Equipoise Report contained within this Prospectus.

As mentioned above, the Group is in negotiations to finalise the availability of suitable third party debt finance. However, given that there is a cost to service any additional financing and better commercial terms may become available to the Company for a debt financing as further consistent production and oil sales are achieved by the Group from the Shaikan Block, the Company will only enter into financing arrangements when it believes the best possible terms are available and/or when capital requirements dictate.

The Company's preferred funding of any potential shortfall is via third party debt financing. However, if such debt financing is not available, or not available on appropriate terms, the Company would also look to achieve funding via a further equity-linked or equity financing.

The Company has a strong record of obtaining equity and equity-linked financing having achieved a number of successful fundraisings since its listing on AIM. Most recently, the Company undertook an issue of convertible bonds in November 2013 in a principal amount of U.S.$50 million. The convertible bonds were issued on the same terms (save for issue price) as, and have been consolidated with, the Company's existing convertible bonds, issued in October 2012 which raised U.S.$275 million gross and provided sufficient funds for the Group's 2012/13 work programme.

The ability or otherwise of the Group to demonstrate a track record of production, sales and cash receipts consistently reaching significant levels is likely to impact the Group's ability to obtain additional financing and the commercial terms on which this financing is available. Whilst the Company is confident of securing additional financing, it cannot be certain as to the timing of new financing becoming available on commercially acceptable terms or that financing will be available at all.

Failure to obtain additional financing and/or realise anticipated future revenues or receive back costs in relation to Shaikan or Akri-Bijeel, and/or disposal proceeds in the case of Akri-Bijeel, may result in the Group being unable to meet its exploration and development work programme obligations, which could have a material adverse effect on the business, prospects, financial condition and results and operations of the Group. Failure to obtain funding could ultimately, lead to the insolvency of the Company.

Further, it is noted that if the Company is to provide operational resilience and flexibility to ensure continued production at rates of at least 40,000 bopd over the medium term, to avoid having to apply the available mitigations referred to above and to start to move production capacity up to 100,000 bopd, it expects that it would require additional funds in the region of U.S.$250 million, or around U.S.$150 million in excess of the described shortfall. This additional potential funding over and above the shortfall in working capital would allow the Company the choice to continue the appraisal of the Akri-Bijeel block, generate additional well capacity and commit to a third production facility.

The medium-term strategy of the Group is to move production capacity from the initial planned 40,000 bopd to 100,000 bopd from the Shaikan block which would require significant additional capital expenditure. The commencement of this additional expenditure, however, will be entirely conditional upon the Group's ability to achieve consistent and significant commercial production, sales and cash receipts up to 40,000 bopd and will only become committed and commence once further financing has been secured.

18. Dividend policy

The Company has never declared or paid any dividends on the Common Shares. The Company currently intends to retain future earnings, if any, for future operations, expansion and debt repayment, if necessary. Therefore, at present, there is no intention to pay dividends and a dividend may never be paid. Any decision to declare and pay dividends will be made at the discretion of the Board and will depend on, among other things, the Group's results of operations, financial condition and solvency and distributable reserves tests imposed by corporate law and such other factors that the Board may consider relevant.

PART 9

DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

1. Directors

The following table lists the names, positions and ages of the Directors and the year they were appointed:

Name	*Age*	*Position*	*Appointed*
Simon Murray	73	Non-Executive Chairman	2013
Todd F Kozel	47	Chief Executive Officer	2001
John B Gerstenlauer	61	Chief Operating Officer	2008
Ewen Ainsworth	51	Finance Director	2008
Jeremy Asher	55	Non-Executive Deputy Chairman	2013
Mark Hanson	61	Non-Executive Director	2011
Lord Guthrie	75	Non-Executive Director	2011
Thomas Shull	62	Non-Executive Director	2013
John Bell	48	Non-Executive Director	2013
Philip Dimmock	67	Non-Executive Director	2013
Andrew Simon	68	Non-Executive Director and Senior Independent Director	2013

Simon Murray *(Non-Executive Chairman)*

Simon Murray was appointed to the Board as Non-Executive Chairman in 2013. He is the founder and current Chairman of GEMS Limited, a private equity investment group operating across Asia. Previously, Mr Murray led Jardine Matheson's engineering and trading operations from 1966 to 1980, after which he set up Davenham Investments, a project advisory company. From 1984 until 1993, Mr Murray was group managing director of Hutchison Whampoa, leading its entry into the mobile telecommunication business, developing its energy business and expanding its container and port operations. Mr Murray served as a member of the Hutchison Whampoa Board until May 2007. From 1994 to 1997, Mr Murray was the Executive Chairman of Deutsche Bank Group for the Asia Pacific region. Mr Murray is currently a member of the board of directors of a number of public companies, including, IRC, Essar Energy, Orient Overseas, Wing Tai Properties and Greenheart. Mr Murray was a Non-Executive Director of Vodafone between July 2007 and July 2010. In 1993, Mr Murray was appointed a CBE in honour of his contribution to the Hong Kong community. Mr Murray has also been awarded the Order of Merit of the French Republic and is a Chevalier de la Légion d'honneur. He holds an honorary BA degree in law from Bath University and attended the Stanford Executive Programme (SEP) in the US.

Todd F Kozel *(Chief Executive Officer)*

Todd Kozel co-founded the Company where he serves as the Chief Executive Officer. In 1988, Mr Kozel founded Texas Keystone Inc., an independent oil and gas exploration, development and production company, headquartered in Pittsburgh, USA. Mr Kozel served as Texas Keystone's President from 1995 to 2004 and has served as a director since 1988.

John B Gerstenlauer *(Chief Operating Officer)*

John Gerstenlauer joined the Company in October 2008 from BASF's Wintershall Nederland Group, The Hague, where he was Managing Director. A US citizen, Mr Gerstenlauer holds Bachelor of Science degrees in Marine Biology and Civil Engineering and a Master of Science degree in Ocean Engineering. He has written numerous technical papers on petrophysical topics and drilling techniques. Mr Gerstenlauer's oil and gas industry career began when he joined Shell Coastal Division, New Orleans, as a Petrophysical Engineer in 1979. 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. Mr Gerstenlauer returned to Shell Offshore East and Coastal Divisions, New Orleans in 1989 as Production Superintendent before transferring to Shell Oil subsidiary Pecton do Brasil Ltd as Engineering Manager in 1990, and then in 1993 he was seconded to Canadian Occidental Yemen as Operations Manager. At Canadian Occidental Yemen, Mr Gerstenlauer managed the project from start-up to full production of 210,000 bopd. In 1996, Mr Gerstenlauer joined UMC Petroleum firstly as International Engineering Manager and then International Operations Manager, focused mainly on West African offshore projects. Following UMC's planned takeover by Ocean Energy in 1998, Mr Gerstenlauer 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 was appointed as Finance Director of the Company in January 2008. Mr Ainsworth has over 20 years of experience in finance roles within the oil and gas industry. Prior to joining the Company, Mr Ainsworth was Finance Director of the London AIM-listed Europa Oil & Gas (Holdings) plc. Mr Ainsworth has held increasingly senior finance positions within a number of oil and gas companies, including Conoco (U.K.) 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. Mr Ainsworth 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, Mr Ainsworth 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.

Jeremy Asher *(Non-Executive Deputy Chairman)*

Jeremy Asher is Chairman of Agile Energy Limited, a privately held energy investment company; Chairman of Tower Resources plc, an AIM-listed oil explorer; a director of Pacific Drilling SA, an NYSE-listed operator of ultra-deepwater drill-ships, where he chairs the Remuneration Committee; and a director of Oil Refineries Limited, a TASE-listed refiner and petrochemical producer. From 2008 until 2010, Mr Asher was Deputy Chairman of Gulf Keystone Petroleum Ltd, and chaired its Audit Committee. As at the date of this document, Mr Asher had been reappointed as Deputy Chairman. He is also a member of the London Business School's Global Advisory Council 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 275,000 bopd 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.

Lord Charles Ronald Llewelyn Guthrie *(Non-Executive Director)*

Field Marshal the Lord Guthrie of Craigiebank, GCB, LVO, OBE, DL, was appointed as a Non-Executive Director of the Company in September 2011 and as the Deputy Chairman in September 2013. As at the date of this document, Lord Guthrie had stepped down as Deputy Chairman and continues in the role of Non-Executive Director. Lord Guthrie served in the British Army from 1957 to 2001. From 1997 to 2001, he was Chief of the Defence Staff and the Principal Military Adviser to two Prime Ministers and three Secretaries of State for Defence. He was, for 10 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 2009 and is currently a Director of Sciens Capital (US), Colt Defense (US), Rivada Networks and 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 was previously President of The Army Benevolent Fund until April 2012 and is currently President of Action Medical 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.

Mark Hanson *(Non-Executive Director)*

Mark Hanson was appointed as a Non-Executive Director of the Company 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. Mr Hanson 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. Mr Hanson 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.

Thomas Shull *(Non-Executive Director)*

Thomas Shull is currently Chief Executive of the Army and Air Force Exchange Service (the "**Exchange**"). The Exchange is the 47th largest retail organisation in the US with current revenue of U.S.$10 billion and employing 43,000 civilians. It manages retail outlets on military installations in all 50 US states, five US territories and more than 30 other countries, including 44 facilities operating in the Middle East. Mr Shull 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, he 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 to 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.

John Bell *(Non-Executive Director)*

John Bell has been a senior oil executive for over 20 years, working on and delivering conventional and non-conventional upstream oil projects for major oil companies, including BP, Statoil AS and Suncor Energy plc. Between 2008 and 2010, Mr Bell headed BP's new multi-billion dollar developments in Egypt and, between 2010 and 2012, he was managing director of Suncor Energy plc's exploration and production business in Syria, significantly increasing reserves and substantially improving the internal rate of return on these operations worth over U.S.$1 billion, while also successfully negotiating additional licences. Since 2012, he has been Chief Executive of Babylon Petroleum, a private-equity-backed exploration company with a focus on Iraq and Africa. He holds a B.Eng. Hons. from the University of Strathclyde, and attended the Executive Leadership Program at the Haas Business School at UC Berkeley.

Philip Dimmock *(Non-Executive Director)*

Philip Dimmock 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. Mr Dimmock 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. He 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.

Andrew Simon *(Non-Executive Director and Senior Independent Director)*

Andrew Simon has extensive public company experience, having served on the boards of some of the UK's leading companies. Andrew spent 23 years with the Evode Group plc, including two years as the corporate planning director and 21 years as the Managing Director and Chairman. He holds an MBA from Wharton School of Finance in Philadelphia and has a diversified range of Non-Executive Director and chairman positions. He is currently a Non-Executive Director of Travis Perkins plc, a FTSE100 company where he is Chairman of the Remuneration and Health & Safety committees and a Non-Executive Director of Management Consulting Group plc, where he is Chairman of the Remuneration Committee and a member of the Audit and Risk and the Nominations Committees. In addition, Mr Simon has previously been Deputy Chairman of Dalkia plc, and has also held Non-Executive Directorships with Severn Trent plc, Ibstock plc, Laporte plc, Associated British Ports Holdings plc and Brake Bros Holdings Ltd.

2. Senior Managers

The Company's current Senior Managers, in addition to the Directors listed above, are as follows:

Name	*Age*	*Position*	*Appointed to current position*
Chris Garrett	61	Vice President Operations	2004
Tony Peart	63	Legal and Commercial Director and Business Development Officer	2009
Umur Eminkahyagil	45	Country Manager, Kurdistan	2012
Mohamed Messaoudi	59	Country Manager, Algeria	2007

Chris Garrett *(Vice President Operations and Managing Director, UK)*

Chris Garrett joined the Company in 2004 as Managing Director of the UK entity and Operations Manager for Algeria. Mr Garrett'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 29 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.

Tony Peart *(Legal and Commercial Director and Business Development Officer)*

Tony Peart joined the Company in 2008 and has over 32 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 Master's degree in General Management from the Vlerick Leuven Gent Management School and has completed the Programme for Management Development at the Harvard Business School.

Umur Eminkahyagil *(Country Manager, Kurdistan)*

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

Mohamed Messaoudi *(Country Manager, Algeria)*

Mohamed Messaoudi is a petroleum geologist with 34 years of experience in the oil and gas industry in Algeria. Mr Messaoudi 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 Mr Messaoudi'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.

3. Corporate Governance

Board of Directors

The Board currently comprises 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. Jeremy Asher, Thomas Shull, John Bell and Philip Dimmock were each elected as a 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.

The Board has a written schedule of reserved matters for which it is responsible. 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.

Board meetings are held on a regular basis, outside the UK, and no decision of any consequence is made other than by the Directors. All Directors participate in the key areas of decision-making, including the appointment of new Directors, through the Remuneration and Nominations Committees.

The Board is responsible to Shareholders for the proper management of the Group. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information.

There is no agreed formal procedure for the Directors to seek independent professional advice, but, pursuant to the terms of their letters of appointment, the Non-Executive Directors may, where appropriate, take independent professional advice at the Group's expense.

Under the Bye-Laws, all Directors submit themselves for re-election every three years at the annual general meeting. There are no specific terms of appointment for Non-Executive Directors.

The Company's Board committees are constituted as follows:

	Chairman	Members
Audit Committee	Mark Hanson*	Andrew Simon, Jeremy Asher and John Bell
Remuneration Committee	Andrew Simon	Simon Murray, John Bell and Mark Hanson
Nominations Committee	Simon Murray	Lord Guthrie, Jeremy Asher, Todd Kozel, Philip Dimmock, John Bell, Andrew Simon, Mark Hanson and Thomas Shull
Health, Safety, Security, Environment and CSR Committee	Philip Dimmock	John Gerstenlauer and Thomas Shull

*Note: Mark Hanson is stepping down as Chairman of the Audit Committee following the meeting of the Audit Committee in March 2014 to approve the audited financial statements of the Company for the year ended 31 December 2013. Philip Dimmock will become Chairman of the Audit Committee from that date.

The Audit Committee

The Audit Committee currently comprises the four Non-Executive Directors. The key governance mandates of the committee are as follows:

- To review the integrity of the Group's financial reporting and significant financial accounting estimates and judgements;
- To monitor the effectiveness of the Group's risk management framework systems and internal financial controls;
- To advise the Board on the appointment of the external auditor and on the remuneration for both audit and non-audit work;
- To discuss the nature and scope of the audit with the external auditor;
- To assess the performance, independence and objectivity of the external auditor and any supply of non-audit services; and
- To consider any requirements for internal audit, including determining the scope and effectiveness of such internal audit, and reviewing management's response to its findings.

The Remuneration Committee

The Remuneration Committee currently comprises four Non-Executive Directors. The key governance mandates of the committee are as follows:

- To make recommendations to the Board on the Company's framework of executive remuneration and its cost;
- To review the ongoing appropriateness and relevance of remuneration policy;
- To recommend to the Board targets for any performance-related pay schemes and for approval of the quantum of the Group's annual variable compensation and the annual compensation packages for individual Executive Directors and Senior Managers;
- To engage and liaise with external advisers, as necessary, on the appropriateness of the recommended variable and fixed compensation packages and to ensure that any contractual terms on termination and any payments made, are fair to the individual and the Company; and
- To maintain a dialogue with Shareholders on remuneration.

In the last quarter of 2013, the Remuneration Committee engaged Deloitte LLP to provide an analysis of the Company's historical remuneration practice and payments to Executive Directors and external market context and, in light of this review, to comment on the current remuneration framework and remuneration policy. The Directors, Tony Peart and Chris Garrett waived any potential short term bonuses in respect of the

Group's 2013 performance, and the Group did not issue any share options or LTIP awards in 2013 to such persons.

The Remuneration Committee has engaged PriceWaterhouseCoopers from the beginning of 2014 to advise on the Group's remuneration policy.

The Nominations Committee

The Nominations Committee currently comprises all Non-Executive Directors and the Chief Executive Officer. The key governance mandates of the committee are as follows:

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

The Health, Safety, Security, Environment and CSR Committee

The Health, Safety, Security, Environment and CSR Committee currently comprises three Directors, including two Non-Executive Directors. The key governance mandates of the committee are as follows:

- To develop policies and guidelines for the management of health, safety, security, environmental risks and corporate social responsibility ("**CSR**") within the Group's operations;
- To evaluate the effectiveness of the Group's policies and systems for identifying and managing health, safety, security, environmental risks and CSR within the Group's operations;
- To assess the policies and systems within the Group for ensuring compliance with applicable legal and regulatory requirements;
- To assess the performance of the Group with regard to the impact of health, safety, security, environmental and CSR decisions and actions upon employees, communities and other stakeholders. It shall also assess the impact of such decisions and actions on the reputation of the Group and make recommendations to the Board on areas for improvement;
- To ensure all Group employees and sub-contractors are provided with relevant information and training to work safely;
- To evaluate and oversee, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning health, safety, security, environmental and CSR issues; and
- To review the results of any independent audits of the Group's performance in regard to health, safety, security, environmental and CSR matters, review any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board concerning the same.

Corporate governance regime

The Company is not subject to a code of corporate governance in its country of incorporation, Bermuda.

As a consequence of the Common Shares being admitted to the standard segment of the Official List, the UK Corporate Governance Code, published by the Financial Reporting Council (the "Code"), will not apply to the Company. However, the Board recognises the importance of good corporate governance and has considered the principles and recommendations set out in the Code.

The Company intends to voluntarily observe all of the requirements of the Code. However, at Admission the Company will not be fully compliant with the Code which recommends that at least half of a company's board, excluding the chairman, should be independent in character and judgment.

4. Conflicts of interest

There are no potential conflicts of interest between any duties owed by the Directors or Senior Managers to the Company and their private interests or other duties.

PART 10

SELECTED FINANCIAL INFORMATION

The selected financial information relating to the Group set out below has been extracted, without material adjustment, from the financial statements contained in Part 13: "Historical Financial Information". The selected financial information below should be read in conjunction with the whole of this document.

	Six months ended 30 June (unaudited)		*Years ended 31 December (audited)*		
	2013	*2012*	*2012*	*2011*	*2010*
			(U.S.$'000s)		
Consolidated Income Statement:					
Continuing operations					
Revenue	–	15,472	32,190	6,919	808
Cost of sales	–	(15,472)	(32,190)	(6,919)	(808)
Gross profit	–	–	–	–	–
Other operating expenses					
Impairment of assets held for sale	–	–	–	(10,000)	–
General and administrative expenses	(19,256)	(34,061)	(82,137)	(60,350)	(32,595)
Loss from operations	(19,256)	(34,061)	(82,137)	(70,350)	(32,595)
Other gains and (losses)	(543)	4,064	5,210	5,791	5,940
Interest revenue	463	805	1,199	1,239	192
Finance costs	(6,537)	(254)	(4,456)	(473)	(348)
Loss before tax	(25,873)	(29,446)	(80,184)	(63,793)	(26,811)
Tax (charge)/benefit	(528)	(1,915)	(1,638)	1,437	819
Loss after tax for the year	(26,401)	(31,361)	(81,822)	(62,356)	(25,992)
Loss per share (cents)					
Basic	(3.06)	(3.68)	(9.61)	(8.01)	(4.17)
Diluted	(3.06)	(3.68)	(9.61)	(8.01)	(4.17)
Condensed Consolidated Statement of Comprehensive Income:					
Loss for the period	(26,401)	(31,361)	(81,822)	(62,356)	(25,992)
Exchange differences on translation of foreign operations	(1,973)	89	1,010	(250)	(154)
Total comprehensive loss for the period	(28,374)	(31,272)	(80,812)	(62,606)	(26,146)

	Six months ended 30 June (unaudited)		Years ended 31 December (audited)		
	2013	2012	2012	2011	2010
			(U.S.$'000s)		
Condensed Consolidated Balance Sheet:					
Non-current assets					
Intangible assets	196,906	454,755	546,229	360,005	223,824
Property, plant and equipment	445,431	2,339	2,285	4,295	4,102
Deferred tax asset	4,464	5,613	6,796	7,977	4,106
Current assets					
Assets classified as held for sale	77,283	44,923	64,612	35,840	10,441
Inventories	30,062	18,856	19,783	17,233	14,423
Trade and other receivables	11,870	8,984	23,674	8,594	3,663
Liquid investments	–	6,428	8,600	29,528	10,177
Cash and cash equivalents	141,156	130,437	253,713	208,103	201,268
Derivative financial instruments	–	1,893	207	1,838	659
Total assets	907,172	674,228	925,899	673,413	472,663
Current liabilities					
Trade and other payables	(85,837)	(79,158)	(90,872)	(58,199)	(39,103)
Current tax liabilities	(17)	(1,612)	(444)	(712)	(320)
Provisions	(4,185)	–	(4,185)	–	–
Liabilities directly associated with the assets classified as held for sale	(1,217)	–	–	–	–
Derivative financial instruments	(410)	(349)	(168)	(358)	–
Non-current liabilities					
Convertible Bonds	(246,165)	–	(243,495)	–	–
Provisions	(12,178)	(5,456)	(9,044)	(8,070)	(6,399)
Total liabilities	(350,009)	(86,575)	(348,208)	(67,339)	(45,822)
Net assets	557,163	587,653	577,691	606,074	426,841
Equity					
Share Capital	7,962	7,848	7,847	7,627	6,628
Share premium account	793,609	791,480	791,479	790,435	593,470
Share option reserve	34,779	45,852	29,280	34,065	20,468
Convertible Bonds reserve	22,852	–	25,485	–	–
Exchange translation reserve	(1,524)	(472)	449	(561)	(311)
Accumulated losses	(300,515)	(257,055)	(276,849)	(225,492)	(193,414)
Total equity	557,163	587,653	577,691	606,074	426,841

PART 11

OPERATING AND FINANCIAL REVIEW

This Part 11 summarises the significant factors and events affecting the results of operations and financial condition of the Group for the six months ended 30 June 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010.

This Part 11 should be read in conjunction with Part 3: "*Presentation of Financial and Other Information*", Part 8: "*The Business*" and Part 13: "*Historical Financial Information*" and the other financial information contained elsewhere in this document.

Prospective investors should read the entire document and not just rely on the summary information set out below. The financial information considered in this Part 11 is extracted from the financial information referred to in Part 13: "*Historical Financial Information*".

The following discussion of the Group's results of operations and financial condition contains forward-looking statements that reflect the current view of the Group's management. The Group's actual results could differ materially from those anticipated in any forward-looking statements as a result of the factors discussed below and elsewhere in this Prospectus, particularly under Part 2: "*Risk Factors*" and under paragraph 8 of Part 3: "*Presentation of Financial and Other Information – Forward-looking statements*". Investors should carefully consider the following information, together with the other information contained in this Prospectus.

1. Overview

The Company is an independent oil and gas exploration, development and production company with operations in Kurdistan. The Company also has one remaining historical asset in Algeria (the GKN/GKS oilfields in Block 126a) from which it is in the process of negotiating an orderly exit.

The Company's principal assets are held through its wholly owned subsidiary, GKPI which holds interests in four blocks in Kurdistan – the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel Blocks. GKPI is the operator of the Shaikan and Sheikh Adi Blocks.

Whilst the Group had recorded revenue arising from test production for the period under review, being the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012, the Group has no significant history of, or any current, revenues at a commercial scale from its portfolio of exploration assets. The Shaikan Block was reclassified from an exploration asset to a production and development asset following the approval of the Shaikan FDP on 25 June 2013. The Group commenced commercial production on 24 July 2013 following the approval of the Shaikan FDP with commercial domestic sales achieved shortly after in August 2013. The Shaikan Block currently produces approximately 10,000 bopd. The Group began exporting and selling crude oil to Turkey by truck from the Shaikan Block in December 2013.

2. Key factors affecting the Group's results of operations and financial condition

The results of the Group's operations and financial condition have been, and will continue to be, affected by many factors, some of which are beyond the Group's control. This section sets out certain key factors that the Board believes have affected the Group's results of operations and financial condition in the periods under review or which could affect its results of operations and financial condition in the future.

For a discussion of certain factors that may adversely affect the Group's results of operations and financial condition, also see Part 2: "*Risk Factors*".

At the date of this document, the Group has undertaken exploration and appraisal activities but has not generated significant operating revenue from oil and gas sales (although it commenced commercial production from the Shaikan Block in July 2013, commercial domestic sales shortly after in August 2013 and exported its first tendered cargo of crude oil to Turkey by truck in December 2013) and has incurred costs: primarily related to capital expenditure on its asset portfolio. The Company and the Group have a limited operating history on which to assess its future expected performance. The Company has experienced operating losses in each year and each six-month period under review. Due to the general nature of oil and gas exploration, appraisal and development and, where successful, the long lead times in developing projects, the Company may incur further operating losses in the current and in future financial years as its exploration activities continue. While commercial oil production from Shaikan commenced in July 2013 and its first tendered crude oil was exported by truck commenced in December 2013, there can be no assurance that the Group will earn consistent or significant revenues or any revenues at all, or achieve profitability, which could impact the Group's ability to sustain operations or obtain any additional funds it may require in the future.

The key factors affecting the Group's results of operations and financial condition during the periods under review, and those that are expected to affect its results of operations and financial condition in the future, include the following:

- oil prices and production volumes;
- access to market;
- third party operators;
- changes in Resources and Reserves;
- availability of financing and other forms of funding;
- production, exploration and development expenditure and success rates;
- expansion of the Group's operations;
- inflation and other cost increases; and
- foreign exchange.

Oil prices and production volumes

The Group's exploration and production strategies are, and, following the commencement of production, its results of operations for future periods will be, influenced significantly by crude oil prices. Crude oil prices have been volatile in the past and are likely to continue to be volatile in the future. Prices for oil are based on world supply and demand and a number of other factors, including government regulation and social and political conditions in oil-producing regions.

For the periods under review, the Group's revenues arising from test production were not significant and were recorded at nil margin and thus the impact of fluctuations of oil prices on its results has not been material. However, a decline in oil prices may reduce the amount of oil that the Group is able to produce economically or may reduce the viability of production levels of specific wells or of projects planned or in development to the extent that production costs exceed anticipated income from such production. The Group's production is expected to be valued under its oil export arrangements with the KRG at a field-specific discount to the price of Brent crude oil. Sales of production in the local market are expected to be at a further discounted price. Consequently, any decline in the export price or any restriction on oil exportation would also result in a reduction in or restriction on revenues and profitability, which could impair the Group's ability to make planned capital expenditure and its willingness to incur costs necessary for the development of the Group's assets.

As part of its longer-term strategy, the Group intends to use cash flows generated by the sale of oil to further develop its properties and to carry out further exploration and appraisal activity in Kurdistan. The long-term success of the Group will depend on its ability to find, acquire, develop and produce oil Reserves commercially, and the Group's future profitability will be determined in large part by the difference between the income received for the oil the Group sells and its operating costs, as well as the costs incurred transporting and selling its oil. Currently, the Group does not intend to hedge against its exposure to oil prices.

Future oil exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion, infrastructure and operating costs. While diligent well supervision and effective maintenance operations can contribute to maximising production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

The Group's ability to increase its gross production and control its costs will depend on many factors, some of which are beyond its control, including the Group being required to curtail, delay or suspend drilling operations due to unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of crude oil or well fluids, pollution or other environmental risks, adverse weather conditions, compliance with governmental requirements, shortages or delays in the availability and delivery of equipment and changes to transport tariffs, royalty and other payments.

Access to market

The construction on behalf of the KRG of an independent oil export pipeline to Turkey was completed at the beginning of 2014 and is expected to have an initial capacity of 300,000 bopd rising to 1 million bopd capacity by 2015. Following approval of the Shaikan FDP, the Group anticipates reaching an agreement with the MNR on the building of a spur pipeline and blending facilities to connect the Shaikan Block to the export oil pipeline, completion of which is expected by 2015.

In the short term, the Group will rely on transportation of oil for export by truck. However, this is more expensive and is likely to be a less safe, secure and environmentally sound transportation channel than transport by pipeline. Transportation by truck also has more limited capacity than transport via a pipeline, although the Group anticipates that the available capacity to export oil by truck will be sufficient to absorb the output of Shaikan PF-1 and PF-2 (expected to be up 40,000 bopd by the end of 2014).

Currently all of the Group's oil production is transported to the market by truck. The Group began exporting crude oil by 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.

To the extent production exceeds truck capacity or any of the events highlighted above occur, the Group's ability to sell oil may be curtailed. The pipeline connection and blending facilities is therefore fundamental to the Company's ability to increase oil sales to a level where the Group can become self-funding through oil production and sales.

Third party operators

The Group operates only two of its assets. As regards its interests in Kurdistan, it is the operator in relation to only the Shaikan and Sheikh Adi Blocks. Genel Energy plc is the operator of the Ber Bahr Block and Kalegran (a wholly owned subsidiary of MOL Hungarian Oil & Gas plc) is the operator of the Akri-Bijeel Block.

The Group is dependent on such third party operators and the MNR for the timing of activities related to the Ber Bahr and Akri-Bijeel Blocks and will not be able to unilaterally direct or control the activities of those operators or the costs of production and exploration of such operations. Whilst the Group is not aware of any specific matters, any mismanagement of an oil or gas property by the relevant operator may result in delays or increased costs to the Group's non-operated exploration, development and production activities, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Changes in Reserves and resources

Estimates of Reserves and resources may be different from the quantity or quality of oil that is ultimately recovered from the Group's assets, and the revenue derived from its Reserves and resources could therefore be different than planned for by the Group. Oil engineering is a subjective process of estimating underground accumulations of oil that cannot be measured in an exact manner. Estimates of the value and quantity of economically recoverable oil Reserves and resources and rates of production necessarily depend on several variables and assumptions. Many of the factors for which assumptions are made in estimating Reserves and resources are beyond the Group's control and, therefore, these assumptions may prove to be incorrect over time. In particular, assumptions about whether resources can be economically recovered may prove inaccurate, especially as to the recovery of resources from deeper wells. Any changes to these assumptions could have a material impact on the measurement of the recoverable amount and result in material impairment of the Group's asset Reserves.

The Group's actual future net cash flows, as estimated by independent reserve engineers, will be affected by many factors which include, but are not limited to: actual production levels; supply and demand for oil; curtailments or increases in consumption by oil purchasers; changes in governmental regulation or taxation; tariffs, changes in the terms of the PSCs; and the impact of inflation on costs. Actual production and cash flows derived therefrom will vary from the estimates contained in the applicable engineering reports. The Reserve reports are based in part on the assumed success of activities the Group intends to undertake in future years. The Reserves and estimated cash flows to be derived therefrom contained in the engineering reports will be reduced to the extent that such activities do not achieve the level of success assumed in the calculations.

Availability of financing and other forms of funding

The Group's business is highly capital intensive and the Directors expect that the Group's activities will require significant capital expenditures for the foreseeable future, particularly in respect of the development of and oil production from the Kurdistan Blocks.

To date the Group has funded itself mainly through the sale of Common Shares and, most recently, the issuance of the Convertible Bonds. See paragraph 9 "*Financing*" of this Part 11.

The Group believes that one or more third party debt financings will be required over and above existing capital resources and expected operating cash flow from production in order to fund the Group's current capital expenditure plans and commitments in the 12-month period from the date of this Prospectus. See further paragraph 17 of Part 8: "*The Business – Working capital*" and "*Budgeted*" in paragraph 10 "*Capital Expenditures*" of this Part 11.

The Group anticipates developing its assets and undertaking its exploration programme in Kurdistan using a combination of existing capital resources, anticipated future revenues and third party debt financing.

For the periods under review, oil production has been sold in the domestic market in Kurdistan under a test plan and in December 2013 the Group began sales to the international market. Following the approval of the Shaikan FDP, the Group commenced its first commercial production in Kurdistan on 24 July 2013, however, as at the date of this document, the commercial production from the Shaikan Block has been intermittent. In September 2013, the Group's ability to produce oil at the Shaikan Block was curtailed, at the request of the local competent authority, through the suspension of oil sales. The suspension of oil sales was lifted in early October 2013. The Group began exporting crude oil by 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. Once consistent production and oil export is achieved, the Group expects to begin to generate internal funds to partially (and later fully) undertake its exploration and development plans. However, if the revenues from the Group's Reserves decrease as a result of lower oil prices and/or lower than projected production levels, its ability to expend the necessary capital to undertake its exploration and development programme, to replace its Reserves and to maintain its production in the future will be adversely affected.

In order to maintain or adjust its capital structure, in future periods the Group may enter into joint venture agreements with third parties, incur long-term debt, issue new Common Shares, sell assets, or execute a combination of the aforementioned financing options. Furthermore, additional capital expenditure may be required to fund the Group's operations in the longer term or in the event that the Group seeks to speed up the current budgeted work programmes (see also paragraph 17 of Part 8: "*The Business – 17. Working Capital*").

Production, Exploration and Development Expenditure and Success Rates

The Group has incurred substantial expenses related to early stage exploration activities and in the future expects to incur further significant exploration and development expenditure. In particular, its level of expenditure will depend in substantial part on whether the Group is successful in discovering and appraising oil Reserves and developing those Reserves into oil producing assets.

In order to monetise fully future production the Group is dependent on the successful completion of several key projects, including: (i) the construction by the KRG of the spur pipeline from the Shaikan field to the independent oil export pipeline to Turkey, (ii) the construction on behalf of the KRG of the related oil blending facility and (iii) construction of additional production facilities. The failure to complete these and future projects on a timely basis could have a material adverse impact on the Group's ability to generate revenue.

Oil exploration involves a high degree of risk and there can be no assurance that expenditure incurred in relation to future exploration activities undertaken by the Group will result in any new discoveries of oil in commercial quantities. The principal expenditure relating to the Group's exploration work programmes is that incurred in the course of the acquisition of seismic data and the drilling of exploration wells. To date, the Group has only explored a portion of its total acreage, and consequently will incur considerable exploration expense in the coming years.

Expansion of the Group's operations

The Group has expanded its operations in the periods under review, which has affected its cost base. Given that the Company has only recently started generating commercial operating revenues from its exploration portfolio, growth in expenses related to its activities has contributed to operating losses. As the scope of the Company's business and activities has expanded over the periods under review, so have its administrative costs and expenses. In addition, expenses associated with wages and salaries, social security costs, cash bonuses and share options to employees, as well as the costs incurred in relation to the Company's defence of the claims made by Excalibur, which have varied in the periods under review, have also contributed to operating losses.

Inflation and other cost increases

As discussed above, the Group will generally be unable to control the prevailing market prices of the oil and gas produced by its operations. The Group may not be able to pass increased production costs on to customers. As a result, significant inflation or other production cost increases in the countries or regions in which the Group operates could increase operational costs without a corresponding increase in the sales price for the Group's oil and gas. Alternatively, a lag in the reduction of input costs relative to declining oil and gas prices could have a similar adverse effect on the Group's operations. Additionally, significant inflation and other increases in exploration, appraisal and development costs of the Group could lead to those costs exceeding the Group's available capital and impairing the Group's ability to meet the stated working programme requirements. Any such increased costs or delays in cost reductions may have a material adverse effect on the Group's profitability, results of operations and financial condition.

Foreign exchange

Foreign exchange gains have had a limited impact on the Company's results of operations in the periods under review. For a description of the Company's accounting policies in respect of foreign currency translation, see the Summary of Significant Accounting Policies included in the audited consolidated financial statements of the Company included in the Company's Annual Reports for each of the years ended 31 December 2010, 2011 and 2012 which can be found at Part 13: "*Historical Financial Information*". The Group currently minimises its exposure to foreign exchange fluctuations by holding a substantial part of its financial assets in US dollars (the currency in which the majority of expenditure incurred by Group entities is denominated), as well as entering into forward exchange contracts where financial assets are held in sterling.

3. Recent Developments

Set out below are certain developments that have occurred since 30 June 2013 and which may be relevant to the Group's results of operations in the future.

First commercial production of oil from the Shaikan Block commenced in July 2013 with commercial domestic sales achieved shortly after in August 2013, with export and sales of crude oil commencing in December 2013.

On 10 September 2013, the English Commercial Court (the "**Court**") announced its ruling following the trial of certain contractual and non-contractual claims asserted by Excalibur against the Company and two of its subsidiaries (the "**Companies**") and Texas Keystone Inc. (together the "**Defendants**"). The Court dismissed all the claims asserted by Excalibur and decided all issues in favour of the Defendants. The handing down of the full judgment and the hearing of consequential matters, including the arguments on costs and any application for permission to appeal took place on 13 December 2013 where Excalibur confirmed to the Court that it will not be seeking to appeal the judgment. Following this hearing the Group has now received the £16.9 million which had been paid into the Court as security for costs. The judgement handed down by the Court further ordered Excalibur to provide additional security for indemnity costs awarded in the amount of £3,209,210 for the Companies and £2,402,800 for Texas Keystone Inc. to be paid by 31 December 2013. Failing receipt of this additional security the Defendants were given leave to commence proceedings for recovery of such costs and to the extent necessary serve proceedings outside of England and Wales against Excalibur's funders. The Company understands that Excalibur did not pay the additional security into Court and accordingly the Defendants have made an application under section 51 of the Senior Courts Act 1981 against Excalibur's funders to recover their costs.

On 30 October 2013, the Company launched an offering of the New Convertible Bonds, issued in a principal amount of U.S.$50 million on the same terms (save for the issue price), which have been consolidated with and form a single series with the Original Convertible Bonds. See also paragraph 9 "*Financing*" of this Part 11.

On 13 March 2014, the ERC Equipoise Report in respect of the Kurdistan Blocks was published. See Part 19.

4. Operational Performance

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.

Each segment is described in more detail below:

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

The segmental information set out in the audited consolidated financial statements of the Company also includes a "Corporate" segment relating to activities that serve more than one segment. This segment represents all overhead and administration costs incurred that cannot be directly linked to one of the above segments. For the periods under review, the Group has been focused on initial exploration and development activities on the acreages covered by the Kurdistan segment. During this time, the Group has generated operating losses. Once the Company achieves consistent commercial production in relation to Shaikan and begins to earn steady revenues, the Group will be able to assess operational performance and profitability.

There will also be a period of ramp-up in production, so that the initial years of production may not be indicative of future performance.

5. Selected Consolidated Financial Information

A summary of financial information as at and for the three years ended 31 December 2012, 2011 and 2010 and for the six months ended 30 June 2013 and 2012 is set out in Part 10: "*Selected Financial Information*".

6. Results of Operations

Given the early stage of development of the business, historical revenues of the Group have been restricted to test production (at U.S.$nil margin) and interest received, with operating losses being driven by administrative and personnel costs, the cost of share options granted to employees, test production operating costs and, in 2011, impairment of assets held for sale.

Six months ended 30 June 2013 (H1 2013) compared to six months ended 30 June 2012 (H1 2012)

Revenues

In H1 2013, the Company worked to ensure that the Shaikan PF-1 was ready to ramp up production as soon as the Shaikan FDP was approved by the MNR. As a result, the facility was undergoing a number of upgrades throughout the period during which no production and, consequently, no oil sales were generated. In H1 2012, the Group generated net revenue of U.S.$15.5 million. As the Group was still in the early stages of producing oil from the Shaikan Block and production rates were variable, revenue was shown in the income statement with an equal and offsetting amount against cost of sales and a nil gross profit. An amount equal to the revenue was credited to intangible assets against exploration and evaluation costs reducing the net book value in the balance sheet.

Expenses

	Period ended 30 June (unaudited)	
	2013	*2012*
	(U.S.$'000)	
Depreciation of property, plant and equipment	(306)	(242)
Amortisation of intangible assets	(96)	(96)
Staff costs	(9,354)	(13,399)
Auditor's remuneration	(38)	–
Operating lease rentals	(817)	(604)
Other general and administrative expenses	(8,951)	(19,720)
Loss from operations	(19,256)	(34,061)
Other gains and losses	(543)	4,064
Interest revenue	463	805
Finance costs	(6,537)	(254)
Loss before tax	(25,873)	(29,446)
Tax (charge)/benefit	(528)	(1,915)
Loss after tax	(26,401)	(31,361)

General and administrative expenses during the period were U.S.$19.3 million (H1 2012: U.S.$34.1 million). The decrease in administrative costs of U.S.$14.8 million results from lower advisers' fees incurred in relation to the Group's defence against the claim made by Excalibur, as well as lower costs associated with the share bonus awards and the options awarded under the Share Option Plan and long-term incentive plan (H1 2013: U.S.$5.5 million, H1 2012: U.S.$10.7 million).

The loss from operations for the period ended 30 June 2013 of U.S.$19.3 million (H1 2012: U.S.$34.1 million) reflects non-cash expenditure of U.S.$5.9 million (H1 2012: U.S.$12.2 million) which included share-based payments (H1 2013: U.S.$5.5 million, H1 2012: U.S.$10.7 million), depreciation (H1 2013: U.S.$0.3 million, H1 2012: U.S.$0.2 million), amortisation (H1

2013: U.S.$0.1 million, H1 2012: U.S.$0.1 million) and overdue receivables (H1 2013: U.S.$nil, H1 2012: U.S.$1.2 million).

Salaries and benefits

For the period ended 30 June 2013, the Group incurred U.S.$4.6 million of expenses net of capitalised salary costs related to salaries and benefits (excluding social security costs) compared to U.S.$3.0 million for the period ended 30 June 2012. The increase was due to the ongoing recruitment and retention efforts to support the Group's development plans for its assets in Kurdistan.

The Group's headcount increased from a monthly average of 138 employees for H1 2012 to a monthly average of 176 employees for H1 2013.

Share-based compensation

Share-based compensation for the period ended 30 June 2013 resulted in an expense of approximately U.S.$5.5 million, compared to U.S.$10.7 million for the period ended 30 June 2012. Share options were issued to certain new employees as part of the recruitment and hiring process in H1 2012. No new share options were issued in H1 2013. No bonus shares grant took place in either H1 2013 or H1 2012.

Other losses of U.S.$0.5 million (H1 2012: U.S.$4.1 million gain) comprise foreign exchange loss of U.S.$0.1 million (H1 2012: U.S.$3.7 million gain) and a mark-to-market valuation loss on forward exchange contracts entered into to mitigate the risk associated with converting U.S. dollars into sterling (H1 2013: U.S.$0.5 million loss, H1 2012: U.S.$0.7 million gain). These contracts are held to maturity. The 2012 comparative also included a loss on the revaluation of the SEDA Facility of U.S.$0.3m (H1 2013: U.S.$nil).

Interest revenue decreased to U.S.$0.5 million (H1 2012: U.S.$0.8 million) due to lower interest rates achieved on deposits.

Finance costs of U.S.$6.5 million (H1 2012: U.S.$0.3 million) relate to the accretion charge on the decommissioning provision (H1 2013: U.S.$0.2 million, H1 2012: U.S.$0.3 million) and interest payable in respect of the Convertible Bonds of U.S.$11.2 million (2012: U.S.$nil) out of which U.S.$4.9 million was capitalised within intangible assets. The interest paid on the Convertible Bonds in H1 2013 amounted to U.S.$8.6 million (H1 2012: U.S.$nil).

A tax expense of U.S.$0.5 million was incurred (H1 2012: U.S.$1.9 million) related to UK activities.

The results for the first six months of 2013 show a decreased loss after tax of U.S.$26.4 million (H1 2012: U.S.$31.4 million), reflecting the decrease in administrative expenses referred to above.

Year ended 31 December 2012 compared to year ended 31 December 2011

Revenues

The Group produced from the Shaikan-1 and -3 wells during 2011 and 2012.

Gross test production for 2012 totalled 832,859 barrels of oil (2011: 200,137 barrels of oil) and gross sales were 825,485 barrels of oil (2011: 207,848 barrels of oil). The sales generated net revenues of U.S.$32.2 million (2011: U.S.$6.9 million) for the Company with an average realised price achieved of U.S.$48.70 per barrel (2011: U.S.$41.61 per barrel). Operating costs on a per barrel basis, excluding inventory movements, depreciation, depletion and amortisation costs and share-based payment charges, were U.S.$28.31 per barrel during the period (2011: U.S.$33.97 per barrel).

However, the Group recognised U.S.$nil gross profit from oil production or otherwise during the years ended 31 December 2012 or 2011, as they were considered to represent test production. Revenues from oil and gas production were shown in the income statement of the Group, but with an equal and offsetting amount recorded against cost of sales. Therefore, the Group incurred losses during the periods under review which reflect the administrative cost of running the business. An amount equal to such revenues is also credited to the intangible assets of the Group against exploration and evaluation costs, reducing the net book value of such assets in the Group's balance sheet. Operating revenues from oil and gas production generated subsequent to the Shaikan FDP approval, announced on 26 June 2013, will be recorded as earnings and a gross profit or loss will be recorded in relation to such operations.

Expenses

A summary of the expenses incurred by the Group during the years ended 31 December 2012 and 2011 is presented in the table below:

	Year ended 31 December (audited)	
	2012	*2011*
	(U.S.$'000)	
Depreciation of property, plant and equipment	(559)	(412)
Amortisation of intangible assets	(175)	(117)
Impairment of assets held for sale	–	(10,000)
Staff costs	(38,642)	(45,007)
Auditor's remuneration	(106)	(91)
Operating lease rentals	(2,235)	(766)
Other general and administrative expenses	(40,420)	(13,957)
Loss from operations	(82,137)	(70,350)
Other gains and losses	5,210	5,791
Interest revenue	1,199	1,239
Finance costs	(4,456)	(473)
Loss before tax	(80,184)	(63,793)
Tax (charge)/benefit	(1,638)	1,437
Loss after tax	(81,822)	(62,356)

Increasing expenses associated with the further development of the Group's assets in Kurdistan and the Excalibur litigation had a significant impact on results in the years ended 31 December 2011 and 31 December 2012. An increased interest expense resulting from the issue of the Original Convertible Bonds also affected the results in the year ended 31 December 2012.

The loss from operations for the year ended 31 December 2012 of U.S.$82.1 million (2011: U.S.$70.4 million) reflects non-cash expenditure of U.S.$25.4 million (2011: U.S.$45.2 million) which included share-based payments, provisions for overdue receivables, the Algeria decommissioning obligation, depreciation and amortisation.

Salaries and benefits

For the year ended 31 December 2012, the Group incurred U.S.$15.0 million of expenses net of capitalised salary costs related to salaries and benefits (excluding social security costs) compared to U.S.$6.8 million for the year ended 31 December 2011. The significant increase was due to the ongoing recruitment and retention efforts to support the Group's development plans for its assets in Kurdistan.

The Group's headcount increased from a monthly average of 139 employees for 2011 to a monthly average of 151 employees for 2012.

Share-based compensation

Share-based compensation for the year ended 31 December 2012 resulted in an expense of approximately U.S.$20.0 million, compared to U.S.$34.6 million for the year ended 31 December 2011. In both 2012 and 2011, share options were issued to new employees as part of the recruitment and hiring process. In 2011, the Group also granted bonus shares to certain employees under the Company's Executive Bonus Scheme. No bonus share grants took place in 2012.

General and administrative

General and administrative expenses were approximately U.S.$82.1 million in the year ended 31 December 2012, compared to approximately U.S.$60.4 million in the year ended 31 December 2011. This increase was primarily due to a significant further increase in advisers' fees incurred in relation to the Company's defence of the claim made by Excalibur. Furthermore, the Company saw a further year-on-year increase in the costs of operational activities in Kurdistan as the Group's projects expand and mature, requiring an increase in expenditure on supporting functions.

Finance revenue (costs)

Interest revenue in the year ended 31 December 2012 remained at a similar level to the year ended 31 December 2011, amounting to approximately U.S.$1.2 million in 2012 (2011: U.S.$1.2 million). The finance costs of approximately U.S.$4.5 million (2011: U.S.$0.5 million) are made up of an accretion charge on the decommissioning provision of U.S.$0.3 million (2011: U.S.$0.5 million) and an accrual for interest payable in respect of the Original Convertible Bonds of U.S.$4.6 million (2011: U.S.$nil) out of which U.S.$0.5 million was capitalised within intangible assets.

Tax (charge) benefit

The tax cost for the year ended 31 December 2012 was U.S.$1.6 million compared to U.S.$1.4 million for the year ended 31 December 2011. In both years, the tax arose on UK activities.

Other gains

Other gains of U.S.$5.2 million (2011: U.S.$5.8 million gain) comprise foreign exchange gains of U.S.$6.4 million (2011: U.S.$4.7 million gain) and a mark-to-market valuation loss of U.S.$1.1 million (2011: U.S.$1.1 million gain), which includes the revaluation of the SEDA Facility derivative from an asset of U.S.$0.4 million to U.S.$nil following the expiry of the agreement. The remaining mark-to-market loss is a result of the Company entering into currency and interest rate hedges which are held to maturity. Currency hedges were used to partly mitigate the risk associated with converting sterling to US dollars following funds received in sterling from the share placing in 2011 and converting US dollars to sterling following funds received in US dollars from the issue of the Original Convertible Bonds.

Year ended 31 December 2011 compared to year ended 31 December 2010

Revenues

The Group produced from the Shaikan-1 and -3 wells during 2010 and 2011.

Gross test production for the year ended 31 December 2011 totalled 200,137 barrels of oil (2010: 82,054 barrels of oil) and gross sales were 207,848 barrels (2010: 56,583 barrels of oil). The sales generated net revenues of U.S.$6.9 million (2010: U.S.$0.8 million) for the Company with an average realised price achieved of U.S.$41.61 per barrel (2010: U.S.$26.78 per barrel).

However, the Group recognised U.S.$nil gross profit from oil production or otherwise during the years ended 31 December 2011 and 2010 for the reasons set out above under "*Year ended 31 December 2012 compared to year ended 31 December 2011 – Revenues*".

Operating costs on a per barrel basis, excluding inventory movements, depreciation, depletion and amortisation costs and share-based payment charges were U.S.$33.97 per barrel during the period (2010: U.S.$8.84 per barrel). However, the Company's test production facilities in Kurdistan were only commissioned in September 2010 and over half of the production for the year ended 31 December 2011 was achieved in November and December 2011. Furthermore, the Group did not generate any gross profit from its oil production or otherwise during the years ended 31 December 2011 or 2010. See also "*Oil prices and production volumes*" above.

Expenses

A summary of the expenses incurred by the Group during the years ended 31 December 2012 and 2011 is presented in the table below:

	Year ended 31 December (audited)	
	2011	*2010*
	(U.S.$'000)	
Depreciation of property, plant and equipment	(412)	(464)
Amortisation of intangible assets	(117)	(30)
Impairment of assets held for sale	(10,000)	–
Staff costs	(45,007)	(25,570)
Auditor's remuneration	(91)	(80)
Operating lease rentals	(766)	(377)
Other general and administrative expenses	(13,957)	(6,074)
Loss from operations	(70,350)	(32,595)
Other gains and losses	5,791	5,940
Interest revenue	1,239	192
Finance costs	(473)	(348)
Loss before tax	(63,793)	(26,811)
Tax (charge)/benefit	1,437	819
Loss after tax	(62,356)	(25,992)

Expenses associated with the further development of the Group's assets in Kurdistan and the Excalibur litigation had a significant impact on results in the year ended 31 December 2011. The results for 2011 show an increased loss after tax of U.S.$62.4 million compared to U.S.$26.0 million, reflecting the increase in the administrative expenses and impairment of assets held for sale as discussed below.

In 2011, the Group recognised a U.S.$10.0 million impairment of the Hassi Ba Hamou Permit. The permit had been reclassified as an asset held for sale in 2010 following an agreement negotiated with BG North Sea Holdings Limited ("**BG**"). During 2011, an amendment to the agreement was signed whereby the Group agreed to transfer the Hassi Ba Hamou Permit to BG for nil consideration resulting in a full impairment of the asset. The renegotiation of the agreement facilitated the Company's exit from the permit in December 2011. Apart from the impairment of the Hassi Ba Hamou Permit, there was no further impairment of oil and gas assets recognised during 2010 or 2011 (2009: U.S.$73.9 million).

Salaries and benefits

For the year ended 31 December 2011, the Group had U.S.$6.8 million of expenses related to salaries and benefits (excluding social security costs), compared to U.S.$4.9 million for the year ended 31 December 2010. This increase was due to recruitment and retention efforts to support the Group's development plans for its assets in Kurdistan, including hiring a number of technical specialists to assist with development plan preparation.

The Group's headcount decreased from a monthly average of 151 employees for 2010 to a monthly average of 139 employees for 2011.

Share-based compensation

Share-based compensation for the year ended 31 December 2011 resulted in an expense of U.S.$34.6 million, compared to U.S.$16.9 million for the year ended 31 December 2010. In both 2011 and 2010, share options were issued to certain new employees as part of the recruitment and hiring process.

General and administrative

General and administrative expenses were approximately U.S.$60.4 million in the year ended 31 December 2011 compared to approximately U.S.$32.6 million in the year ended 31 December 2010. This increase was primarily due to the making of the 2011 share bonus awards and options under the long-term incentive plan, resulting in a share-based payment expense of U.S.$42.5 million (2010: U.S.$21.7 million) and associated social security taxes of U.S.$5.9 million (2010: U.S.$3.1 million), as well as payment of a cash bonus of U.S.$6.3 million (2010: U.S.$3.7 million).

The remaining increase in administrative costs for the year ended 31 December 2011 was due to a significant increase in the operational activities in Kurdistan, as well as legal advisers' fees incurred in relation to the Group's defence of the claim made by Excalibur (the claim having been raised by Excalibur formally in December 2010).

Finance revenue (costs)

Interest revenue in the year ended 31 December 2011 increased to approximately U.S.$1.2 million (2010: U.S.$0.2 million) due to higher average balances for cash, cash equivalents and liquid investments and the use of longer-term deposits to maximise returns to the Company.

The finance costs of U.S.$0.5 million (2010: U.S.$0.3 million) related to an accretion charge on the decommissioning provision.

Tax (charge) benefit

The tax cost for the year ended 31 December 2011 was U.S.$1.4 million compared to U.S.$0.8 million for the year ended 31 December 2010. In both years, the tax arose on UK activities.

Other gains

Other gains of U.S.$5.8 million for the year ended 31 December 2011 (2010: other gains of U.S.$5.9 million) comprise foreign exchange gains of U.S.$4.7 million (2010: U.S.$5.9 million gain) and a mark-to-market valuation gain on forward exchange contracts entered into during the year of U.S.$1.1 million (2010: U.S.$0.3 million gain). The mark-to-market gain was a result of the Company entering into currency hedges to partly mitigate the risk associated with converting sterling to U.S. dollars following funds received from shares placed by the Company during 2010 and 2011. These contracts are held to maturity.

7. Liquidity and Capital Resources

Whilst the Group had recorded revenue arising from test production, the Group has not historically had any significant operating revenues at a commercial scale and does not currently have any significant operating revenues. It has been reliant on its ability to raise funds through equity capital markets transactions and, most recently, through the issue of the Convertible Bonds (as defined below).

The Group expects to require further funding over and above its existing capital resources and the cash flow from production to fund its aggressive work programme during the next 12 months. There can be no assurance that the Group will be successful in raising such funds. See further paragraph 17 in Part 8: "*The Business – Working capital*".

The Group anticipates developing its assets in Kurdistan, utilising a combination of existing capital resources, anticipated future revenues and future funds raised from debt financings, if available. First commercial production of oil from the Shaikan Block commenced in July 2013 with domestic sales achieved shortly after in August 2013, and exports and sales of crude oil commenced in December 2013.

In order to maintain or adjust its capital structure, in future periods, the Group may enter into joint venture agreements with third parties, obtain additional debt financings, issue new shares, farm-out assets, sell assets or execute a combination of the aforementioned items.

8. Cash flows

The following table sets forth the Group's cash flows during the years ended 31 December 2012, 2011 and 2010 and the six months ended 30 June 2013 and 2012.

	Six months ended 30 June (unaudited)		*Years ended 31 December (audited)*		
	2013	*2012*	*2012*	*2011*	*2010*
			(U.S.$'000s)		
Cash flows from operating activities	(31,101)	(18,401)	(59,442)	(23,662)	(26,536)
Cash flows from investing activities	(81,490)	(64,376)	(172,304)	(172,471)	(157,186)
Cash flows from financing activities	2,180	1,063	270,236	197,905	359,895
Cash and cash equivalents – end of the period	141,156	130,437	253,713	208,103	201,268

H1 2013

Net cash outflow from oil and gas operations after general and administrative expenses was U.S.$22.3 million (H1 2012: U.S.$18.5 million). The loss from operations of U.S.$19.3 million (H1 2012: U.S.$34.1 million) was adjusted for a non-cash expenditure of U.S.$5.9 million (H1 2012: U.S.$12.2 million) which included share-based payments (H1 2013: U.S.$5.5 million, H1 2012: U.S.$10.7 million), depreciation (H1 2013: U.S.$0.3 million, H1 2012: U.S.$0.2 million), amortisation (H1 2013: U.S.$0.1 million, H1 2012: U.S.$0.1 million) and overdue receivables (H1 2013: U.S.$nil, H1 2012: U.S.$1.2 million).

Working capital adjustments totalled to an U.S.$8.9 million cash outflow (H1 2012: U.S.$3.4 million inflow), increasing the operational cash outflow. The increase in inventories is in line with the high levels of drilling and Shaikan production facility construction activities while lower payables reflect the lower administrative and operating expenses. The decrease in receivables is attributable to the receipt of the amounts due for 2012 oil sales and the partial repayment of the loans made to certain Directors of the Company in 2012.

Tax paid in H1 2013 was U.S.$0.4 million (H1 2012: U.S.$0.8 million) and interest received was U.S.$0.2 million (H1 2012: U.S.$0.8 million).

Net cash outflow from operating activities after tax and interest was U.S.$31.1 million (H1 2012: U.S.$18.4 million).

Cash used in investing activities totalled U.S.$81.5 million (H1 2012: U.S.$64.4 million), which comprises U.S.$90.0 million spent on intangible assets (H1 2012: U.S.$86.5 million) and U.S.$0.1 million (H1 2012: U.S.$1.0 million) spent on property, plant and equipment, offset by a reduction in liquid investments of U.S.$8.6 million (H1 2012: U.S.$23.1 million). The majority of the U.S.$90.0 million spent on intangible assets relates to the Group's exploration and appraisal activities in Kurdistan, including the drilling of Shaikan-7 and -10, construction of Shaikan PF-1 and -2, costs related to the preparation and submission of the Shaikan FDP, as well as costs incurred on the exploration and appraisal of Akri-Bijeel, Ber Bahr and Sheikh Adi wells.

A total of U.S.$2.2 million has been raised through the exercises of options under the Company's Share Option Plan (H1 2012: U.S.$1.1 million).

The net overall decrease in cash and cash equivalents during the period was U.S.$110.4 million (H1 2012: U.S.$81.7 million decrease). Foreign exchange loss on cash balances was U.S.$2.1 million (H1 2012: U.S.$4.0 million gain). Cash and cash equivalents totalled U.S.$141.2 million at 30 June 2013 (30 June 2012: U.S.$130.4 million; 31 December 2012: U.S.$253.7 million).

2012

Cash and cash equivalents totalled U.S.$253.7 million as at 31 December 2012 (31 December 2011: U.S.$208.1 million).

That cash balance was principally generated by the issue of the Original Convertible Bonds offset by an outflow of approximately U.S.$231.7 million relating to operating and investing expenditure.

Net cash outflow from operating activities after tax and interest was U.S.$59.4 million.

Cash used in investing activities in the year ended 31 December 2012 amounted to U.S.$172.3 million (2011: U.S.$172.5 million), which comprised U.S.$191.9 million spent on intangible assets (2011: U.S.$152.5 million) and U.S.$1.3 million (2011: U.S.$0.6 million) spent on property, plant and equipment offset by a reduction in liquid investments of U.S.$20.9 million (2011: U.S.$19.4 million increase). The majority of the U.S.$191.9 million cash spent on intangible assets related to the Company's exploration activities in Kurdistan, including the drilling, testing and workovers of wells on the Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel Blocks, construction of the Shaikan production facilities, preparation of the Shaikan FDP, Akri-Bijeel surface facility construction and the acquisition and processing of seismic data. The expenditure on property, plant and equipment reflects the expansion of the Kurdistan office.

Cash generated by financing activities in the year ended 31 December 2012 amounted to U.S.$270.2 million (2011: U.S.$197.9 million). A total of U.S.$269.0 million (net) was raised in proceeds on issue of the Original Convertible Bonds. A further U.S.$1.3 million was raised through the funds received following the exercises of the warrants previously granted and options under the Company's Share Option Plan.

2011

Cash and cash equivalents totalled U.S.$208.1 million as at 31 December 2011 (31 December 2010: U.S.$201.3 million). The principal component of this inflow was U.S.$197.9 million raised from the proceeds of an issuance of Common Shares. This was offset by an outflow of U.S.$196.1 million relating to operating and investing expenditures.

Net cash outflow from operating activities after tax and interest was U.S.$23.7 million (2010: U.S.$26.5 million).

Cash used in investing activities in the year ended 31 December 2011 amounted to U.S.$172.5 million (2010: U.S.$157.2 million). The majority of this relates to capital expenditure in Kurdistan, of which U.S.$152.5 million was spent on the Group's exploration activities, including the drilling of the Shaikan-2, Shaikan-4, Shaikan-5, Shaikan-6, Sheikh Adi-1, Ber Bahr-1 and Bekhme-1 wells, as well as the ongoing facilities work to upgrade the existing Shaikan-1 and -3 EWT facility and construct a new EWT facility for the Shaikan-2 location. The Company also invested an additional U.S.$19.4 million (2010: U.S.$10.2 million) in short-term liquid investments of over three months maturity to maximise interest revenue, bringing the total liquid investment balance to U.S.$29.5 million.

Cash generated by financing activities in the year ended 31 December 2011 amounted to U.S.$197.9 million (net) (2010: U.S.$359.9 million). This amount was raised through the issue of new Common Shares in September 2011, the exercise of warrants, the exercise of options under the Company's Share Option Plan and the subscription costs paid for bonus shares vesting at the end of 2010, associated with performance over the period from 2008 to 2010.

2010

Cash and cash equivalents totalled U.S.$201.3 million as at 31 December 2010 (31 December 2009: U.S.$19.2 million).

That cash balance was principally generated by the proceeds of an issuance of Common Shares.

Net cash outflow from operating activities after tax and interest was U.S.$26.5 million (2009: U.S.$1.3 million). The significant increase arises from increased inventories held at year end for use in drilling operations and the ramp-up in the cost of operations in Kurdistan (2010 inventory purchases: U.S.$13.8 million; 2009 inventory utilised U.S.$1.0 million). The 2009 cash flow from operations had also benefited from receipt of funds relating to 2008 oil sales in Algeria of U.S.$6.4 million (2010: U.S.$nil).

Cash used in investing activities in the year ended 31 December 2010 amounted to U.S.$157.2 million (2009: U.S.$49.2 million). The majority of this relates to capital expenditure in Kurdistan and includes a payment of U.S.$52.0 million (U.S.$40 million to the KRG and U.S.$12 million to Etamic Limited) made in July and August 2010 associated with the completion of the Company's Kurdistan asset reorganisation and the acquisition of the interests in the Sheikh Adi and Ber Bahr PSCs. The Company has also invested U.S.$10.2 million (2009: U.S.$nil) in a short-term liquid investment of over three months maturity in order to maximise interest revenue.

Cash generated by financing activities in the year ended 31 December 2010 amounted to U.S.$359.9 million (net) (2009: U.S.$35.7 million) which was raised through the issue of new Common Shares during the year.

9. Financing

The following is a summary of significant financings undertaken by the Group during the period under review.

U.S.$275 million Original Convertible Bonds

On 18 October 2012, the Company issued a series of senior unsecured convertible bonds with a nominal value of U.S.$275 million (the "**Original Convertible Bonds**"). The net proceeds raised by the issue of the Original Convertible Bonds amounted to approximately U.S.$269 million.

Interest at a rate of 6.25 per cent. per annum is payable on the outstanding Convertible Bonds semi-annually in arrear up to and including 18 October 2017 (the "**Maturity Date**").

The Convertible Bonds are convertible into Common Shares of the Company at the option of the bondholder at any time until 10 days prior to the Maturity Date. At the initial conversion price of U.S.$4.39 per Common Share (£2.72 at the prevailing USD:GBP spot rate at the time of pricing the issue of the Convertible Bonds) and subject to the Company's cash settlement option, the Convertible Bonds are convertible into an aggregate of 62,642,369 Common Shares. On the issue date of the Convertible Bonds, this represented 7.1 per cent. of the Common Share Capital of the Company (on a fully diluted basis).

The Company may redeem all (but not some only) of the Convertible Bonds under certain conditions and may purchase Convertible Bonds in the market. The Company may also be obliged to redeem all or some of the Convertible Bonds at the option of the bondholders upon the occurrence of a change of control. If the Convertible Bonds have not been previously redeemed, converted or purchased by the Company and cancelled, the outstanding Convertible Bonds will be redeemed at their nominal value on the Maturity Date.

U.S.$50 million New Convertible Bonds

Further to the issue of the Original Convertible Bonds, on 6 November 2013 the Company issued a second tranche of convertible bonds in a principal amount of U.S.$50 million on the same terms (save for the issue price) (the "**New Convertible Bonds**" and together with the Original Convertible Bonds, the "**Convertible Bonds**") which have been consolidated with and form a single series with the Original Convertible Bonds.

Issued and outstanding Common Shares

The details of the Company's material equity fund raisings in the period under review are set out below. In addition to the equity issues set out below and the issue of the Convertible Bonds referred to above, the Company has issued further Common Shares in transactions not primarily related to financing the operations of the Group. For a complete description of the Company's changes in issued share capital during the period under review, see paragraph 2 in Part 16: "*Additional Information – Share capital of the Company*".

Date of Fundraising	*Nature of Financing*	*Price per Share (£)*	*Gross Amount (£)*	*Gross Amount (U.S.$)*
January 2010	Standby Equity Distribution	0.8883	4,000,050	6,460,880
March 2010	Standby Equity Distribution	0.7621	900,047	1,361,951
March 2010	Placement	0.7650	16,000,000	24,317,281
May 2010	Standby Equity Distribution	0.8014	1,999,971	2,958,158
May 2010	Placement	0.7500	114,225,000	164,939,758
October 2010	Placement	1.4000	109,239,200	14,728,100
February 2011	Exercise of share options	0.6357	636,054	1,036,237
July 2011	Exercise of share options	0.3950	1,185	1,940
September 2011	Placement	1.40	127,568,000	200,001,110
September 2011	Exercise of warrants	0.75	571,125	904,948
January 2012	Exercise of warrants	0.75	571,125	885,472
March 2012	Exercise of share options	0.33	106,285	170,056
February 2013	Exercise of share options	0.33	1,440,725	2,173,766
September 2013	Exercise of warrants	1.4	1,365,490	2,162,253
September 2013	Exercise of share options	0.30	6,225	9,857
December 2013	Exercise of share options	0.8075	201,875	330,510

10. Capital Expenditures

Historical

The nature of the Group's business is capital intensive, both in terms of the initial costs associated with establishing the necessary facilities and infrastructure to support commercial production of oil and the ongoing costs associated with exploration, drilling and production. For the year ended 31 December 2012, the Group had a total capital expenditure of U.S.$216.2 million (2011:U.S.$167.3 million; 2010: U.S.$144.9 million), investing in oil exploration, appraisal and development assets, as well as in computer software and property, plant and equipment. Total capital expenditure for H1 2013 amounted to U.S.$110.7 million (H1 2012: U.S.$105.0 million).

The following table sets out the Group's capital expenditures for the years ended 31 December 2012, 2011 and 2010 and the six months ended 30 June 2013 and 2012.

	Six months ended 30 June (unaudited)		*Years ended 31 December (audited)*		
	2013	*2012*	*2012*	*2011*	*2010*
			(U.S.$ '000s)		
Studies and seismic	4,121	2,774	7,379	6,263	26,924
Drilling and workovers	34,496	84,311	158,081	135,103	58,254
Production facilities	49,799	14,704	40,223	9,557	8,957
Development plan	3,171	3,471	8,647	5,037	–
General and administrative costs	6,011	402	711	1,411	1,154
PSC contractual payments	267	242	2,485	288	43,637
Computer software	60	194	109	507	84
Property Plant and Equipment	137	972	1,345	620	1,132
Total Cash Capital Expenditures(1)	98,062	107,070	218,980	158,786	140,142
Decommissioning asset	4,173	(173)	4,039	1,730	2,506
Capitalised Share-based compensation	1,730	3,261	6,005	8,044	3,445
Test production (credit)/debit	1,904	(5,145)	(13,332)	(1,270)	(1,150)
Capitalised borrowing costs	4,859	–	508	–	–
Total Non-Cash Capital Expenditure	12,666	(2,057)	(2,780)	8,504	4,801
TOTAL	110,728	105,013	216,200	167,290	144,943

Note:

(1) Excluding adjustments for trade and other payables and accruals associated with capital expenditure.

Drilling

The Group spent U.S.$160.6 million on drilling activities across the four blocks in the Kurdistan region of Iraq in 2012 (2011: U.S.$135.4 million; 2010: U.S.$59.9 million). Costs incurred in 2010 also include the spend on the Algerian assets. The expenditure in H1 2013 amounted to U.S.$34.7 million (H1 2012: U.S.$84.6 million). Drilling and workovers also includes costs associated with the preparation of the drilling location, mobilisation and demobilisation of drilling rigs and well testing.

Production facilities

The Group spent U.S.$49.8 million in H1 2013 (H1 2012: U.S.$14.7 million) and U.S.$40.2 million in 2012 on the design, site preparation for and construction of Shaikan PF-1 and PF-2, as well as the surface facilities at Akri-Bijeel Block. The previous year's expenditure (2011: U.S.$9.6 million; 2010: U.S.$9.0 million) includes the design, site preparation, construction and further upgrades to the Shaikan Early Production Facility.

Budgeted

The principal cash requirements of the Group during 2014 will be to fund the Group's capital expenditure plan which relates to completion of certain infrastructure projects and the continued exploration and development of its properties.

The Group's planned capital expenditure in 2014 primarily includes projects related to achieving its target of 40,000 bopd of production capacity from Shaikan PF-1 and PF-2. The Group estimates that achieving this level of production capacity at Shaikan, as well as continuing planned exploration and appraisal programmes identified in Sheikh Adi, Ber Bahr and Akri-Bijeel, will require expenditure of U.S.$208.8 million in 2014.

The Group anticipates additional capital expenditure of U.S.$336.7 million would be required through 2014 to the end of 2015 in order to further increase Shaikan production capacity from 40,000 bopd to 66,000 bopd in the first quarter of 2016 and continue its planned work programme at Sheikh Adi, Ber Bahr and Akri-Bijeel. The Group's capital expenditure programme is expected to include the following projects:

- completion of the Shaikan PF-2 and construction of Shaikan PF-3;
- tie-in of wells to the production facilities and construction of flowlines;
- completion of five wells on the Shaikan Block; and
- exploration and appraisal programmes on the prospects identified in the Sheikh Adi, Akri-Bijeel and Ber Bahr Blocks.

The capital expenditure programme outlined above in relation to the increase in Shaikan production capacity from 40,000 bopd to 66,000 bopd is conditional upon the Group's ability to achieve consistent and significant commercial production, sales and cash receipts.

The medium-term strategy of the Group is to move production capability from the initial planned 40,000 bopd to 100,000 bopd.

The increase of Shaikan production capacity to 66,000 bopd is the Company's next step towards reaching the target of 100,000 bopd set for Phase 1 of the approved Shaikan FDP.

See further paragraph 17 in Part 8: "*The Business – Working capital*".

11. Balance sheet

The discussion below summarises movements in selected line items from the Company's balance sheets as at 30 June 2013 and 31 December 2012, 2011 and 2010.

Non-current assets

As at 30 June 2013, the net book value of the Group's exploration and evaluation assets totalled U.S.$196.7 million compared to U.S.$545.9 million as at 31 December 2012 (2011: U.S.$359.5 million;

2010: U.S.$223.7 million). The decrease reflects the transfer of exploration and evaluation costs incurred in relation to the Shaikan field to development and production assets within property, plant and equipment. The transfer was carried out following the approval of the Shaikan FDP by the Kurdistan Regional Government's Ministry of Natural Resources announced on 26 June 2013.

The net book value at 30 June 2013 includes intangible assets relating to Ber Bahr of U.S.$56.5 million (2012: U.S.$51.0 million; 2011: U.S.$37.4 million; 2010: U.S.$27.9 million) and Sheikh Adi of U.S.$140.2 million (2012: U.S.$137.2 million; 2011: U.S.$102.1 million; 2010: U.S.$58.6 million).

The additions to oil and gas exploration and evaluation costs in 2012 and the six months ended 30 June 2013 include the Shaikan-4, -2, -5 and -6 wells' drilling, testing and workover, the drilling of the Shaikan-8 well, the construction of the Shaikan production facilities, the preparation of the Shaikan Development Plan, the drilling of the Sheikh Adi-2 well, the drilling and testing of the Ber Bahr exploration well, and the acquisition and processing of seismic data.

Property, plant and equipment were recorded at a net book value of U.S.$445.4 million as at 30 June 2013 compared to U.S.$2.3 million as at 31 December 2012 and U.S.$4.3 million as at 31 December 2011 (2010: U.S.$4.1 million). Development and production assets within property, plant and equipment comprised the capitalised expenditure incurred in relation to the Shaikan Block of U.S.$443.5 million (2012: U.S.$357.7 million; 2011: U.S.$220.0 million; 2010: U.S.$117.8 million). Shaikan costs were transferred to property, plant and equipment following the approval of the Shaikan FDP.

The Company recorded a deferred tax asset of U.S.$4.5 million as at 30 June 2013 as compared to U.S.$6.8 million as at 31 December 2012 and U.S.$8.0 million as at 31 December 2011 (2010: U.S.$4.1 million). The deferred tax asset arises solely driven by the UK current tax payable and movements in the UK deferred tax asset on share-based payments and fixed asset timing differences.

Current assets

Assets held for sale comprise the Akri-Bijeel asset which was reclassified as an asset held for sale as at 31 December 2011, following the Board's resolution to dispose of the Group's 20 per cent. working interest in the block. The asset is recorded as having a book value of U.S.$77.3 million as at 30 June 2013 (2012: U.S.$64.6 million; 2011: U.S.$35.8 million; 2010: U.S.$19.4 million, but prior to being recorded as held for sale). The proceeds of disposal are expected to substantially 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. The decommissioning provision associated with the Akri-Bijeel Block amounted to U.S.$1.2 million as at 30 June 2013 and was included in the liabilities directly associated with assets classified as held for sale.

Inventories (comprising exploration materials and crude oil) increased from U.S.$17.2 million as at 31 December 2011 (2010: U.S.$14.4 million) to U.S.$19.8 million as at 31 December 2012 and U.S.$30.1 million as at 30 June 2013. The increase in inventories reflects an increase in operational activities.

Trade and other receivables increased from U.S.$8.6 million as at 31 December 2011 (2010: U.S.$3.7 million) to U.S.$23.7 million as at 31 December 2012. The increase in receivables is attributable to higher oil sales (particularly in November and December 2012 as compared to the same periods in 2011 and 2010, as well as loans made to certain Directors that were outstanding as at 31 December 2012. The receivables balance decreased to U.S.$11.9 million as at 30 June 2013, which was attributable to the receipt of the amounts due for 2012 oil sales and the partial repayment of the loans made to certain Directors in 2012. These loans had been fully repaid as at the date of this document; see paragraph 19 of Part 16: "*Additional Information – Related Party Transactions*" for further information.

Cash and cash equivalents increased from U.S.$208.1 million as at 31 December 2011 (2010: U.S.$201.3 million) to U.S.$253.7 million as at 31 December 2012. The increase in cash and cash equivalents is mainly attributable to the unutilised net proceeds from the Original Convertible Bonds as at 31 December 2012. In H1 2013, the cash and cash equivalents balance decreased to U.S.$141.2 million as at 30 June 2013. The cash spend for H1 2013 reflected the capital expenditure on the Group's intangible assets and administrative and operating expenditure incurred (see paragraph 8 "*Cash flows*" of this Part 11 for further information).

Liabilities

As at 30 June 2013, trade and other payables amounted to U.S.$85.8 million (including U.S.$72.6 million of accrued expenses) compared to U.S.$90.9 million (including U.S.$69.0 million of accrued expenses) as at 31 December 2012 and U.S.$58.2 million (including U.S.$34.7 million of accrued expenses) as at 31 December 2011 (2010: U.S.$39.1 million with U.S.$25.7 million of accrued expenses). The increase in trade and other payables year on year from 2011 to 2012 is consistent with the increase in drilling and construction activities over the period. The decrease in the balance in H1 2013 is mostly due to the payment of the bonuses to the Group's employees in relation to 2012 performance year.

As at 30 June 2013, the Company recorded a liability of U.S.$16.4 million (2012: U.S.$13.2 million; 2011: U.S.$8.1 million; 2010: U.S.$6.4 million) in relation to decommissioning, split between current liabilities of U.S.$4.2 million and non-current-liabilities of U.S.$12.2 million. The provision for decommissioning was 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. The expenditure is estimated to be incurred over the next 12 months on Algerian oil and gas assets and over the next 30 years on Kurdistan Blocks. The decommissioning costs associated with the Akri-Bijeel asset which is held for sale of U.S.$1.2 million as at 30 June 2013 were transferred to liabilities directly associated with assets classified as held for sale (2012: U.S.$0.9 million; 2011: U.S.$0.2 million).

As at 30 June 2013, the Company had financial liabilities of U.S.$332.4 million (2012: U.S.$334.5 million; 2011: U.S.$58.6 million; 2010: U.S.$39.1 million) of which U.S.$246.2 million (2012: U.S.$243.5 million; 2011: U.S.$nil) was a non-current liability relating to the Original Convertible Bonds, which will mature in October 2017, subject to any early repayment or conversion into Common Shares. Interest at a rate of 6.25 per cent. per annum is payable bi-annually in arrears and an amount reflecting accrued interest is reflected in current liabilities.

The net proceeds received from the issue of the Original 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 Original 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 at the value of U.S.$26.6 million as at 31 December 2012, of which U.S.$2.6 million has been transferred to retained earnings in H1 2013, leaving the balance of U.S.$22.9 million as at 30 June 2013.

All other financial liabilities recorded as at 30 June 2013 and 31 December 2012 were current liabilities due to be settled within one year. All financial liabilities recorded in the years ended 31 December 2011 and 2010 were current liabilities due to be settled within one year.

12. Disclosure about market risk

The Group's senior 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 entered into currency risk hedges and interest rate hedges during 2012. 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.

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 Pounds Sterling (GBP), US dollars (USD), Algerian dinars (DZD) and Iraqi dinars (IQD).

The Group's exposure to currency risk has decreased 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.

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 main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are foreign currency, interest rate, credit and liquidity risks.

Foreign currency risk

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.

As at 31 December 2012, a 10 per cent. 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 had a material effect on the Group's net current assets or loss before tax.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates.

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's notice to maximise returns and accessibility. The Group entered into liquid investments of up to 12 months maturity during 2012 to maximise interest returns all of which have matured during 2013. The Group pays fixed coupon interest rate on the Convertible Bonds and has no floating rate financial liabilities.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not have any significant trade and other receivables outstanding from any one customer as at 30 June 2013 (2012: U.S.$ nil; 2011: U.S.$ nil).

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

Ultimate responsibility for liquidity risk management rests with the Board. 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.

13. Future Commitments and Contingencies

Pursuant to the Kurdistan PSCs, the Company is required to perform certain minimum exploration activities, all of which exploration commitments currently fall within the next three years, as follows:

Period	Minimum Work Commitment (U.S.$ '000)
During FY 2013-2015[1]	10,000
Total	10,000

Note:

(1) The Minimum Work Commitment relates to the Group's share of the Contractor's minimum work obligations for the Second Sub-Period of the Exploration Period for the Ber Bahr Block. The Second Sub-Period will end on 31 March 2015.

Due to the nature of the Group's operations in exploring and evaluating areas of interest, 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 or by the renegotiation of expenditure commitments. The level of exploration and development expenditure expected in the year ending 31 December 2012 for the Group was approximately U.S.$209 million. This includes the minimum amounts required to retain the relevant licences as set out above.

The approved Shaikan FDP links consistent oil production and sales to the Company's obligation to increase production above 40,000 bopd.

The Company also has office lease commitments in the United Kingdom and Kurdistan. Operating lease payments represent rentals payable by the Group for certain of its office and residence properties and facilities in the United Kingdom and Kurdistan. 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.

The following is a summary of the Company's contractual obligations as at 31 December 2012:

Contractual Obligations	*Under 1 year*	*1-3 years*	*4-5 years*	*+5 years*	*Total*
			(U.S.$ '000)		
Convertible Bonds[1]	17,188	34,375	309,375	–	360,938
Annual PSC payments[2]	3,148	5,677	24,845	8,664	42,334
Operating lease payments	1,345	566	–	–	1,911
Total	21,681	40,618	334,220	8,664	405,183

Note:

(1) Assumes the Convertible Bonds are not converted or repaid prior to maturity. Includes the Convertible Bond principal and interest charges.

(2) The values are estimated and based on the Group's current interest in the Kurdistan Blocks (Shaikan – 80 per cent.; Sheikh Adi – 100 per cent.; Ber Bahr – 40 per cent. and Akri-Bijeel – 20 per cent.) and the currently applicable PSC terms according to the status of the blocks.

14. Transactions with Related Parties

See paragraph 19 of Part 16: "*Additional Information – Related Party Transactions*" for a discussion of all transactions involving related parties.

15. Use of estimates

The preparation of the Company's audited consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and affect the results reported in these consolidated financial statements.

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. Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

- *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. 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.

- *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.

- *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 and impairment reviews.

- *Recoverability of deferred tax assets*. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the value of the deferred tax asset, based upon the timing and level of future taxable profits.

- *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.

- *Convertible Bonds and capitalisation of borrowing costs*. The net proceeds received from the issue of the Original 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 Original 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. 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 cash expenditures on the four Kurdistan Blocks has been capitalised.

- *Classification of assets as held for sale*. The classification of the Akri-Bijeel asset as an asset held for sale is one of the critical accounting judgements made by the 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 temporary suspension of the sale process in 2012.

For further details on the use of estimates, see the notes to the audited consolidated financial statements of the Company for the year ended 31 December 2012 which can be found at Part 13: "*Historical Financial Information*".

16. Critical Accounting Policies

The Company has identified below the IFRS accounting policies that are most critical to the Group's business operations and the understanding of its results. In each case, the application of these policies requires management to make complex judgements based on information and financial data that may change in future periods, the results of which can have a significant effect on the Group's results of operations. As a result, determinations regarding these items necessarily involve the use of assumptions and judgements as to future events and are subject to change. Different assumptions or judgements could lead to materially different results.

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.

Oil and gas assets

The Group adopts the 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 Proved plus 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 of 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.

Deferred tax

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 of the 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.

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.

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 re-measured, with any changes in fair value recognised in profit or loss for the period.

For further details on the critical accounting policies of the Group, see the notes to the audited consolidated financial statements of the Company for the year ended 31 December 2012 which can be found at Part 13: "*Historical Financial Information*".

PART 12

CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation and indebtedness of the Company as at 31 January 2014, extracted without material adjustment from the Company's unaudited management accounts as at 31 January 2014.

	31 January 2014 (U.S.$'000)
Total current debt	5,925
Guaranteed	–
Secured	–
Unguaranteed/unsecured *(current portion of Convertible Bonds issued)*	5,925
Total non-current debt (excluding current portion of long-term debt)	297,266
Guaranteed	–
Secured	–
Unguaranteed/unsecured *(non-current portion of Convertible Bonds issued)*	297,266
Total debt	303,191
Shareholders' equity(1)	804,074
Share capital	7,975
Share premium account	796,099
Other reserves	N/A
Total capitalisation(2)	1,107,265

Notes:

(1) Shareholders's equity does not include the share option reserve, convertible bond reserve, exchange translation reserve and accumulated losses, none of which are considered to be part of the invested capital of the Company.

(2) This statement of capitalisation has been prepared under IFRS using policies which are consistent with those used in preparing the annual and half-yearly financial statements of the Company.

There has been no material change in the capitalisation of the Company since 31 January 2014.

As at 31 January 2014, the Group had no debt other than the senior unsecured Convertible Bonds, details of which are summarised in paragraph 12 of Part 16: "*Additional Information – Convertible Bonds*". The following table sets out the Company's net financial indebtedness as at 31 January 2014, extracted without material adjustment from the Company's unaudited management accounts as at 31 January 2014.

	31 January 2014 (U.S.$'000)
Cash	81,902
Cash equivalents	–
Trading Securities	–
Liquidity	81,902
Current Financial Receivable	–
Current Bank debt	–
Current portion of Convertible Bonds issued	(5,925)
Current portion of non-current debt	–
Other current financial debt	–
Current Financial Debt	(5,925)
Net Current Financial Indebtedness	75,977
Non-current bank loans	–
Non-current portion of Convertible Bonds issued	(297,266)
Other non-current loans	–
Non-current Financial Indebtedness	(297,266)
Net Financial Indebtedness(1)	(221,289)

Note:

(1) This statement of indebtedness has been prepared under IFRS using policies which are consistent with those used in preparing the annual and half-yearly financial statements of the Company.

The Company has no indirect or contingent liabilities.

As at 31 January 2014 (being the latest practicable date prior to the publication of this Prospectus), the total borrowings of the Company were approximately U.S.$325 million.

PART 13

HISTORICAL FINANCIAL INFORMATION

This Part 13 sets out the following historical financial information: the consolidated financial statements of the Company for the years ended 31 December 2012, 2011 and 2010, together with the independent auditor's audit reports, the Executive Chairman and Chief Executive Officer's Statement, the Operational and Financial Reviews and the Directors' Report thereon; and the unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 June 2013, together with the independent auditor's review report, the Executive Chairman and Chief Executive Officer's Statement and the Operational and Financial Reviews thereon. The aforementioned reports were current only as at their dates of publication, and there inclusion herein is not intended to create any implication that there has been no change in the affairs of the Company since the date of the relevant report or that the information contained in them is current as at any time subsequent to their respective dates.

Deloitte LLP of 2 New Street Square, London EC4A 38Z, Chartered Accountants regulated by the ICAEW, has issued unqualified audit opinions to the Shareholders of the Company and its Subsidiaries on the consolidated financial statements of the Company included in its Annual Reports for each of the three years ended 31 December 2012, 2011 and 2010.

The audit reports referred to above were not qualified but draw attention by way of emphasis to the uncertain outcome of certain legal proceedings.

The financial statements for the years ended 2012, 2011 and 2010 were prepared in accordance with IFRS, as adopted by the European Union.

Part A: Information from the Annual Report for the year ended 31 December 2012

Section 1: Executive Chairman and Chief Executive Officer's Statement for the year ended 31 December 2012

I am very pleased to report another year of significant progress for Gulf Keystone, as the Company transitions from an independent oil and gas explorer to join the ranks of key producers in the Kurdistan Region of Iraq during 2013.

As one of the most active companies in the region, since January 2012 we have achieved a number of important development milestones in relation to our flagship asset, the Shaikan field, which is widely considered to be amongst the biggest onshore development opportunities in the world today not in the hands of an international major operator.

Since we drilled the Shaikan-1 discovery well in 2009, Shaikan has been our key operational focus, as well as the engine behind the Company's development and investment story. As the operator of the Shaikan block, our objective is to maintain the momentum by completing the ongoing transition from the appraisal and well test production phase to the large-scale and long-term phased development of the field. We are targeting the capacity to produce up to 40,000 barrels of oil per day ("**bopd**") from Shaikan in the coming months and up to 400,000 bopd in the coming years.

The Shaikan field was declared a commercial discovery in August 2012. We subsequently completed and submitted a Field Development Plan ("**FDP**") for the field in January 2013. Once approved by the Ministry of Natural Resources of the Kurdistan Regional Government, the FDP will become a roadmap for unlocking significant oil and gas volumes, already de-risked by extensive appraisal drilling and seismic analysis, establishing the necessary infrastructure required to develop this giant field and bringing to market the world class resources, which are of increasing strategic importance.

Our asset portfolio in the region retains significant remaining exploration potential, as demonstrated by three additional discoveries made between October 2012 and May 2013. Our second exploration well drilled on the Company-operated Sheikh Adi block, which is on trend with Shaikan, made a Jurassic discovery in October 2012. We plan to appraise the Sheikh Adi discovery and continue to target additional exploration prospects on the block, taking into account clear future synergies with the Shaikan block in terms of production facilities, infrastructure and logistics. On the Ber Bahr block, the first exploration well was successfully re-tested and made a Jurassic discovery in May 2013.

Meanwhile, our partner MOL Hungarian Oil and Gas plc achieved a success in the course of the extensive exploration and appraisal programme on the Akri-Bijeel block, making a new Triassic discovery with the first exploration well drilled on the Bakrman structure. We are keen to explore deep untapped resources of the Shaikan block itself. To this end, the Triassic and, potentially, Permian horizons will be targeted in 2013 by Shaikan-7, our first deep exploration well.

2013 will continue to be a period of major operational milestones on Shaikan. As well as further development drilling, forthcoming activity includes the commissioning of two new production facilities, Shaikan PF-1 and PF-2. Once the Shaikan FDP has been approved, we will step up our production operations achieving 40,000 bopd of combined PF-1 and PF-2 output and generating stable revenues for the Company, before moving to the next production target of 150,000 bopd in 2015. A pipeline to connect Shaikan to the fast-expanding regional pipeline infrastructure and, ultimately, to international markets, is expected to be constructed in the near future. These key developments will create value not only for our shareholders, but also for the Kurdistan Region and all of Iraq.

Gulf Keystone will play a key role in assisting the Kurdistan Regional Government in meeting their ambitious oil production targets of 1 million bopd in 2015 and 2 million bopd by 2019. The Company is extremely well positioned to take advantage of the developments on regional oil and gas infrastructure planning. We firmly believe it is important to be prepared for the step change in the scale of the Company's operations on Shaikan both operationally and financially. Being a responsible operator is a natural priority for the Company. We have significantly increased our training initiatives for the Company's national staff, who now account for approximately 75% of the workforce.

We have also taken a number of funding steps to facilitate the Company's transition from an independent explorer to a fully-established exploration and production company. Our ultimate goal is to finance our future operational activities in full from revenues generated as a result of increasing production. Additionally, we believe that the phased approach to the implementation of the Shaikan FDP will ensure the Company's flexibility in financing the development of this giant field. Once we complete and commission the two Shaikan production facilities our output levels are due to increase to 40,000 bopd which will allow us to make considerable steps towards our goal of fully financing our activities from production cash flows over the medium term.

Meanwhile, we are extremely pleased to have raised $275 million through a fully subscribed offering of senior unsecured convertible bonds in October 2012. It was our first attempt to access the debt capital markets and we succeeded in attracting a significant number of new investors. The funding has enabled Gulf Keystone to move ahead with its plans for the development of the Shaikan field and to proceed with the ongoing exploration and appraisal programmes on the Sheikh Adi, Akri-Bijeel and Ber Bahr blocks.

In 2012 and early 2013, Gulf Keystone vigorously disputed and contested all the allegations and claims asserted by Excalibur Ventures LLC ("**Excalibur**") against Gulf Keystone and two of its subsidiaries in December 2010, in the course of the pre-trial proceedings and the trial in the English Commercial Court, which commenced on 15 October 2012 and was completed on 1 March 2013. At the time of writing, the Company is currently awaiting the Judge's decision, which is expected later this year.

As one of the largest companies currently on the AIM market, the Board remains committed to establishing Gulf Keystone as one of the major independent exploration and production players listed on the London Stock Exchange. The Company will initially make an application for the common shares of the Company to be admitted to the standard segment of the Official List of the UK Listing Authority ("**Official List**").

In order to prepare for the move to the Official List and in keeping with its corporate governance best practice, the Board has decided to split the roles of Chairman and Chief Executive Officer. I have indicated to the Board my intention to resign as Executive Chairman as soon as a suitable Independent Non-Executive Chairman has been appointed, whereupon I shall continue solely as Chief Executive Officer. A search process has commenced for an Independent Non-Executive Chairman of the Board and at least one other Independent Non-Executive Director, and this process is being led by the Chair of the Nominations Committee, Field Marshal the Lord Guthrie of Craigiebank. Therefore, this is my last letter to you as Executive Chairman.

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. We have successfully delivered another year of strong growth and this is testament to the quality of our employees.

Looking ahead, Gulf Keystone is on the cusp of becoming a fully-established exploration and production company following the submission of the Shaikan FDP, which will result in a significant ramp up of production at the field. We believe that recent momentum on a number of fronts clearly signals that the Kurdistan Region of Iraq itself is entering the next stage of developing its oil and gas resources. We look forward to continuing this remarkable journey for the benefit of our hosts and all our stakeholders. We have never been more excited about the future.

Todd F. Kozel
Executive Chairman and Chief Executive Officer

Section 2: Operational Review for the year ended 31 December 2012

In 2012, Gulf Keystone made significant progress in its operations spanning four blocks in the Kurdistan Region of Iraq, including the giant Shaikan field, which was declared a commercial discovery in August. This flagship asset is currently in transition from the appraisal phase to the staged large-scale development of the field. While awaiting approval of the Shaikan FDP, submitted for review and approval in January 2013, the Company is planning to complete two production facilities capable of producing, in aggregate, 40,000 bopd by the end of 2013, drill its first development well and continue exploration of the deep, yet untapped resources of the massive Shaikan structure. In 2012 and early 2013, the Company succeeded in making two additional discoveries, a Jurassic discovery on the Company-operated Sheikh Adi block, and a new Triassic discovery on the Akri-Bijeel block, operated by MOL Hungarian Oil and Gas plc. Operations are currently progressing across the four blocks, which are at different stages of exploration, appraisal, early production and development, which makes our task as the Operator of the Shaikan and Sheikh Adi projects and partner in the Akri-Bijeel and Ber Bahr blocks both challenging and exciting.

The Company's workforce in the Kurdistan Region of Iraq continues to grow and approximately 75% of our employees today are national staff. To reflect the increasing scale of the Company's operations, in 2012 we continued to develop our organisational capacity, recruiting new staff in order to be able to manage our operations safely and effectively and moving to a new large office space in Erbil. Following the completion of the Shaikan FDP, our core technical personnel relocated to Erbil to expand and develop the Company's subsurface engineering team, whose task is to implement the Shaikan FDP. The Company's surface operations and engineering team is now fully recruited and the drilling organisation has been streamlined to reflect our near to medium-term drilling work programme.

Shaikan (75% working interest; Operator)

Appraisal Programme Completed

The five-well appraisal programme for the Shaikan field, agreed with the Ministry of Natural Resources, was completed in August 2012, after the Shaikan-4, -5 and -6 appraisal wells had been drilled. Shaikan-4 became the Company's best well drilled to date in terms of the total net pay, after achieving total maximum aggregate flow rates of 24,000 bopd in the course of the well testing programme in April 2012. Shaikan-5 and -6 were drilled to appraise the giant structure down the flanks and their results indicate a potential divide in terms of future productivity between the west and the east parts of the field. While solid results obtained with Shaikan-5 confirmed the extremely prolific nature of the Jurassic interval of the structure, we decided to suspend Shaikan-6, which may require a re-test, while we evaluate results obtained with this well in more detail. The Shaikan-2, -4 and -5 wells were completed as Jurassic producers and will be tied to the Shaikan production facilities, currently under construction.

Transition to the Field Development Plan

A major milestone was achieved in August 2012, when, after completing the appraisal programme, Gulf Keystone and its partners under the Production Sharing Contract ("**PSC**") relating to the Shaikan block, submitted a Declaration of Commercial Discovery with effect from 1 August 2012 to the Shaikan Block Management Committee under Clause 12.6 (a) of the PSC. This event signalled the beginning of the Company's transition from the exploration and appraisal phase to the staged large-scale development of the Shaikan field. In October 2012, the Company submitted a detailed Appraisal Report for the Shaikan field to the Ministry of Natural Resources, while continuing to work on the Shaikan FDP. The work on the Shaikan FDP commenced in the summer of 2011 and was completed in January 2013 with the document submitted for review and approval by the regulatory authorities on 27 January 2013.

The Shaikan FDP envisages the first phase of the field development targeting the initial major production goal of 150,000 bopd, followed by a ramp-up to achieve full plateau production. The Shaikan field development is a very significant project, which will require a large number of development and producing wells; additional production, oil and gas processing and blending facilities; and considerable infrastructure, including a pipeline to bring to market Shaikan's increasing production. While awaiting regulatory approvals of the FDP, the Company has been implementing a number of specific pre-development initiatives:

- Shaikan-8, the first post-appraisal well, was drilled in the proximity of the Shaikan-1 and -3 producing wells. The well spudded in September and was completed in December successfully meeting its pre-drill objectives. Shaikan-8 is a sour gas re-injection well that will assist in minimising gas flaring and associated emissions from the Shaikan production operations.

- Re-processing of the significant amount of 3D seismic data, acquired over the Shaikan block in 2010 and processed in 2011 in order to determine best locations for future development wells; the process is ongoing.

- Shaikan-10, the Company's first development well, will spud in July 2013 close to the Shaikan-2 well location. Shaikan-10 will become a producer and will be tied, along with Shaikan-2 and -5, to the Shaikan PF-2 facility.

Gulf Keystone will benefit from a number of ongoing developments on regional oil and gas infrastructure planning. A pipeline connection from Shaikan to the fast developing regional oil and gas infrastructure system, which is expected to be constructed in the near future, is an integral part of our plan to transition from 40,000 bopd to the initial target of the Shaikan FDP of 150,000 bopd.

Production

Shaikan Extended Well Test ("**EWT**"), which commenced in late 2010, continued in 2012, providing the Company with an opportunity to continue to gain new data and a better understanding of the Shaikan discovery. The EWT also facilitated the Company's commercial and marketing relationships in the domestic market of the Kurdistan Region of Iraq, where all the test production output was sold in 2012. The Shaikan-1 and -3 producing wells, which were tied to the EWT facility, have achieved total output of over one million barrels gross since the commencement of stable production testing operations in November 2011, until the EWT facility was replaced by PF-1 in Q1 2013.

In early 2012, Gulf Keystone commenced working on the construction of two production facilities in parallel to the work on the Shaikan FDP in order to be able to achieve the initial production target of 150,000 bopd of export quality crude in line with expectations of the Ministry of Natural Resources. The first Shaikan production facility is an upgrade development of the EWT facility with the aim of increasing its output to 20,000 bopd and storage capacity to 50,000 barrels. All equipment modules were delivered from Calgary, Canada via Houston, USA and through the port of Mersin in Turkey and assembly work on the first Shaikan production facility (PF-1) commenced in early 2013. Prolonged cold, snowy and rainy weather conditions from January to April and delays in the shipping schedule impacted our original schedule. Shaikan PF-1 has now replaced the original EWT facility and its commissioning is ongoing. PF-1, which is tied to the Shaikan-1 and -3 producing wells, will be linked to the Shaikan-4 well later in 2013. The facility is designed to produce 20,000 bopd, processing the crude to export specification.

Shaikan PF-1 will be followed by PF-2, also designed to produce 20,000 barrels of oil per day, later in 2013. The construction of PF-2 is ongoing and it is expected to be commissioned in H2 2013. Shaikan PF-2 will be tied to the Shaikan-2 and -5 producing wells, as well as Shaikan-10. Once the Shaikan FDP has received all necessary approvals, we look forward to joining the ranks of key producers in the Kurdistan Region of Iraq, contributing to the steadily rising production capacity of the region. We also look forward to finding the most effective solution to deal with the associated gas. The configuration of PF-1 and PF-2 includes an amine plant, which is designed to sweeten a part of the associated gas stream and use it for fuel gas to power the Company's operations. It is the Company's current plan to re-inject the remaining concentrated gas stream. Configuration of future production and processing facilities will depend on the guidance from the regulatory authorities regarding regional plans to put in place the necessary facilities and infrastructure to collect and transport associated gas.

Resource Base and Additional Exploration Upside

As a result of the successful five-well appraisal programme of the Shaikan field, a new range of the gross oil-in-place volumes for the Shaikan field was calculated by Dynamic Global Advisors ("**DGA**") in July 2012. These independent estimates of between 12.4 billion (P90) and 15.0 billion (P10) barrels of gross oil-in-place, with a mean value of 13.7 billion barrels of gross oil-in-place, are very significant and will be further refined when results of Shaikan-7, the Company's first deep exploration well, become available. Shaikan-7, which spudded in June 2013 in proximity of the producing wells Shaikan-1 and -3, will explore the mid to lower Triassic and, potentially, Permian horizons of the Shaikan structure. Potential additional oil volumes exist in the Cretaceous formation to the north of the field, which have not been accounted for as yet by the Company. As we move from the early stages of test output from the Shaikan field to consistent levels of production at stable rates of between 20,000 bopd and 40,000 bopd, we expect to gain significant additional data about the potential of Shaikan's multiple reservoirs.

Sheikh Adi (80% working interest; Operator)

In May 2012, we spudded Sheikh Adi-2, the second exploration well on the block, located immediately to the west of the Shaikan block. The location for this well, 1.45km to the north of Sheikh Adi-1, was selected as a result of the analysis of extensive 3D seismic data acquired over the block in 2010-2011. By drilling Sheikh Adi-2, we were looking for a well-developed system of natural fractures similar to Shaikan in order to support the preliminary gross oil-in-place estimates with a range of between 1.0 billion (P90) and 3.0 billion (P10) barrels, as independently estimated by DGA in August 2011, following the drilling of Sheikh Adi-1. Sheikh Adi-2 was drilled to a measured depth 2,754 metres, following which we successfully tested four out of seven target reservoir zones at measured depths of between 1,420 metres and 1,700 metres, achieving total stabilised aggregate flow rates of 4,235 bopd of approximately 15 to 18 degrees API gravity across the Upper Butmah, Adaiyah, Mus and Sargelu formations in the Jurassic. The oil gravity is similar to that found in the same formations in the Shaikan block.

The Company notified the Ministry of Natural Resources of the Jurassic discovery in November 2012. Earlier this year, the Company and the Kurdistan Regional Government, its partner in the block, unanimously agreed to move to an appraisal programme. Furthermore, we plan to target two additional exploration leads, comprising potential extensions of the Atrush and Swara Tika discoveries, following the planned acquisition of 70km of additional 2D seismic data to be undertaken in 2013. The Company is enthusiastic about the forthcoming appraisal programme and additional exploration work, as it is the Company's belief that the Shaikan field shows signs of a significant extension into the Sheikh Adi block.

Akri-Bijeel (20% working interest)

Significant progress was achieved in 2012 in the extensive exploration and appraisal programme of the massive Akri-Bijeel block by the operator, Kalegran Ltd., a 100% subsidiary of MOL Hungarian Oil and Gas plc. Most notably, a new Triassic discovery was made with the Bakrman-1 exploration well in October 2012. This is the second discovery on the block following the Bijell discovery made in 2010.

Bakrman-1 Exploration Well Discovery

Bakrman-1, the first exploration well to target the Bakrman structure on the block, spudded in May 2012, 32km to the north-west of the Bijell-1 discovery well. The Bakrman structure is a large anticline in the western portion of the Akri-Bijeel block and appears to be on trend with the nearby Atrush discovery, immediately to the north of the Shaikan block. The well was drilled to a total depth ("**TD**") of 4,100 metres in the Kurra Chine B formation in the Triassic, following which a well testing programme commenced, targeting reservoir zones in the Jurassic and Triassic. According to the operator, the second open hole well test performed at 3,930-4,100 metres MD (measured depth) in the Kurra Chine B formation in the Triassic resulted in calculated daily flow rates of approximately 2,616 bopd of light (32 to 35 degrees API gravity) and a gas rate of approximately 5.86 million standard cubic feet per day. The well testing programme is expected to be completed in the near future.

Bijell Appraisal Programme

Bijell-3, the first well to appraise the Bijell discovery, spudded in January 2012. It has been drilled 8km to the north-west of the Bijell-1 discovery well and 26km to a TD of 4,980 metres in the Sarki formation in the Lower Jurassic. Bijell-3 did not encounter commercial inflow of hydrocarbons, thus marking the northern boundary of the field discovered by the Bijell-1 well. The extensive appraisal programme of the Bijell discovery continues with two additional appraisal wells: Bijell-7 spudded in December 2012 and Bijell-2 spudded in February 2013. Three further appraisal wells are scheduled to spud in 2013: Bijell-4, -5 and -6.

Bijell Extended Well Test

Construction and commissioning of an Extended Well Test ("**EWT**") facility for the Bijell discovery commenced in 2012 and is expected to be completed in Q2 2013. The Bijell EWT facility, of a total gross capacity of 10,000 bopd and a storage capacity of 30,000 barrels, will be tied to the Bijell-1 discovery well. Bijell-1 is in the process of being completed as a producer and first test production is expected later in 2013.

Gulak-1 Exploration Well

Gulak-1, the first exploration well to target the Gulak anticline, spudded in July 2012 and was drilled 21km to the east from the Bijell-1 discovery well to a TD of 3,641 metres in the Kurra Chine B formation in the Triassic. In the course of the well test programme only minor inflows of hydrocarbons were encountered, which, given the size of oil column, indicates a lack of natural fracture, and the well was suspended.

Finally, the acquisition of 490km^2 of 3D seismic data, which commenced in 2012, is continuing.

Ber Bahr (40% working interest)

Ber Bahr-1, the first exploration well to be drilled on the block, completed drilling and initial testing in May-June 2012. The well was drilled to a TD of 3,933 metres in the Chia Zairi formation. According to Genel Energy plc, the operator, the well encountered a 300 metre oil column in the Jurassic with matrix porosity of 17% but two drill stem tests over the interval failed to flow and yielded inconclusive results. In order to determine the commercial viability of the well, the operator drilled a side-track in early 2013. In May 2013, the Ber Bahr-1 well made a Jurassic discovery achieving a sustainable flow rate of 2,100 stock tank barrels ("**STB**") per day of 15 API oil from the Middle Jurassic age Sargelu formation. The operator has also stated their intention to begin a phased development of the field in the second half of this year.

Algeria

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

JB Gerstenlauer
Chief Operating Officer

Section 3: Financial Review for the year ended 31 December 2012

Operating Results

The Company has continued to produce from the Shaikan-1 and -3 wells during the year. Gross production for 2012 totalled 832,859 barrels of oil (2011: 200,137 barrels of oil) and gross sales were 825,485 barrels of oil (2011: 207,848 barrels of oil). These sales have generated net revenues of $32.2 million (2011: $6.9 million) for the Company with an average realised price achieved of $48.70 per barrel (2011: $41.61 per barrel). Operating costs on a per barrel basis, excluding inventory movements, depreciation, depletion and amortisation costs and share-based payment charges were $28.31 per barrel during the period (2011: $33.97 per barrel).

As the Company is still in the early stages of producing oil from the Shaikan field and production rates are variable, revenue continues to be shown in the income statement with an equal and offsetting amount against cost of sales and a $nil gross profit. An amount equal to the revenue is credited to intangible assets against exploration and evaluation costs, reducing the net book value in the balance sheet. The Company will consider recognising earnings and accounting for this activity as a gross profit or loss in the income statement as the full development of the field commences and when there is evidence of oil production being achieved on a regular and consistent basis.

Non-Operating Results

General and administrative expenses for 2012 were $82.1 million, compared to $60.4 million in 2011. Administrative costs have increased by $21.7 million primarily due to a significant increase in advisers' fees incurred in relation to the Company's defence of the claim made by Excalibur Ventures LLC ("**Excalibur**"). For further details of the Company's response to the claim please refer to note 22 to the consolidated financial statements. Furthermore, the Company saw an increase in the operational activities in the Kurdistan Region of Iraq, as the Company's projects expand and mature, requiring an increase in expenditure on supporting functions. The costs associated with the share bonus awards and the options awarded under the Company Share Options Plan and Long Term Incentive Plan went down to $25.9 million in 2012 from $42.5 million in 2011. Of these costs, $6.0 million has been included within intangible assets (2011: $7.9 million), as these employment costs are directly attributable to technical staff.

Other gains of $5.2 million (2011: other gains of $5.8 million) comprise foreign exchange gains of $6.4 million (2011: $4.7 million gain) and mark-to-market valuation loss of $1.2 million (2011: $1.1 million gain) which includes the revaluation of the Standby Equity Distribution Agreement derivative from an asset of $0.4 million to $nil following the expiry of the agreement. The mark-to-market loss is a result of the Company entering into currency and interest rate hedges which are held to maturity. Currency hedges were used to partly mitigate the risk associated with converting sterling to U.S. dollars following funds received in sterling from the share placing in 2011 and converting U.S. dollars to sterling following funds received in U.S. dollars from the issue of the senior unsecured convertible bonds ("**Convertible Bonds**") by Gulf Keystone during 2012.

Interest revenue remained at a similar level to 2011 amounting to $1.2 million in 2012 (2011: $1.2 million). Finance costs of $4.5 million (2011: $0.5 million) are made up of the accretion charge on the decommissioning provision of $0.3 million (2011: $0.5 million) and interest payable in respect of the Convertible Bonds of $4.6 million (2011: $nil) out of which $0.5 million was capitalised within intangible assets.

The tax cost for 2012 is $1.6 million (2011: credit of $1.4 million) and arises on UK activities.

The results for 2012 show an increased loss after tax of $81.8 million (2011: $62.4 million) reflecting the increase in administrative expenses, interest expense now arising on the Convertible Bonds and the increase in tax charge.

Cash Flow

Net cash outflow from oil and gas operations after general and administrative expenses was $59.0 million (2011: $24.2 million). The loss from operations of $82.1 million (2011: $70.4 million) was adjusted for non-cash expenditure of $25.3 million (2011: $45.2 million) which included share-based payments, provisions for overdue receivables and Algeria decommissioning obligation, depreciation and amortisation. The working capital adjustments result in a $2.2 million cash outflow (2011: $0.9 million inflow) adding to the operational cash outflow. The working capital movements, such as increase in inventories and payables, are in line with the increase in drilling and construction activities as well as higher general and administrative expenses. The increase in receivables is attributable to the higher oil sales made in November and December 2012 as compared to the same period in 2011 as well as the loans made to certain Directors of the Company that were outstanding as at 31 December 2012. These loans have been partially repaid as at the date of this report; the remainder of the loans shall be repaid by the end of August 2013 (see note 24 to the consolidated financial statements). Tax paid in 2012 was $1.7 million (2011: $0.7 million) and interest received was $1.2 million (2011: $1.2 million). Net cash outflow from operating activities after tax and interest was $59.4 million (2011: $23.7 million).

Cash used in investing activities totalled $172.3 million (2011: $172.5 million), which comprises $191.9 million spent on intangible assets (2011: $152.5 million) and $1.3 million (2011: $0.6 million) spent on property, plant and equipment offset by a reduction in liquid investments of $20.9 million (2011: $19.4 million increase). The majority of the $191.9 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 Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel blocks, construction of the Shaikan production facilities, preparation of the Shaikan FDP, Akri-Bijeel surface facility construction and the acquisition and processing of seismic data. The expenditure on property, plant and equipment reflects the expansion of the Kurdistan office.

Cash generated by financing activities amounted to $270.2 million (2011: $197.9 million). A total of $268.9 million was raised in proceeds on issue of the Convertible Bonds. A further $1.3 million was raised through the funds received following the exercises of the warrants previously granted and options under the Company's share option plan.

The net overall increase in cash and cash equivalents during the period was $38.5 million (2011: $1.8 million increase). Foreign exchange gains on cash balances were $7.1 million (2011: $5.1 million).

Cash and cash equivalents totalled $253.7 million at 31 December 2012 (31 December 2011: $208.1 million). Cash, cash equivalents and liquid investments totalled $262.3 million at 31 December 2012 and $154.0 million at 1 June 2013 (31 December 2011: $237.6 million).

Convertible Bonds

In order to fund the Company's ongoing work programme the Company completed an oversubscribed offering of the Convertible Bonds, raising $275.0 million gross proceeds. Subsequent to the year end, the Convertible Bonds were admitted to the Official List of the Luxembourg Stock Exchange in January 2013.

Funds raised via the offering of the Convertible Bonds enhanced the Company's liquidity position and will contribute to the Company's ongoing move to the staged large-scale development of its Shaikan field in the Kurdistan Region of Iraq, which was declared a commercial discovery in August 2012, and the exploration and appraisal of its other three blocks in the region.

This is the first time Gulf Keystone has accessed the debt capital markets, and the success of the offering demonstrated investors' confidence in the Company's ongoing move from appraisal, to development, of its world class Shaikan field and the maturing hydrocarbon profile of the Kurdistan Region of Iraq.

The Convertible Bonds will be convertible into common shares of the Company at the initial conversion price of $4.39 (£2.72 at the prevailing USD: GBP spot rate at the time of pricing). The conversion right in respect of a Convertible Bond may be exercised, at the option of the holder, at any time from 18 October 2012 to the close of business on 8 October 2017. The Convertible Bonds carry a coupon rate of 6.25%

per annum payable bi-annually in arrears. The Convertible Bonds are redeemable at 100% of their principal amount and, unless previously redeemed, converted or cancelled, will mature on the fifth anniversary of the issue of the Convertible Bonds in October 2017.

Excalibur Claims

The Company vigorously disputed and contested the allegations and claims asserted by Excalibur in December 2010 in the course of the pre-trial proceedings and the trial in the English Commercial Court, which commenced in London on 15 October 2012 and was completed on 1 March 2013. The Judge will give his decision in a written Judgement, which is expected later this year.

As at the date of this report, Excalibur has made two payments into Court totalling £10.7 million as security for the costs of Gulf Keystone and two of its subsidiaries (together "the Companies") of defending the legal action, further to the decision of the English Commercial Court in London. In addition, total payments of £6.7 million were made into Court as security for the costs of Texas Keystone Inc.. Further details are given in note 22 to the consolidated financial statements.

Corporate Activities

At the Annual General Meeting on 19 July 2012, approval was obtained to increase the authorised share capital of the Company by $1,000,000 through the creation of an additional 100,000,000 new common shares of $0.01. At the date of this report, 887,686,957 common shares are in issue.

During March 2012, 11.0 million common shares were also issued in relation to outstanding awards made under the 2009, 2010 and 2011 Executive Bonus Scheme and 0.3 million common shares in response to option exercises by the Company's employees. A further 10.0 million common shares were issued to satisfy the cash settled awards to certain Executive Directors and employees, conditional on the occurrence of an Exit Event. These issues were previously detailed in the 2011 Annual Report and Accounts.

Subsequent to 31 December 2012, 7.1 million common shares have been 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 19 and 23 to the consolidated financial statements. A further 4.4 million common shares were issued in response to option exercises by the Company's employees in February 2013. The common shares issued during 2012 and subsequent to year end to satisfy awards under the Company's bonus and option incentive schemes represent 3.70% of the Company's share capital as at 19 June 2013.

There were no additional share bonuses or LTIP options granted in 2012.

Other and Further Events

The Company continues to explore options for the disposal of its 20% working interest in the Akri-Bijeel block and appointed corporate advisers in 2012 who are responsible for coordination of and advice on the process. The disposal process remains ongoing at the date of this report. The Akri-Bijeel intangible asset (2012: $64.6 million; 2011: $35.8 million), including the associated working capital balances, continues to be classified as an asset held for sale.

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 2013

The Company has gone through another year of significant growth in which we achieved important operational and financial milestones, including the highly successful fundraising through the issue of the Convertible Bonds, Declaration of Commercial Discovery at Shaikan, three additional discoveries, including the Sheikh Adi and Akri-Bijeel discoveries in 2012, and the Ber Bahr discovery in 2013.

Gulf Keystone, together with its partners, carries 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 across all of the Company's licence interests. Furthermore, once the Shaikan FDP is approved by the relevant authorities, we will start a new exciting phase of the Company's development.

Our financial strategy remains to maintain the appropriate financial flexibility to fund high-impact exploration, appraisal and development programmes in order to realise the full potential of our multi-billion barrel resources. We will also look to broaden the sources of funding for Gulf Keystone, whilst ensuring an appropriate capital structure. Allied to this, we will work to ensure that our cost base remains appropriate as we continue to build our organisational capacity. These goals will enable us to support the Company's growth strategy with a robust, well-funded business.

Once we complete and commission the two Shaikan production facilities our output levels are due to increase to 40,000 bopd which will allow us to make considerable steps towards our goal of fully financing our activities from production cash flows over the medium term. Further funds will become available to the Company in the event that the Kurdistan Regional Government formally exercises its Third Party Assignment and Government options under the terms of the Production Sharing Contract regarding the Shaikan block, and the Production Sharing Contract regarding the Akri-Bijeel block. In addition, the Company continues to evaluate the ongoing disposal process of the Company's 20% interest in the Akri-Bijeel block as the forthcoming results of the wells currently being drilled and tested, and planned early production from the Bijell discovery, are taken into consideration.

Gulf Keystone is now entering a new phase of its development as it matures from a proven oil explorer to a production company. As the commercial viability of the Shaikan field is demonstrated, and the Company's exploration and appraisal programmes on Sheikh Adi, Akri-Bijeel and Ber Bahr progress, there continue to be excellent opportunities for increasing shareholder value.

KE Ainsworth
Finance Director

Section 4: Directors' Report for the year ended 31 December 2012

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 2012. A review of the business is set out in the preceding sections of this Annual Report, including the Executive Chairman and Chief Executive Officer's Statement, Operational Review and Financial Review, which are incorporated into this report by reference. The Corporate Governance statement also forms part of this report.

Company History and Principal Activities

Gulf Keystone is an independent oil and gas exploration and production company with operations in the Kurdistan Region of Iraq. The Company was incorporated in Bermuda in 2001 and listed on AIM, a market operated by the London Stock Exchange, in 2004 (stock quote GKP).

In addition to Gulf Keystone's registered office in Bermuda, the Gulf Keystone Group has further offices in Erbil, Kurdistan Region of Iraq, Algiers, Algeria and London, UK. The Group operates through a number of subsidiaries which are detailed in note 12 to the consolidated financial statements and include Gulf Keystone Petroleum International ("**GKPI**"), a wholly-owned subsidiary of the Company, which holds the Production Sharing Contracts ("**PSCs**") for four exploration blocks in the Kurdistan Region of Iraq.

Results and Dividends

The Group's financial results for the year ended 31 December 2012 are set out in the consolidated financial statements. The Group made a net loss after taxation for the year of $81.8 million (2011: $62.4 million loss) and the Directors do not recommend a dividend for the year (2011: $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 19 to the consolidated financial statements. The business is financed by means of debt (see note 16 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 23 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. Every year, one-third of all the Directors retire by rotation and stand for re-election.

The following Directors have held office during the year:

TF Kozel	*Executive Chairman and Chief Executive Officer*
AA Al Qabandi	*Business Development Director*
JB Gerstenlauer	*Chief Operating Officer*
KE Ainsworth	*Finance Director*
M Varzi	*Non-Executive Director*[1]
P Truscott	*Non-Executive Director*[1] *(retired by rotation 19 July 2012)*
MAC Hanson	*Non-Executive Director*[1]
CRL Guthrie	*Non-Executive Director*[1]

Note:

(1) Member of the Audit, Remuneration and Nominations Committees.

Directors' Interests in Shares

The Directors who held office at 31 December 2012 had the following interests in the common shares of the Company, including family interests:

	Number of common shares[(1)]						
	At 1 January 2012	*Shares issued in 2012*	*Shares sold transferred in 2012*	*At 31 December 2012*	*Shares issued post year end*	*Shares sold transferred post year end*	*At date of report*
TF Kozel	18,126,670	4,614,166	(17,433,333)	5,307,503	5,947,501[(2)(3)]	(11,000,000)	255,004
AA Al Qabandi	10,116,666	333,334	–	10,450,000	–	–	10,450,000
JB Gerstenlauer	231,777	922,834	–	1,154,611	589,500[(3)]	–	1,744,111
KE Ainsworth	1,237,297	922,834	–	2,160,131	589,500[(3)]	(11,000)	2,738,631
M Varzi	468,888	366,667	(257,347)	578,208	333,334[(3)]	(268,219)	643,323
MAC Hanson	–	–	–	–	–	–	–
CRL Guthrie	–	–	–	–	–	–	–

Notes:

(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.

(2) Includes 3 million common shares issued as a result of share options exercise post year end.

(3) Includes common shares issued pursuant to the vesting of the remaining awards granted under the 2010 Company's Executive Bonus Scheme and the vesting of the second third of the awards granted under the 2011 Company's Executive Bonus Scheme.

Subsequent to year end, the Gulf Keystone EBT subscribed for 6,459,169 new common shares so as to be able to fulfil the vested shares awarded under the Executive Bonus Scheme (see the Report of the Remuneration Committee and note 23 to the consolidated financial statements) and released 8,277,505 common shares. At the date of this report, the EBT held 11,078,220 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 23 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 2012 are disclosed under the Report of the Remuneration Committee.

Significant Shareholdings

The Company has been notified of the following significant shareholdings as at 31 May 2013:

	Number of common shares	*Percentage of issued share capital*
TD Direct Investing	59,123,475	6.66%
Barclays Wealth	54,036,195	6.09%
Capital Research Global Investors	49,596,975	5.59%
M&G Investment Mgt	45,350,000	5.11%
Hargreaves Lansdown Asset Management	37,838,687	4.26%
Halifax Share Dealing	31,964,809	3.60%
Selftrade Investments	30,631,160	3.45%

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 Executive Chairman and Chief Executive Officer's Statement and Operational Review. The financial position of the Group at the year end and its cash flows and liquidity position are included in the Financial Review. In addition, note 25 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 25 also describes exposures to credit risk and liquidity risk.

The Group closely monitors and manages its capital position and liquidity risk regularly throughout the year to ensure that it has sufficient funds to meet forecast cash requirements and satisfy the planned capital programme. Following the Convertible Bonds issue during 2012, the Group is in a strong financial position and at 1 June 2013 had approximately $154 million of cash, cash equivalents and liquid investments. Further, the Group expects to receive production revenue streams from its operations in the Kurdistan Region of Iraq once the Shaikan production facilities are commissioned and production resumed. Management has also considered the possible impact that an unfavourable outcome of the Excalibur litigation would have on the going concern assessment. Management considered various outcomes and, in all cases, concluded that an unfavourable outcome of the litigation would not create a material uncertainty around the Group's going concern status. Consequently, the Directors believe that the Group is well placed to satisfy its obligations and finance its exploration and evaluation programme for the foreseeable future, being at least the next 12 months.

Based on the forecasts and projections prepared at the time of preparation of this annual report and after making enquiries, 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 Company 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 Company 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 Company'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 Company's auditor is aware of that information.

Annual General Meeting 2013

The resolutions to be proposed at the Annual General Meeting ("**AGM**") to be held on 25 July 2013 in Bermuda will be set out in the Notice of the AGM. The Company will also hold an Investor Day on 4 July 2013 in London.

By order of the Board

TF Kozel
Executive Chairman and Chief Executive Officer
19 June 2013

Section 5: Directors' Responsibilities in the Preparation of the Financial Statements for the year ended 31 December 2012

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 ("**IFRSs**") as adopted by the European Union and Article 3 of the IAS regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the 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 IFRSs. The Directors are also responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs is 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
- making an assessment of the Company'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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding assets of the Company 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 Company's website.

Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the sections of the annual report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

TF Kozel
Executive Chairman and Chief Executive Officer
19 June 2013

Section 6: Independent Auditor's Report for the year ended 31 December 2012

We have audited the consolidated financial statements of Gulf Keystone Petroleum Limited for the year ended 31 December 2012 which 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 25. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards ("**IFRSs**") as adopted by the European Union.

This report is made solely to the Company's members, as a body. 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.

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.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

Emphasis of matter – uncertain outcome of legal proceedings

In forming our opinion on the consolidated financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 22 to the consolidated financial statements concerning the uncertain outcome of legal proceedings which include a claim against up to 30% of the Group's blocks in the Kurdistan Region of Iraq, which comprise the substantial majority of the Group's petroleum operations. The Company and two of its subsidiaries received notice on 23 December 2010 of the claims, since which time they have been vigorously contesting the claims.

The related trial in the English Commercial Court in London was completed on 1 March 2013 but no verdict has yet been announced. The ultimate outcome of the matter cannot presently be reliably estimated, and consequently no provision for any liability that may result has been made in the consolidated financial statements.

Opinion on other matters

In our opinion the information given in the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP
Chartered Accountants
London, United Kingdom
19 June 2013

Section 7: Consolidated Financial Statements for the year ended 31 December 2012

Consolidated Income Statement
For the year ended 31 December 2012

	Notes	*2012*	*2011*
		$'000	
Continuing operations			
Revenue	4	32,190	6,919
Cost of sales		(32,190)	(6,919)
Gross profit		–	–
Other operating expenses			
Impairment of assets held for sale		–	(10,000)
General and administrative expenses		(82,137)	(60,350)
Loss from operations	2	(82,137)	(70,350)
Other gains and (losses)	5	5,210	5,791
Interest revenue	4	1,199	1,239
Finance costs	6	(4,456)	(473)
Loss before tax		(80,184)	(63,793)
Tax (charge)/benefit	7	(1,638)	1,437
Loss after tax for the year		(81,822)	(62,356)
Loss per share (cents)			
Basic	8	(9.61)	(8.01)
Diluted	8	(9.61)	(8.01)

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

	2012	*2011*
	$'000	
Loss for the year	(81,822)	(62,356)
Exchange differences on translation of foreign operations	1,010	(250)
Total comprehensive loss for the period	(80,812)	(62,606)

Consolidated Balance Sheet
As at 31 December 2012

	Notes	*2012*	*2011*
		$'000	
Non-current assets			
Intangible assets	9	546,229	360,005
Property, plant and equipment	10	2,285	4,295
Deferred tax asset	18	6,796	7,977
		555,310	372,277
Current assets			
Assets classified as held for sale	11	64,612	35,840
Inventories	13	19,783	17,233
Trade and other receivables	14	23,674	8,594
Liquid investments		8,600	29,528
Cash and cash equivalents		253,713	208,103
Derivative financial instruments	25	207	1,838
		370,589	301,136
Total assets		925,899	673,413
Current liabilities			
Trade and other payables	15	(90,872)	(58,199)
Current tax liabilities		(444)	(712)
Provisions	17	(4,185)	–
Derivative financial instruments	25	(168)	(358)
		(95,669)	(59,269)
Non-current liabilities			
Convertible bonds	16	(243,495)	–
Provisions	17	(9,044)	(8,070)
		(252,539)	(8,070)
Total liabilities		(348,208)	(67,339)
Net assets		577,691	606,074
Equity			
Share capital	19	7,847	7,627
Share premium account	19	791,479	790,435
Share option reserve		29,280	34,065
Convertible bonds reserve		25,485	–
Exchange translation reserve		449	(561)
Accumulated losses		(276,849)	(225,492)
Total equity		577,691	606,074

The financial statements were approved by the Board of Directors and authorised for issue on 19 June 2013 and signed on its behalf by:

TF Kozel
Executive Chairman and Chief Executive Officer

KE Ainsworth
Finance Director

Consolidated Statement of Changes in Equity
For the year ended 31 December 2012

		Attributable to equity holders of the Company						
	Notes	*Share capital*	*Share premium account*	*Shares option reserve*	*Exchange translation reserve*	*Accumul-ated losses*	*Convertible bonds reserve*	*Total equity*
					$'000			
Balance at 1 January 2011		6,628	593,470	20,468	(311)	(193,414)	–	426,841
Transfer relating to share-based payments		–	–	(30,332)	–	30,332	–	–
Share-based payment expense	23	–	–	42,540	–	–	–	42,540
Deferred tax on share-based payment transactions	18	–	–	1,389	–	–	–	1,389
Share conversion and issue	19	999	196,965	–	–	–	–	197,964
Foreign currency translation differences		–	–	–	(250)	–	–	(250)
Own shares held	19	–	–	–	–	(54)	–	(54)
Net loss for the year		–	–	–	–	(62,356)	–	(62,356)
Balance at 1 January 2012		7,627	790,435	34,065	(561)	(225,492)	–	606,074
Transfer relating to share-based payments		–	–	(29,591)	–	29,591	–	–
Share-based payment expense	23	–	–	25,899	–	–	–	25,899
Deferred tax on share-based payment transactions	18	–	–	(1,093)	–	–	(1,093)	
Share conversion and issue	19	220	1,044	–	–	–	–	1,264
Foreign currency translation differences		–	–	–	1,010	–	–	1,010
Own shares held by EBT	19	–	–	–	–	(202)	–	(202)
Issue of convertible bonds	16	–	–	–	–	–	26,561	26,561
Convertible bonds equity amortisation	16	–	–	–	–	1,076	(1,076)	–
Net loss for the year		–	–	–	–	(81,822)	–	(81,822)
Balance at 31 December 2012		7,847	791,479	29,280	449	(276,849)	25,485	577,691

Consolidated Cash Flow Statement
For the year ended 31 December 2012

	Notes	*2012*	*2011*
		$'000	
Operating activities			
Cash used in operations	20	(58,974)	(24,236)
Tax paid		(1,667)	(665)
Interest received		1,199	1,239
Net cash used in operating activities		(59,442)	(23,662)
Investing activities			
Purchase of intangible assets		(191,887)	(152,508)
Purchase of property, plant and equipment		(1,345)	(612)
Decrease/(increase) in liquid investments[1]		20,928	(19,351)
Net cash used in investing activities		(172,304)	(172,471)
Financing activities			
Proceeds on issue of share capital		1,264	197,905
Proceeds on issue of convertible bonds		268,972	–
Net cash generated by financing activities		270,236	197,905
Net increase in cash and cash equivalents		38,490	1,772
Cash and cash equivalents at beginning of year		208,103	201,268
Effect of foreign exchange rate changes		7,120	5,063
Cash and cash equivalents at end of the year being bank balances and cash on hand		253,713	208,103

Note:

(1) Liquid investments comprise short-term liquid investments of between three to 12 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 2012 was $262.3 million (2011: $237.6 million).

Section 8: Summary of Significant Accounting Policies for the year ended 31 December 2012

General information

The Company is incorporated in Bermuda and is quoted on AIM, a market operated by the London Stock Exchange (registered address: Cumberland House, 9th Floor, 1 Victoria Street, Hamilton, Bermuda). In 2008, the Company established a Level 1 American Depositary Receipt programme in conjunction with the Bank of New York Mellon which has been appointed as the depositary bank. The Company serves as the holding company for the Group, which is engaged in oil and gas exploration and production, operating in the Kurdistan Region of Iraq and the Republic of Algeria.

Adoption of new and revised accounting standards

Standards not affecting the reported results or the financial position

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

IFRS 7 (amended)	Financial Instruments: Disclosures
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets
IFRS 1 (amended)	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

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 1 (amended)	*Government Loans*
IFRS 7 (amended)	*Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 10, IFRS 12 and IAS 27	*Investment Entities (amended)*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurements*
IAS 1 (amended)	*Presentation of Items of Other Comprehensive Income*
IAS 19 (revised)	*Employee Benefits*
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 20	*Stripping Costs in the Production Phase of Surface Mine*
IFRIC 21	*Levies*
Annual Improvements 2009-2011 Cycle	

Other than to expand the disclosure on fair value measurements within the financial statements, 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 ("**IFRSs**") 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, and on the going concern basis. The principal accounting policies adopted are set out below.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Going Concern section of the Directors' Report.

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, VAT and royalties.

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.

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 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.

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 12 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 12 months and it is not expected to be realised or settled within 12 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 proceeds received, net of direct issue 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.

Trade payables

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

Provisions

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

Decommissioning provision

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

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the entity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 23.

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 23.

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 9.

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.

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 17.

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.

Recoverability of deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the value of the deferred tax asset, based upon the timing and level of future taxable profits. Further details are provided in note 18.

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 23.

Contingent liabilities

The outcome of the legal proceedings related to Excalibur's claim for up to 30% in the Group's blocks in the Kurdistan Region of Iraq is one of the critical judgements that the Directors of the Company have made in applying the Group's accounting policies. For further information and disclosures see note 22.

Convertible bonds and capitalisation of borrowing costs

The net proceeds received from the issue 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. 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 cash 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 temporary suspension of the sale process in 2012.

Section 9: Notes to the Consolidated Financial Statements for the year ended 31 December 2012

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 Executive Chairman and 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.

	Algeria	*Kurdistan*	*United Kingdom*	*Corporate*	*Elimination*	*Total*
			$'000			
31 December 2012						
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

	Algeria	Kurdistan	United Kingdom	Corporate	Elimination	Total
			$'000			
31 December 2011						
Revenue						
Oil sales	–	6,919	–	–	–	6,919
Inter-segment sales	–	–	15,166	–	(15,166)	–
Total revenue	–	6,919	15,166	–	(15,166)	6,919
Cost of sales						
Production costs	–	(6,919)	–	–	–	(6,919)
Gross profit	–	–	15,166	–	(15,166)	–
Impairment of assets held for sale	(10,000)	–	–	–	–	(10,000)
Allocated general and administrative expenses	(3,099)	(1,634)	(18,779)	(57,463)	21,154	(59,821)
Depreciation and amortisation expense	(1)	(402)	(124)	(2)	–	(529)
(Loss)/profit from operations	(13,100)	(2,036)	(18,903)	(57,465)	21,154	(70,350)
Other gains and (losses)	(36)	(7)	–	5,834	–	5,791
Interest revenue	–	–	179	1,237	(177)	1,239
Finance costs	(344)	(129)	(177)	–	177	(473)
(Loss)/profit before tax	(13,480)	(2,172)	(3,735)	(50,393)	5,988	(63,793)
Tax expense	–	–	1,437	–	–	1,437
(Loss)/profit after tax	(13,480)	(2,172)	(2,298)	(50,393)	5,988	(62,356)
Capital expenditure	–	166,643	645	2	–	167,290
Total assets	2,863	426,002	92,217	823,943	(671,612)	673,413

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:

	2012	*2011*
	$'000	
Algeria	–	2,690
Kurdistan	548,021	361,014
Bermuda	3	3
United Kingdom	490	593
	548,514	364,300

Information about major customers

Included in revenues arising from the Kurdistan Segment are revenues of approximately $17.5 million (2011: $4.9 million) and $9.2 million (2011: $nil) which arose from sales to the Group's two largest customers.

2. Loss from operations

	2012	2011
	$'000	
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	559	412
Amortisation of intangible assets	175	117
Impairment of assets held for sale	–	10,000
Staff costs (see note 3)	38,642	45,007
Auditor's remuneration for audit services (see below)	106	91
Operating lease rentals (see note 21)	2,235	766
Fees payable to the Company's auditor for the audit of the Company's annual accounts	85	73
Fees payable to the Company's auditor for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	21	18
Total audit fees	106	91
Corporate finance services	62	290
Other services	8	–
Total fees	176	381

3. Staff costs

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

	2012	2011
	Number	
Office and management	63	41
Technical and operational	88	98
	151	139

Employee benefits recognised as an expense during the year comprised:

	2012	2011
	$'000	
Wages and salaries	15,005	6,831
Social security costs	3,663	3,539
Share-based payment (see note 23)	19,974	34,637
	38,642	45,007

4. Revenue

	2012	2011
	$'000	
Oil sales	32,190	6,919
Interest revenue	1,199	1,239
	33,389	8,158

Oil sales relate entirely to test production.

5. Other gains and (losses)

	2012	2011
	$'000	
Exchange gains	6,355	4,673
Mark-to-market valuation of foreign exchange contracts	(794)	1,118
Change in the fair value of the SEDA derivative financial instrument	(351)	–
	5,210	5,791

6. Finance costs

	2012	2011
	$'000	
Interest payable in respect of convertible bonds (see note 16)	4,617	–
Unwinding of discount on provisions (see note 17)	348	473
Capitalised finance costs	(509)	–
	4,456	473

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 convertible bonds to the expenditures on the qualifying asset (see note 16).

7. Tax

	2012	2011
	$'000	
Corporation tax		
Current year	(1,092)	(1,043)
Adjustment in respect of prior years	(203)	–
Deferred UK corporation tax (expense)/benefit	(343)	2,480
Tax (expense)/benefit attributable to the Company and its subsidiaries	(1,638)	1,437

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 24.5% (2011: 26.5%) 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 also indicated that it intends to enact a further 2% reduction to 21% at 1 April 2014 to be legislated in the Finance Bill 2013 as well as an additional reduction to 20% on 1 April 2015. The 23% rate was substantively enacted as at 31 December 2012 and was reflected in the deferred tax calculation. The additional reductions were not substantively enacted at the balance sheet date and are not yet reflected in these financial statements in accordance with IAS 10.

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 $1.1 million deferred tax charge (2011: $1.4 million credit) relating to estimated excess tax deductions related to share-based payments has been recognised directly in equity (see note 18). All deferred tax arises in the UK.

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

	2012	*2011*
	$'000	
Loss before tax	(80,184)	(63,793)
Tax at the Bermudian tax rate of 0% (2011: 0%)	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,638)	1,437
Tax (charge)/benefit for the year	(1,638)	1,437

8. Loss per share

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

	2012	*2011*
	$'000	
Loss		
Loss after tax for the purposes of basic and diluted loss per share	(81,822)	(62,356)

	2012 Number	*2011 Number*
	$'000	
Number of shares		
Weighted average number of common shares for the purposes of basic loss per share	851,486	778,858
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	851,486	778,858

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, warrants, convertible bonds and common shares held by the Employee Benefit 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 2012, 41.9 million share options (2011: 41.8 million), 6.6 million unissued bonus shares (2011: 21.5 million), 1.0 million warrants (2011: 1.7 million), 12.9 million common shares held by the EBT (2011: 8.8 million), 10.0 million common shares held by the Exit Event Trustee (2011: nil), and 62.6 million common shares to be issued if the bonds are converted at the initial conversion price of $4.39 were excluded from the loss per share calculation as they were anti-dilutive.

9. Intangible assets

	Exploration & evaluation costs	*Computer software* *$'000*	*Total*
Year ended 31 December 2011			
Opening net book value	223,749	75	223,824
Additions	166,163	507	166,670
Reclassification as held for sale (note 11)	(30,355)	–	(30,355)
Amortisation charge	–	(117)	(117)
Foreign currency translation differences	–	(17)	(17)
Closing net book value	359,557	448	360,005
At 31 December 2011			
Cost	359,557	849	360,406
Accumulated amortisation	–	(401)	(401)
Net book value	359,557	448	360,005
Year ended 31 December 2012			
Opening net book value	359,557	448	360,005
Additions(1)	186,383	109	186,492
Reclassified to profit and loss account	–	(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

Note:

(1) Net of a recharge to cost of sales of $32.2 million made in accordance with the Company's accounting policy for test production.

The net book value at 31 December 2012 includes intangible assets relating to: Shaikan $357.7 million (2011: $220.0 million); Ber Bahr $51.0 million (2011: $37.4 million), and Sheikh Adi $137.2 million (2011: $102.1 million).

The additions to oil and gas exploration and evaluation costs in the year include the Shaikan-4, -2, -5 and -6 wells drilling, testing and workover, the drilling of the Shaikan-8 well, the construction of the Shaikan production facilities, the preparation of the Shaikan development plan, the drilling of the Sheikh Adi-2 well, the drilling and testing of the Ber Bahr exploration well, and the acquisition and processing of seismic data.

The Akri-Bijeel asset was reclassified as an asset held for sale as at 31 December 2011 (see note 11) following the Board's resolution to dispose of the Group's 20% working interest in the block. Management intends to sell the Akri-Bijeel block within 12 months of the balance sheet date.

The amortisation charge of $175,000 (2011: $117,000) for computer software has been included in general and administrative expenses.

10. Property, plant and equipment

	Oil & Gas Properties	Fixtures & Equipment $'000	Total
Year ended 31 December 2011			
Opening net book value	2,690	1,412	4,102
Additions	–	620	620
Disposals	–	(8)	(8)
Depreciation charge	–	(412)	(412)
Foreign currency translation differences	–	(7)	(7)
Closing net book value	2,690	1,605	4,295
At 31 December 2011			
Cost	2,690	3,718	6,408
Accumulated depreciation	–	(2,113)	(2,113)
Net book value	2,690	1,605	4,295
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

The depreciation charge of $0.6 million on fixtures and equipment (2011: $0.4 million) has been included in general and administrative expenses.

11. 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 Company is awaiting the forthcoming results of the wells currently being drilled and tested and the commencement of the planned early production from the Bijell discovery. These results should be taken into consideration when valuing the asset.

The Akri-Bijeel asset of $64.6 million (2011: $35.8 million), which is included within the Kurdistan operating segment, is expected to be sold within 12 months and has been classified as an asset held for sale as at 31 December 2012 and presented separately in the balance sheet. The value of the asset held for sale as at 31 December 2012 includes $5.9 million (2011: $5.5 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, construction of Akri-Bijeel Extended Well Test Facility and the acquisition and processing of seismic data.

The proceeds of disposal are expected to substantially 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 $0.9 million (2011: $0.2 million), representing the net present value of the decommissioning costs associated with this asset is included within the provisions balance at 31 December 2012 (see note 17).

12. Subsidiaries

Details of the Company's subsidiaries at 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 activities in Kurdistan International Limited	Bermuda	100%	100%	Exploration and evaluation
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

13. Inventories

	2012	*2011*
	$'000	
Exploration materials	19,063	16,822
Crude oil	720	411
	19,783	17,233

14. Trade and other receivables

	2012	*2011*
	$'000	
Trade receivables	6,983	4,122
Other receivables	12,759	2,185
Prepayments and accrued income	3,932	2,287
	23,674	8,594

Included within other receivables for 2012 is an amount of $0.7 million (2011: $0.3 million) being the deposits for leased assets which are receivable after more than one year, as well as $10.7 million (2011: $1.7 million) of amounts owed by related parties (see note 24). An impairment of overdue trade receivables of $1.2 million has been recognised during the year.

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

15. 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.

	2012	*2011*
	$'000	
Trade payables	21,908	23,450
Accrued expenses	68,964	34,749
	90,872	58,199

Accrued expenses include interest payable of $3.5 million (2011: $nil) in respect of convertible bonds (see note 16).

16. 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. As described in the convertible bond listing particulars, available on the Borse 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.

The net proceeds received from the issue 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.

	2012
	$'000
Net proceeds of issue of convertible bonds	268,972
Equity component	(26,561)
Liability component at the date of issue	242,411
Interest charged	4,617
	247,028
Reported in:	
Interest payable in current liabilities (see note 15)	3,533
Non-current liabilities	243,495
Total liability component as at 31 December	247,028

The equity component of $26.6 million has been credited to equity reserve.

The interest charged for the year is calculated by applying an effective interest rate of 9.26% on an annual basis to the liability component for the period since the bonds were issued. Each year, an amount equal to the difference between the total interest charge (at 9.26% per annum) 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:

	2012
	$'000
Within one year	17,188
Within two to five years	343,750
	360,938

17. Provisions

	2012	*2011*
	$'000	
Current	4,185	–
Non-current	9,044	8,070
	13,229	8,070

Decommissioning provision	*$'000*
At 1 January 2012	8,070
New provisions and changes in estimates	4,811
Unwinding of discount	348
At 31 December 2012	13,229

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 12 months on Algerian oil and gas assets and over the next 30 years on Kurdistan blocks. Included within the provision are decommissioning costs of $0.9 million (2011: $0.2 million) associated with the Akri-Bijeel asset (see note 11).

18. 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	*Share-based payments*	*Total*
		$'000	
At 1 January 2011	9	4,097	4,106
(Charge)/credit to income statement	(43)	2,523	2,480
Credit direct to equity	–	1,389	1,389
Exchange differences	2	–	2
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 31 December 2012	1	6,795	6,796

19. Share capital

	2012	2011
	$'000	
Authorised		
Common shares of $0.01 each	10,500	9,500
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	70,000

The authorised common share capital was increased from $9.5 million to $10.5 million at the 2012 Annual General Meeting.

	Common Shares No. of shares	Common Shares Amount	Share capital	Share premium
		$'000		
Issued and fully paid				
Balance at 1 January 2011	754,243	600,098	6,628	593,470
Bonus scheme shares issued	6,966	70	70	–
Share placement	91,120	200,001	911	199,090
Shares issued under Option Scheme	1,028	1,038	10	1,028
Issue costs on share placement	n/a	(4,050)	–	(4,050)
Warrant exercise	762	905	8	897
Balance 31 December 2011	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

During the year, a total of 10,979,672 shares were issued as part of the Company's bonus share scheme (2011: 6,965,689), of which 10,246,338 new common shares were issued to the Gulf Keystone EBT at par value of $0.01 (see note 23). A further 10,000,000 common shares were issued under the Company's Exit Event Awards Plan, all of which are held by the Exit Event Trustee. Following an exercise of warrants, 761,500 common shares were issued at a price of £0.75 per share.

A further 322,000 common shares were issued following exercise of options by the employees of the Company. The details of the issues were as follows:

Date of issue	*Number of shares issued*	*Weighted average option exercise price*	*Weighted average share price realised on issue*
23 February 2012	322,000	33.01 pence	254.17 pence

At 31 December 2012, a total of 12,896,556 common shares were held by the EBT and 10,000,000 shares were held by Exit Event Trustee. All 22,896,556 common shares were included within reserves.

Subsequent to year end, a further 7,125,837 new common shares were issued as part of the Company's bonus share scheme to satisfy the awards granted for 2010 and 2011 performance, including 6,459,169 to the EBT. In addition, the Company has been notified by the Trustee of the EBT and by certain employees of an exercise of options under the Share Option Plan. Consequently, the Board has approved the issue of 4,129,500 common shares under the Company's Share Option Plan at a price of 30 pence per share and

250,000 common shares at a price of 80.75 pence per share, totalling 4,379,500 common shares, raising gross proceeds of £1,440,725 in March 2013.

The total number of common shares in issue on 19 June 2013, including those held by the EBT Trustee and the Exit Event Trustee, is 887,686,957.

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.

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

	2012	*2011*
	$'000	
Loss from operations	(82,138)	(70,350)
Adjustments for:		
Depreciation of property, plant and equipment	559	412
Amortisation of intangible assets	175	117
Impairment loss on assets held for sale	–	10,000
Increase in Algerian decommissioning provision	3,462	–
Share-based payment expense	19,974	34,637
Impairment of overdue receivables	1,212	–
Increase in inventories	(2,550)	(2,810)
Increase in receivables	(14,845)	(4,897)
Increase in payables	15,176	8,655
Net cash used in operating activities	(58,974)	(24,236)

21. Commitments

Operating lease commitments – the Group as a lessee

	2012	*2011*
	$'000	
Minimum lease payments under operating leases recognised as expense for the year	2,235	766

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

	2012	*2011*
	$'000	
Within one year	1,345	660
In the second to fifth years inclusive	566	308
After five years	–	–
	1,911	968

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 commitments

Due to the nature of the Group's operations in exploring and evaluating areas of interest, 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 or by the renegotiation of expenditure commitments. The level of exploration expenditure expected in the year ending 31 December 2013 for the Group is approximately $197 million (2012: $209 million) of which the majority is contracted. This includes the minimum amounts required to retain the relevant licences.

22. 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.

The allegations and claims made by Excalibur have been vigorously disputed and contested by the Company and are being contested through the due process of law. Excalibur claims will be determined by the English Commercial Court following the conclusion of the trial on 1 March 2013. The Judge will give his decision in a written Judgement, which is expected later this year.

In April 2012 and further to the decision of the English Commercial Court in London, a payment of £6,000,000 was made into Court by Excalibur as security for the costs of the Companies of defending the legal action commenced by Excalibur in December 2010. Subsequent to year end, on 8 March 2013, a further payment of £4,700,000 was made. In total, Excalibur has paid £10,700,000 into Court as security for the costs of the Companies. No contingent asset has been recognised by the Company in respect of these payments.

Excalibur also made payments of £3,500,000 in April 2012 and £3,300,000 in March 2013 into Court as security for the costs of Texas Keystone.

In addition, further to the decision of the English Commercial Court to award costs of the hearing on 15 February 2013 to the Companies and Texas Keystone, interim payments of £50,000 and £40,000 were made by Excalibur to the Companies and Texas Keystone respectively.

Due to the uncertain outcome of the legal proceedings and the wide range of potential financial outcomes, the ultimate outcome of the legal case cannot presently be reliably estimated, and consequently no provision for any liability that may result has been made in the financial statements.

23. Share-based payments

	2012	*2011*
	$'000	
Bonus shares charge	15,881	33,560
Share options charge	10,018	8,980
	25,899	42,540

During the year $6.0 million (2011: $7.9 million) of the above charge has been capitalised into the cost of the Group's intangible 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.

	2012		*2011*	
	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	41,795	91.9	31,183	61.4
Granted during the year	650	250.0	11,790	170.1
Exercised during the year	(322)	33.0	(1,028)	61.9
Forfeited during the year	(250)	175.0	(150)	112.2
Outstanding at 31 December	41,873	94.3	41,795	91.9
Exercisable at 31 December	22,472	55.8	20,644	57.0

The weighted average share price at the date of exercise for share options exercised during the period was £2.54. The options outstanding at 31 December 2012 had a weighted average exercise price of £0.94, and a weighted average remaining contractual life of seven years.

During 2012, 650,000 options with market-based performance conditions attached were granted to new employees and Directors under the Group's share option plan.

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

	2012	*2011*
	$'000	
Weighted average closing share price on date of grant (in pence)	272.6	180.0
Weighted average exercise price of options granted in the year (in pence)	250.0	170.1

The expected volatility was calculated as 85.5% (2011: 81% for the February, June and July 2011 awards, 82% for the September and October 2011 awards) and has been based on the Company's share price averaged for the five years prior to grant date.

The expected term of the 2012 awards is three years (2011: 2.5 to 4.5 years). The risk free rate was 0.61% (2011: 2.86% for the February, June and 8 July 2011 awards, 1.3% for the 21 July 2011 award, 0.9% for the September 2011 award and 0.6% for the October 2011 award).

The weighted average fair value of the options granted in 2012 was £1.54 (2011: £0.96).

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 2012	2011
		$'000	
10 October 2017	39.50	–	23
4 December 2017	33.00	–	250
13 February 2018	30.00	1,450	1,450
24 September 2018	30.00	2,110	2,150
31 December 2018	30.00	4,391	4,400
15 March 2019	30.00	250	250
30 July 2019	30.00	1,650	1,650
7 December 2019	80.75	250	250
3 June 2020	80.75	250	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	9,690
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	250.00	250	–
20 March 2022	250.00	400	–
		41,873	41,795

Bonus shares

Through the Company's Executive Bonus Scheme, the Group issues bonus shares to certain employees for $nil consideration. Bonuses are generally awarded over three years and vest 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.

Awards of 7,125,837 relating to the 2010 and 2011 Executive Bonus Schemes, as reported in 2010 and 2011 Annual Reports and Accounts, have vested in February 2013. Details of all awards to Directors have been included in the Directors' Emoluments for the year ended 31 December 2012.

	Bonus shares 2012	2011
	$'000	
Balance at 1 January	10,474	11,514
Granted during the year	–	10,000
Forfeited during the year	(42)	(60)
Issued during the year	(7,126)	(10,980)
Balance at 31 December	3,306	10,474

Exit Event Awards

In 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 10,000,000 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 2,000,000 common shares. The Exit Event Trustee will hold the remaining 8,000,000 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.

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 2012, the fair value of Exit Event Awards was $nil based on the market value of the shares and the probability of the Exit Event occurring assessed as of that date.

24. 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.

Directors' transactions

During 2012, the Company paid for certain personal expenses of $2.8 million (2011: $1.7 million) on behalf of Todd Kozel that will be refunded to the Company at its demand during 2013. No interest is charged on these advances. The Group also issued interest-bearing loans of $7 million to Todd Kozel and $0.7 million to another Director. The loans were taken out in order to meet the Directors' tax and other liabilities and bear an annual interest charge of 7.5%. By virtue of their directorship, these individuals are related parties of the Group. The following amounts were outstanding at the balance sheet date and are included within other receivables:

	2012	*2011*
	$'000	
Personal expenses of key management personnel to be refunded to the Group	2,846	1,742
Loans to key management personnel	7,710	–
Interest on loans to key management personnel	68	–
	10,624	1,742

Subsequent to the year end, the $0.7 million loan was repaid in full. Todd Kozel has settled $4.5 million of the outstanding $9.9 million, the remaining balance shall be repaid in full by the end of August 2013.

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. The names and positions held by those Directors and employees identified as key management personnel are as follows:

TF Kozel	*Executive Chairman and Chief Executive Officer*
AA Al Qabandi	*Business Development Director*
JB Gerstenlauer	*Chief Operating Officer*
KE Ainsworth	*Finance Director*
M Varzi	*Non-Executive Director*
PDT Truscott	*Non-Executive Director (until 19 July 2012)*
MAC Hanson	*Non-Executive Director*
CRL Guthrie	*Non-Executive Director*
CH Garrett	*Vice President Operations*
AR Peart	*Legal and Commercial Director*
AA Samarrai	*Kurdistan Country Manager (until 1 September 2012)*
U Eminkahyagil	*Kurdistan Country Manager (from 2 September 2012)*
M Messaoudi	*Algeria Country Manager*

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

	2012	*2011*
	$'000	
Short-term employee benefits	17,310	8,347
Other allowances	169	150
Share-based payment – options	8,085	7,657
Share-based payment – bonus shares	14,305	30,322
	39,869	46,476

Further information about the remuneration of individual Directors is provided in the Directors' Emoluments section of the Report of the Remuneration Committee.

25. Financial instruments

	2012	*2011*
	$'000	
Financial assets		
Cash and cash equivalents	253,713	208,103
Liquid investments	8,600	29,528
Loans and receivables	19,742	6,307
Derivative asset – SEDA (Level 3)	–	351
Other derivative assets (Level 2)	207	1,487
	282,262	245,776
Financial liabilities		
Loans and payables	90,872	58,199
Other derivative liabilities (Level 2)	168	358
Convertible bonds	243,495	–
	334,535	58,557

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 16. 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 IAS 39 – 'Financial Instruments: Recognition and 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 19, 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. The net proceeds of the issue of the bonds will contribute to the Group's move to the large-scale stage development of its Shaikan block and its aggressive exploration and appraisal of the Akri-Bijeel, Ber Bahr and Sheikh Adi blocks. As a result, the Group carried a non-current liability of $243.5 million as at 31 December 2012 (see note 16).

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 currency risk hedges and interest rate hedges during 2012. 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 has decreased 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. 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 2012, 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 has entered into liquid investments of up to 12 months maturity during 2012 to maximise interest returns. 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 $1.2 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. The Group does not have any significant trade and other receivables outstanding from any one customer at balance sheet date (2011: $nil).

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.

Part B: Information from the Annual Report for the year ended 31 December 2011

Section 1: Executive Chairman and Chief Executive Officer's Statement for the year ended 31 December 2011

I am very pleased to welcome you to this overview of the results achieved by Gulf Keystone Petroleum Limited ("**Gulf Keystone**" or "**the Company**") in 2011.

2011 has been another excellent year of operational performance by Gulf Keystone, as we have continued to develop our world class asset portfolio in the Kurdistan Region of Iraq. In what has been our most active operational period to date, we have made significant progress in continuing to prove up the value of our assets and to demonstrate further the truly world class nature of our acreage. In parallel, we have continued developing our strong Kurdistan brand established with the Company's arrival in the region in 2007.

With four highly prized on-trend blocks, Gulf Keystone has a key position in the Kurdistan Region of Iraq. We have majority operated working interests in the Production Sharing Contracts for the Shaikan and Sheikh Adi blocks and further non-operated working interests in the Ber Bahr and Akri-Bijeel blocks. We have completed, or are currently drilling, 13 exploration and appraisal wells across the four blocks, which have discovered billions of barrels of gross oil-in-place or are currently targeting structures of similar size. Out of these wells, three were completed (Shaikan-2, Sheikh Adi-1, Bekhme-1) and four spudded (Shaikan-4, Shaikan-5, Shaikan-6 and Ber Bahr-1) in 2011, as part of one of the most active exploration and appraisal programmes in the region. Since the year end, Shaikan-4 has completed, and on the Akri-Bijeel block, Bijell-3 (Aqra-1) and Bakrman-1 have spudded.

Taking into account resource estimates for the Shaikan discovery, as well as Akri-Bijeel, Ber Bahr and Sheikh Adi, today Gulf Keystone has a share of gross mean oil-in-place resources of at least 16 billion barrels in the Kurdistan Region of Iraq, one of the last frontier oil provinces in the world. This number is as remarkable as the massive size and potential of these structures.

In 2011 we were delighted to announce two major revisions of the gross oil-in-place volumes for the Shaikan discovery. Already significant gross oil-in-place numbers for Shaikan calculated in April 2011 by Dynamic Global Advisors ("**DGA**"), the independent Houston-based exploration consultants, were further upgraded by DGA in November 2011 to the range of 8.0 billion (P90) to 13.4 billion (P10) barrels of gross oil-in-place with a mean value of 10.5 billion barrels. A new Triassic discovery made with the Shaikan-2 appraisal well in August 2011 and promising early results of the Shaikan-4 appraisal well testing programme, contributed to the addition of new oil volumes. Calculated on the P90 basis, the most recent upgrade is an impressive 420 per cent. increase over the independently audited estimate provided by DGA in January 2010, which confirms Shaikan as one of the most significant discoveries in the world over the last ten years.

We firmly believe that even with these two upgrades in the course of one year, the existing gross oil-in-place range for the Shaikan discovery is still relatively conservative and we look forward to completing the Shaikan appraisal programme in 2012 and targeting Shaikan's untapped resources in the deeper Triassic section and the Permian thereafter.

In February 2011, we completed the Shaikan-3 shallow appraisal well as a Jurassic formation producer, which achieved a strong flow rate of 9,800 barrels of oil per day ("**bopd**"), an improvement of approximately 30 per cent. on the previously reported rate of 7,480 bopd for the Shaikan-1 discovery well. Today, both Shaikan-1 and -3 are tied to the Extended Well Test production facility ("**EWT**"), which became operational in October 2010.

Today, Gulf Keystone's Shaikan-1 and -3 wells are capable of producing, in aggregate, up to 18,000 bopd. We are working on an upgrade of the existing EWT and designing an additional facility for the Shaikan-2 location to increase the Shaikan EWT production to 20,000 gross bopd, once the existing EWT facility has been upgraded, and to 40,000 gross bopd once the Shaikan-2 EWT has become operational. The upgraded and additional EWT facilities will allow test production of Shaikan crude to be processed to export specification and a subsequent ramp-up of our production operations.

Shaikan is just the start. We believe in the incremental billion barrel potential across the three other blocks, which will be targeted by the 2012/13 exploration and appraisal programme. In August 2011, Gulf Keystone announced a significant range of independently audited preliminary resources for the Sheikh Adi block. Following the completion of the Sheikh Adi-1 exploration well drilling operations, we have identified a location for the second exploration well on Sheikh Adi, which DGA have estimated to hold between 1 and 3 billion barrels of gross oil-in-place. The Sheikh Adi-2 well spudded in May 2012.

On the Akri-Bijeel block, a high impact exploration and appraisal programme is underway to appraise the existing Bijell discovery (with the operator's P50 resource estimate of 2.4 billion barrels of gross oil-in-place) and target identified multiple hydrocarbon prospects. In 2012, an extended well test is planned to commence on the Bijell-1 discovery well, similar to the ongoing successful Shaikan EWT.

In October 2011, the first exploration well spudded on the Ber Bahr block, which is testing a large surface anticline and major reservoir targets in the Jurassic and Triassic. The operator's resource estimate for the Ber Bahr block is 1.5 billion barrels of oil equivalent-initially-in-place and the Ber Bahr-1 well is expected to complete by the end of Q2 2012.

As part of the Shaikan appraisal programme, we commenced work on the Shaikan Field Development Plan during the course of 2011. In parallel with the growth of our test production capabilities, we are considering a plan for a dedicated 122km pipeline connecting the Shaikan Field with the existing Kirkuk-Ceyhan export pipeline from Iraq to the world markets, capable of transporting a minimum of 440,000 bopd. A route survey for our pipeline is currently underway. In the longer term, our aim is to develop the Shaikan processing facilities to reach plateau production of 400,000 bopd with a potential of achieving 500,000 bopd.

During 2011 we made a strategic decision to seek a buyer for the 20 per cent. interest in the Akri-Bijeel block in order to rationalise our asset portfolio and negotiations are ongoing with several interested bidders. In addition to this corporate initiative, we successfully raised $200 million through a fully subscribed placing in September 2011, which contributed to the combined cash, cash equivalents and liquid investments balance of $237.6 million as at 31 December 2011. The results for 2011 show a loss after tax of $62.4 million (2010: $26.0 million), reflecting the significant increase in the operational activities in the Kurdistan Region of Iraq, a larger share based payments charge than in previous years and impairment of Hassi Ba Hamou ("**HBH**") Permit in Algeria that was classified as held for sale in 2010.

We made good progress towards achieving our goal of a gradual strategic exit from Algeria by transferring Gulf Keystone's right, title and interest for nil consideration in the HBH Permit to BG Group and Sonatrach. Discussions are ongoing with Sonatrach regarding an orderly exit from the remaining GKN/GKS oil fields in the Ferkane area.

The Board of Gulf Keystone was strengthened in 2011 by the appointment of two additional Non-Executive Directors, General the Lord Guthrie and Mark Hanson who bring experience and skills in the area of leadership, management and capital markets.

Finally, Gulf Keystone continues vigorously to dispute and contest the allegations and claims asserted by Excalibur Ventures LLC ("**Excalibur**") in December 2010. October 2012 has been set as a date for a trial in the English Commercial Court of all the claims asserted by Excalibur.

I would also like to acknowledge the role that the Kurdistan Regional Government has played in Gulf Keystone's journey to this point. It is undeniable that our success in discovering the biggest oilfield in the recent history of the region is in part due to their firm support and encouragement and their focused quest to maximise the region's resources to benefit the local and national economic development. In particular, the effort of the Ministry of Natural Resources to develop an attractive and transparent investment environment in the oil and gas sector has resulted in the entry of large multinational oil companies to the region in 2011. We believe that this process will continue in 2012, reinforcing Gulf Keystone's early belief in the Kurdistan story and establishing Shaikan as a benchmark for other fields in the region.

Outlook for 2012 and beyond

The main objective of the Board of Directors and the management team will be to remain focused on the Group's operations in the Kurdistan Region of Iraq.

During 2012, we will complete the appraisal programme of the Shaikan field, explore deep untapped resources of this structure and prepare to move to the first phase of the large-scale development in 2013. Prior to that we will complete the preparation of the Shaikan Field Development Plan and submit it for approval to the Ministry of Natural Resources of the Kurdistan Regional Government.

We expect to increase test production from the Shaikan EWT from the current level to the target of 30,000 – 40,000 bopd once the Shaikan-1 and -3 EWT has been upgraded and the Shaikan-2 EWT facility has become operational. The new processing facilities will allow Shaikan crude to be processed to meet export specification. Shaikan crude will then be either sold into the domestic market in the Kurdistan Region of Iraq or exported. Depending on market conditions, we may pursue both routes simultaneously.

Shaikan-8 will be drilled as a gas injection well to handle associated sour gas which is not used for fuel. In this way we will be able to re-inject the sour gas in a safe and environmentally responsible manner and manage increasing production from the existing and future Shaikan EWTs.

Shaikan's deeper resources will be targeted by the Shaikan-7 exploration well, while exploration and appraisal will continue at the Sheikh Adi, Ber Bahr and Akri-Bijeel blocks, with the aim of increasing our resource base and establishing production capability similar to Shaikan's.

Already a leading operator in the Kurdistan Region of Iraq, we remain committed to undertaking the move from AIM, where we are one of the largest quoted companies today, to the premium segment of the Official List of the London Stock Exchange, subject to meeting the eligibility criteria. Whilst work has been ongoing in this regard, to achieve such move as soon as practicable no discussions have as yet been held with the UK Listing Authority regarding the Company's eligibility for the premium segment due to the emphasis of matter in the independent auditor's report on the consolidated financial statements. A further update will be issued in due course and, in any event, as part of the Company's Interim Results for the six months ended 30 June 2012.

Gulf Keystone's management and employees have already made considerable achievements, reflected in the increase in the Company's share price from £0.05 pence in March 2009, before the first Shaikan well was drilled, to today's levels. I would like to take this opportunity to thank every single member of the team for the hard work they continue to put in every day to make the Company the success story that it is.

As 2012 looks set to be another fantastic year for the Company, we will continue to work tirelessly to achieve our goal of developing the world class acreage we possess, creating value for our shareholders.

I would like to thank our shareholders for their continued support, and hope that they are as excited as we are as we move through 2012, and to the next phase in the story of Gulf Keystone.

Todd F. Kozel
Executive Chairman and Chief Executive Officer

Section 2: Operational Review for the year ended 31 December 2011

Kurdistan Region of Iraq

During 2011, Gulf Keystone has overseen a number of major developments of its operations in the Kurdistan Region of Iraq. Some of the most remarkable achievements of the year include the number of significant additions to the Company's resource base and exploration and appraisal wells drilled across all of our four blocks in the Kurdistan Region of Iraq. In 2011, we also dedicated a significant amount of time to Health, Safety and Environment ("**HSE**") training, including in the areas of road transportation safety and emergency planning and response. Our HSE record has been good with only two Lost Time Injuries ("**LTIs**") recorded in 2011, which is an improvement on 2010, when four LTIs were recorded.

Significant additions to the resource base

- The revised gross oil-in-place volumes for the Shaikan discovery, as calculated by Dynamic Global Advisors ("**DGA**"), the independent Houston-based exploration consultants, in April 2011 range from a P90 value of 4.9 billion barrels to a P10 value of 10.8 billion barrels of oil-in-place with a mean value of 7.5 billion barrels. These already significant gross oil-in-place numbers for Shaikan were further upgraded by DGA in November 2011 to the range of 8.0 billion (P90) to 13.4 billion (P10) barrels of oil-in-place with a mean value of 10.5 billion barrels.

- In August 2011 we announced the results of the first preliminary resource evaluation for the Sheikh Adi block. Based on the initial results obtained from Sheikh Adi-1, the first exploration well drilled on the block, DGA estimate that Sheikh Adi contains between 1 billion and 3 billion barrels of gross oil-in-place, which are P90 and P10 estimates respectively.

- Based on the results of the Bekhme-1 exploration well testing programme on the Akri-Bijeel block completed in December 2011, DGA issued an independent evaluation of estimated petroleum resources for the Aqra/Bekhme anticline. Whilst recognising the fact that no hydrocarbons had been produced to surface, the report indicated a significant range of between 2.5 billion barrels and 5.4 billion barrels of gross oil-in-place volumes calculated on the P90 to P10 basis, with the mean resource estimate for the reservoirs in the Aqra/Bekhme anticline of 3.9 billion barrels. While this range of resource estimates is significant, a considerable portion of the oil resource is likely to comprise heavy oil. Further evaluation will be required to determine whether the oil is commercially recoverable.

Taking into consideration these significant additions to the Company's resource base, we can conclude that under any reasonable recovery factor assumption, our 2011 oil finding costs were under 20 cents per recoverable barrel.

The discovery and appraisal effort on the Company's four blocks in the Kurdistan Region of Iraq is still far from over and the future looks bright for yet further additions to oil volumes, in particular as result of the ongoing appraisal programme on the Shaikan block.

Shaikan (75 per cent. working interest; Operator)

Appraisal programme

During 2011, the work program to appraise the Shaikan discovery has achieved the following:

- Full 3D seismic coverage of the Shaikan structure began in early April 2010 with a targeted completion for the data acquisition phase of October 2010, which was achieved. Processing and evaluation of the data was completed in November 2011. The complicated nature of the Shaikan geology and the difficulties created by the rugged surface topography have necessitated a significant amount of processing of the seismic data so as to eliminate noise without losing the overall picture of the subsurface strata. Results of the 3D data interpretation indicate a larger Shaikan structure (by 5-10 per cent.) than originally mapped based on the earlier 2D seismic data.

- The Shaikan-2 appraisal well was drilled to a total depth ("**TD**") of 3,300 metres. A new Triassic reservoir was discovered and tested in the Kurre Chine C formation at a maximum rate of 4,450 bopd of 36 degree API oil. This successful test in the upper Triassic points to additional prospectivity in the mid to lower Triassic.

- The Shaikan-4 appraisal well spudded in May 2011 and reached TD of 3,387 metres in December 2011. Early well log results and core data in the mid to upper Jurassic indicated a massive oil column with net pay intervals of 278 metres in September 2011, even better than those seen on Shaikan-1. In the course of the well testing programme, which commenced in December 2011, log results have indicated that this is the best Shaikan well to date. When testing the Shaikan-1, -2 and -3 wells, we tested, for the most part, zones that looked good on the logs in order to verify productivity of the various reservoirs that make up the Shaikan field. However, in Shaikan-4, where we conducted a total of seven flow tests, we began to test some of the zones that looked more marginal on the logs. The resulting flow rates were extremely encouraging and resulted in aggregate test rates of over 24,000 bopd.

- The Shaikan-5 appraisal well, 6km to the east from the Shaikan-2 appraisal well, spudded in October 2011 targeting the easternmost part of the crest of the Shaikan structure. The Shaikan-6 appraisal well spudded in December 2011 to assess the Shaikan structure down the flanks in an effort to find the all-important oil-water contact and complete the appraisal programme of the Shaikan field. Both Shaikan-5 and Shaikan-6 reached TD in May 2012 and are currently being tested.

- In 2012, we plan to drill the Shaikan-8 well at a high location close to the completed wells-producers Shaikan-1 and Shaikan-3. Shaikan-8 will be drilled as a gas injector allowing the associated sour gas not used as fuel to be re-injected in a safe and environmentally responsible manner.

Exploration of deeper resources

- In 2013, we plan to spud Shaikan-7, a deep exploration well, to gain insight into the deep horizons in the mid to lower Triassic and the Permian, which have not yet been explored.

Shaikan Extended Well Test

- In 2011, as part of the ongoing Extended Well Test ("**EWT**") on the Shaikan block, we started working on a complete upgrade of the existing EWT facility. Construction of a significantly modified unit began in late 2011. We have already started working on the design and construction of EWT-2 which will be installed near the Shaikan-2 location. When both facilities are fully operational, we anticipate a production capacity of up to 40,000 bopd.

Shaikan Full Field Development Plan

- After completion of the Shaikan-5 and -6 appraisal wells, the appraisal programme for the Shaikan discovery will have been completed and within six months the Field Development Plan will have to be submitted to the Ministry of Natural Resources of the Kurdistan Regional Government.

- Gulf Keystone's in-house development team, together with a growing group of technical consultants, has been working on the Shaikan Field Development Plan since summer 2011. This complex development scheme will involve the construction of two central processing facilities and the drilling of a large number of development wells in order to increase field production up to plateau rates and maintain the plateau during at least the first half of the Production Sharing Contract term. Plateau production rates are still being evaluated but are expected to be at least 400,000 bopd.

- Using the Shaikan exploration and appraisal wells as producers, in addition to a number of production wells and a series of EWT-type facilities, an initial production level of 100,000 bopd will be targeted subject to the approval of the Shaikan Field Development Plan. The full field development is estimated to cost in the order of $7 billion to $10 billion gross, with the first 100,000 bopd of production estimated to cost less than 5 per cent. of that amount.

Shaikan export pipeline project

- A route has been selected for the Company's dedicated pipeline to connect the Shaikan field with the existing Kirkuk-Ceyhan oil export line. Preliminary design of the 36-inch diameter, 122km pipeline has been prepared and a route survey is ongoing.

Sheikh Adi (80 per cent. working interest; Operator)

- The Sheikh Adi-1 exploration well reached TD at 3,800 metres in August 2011 with a gross pay interval of 2,790 metres, 35 per cent. more than Shaikan-1. Further drilling was not possible due to hole size and casing integrity limitations combined with high formation pressures. Following the testing programme, the well was suspended. Based on well logs results, gross oil-in-place resources of 1 billion to 3 billion barrels (P90 to P10) with a mean of 2 billion barrels of oil-in-place have been assigned to the western portion of the Sheikh Adi field by DGA.

- Sheikh Adi-2, the second exploration well on the block and located 1.45km to the north of Sheikh Adi-1, spudded in May 2012. The location for Sheikh Adi-2 was selected after detailed analysis of the 3D seismic data and we believe it to be a more optimal location than that of Sheikh Adi-1.

- The western side of the Sheikh Adi field, where Sheikh Adi-1 was drilled, does not appear to have the well-developed system of natural fractures that is evident at the Shaikan field. The northern part of the field, where Sheikh Adi-2 is drilling, appears to be more folded and thus more likely to be naturally fractured and, therefore, more similar to Shaikan.

Akri-Bijeel (20 per cent. working interest)

- Bekhme-1, the second exploration well on the Akri-Bijeel block, spudded in March 2011. Bekhme-1 was drilled to a TD of 5,000 metres at a location which appears to have encountered problems similar to those experienced by the Sheikh Adi-1 well, in that it was drilled in an area with fewer natural fractures. While no commercial inflow of hydrocarbons was encountered in Bekhme-1, new data gained during the well testing programme significantly decreases uncertainty for the remaining Akri-Bijeel prospects.

- As a result of DGA's report based on the Bekhme-1 wireline logging data and 2D seismic data, 3.9 billion barrels of gross oil-in-place have been added to our resource estimates. We expect this number to be significantly bolstered by the results of the Bijell-3 (Aqra-1) appraisal well and the Bakrman-1 exploration well, which spudded in January and May 2012 respectively and are currently drilling.

- Bijell-3 (Aqra-1) is appraising the Bijell discovery, which the operator estimates to hold 2.4 billion barrels of gross oil-in-place. Both Bijell-3 (Aqra-1) and Bakrman-1 are part of ongoing 2012/13 exploration and appraisal programme, which is targeting existing and identified hydrocarbon prospects in the Akri-Bijeel block.

- An extended well test is planned for the Bijell-1 discovery well in 2012, similar to the ongoing Shaikan 1 and -3 EWT.

Ber Bahr (40 per cent. working interest)

- Ber Bahr-1, the first exploration on the Ber Bahr block, spudded in October 2011. The well reached TD in April 2012 and is currently being tested with results expected by the end of Q2 2012.

Algeria

In line with the Company's decision to undertake a gradual strategic exit from Algeria in order to focus on our extensive operations in the Kurdistan Region of Iraq, we have completed the transfer of Gulf Keystone's interest in the Hassi Ba Hamou (HBH) Permit to BG Group, the operator, and Sonatrach.

Our remaining limited activities in Algeria will focus on an orderly exit from the small GKN/GKS oil fields in the Ferkane area.

Looking forward

2011 has seen Gulf Keystone make huge strides in adding billions of barrels of gross oil-in-place resources to the Company's resource base and further developing the Company into a leading operator in the Kurdistan Region of Iraq, a truly world class oil exploration province. We have made good progress in the engineering and planning activities for the Field Development Plan of the Shaikan discovery. We have also taken the first steps towards becoming a significant and stable oil producer in the region. 2012 shows every sign of being just as significant as the past year, perhaps more so, and we look forward to the future with great excitement and enthusiasm.

JB Gerstenlauer
Chief Operating Officer

Section 3: Financial Review for the year ended 31 December 2011

Operating results

Following the commissioning of Gulf Keystone's Extended Well Test facility ("**EWT**") in 2010, the Company has continued to produce from the Shaikan-1 and -3 wells. Gross production for 2011 totalled 200,137 barrels of oil (2010: 82,054 barrels of oil) and gross sales were 207,848 barrels (2010: 56,583 barrels of oil). These sales have generated net revenues of $6.9 million (2010: $0.8 million) for the Company. The Company's net entitlement to sales during 2011 was 166,277 barrels of oil (2010: 30,193 barrels of oil) with an average realised price achieved for these sales of $41.61 per barrel (2010: $26.78 per barrel). Operating costs on a per barrel basis, excluding inventory movements, depreciation, depletion and amortisation costs and share-based payment charges were $33.97 per barrel during the period (2010: $8.84 per barrel).

Over half the production for the year was achieved in November and December 2011 and this stabilisation of output has continued into 2012, enabling Gulf Keystone to demonstrate its ability to realise revenues from the Shaikan discovery as well as providing valuable technical, commercial and marketing information.

As the Company is still in the early stages of producing oil from the Shaikan Field and production rates are variable, revenue continues to be shown in the income statement with an equal and offsetting amount against cost of sales and a nil gross profit. An amount equal to the revenue is credited to intangible assets against exploration and evaluation costs reducing the net book value in the balance sheet. The Company will consider recognising earnings and accounting for this activity as a gross profit or loss in the income statement if oil sales continue on a regular and consistent basis as experienced in Q1 2012 and as the development of the full field commences.

Non-operating results

General and administrative expenses for 2011 were $60.4 million, compared to $32.6 million in 2010. Administrative costs have increased by $27.8 million primarily due to the 2011 share bonus awards and options under the long term incentive plan, resulting in a share-based payment expense of $42.5 million (2010: $21.7 million) and associated social security taxes of $5.9 million (2010: $3.1 million), as well as payment of a cash bonus of $6.3 million (2010: $3.7 million). Of these charges $10.2 million has been included within intangible assets (2010: $6.5 million) as these employment costs are directly attributable to technical staff. The remaining increase in administrative costs is due to the significant increase in the operational activities in the Kurdistan Region of Iraq as the Company's projects mature from exploration assets through appraisal to development as well as increased advisors' fees incurred in relation to the Group's defence of the claim made by Excalibur Ventures LLC ("**Excalibur**"). For further details of the Group's response to the claim please refer to the Corporate activities section.

The Group recognised a $10.0 million (2010: nil) impairment of the Hassi Ba Hamou ("**HBH**") Permit that was classified as an asset held for sale in 2010 following the agreement negotiated with BG North Sea Holdings Limited ("**BG**"). In 2011, an amendment to the agreement was signed whereby the Group agreed to transfer the HBH Permit to BG for nil consideration resulting in a full impairment of the asset. The re-negotiation of the agreement facilitated the Company's exit from this permit which was concluded on 28 December 2011.

Other gains of $5.8 million (2010: other gains of $5.9 million) comprise foreign exchange gains of $4.7 million (2010: $5.8 million gain) and a mark-to-market valuation gain on forward exchange contracts entered into during the year of $1.1 million (2010: $0.3 million gain). The mark-to-market gain is a result of the Company entering into currency hedges to partly mitigate the risk associated with converting sterling to U.S. dollars following funds received from shares placed by Gulf Keystone during 2010 and 2011.

Interest revenue increased to $1.2 million in 2011 from $0.2 million in 2010 due to higher average balances for cash, cash equivalents and liquid investments and use of longer term deposits to maximise returns to the Company. Finance costs of $0.5 million (2010: $0.3 million) relate to the accretion charge on the decommissioning provision.

The tax credit for 2011 is $1.4 million (2010: credit of $0.8 million) and arises on UK activities.

The results for 2011 show an increased loss after tax of $62.4 million (2010: $26.0 million) reflecting the increase in the administrative expenses and impairment of assets held for sale as discussed above.

Cash flow

After adjustments for non-cash expenditure relating to share-based payments ($34.6 million), impairment of the HBH asset held for sale ($10.0 million) and depreciation and amortisation ($0.5 million), cash outflow from operations was $25.2 million (2010: $15.2 million) reflecting increasing activity in the Kurdistan Region of Iraq, and the recruitment of a Field Development plan team for Shaikan, as well as the Company's expenditure in defence of Excalibur's claims. Working capital adjustments ($1.0 million favourable) are due to an increase in payables, partially offset by a rise in inventories and receivables. The higher payables balance is in line with the increase in general and administrative expenses as discussed above and is mostly attributable to the cash element of the 2011 bonus, while the increase in inventories and receivables results from increased operational activity and higher oil sales during the year. Net cash outflow from oil and gas operations after general and administrative expenses was comparable to 2010 at $24.2 million (2010: $26.2 million). Tax paid in 2011 was $0.7 million (2010: $0.5 million) and interest received $1.2 million (2010: $0.2 million). Net cash outflow from operating activities after tax and interest was $23.7 million (2010: $26.5 million).

Cash used in investing activities totalled $172.5 million (2010: $157.2 million). The majority of this relates to capital expenditure in the Kurdistan Region of Iraq of which $152.5 million was spent on the Group's exploration activities, including the drilling of Shaikan-2, Shaikan-4, Shaikan-5, Shaikan-6, Sheikh Adi-1, Ber Bahr-1 and Bekhme-1 wells as well as the on-going facilities work to upgrade the existing Shaikan-1 and Shaikan-3 EWT facility and construct a new EWT facility for the Shaikan-2 location. The Company has also invested an additional $19.4 million (2010: $10.2 million) in short term liquid investments of over three months maturity to maximise interest revenue, bringing the total liquid investment balance to $29.5 million.

During 2011, a total of $197.9 million (2010: $359.9 million) net of issue costs was raised through the issue of new common shares in September 2011, the exercise of warrants, the exercise of options under the Company's share option plan and the subscription costs paid for bonus shares vesting at the end of 2010, associated with performance over the period from 2008 to 2010.

Taking into account the net cash used in operations, capital expenditure, short term liquid investments and proceeds from the issue of shares, the net overall increase in cash and cash equivalents during the year was $1.8 million (2010: $176.2 million decrease) prior to a foreign exchange gain of $5.1 million (2010: $5.9 million gain).

The Company continues to be in a strong cash position at the end of 2011 with cash balances having increased since the beginning of the year. Cash and cash equivalents totalled $208.1 million at 31 December 2011 (2010: $201.3 million). Inclusive of liquid investments, cash and cash equivalents totalled $237.6 million at 31 December (2010: $211.4 million).

Corporate activities

The Group continues vigorously to dispute and contest the allegations and claims asserted by Excalibur in its claim against Gulf Keystone and two of its subsidiaries ("**the Companies**"). On 8 April 2011, the Companies obtained an injunction in the English Commercial Court restraining Excalibur from pursuing the International Chamber of Commerce ("**ICC**") arbitration proceedings and an interim payment on account of costs was made to the Companies by Excalibur in July 2011 as directed by the Court. In July 2011, Excalibur confirmed in the English Commercial Court in London that it no longer intended to pursue the ICC Arbitration in New York against the Companies and that it was content that all its claims against the Companies should be determined in the English Commercial Court in London.

In April 2012, further to the decision of the English Commercial Court in London, a payment of £6,000,000 has been made into Court by Excalibur as security for the costs of the Companies of defending the legal action commenced by Excalibur in December 2010. Excalibur has also made a payment of £3,500,000 into

Court as security for the costs of Texas Keystone Inc.. October 2012 has been set as a date for a trial in the English Commercial Court of all the claims asserted by Excalibur. Further details are given in note 20 to the Consolidated Financial Statements.

At the Annual General Meeting on 16 June 2011 approval was obtained to increase the authorised share capital of the Company by $500,000 through the creation of an additional 50,000,000 new common shares of $0.01. At the date of this report, 876,181,620 common shares are currently in issue.

In order to fund the Group's stated work programme communicated through the Group's forward strategy and to increase the focus on the aggressive programme of exploration and appraisal of the Shaikan, Sheikh Adi and Ber Bahr blocks, the Group completed a significant fully subscribed share placing on 20 September 2011. The Company placed 91,120,000 new common shares of $0.01 each at a price of £1.40 each raising gross proceeds of $200 million. Also in September 2011, 0.8 million shares were issued in relation to warrants exercised by Renaissance Securities (Cyprus) Limited. The warrants were issued in 2010 in lieu of placing fees.

During February 2011, the Gulf Keystone Petroleum Employee Benefit Trust ("**EBT**") made grants of options with stretching long term incentive performance conditions to incentivise the Directors and employees of the Group to create further shareholder value. A total of 9,490,000 options were granted at a price of 175 pence per share (the "**2010 LTIP Options**").

The 2010 LTIP Options are available for exercise in equal tranches over three financial years subject to one third vesting on the share price reaching 275 pence per share, one third vesting on the share price reaching 325 pence per share and the final third vesting on the share price reaching 375 pence per share. Further option grants have been made over 2,300,000 common shares during the period, and over 300,000 common shares post-year end, to new employees and Non-Executive Directors.

During February 2011, 7.0 million shares were also issued in relation to outstanding awards made under the 2008, 2009, and 2010 Executive Bonus Scheme and 1.0 million shares in response to option exercises by the Group's employees. These issues were previously detailed in the 2010 Annual Report and Accounts.

Subsequent to 31 December 2011, discretionary grants of 10.0 million common shares have been made by the Company to Directors and employees under the 2011 Executive Bonus Scheme and 11.0 million shares have been issued, including 10.2 million to the EBT, to satisfy awards made under the 2009, 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 17 and 21 to the accounts. The shares issued during 2011 and subsequent to year end to satisfy awards under the Company's bonus and option incentive schemes represent 2.20 per cent. of the Company's share capital as at 1 May 2012.

In March 2012, the Company announced that the Remuneration and Appointments Committee had recommended that the Company makes cash settled awards to certain Executive Directors and employees conditional on the occurrence of an Exit Event (as defined below) ("**Exit Event Awards**"), up to a maximum amount equivalent to the value of 10,000,000 common shares of $0.01 each ("**common shares**") at the time of an Exit Event. A trustee (the "**Exit Event Trustee**") was appointed to hold and, subject to the occurrence of an Exit Event, to sell sufficient common shares to satisfy the Exit Event Awards.

The value of the common shares to be settled pursuant to the Exit Event Awards is dependent on the Company's share price, if and when an Exit Event occurs.

The Independent Directors of the Company approved Exit Event Awards equivalent to the value of 2,000,000 common shares to certain Executive Directors and employees, subject to the occurrence of an Exit Event. The Exit Event Trustee will hold the remaining 8,000,000 common shares to satisfy any future Exit Event Awards to full-time employees of the Company and subsidiary companies, with such beneficiaries to be determined in due course.

An Exit Event is defined in detail in the Share Award Agreement in relation to an Exit Event Award and envisages a sale of either the Company or a substantial proportion (i.e. more than 50 per cent.) of its assets.

The preparation of the Exit Event Awards commenced in June 2011 and involved detailed discussions with a number of the Company's leading institutional and other shareholders, as well as consultation with the Company's advisers. The Exit Event Awards, the awards under the 2011 Executive Bonus Scheme and the cash bonus were made after consultation with a number of the Company's leading institutional and other shareholders who hold, in aggregate, in excess of 35 per cent of the issued share capital of the Company.

Other and further events

On 14 September 2011, the Group announced its intention to sell the Group's 20 per cent. working interest in the Akri-Bijeel block as part of the Group's forward strategy to rationalise its asset portfolio. The Company has appointed Corporate Advisers who are responsible for coordination of and advice on the sale. The sale process is on-going at the date of this report. The Akri-Bijeel intangible asset (2011: $30.4 million; 2010: $19.4 million) and associated working capital balances (31 December 2011: $5.5 million) have been reclassified as an asset held for sale.

The Group continues to effect an orderly exit from its Algerian operations and, as announced in February 2012, all required documentation has been executed and all necessary Government approvals obtained pursuant to the agreement between the Company and BG Group, the Operator, providing for the transfer of the Company's right, title and interest in the Hassi Ba Hamou (HBH) Permit for nil consideration to the Operator. The Group has one remaining interest in Algeria, the Ferkane Perimeter (Block 126) and discussions are underway with a view to a similar exit.

Outlook

The Group, together with its partners, continues to actively explore the prospects identified in the Sheikh Adi, Akri-Bijeel and Ber Bahr blocks and realise the potential of the licence interests it holds. Gulf Keystone has made significant progress in appraising the Shaikan Field and has recruited a Full Field Development Plan team during 2011. Development Plan preparation is almost complete for Phase One of the Full Field Development Plan.

Production since November 2011 has been encouraging. Stabilised output of an average 2,520 gross barrels of oil per day ("**bopd**") has been achieved from the Shaikan-1 and 3 EWT from the latter part of November to the end of 2011, and by the end of Q1 2012, this had increased to an average of over 5,000 gross bopd.

Gulf Keystone has a strong balance sheet at 31 December 2011, with the previously stated drilling programme being funded through existing resources together with oil sales revenues. The Group's ongoing work also includes the upgrade and expansion of the existing EWT production facilities and construction of additional test production facilities which are expected to be completed in the second half of 2012. Output levels are due to increase further after the new and upgraded facilities have been completed.

Gulf Keystone is now entering a new phase of its development as it matures from a proven oil explorer to a production company. As the commercial viability of the Shaikan Field is demonstrated, and the Company's exploration and appraisal programmes on Sheikh Adi, Akri-Bijeel and Ber Bahr progress, there continues to be excellent opportunities for increasing shareholder value.

KE Ainsworth
Finance Director

Section 4: Directors' Report for the year ended 31 December 2011

The Directors are pleased to present their reports of the affairs of the Group, together with the consolidated financial statements of the Company and auditor's report, for the year ended 31 December 2011. A review of the business is set out in the proceeding sections of this annual report, including the Chairman's Statement, Review of Operations and Financial Review, which are incorporated into this report by reference. The Corporate Governance statement set out below also forms part of this report.

Company History and Principal Activities

Gulf Keystone Petroleum Limited ("**Gulf Keystone**" or the "**Company**") is an independent oil and gas exploration and production company with operations in the Kurdistan Region of Iraq. The Company incorporated in Bermuda in 2001 and listed on the AIM Market of the London Stock Exchange in 2004 (stock quote GKP).

In addition to Gulf Keystone's registered office in Bermuda, the Gulf Keystone Group has further offices in Erbil, Kurdistan Region of Iraq, Algiers, Algeria and London, UK. The Group operates through a number of subsidiaries which are detailed in note 11 to the consolidated financial statements and include Gulf Keystone Petroleum International ("**GKPI**"), which holds the Production Sharing Contracts ("**PSCs**") for four exploration blocks in the Kurdistan Region of Iraq.

Results and Dividends

The Group's financial results for the year ended 31 December 2011 are set out in the consolidated financial statements. The Group made a net loss after taxation for the year of $62.4 million (2010: $26.0 million loss) and the Directors do not recommend a dividend for the year (2010: $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

Given the current stage of development of the Group's assets, the business is financed by means of internally generated funds and external share capital. 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 17 to the financial statements.

There are no specific restrictions on the size of a holding nor on the transfer of 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 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 shares are fully paid.

Details of the employee share schemes are set out in note 21 and details of the Directors awards are included in the Report of the Remuneration and Appointments Committee.

Voting Rights and Bye-Law Amendments

The Company's Bye-laws may only be revoked or amended by the Shareholders 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. Every year, one third of all the Directors retire by rotation and stand for re-election. During 2011, the Company appointed two new Non-Executive Directors who, alongside the two Directors standing for re-election, will stand for election by shareholders at the 2012 Annual General Meeting.

The following Directors have held office during the year:

TF Kozel	*Executive Chairman and Chief Executive Officer*
AA Al Qabandi	*Business Development Director*
JB Gerstenlauer	*Chief Operating Officer*
KE Ainsworth	*Finance Director*
M Varzi	*Non-Executive Director*[(1)]
P Truscott	*Non-Executive Director*[(1)]
MAC Hanson	*Non-Executive Director (appointed Nov 2011)*[(1)]
CRL Guthrie	*Non-Executive Director (appointed Oct 2011)*[(1)]

Note:

(1) Member of the Audit, Remuneration and Nominations Committees.

Directors' Interests in Shares

Directors' interests in the common shares of the Company, including family interests, were as follows:

	Number of common shares[(1)]						
	At 1 January 2011	*Shares issued in 2011*	*Shares sold/ transferred in 2011*	*At 31 December 2011*	*Shares issued post year end*	*Shares sold/ transferred post year end*	*At date of report*
TF Kozel	3,701,115	2,825,555	11,600,000	18,126,670	4,614,166	(17,433,333)	5,307,503
AA Al Qabandi	5,633,333	483,333	4,000,000	10,116,666	333,334	–	10,450,000
JB Gerstenlauer	–	531,777	(300,000)	231,777	922,834	–	1,154,611
KE Ainsworth	871,747	605,550	(240,000)	1,237,297	922,834	–	2,160,131
M Varzi	213,333	255,555	–	468,888	366,667	(257,347)	578,208
P Truscott	500,333	255,555	–	755,888	366,667	–	1,122,555
MAC Hanson	–	–	–	–	–	–	–
CRL Guthrie	–	–	–	–	–	–	–

Note:

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

Subsequent to year end, the Gulf Keystone Employee Benefit Trust ("**EBT**") subscribed for 10,246,338 new common shares so as to be able to fulfil the vested shares awarded under the Executive Bonus Scheme (see the Report of the Remuneration and Appointments Committee and note 21 to the accounts) and released 6,115,105 common shares. At the date of this report, the EBT held 12,896,556 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 21 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 2011 are disclosed under the Report of the Remuneration and Appointments Committee.

Significant Shareholdings

Other than the Directors' interests shown above, the Company has been notified of the following significant shareholdings as at 1 May 2012:

	Number of common shares	*Percentage of issued share capital*
TD Direct Investing	59,727,737	6.82%
Baillie Gifford	53,301,446	6.08%
M&G Investments	50,350,000	5.75%
Barclays Personal Investment Management	47,870,758	5.46%
Capital Research & Management Co	40,871,564	4.66%
Hargreaves Lansdown Asset Management	31,560,830	3.60%
Gokana Trust	29,695,515	3.39%
Selftrade	27,677,852	3.16%
Halifax Share Dealing	27,663,042	3.16%
Kuok Group Companies	27,227,017	3.11%

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Review of Operations. The financial position of the Group at the year end and its cash flows and liquidity position are included in the Financial Review. In addition, note 23 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 23 also describes exposures to credit risk and liquidity risk.

The Group closely monitors and manages its capital position and liquidity risk regularly throughout the year to ensure that it has sufficient funds to meet forecast cash requirements and satisfy the planned capital programme. Following the equity placing during 2011, the Group is in a strong financial position and at 1 May 2012 had approximately $183 million of cash, cash equivalents and liquid investments. Further, the Group is receiving production revenue streams from its operations in the Kurdistan Region of Iraq. Consequently, the Directors believe that the Group is well placed to satisfy its obligations and finance its exploration and evaluation programme for the foreseeable future, being at least the next 12 months.

Based on the forecasts and projections prepared at the time of preparation of this annual report and after making enquiries, 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 Company including employee share plans. 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 Company 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 Company'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 Company's auditor is aware of that information.

Annual General Meeting 2012

The resolutions to be proposed at the Annual General Meeting ("**AGM**") to be held on 19 July 2012 will be set out in the Notice of the AGM.

By order of the Board

TF Kozel
Executive Chairman and Chief Executive Officer
25 May 2012

Section 5: Directors' Responsibilities in the Preparation of the Financial Statements for the year ended 31 December 2011

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 ("**IFRSs**") as adopted by the European Union and Article 3 of the IAS regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the 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 IFRSs. The Directors are also responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs is 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
- making an assessment of the Company'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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding assets of the Company 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 Company's website.

Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the sections of the annual report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

TF Kozel
Executive Chairman and Chief Executive Officer
25 May 2012

Section 6: Independent Auditor's Report for the year ended 31 December 2011

We have audited the consolidated financial statements of Gulf Keystone Petroleum Limited for the year ended 31 December 2011 which 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 23. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body. 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.

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.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union.

Emphasis of matter – uncertain outcome of legal proceedings

In forming our opinion on the consolidated financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 20 to the consolidated financial statements concerning the uncertain outcome of legal proceedings which include a claim against up to 30 per cent. of the Group's 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. The Company and two of its subsidiaries received notice on 23 December 2010 of the claims, since which time they have been vigorously contesting the claims. The trial is due to be heard in the UK courts in October 2012. The ultimate outcome of the matter cannot presently be reliably estimated, and consequently no provision for any liability that may result has been made in the consolidated financial statements.

Opinion on other matters

In our opinion the information given in the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP
Chartered Accountants
London, United Kingdom
25 May 2012

Section 7: Consolidated Financial Statements for the year ended 31 December 2011

Consolidated Income Statement
For the year ended 31 December 2011

	Notes	*2011*	*2010*
		($'000)	
Continuing operations			
Revenue	4	6,919	808
Cost of sales		(6,919)	(808)
Gross profit		–	–
Other operating expenses			
Impairment of assets held for sale	10	(10,000)	–
General and administrative expenses		(60,350)	(32,595)
Loss from operations	2	(70,350)	(32,595)
Other gains and losses	5	5,791	5,940
Interest revenue	4	1,239	192
Finance costs	15	(473)	(348)
Loss before tax		(63,793)	(26,811)
Tax benefit	6	1,437	819
Loss after tax for the year		(62,356)	(25,992)
Loss per share (cents)			
Basic	7	(8.01)	(4.17)
Diluted	7	(8.01)	(4.17)

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

	2011	*2010*
	($'000)	
Loss for the period	(62,356)	(25,992)
Foreign currency translation differences	(250)	(154)
Total comprehensive loss for the period	(62,606)	(26,146)

Consolidated Balance Sheet
As at 31 December 2011

	Notes	*2011*	*2010*
		($'000)	
Non-current assets			
Intangible assets	8	360,005	223,824
Property, plant and equipment	9	4,295	4,102
Deferred tax asset	16	7,977	4,106
		372,277	232,032
Current assets			
Assets held for sale	10	35,840	10,441
Inventories	12	17,233	14,423
Trade and other receivables	13	8,594	3,663
Liquid investments		29,528	10,177
Cash and cash equivalents		208,103	201,268
Derivative financial instruments	23	1,838	659
		301,136	240,631
Total assets		673,413	472,663
Current liabilities			
Trade and other payables	14	(58,199)	(39,103)
Derivative financial instruments	23	(358)	–
Current tax liabilities		(712)	(320)
		(59,269)	(39,423)
Non-current liabilities			
Provisions	15	(8,070)	(6,399)
		(8,070)	(6,399)
Total liabilities		(67,339)	(45,822)
Net assets		606,074	426,841
Equity			
Share capital	17	7,627	6,628
Share premium account	17	790,435	593,470
Share option reserve		34,065	20,468
Exchange translation reserve		(561)	(311)
Accumulated losses		(225,492)	(193,414)
Total equity		606,074	426,841

The financial statements were approved by the Board of Directors and authorised for issue on 25 May 2012 and are signed on its behalf by:

TF Kozel
Executive Chairman and Chief Executive Officer

KE Ainsworth
Finance Director

Consolidated Statement of Changes in Equity
For the year ended 31 December 2011

		Attributable to equity holders of the Group					
	Notes	*Share capital*	*Share premium account*	*Share option reserve*	*Exchange translation reserve*	*Accumulated losses*	*Total equity*
				($'000)			
Balance at 1 January 2010		3,985	239,813	11,745	(157)	(186,292)	69,094
Transfer relating to share based payments		–	–	(18,904)	–	18,904	–
Share-based payment expense	21	–	–	21,730	–	–	21,730
Deferred tax on share-based payment transactions	16	–	–	2,057	–	–	2,057
Share issue	17	2,643	353,657	3,840	–	–	360,140
Foreign currency translation differences		–	–	–	(154)	–	(154)
Own shares held	17	–	–	–	–	(34)	(34)
Net loss for the year		–	–	–	–	(25,992)	(25,992)
Balance at 1 January 2011		6,628	593,470	20,468	(311)	(193,414)	426,841
Transfer relating to share based payments		–	–	(30,332)	–	30,332	–
Share-based payment expense	21	–	–	42,540	–	–	42,540
Deferred tax on share-based payment transactions	16	–	–	1,389	–	–	1,389
Share issue	17	999	196,965	–	–	–	197,964
Foreign currency translation differences		–	–	–	(250)	–	(250)
Own shares held	17	–	–	–	–	(54)	(54)
Net loss for the year		–	–	–	–	(62,356)	(62,356)
Balance at 31 December 2011		7,627	790,435	34,065	(561)	(225,492)	606,074

Consolidated Cash Flow Statement
For the year ended 31 December 2011

	Notes	*2011*	*2010*
		($'000)	
Operating activities			
Cash used in operations	18	(24,236)	(26,225)
Tax paid		(665)	(503)
Interest received		1,239	192
Net cash used in operating activities		(23,662)	(26,536)
Investing activities			
Purchase of intangible assets		(152,508)	(145,877)
Purchase of property, plant and equipment		(612)	(1,132)
Increase in liquid investments(1)		(19,351)	(10,177)
Net cash used in investing activities		(172,471)	(157,186)
Financing activities			
Proceeds on issue of share capital		197,905	359,895
Net cash generated by financing activities		197,905	359,895
Net increase in cash and cash equivalents		1,772	176,173
Cash and cash equivalents at beginning of year		201,268	19,156
Effect of foreign exchange rate changes		5,063	5,939
Cash and cash equivalents at end of the year being bank balances and cash on hand		208,103	201,268

Note:

(1) Liquid investments comprise short-term liquid investments of between three to 12 months maturity while cash and cash equivalents comprise cash at bank and other short-term highly liquid investments of less than three months maturity. The combined cash, cash equivalents and liquid investments balance at 31 December 2011 was $237.6m (2010: $211.4m).

Section 8: Summary of Significant Accounting Policies for the year ended 31 December 2011

General information

The Company is incorporated in Bermuda and is quoted on the AIM Market of the London Stock Exchange (registered address: Cumberland House, 9th Floor, 1 Victoria Street, Hamilton, Bermuda). In 2008 the Company established a Level 1 American Depositary Receipt programme in conjunction with the Bank of New York Mellon which has been appointed as the depositary bank. The Company serves as the holding Company for the Group, which is engaged in oil and gas exploration and production, operating in the Kurdistan Region of Iraq and the Republic of Algeria.

Adoption of new and revised accounting standards

Standards not affecting the reported results or the financial position

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

IAS 24	Clarification of the definition of a related party.
IAS 32	Classification of rights issues as equity instruments.
IFRIC 14	Amendments to remedy the circumstances where entities are not permitted to recognise as asset prepayments of minimum funding contributions.
IFRIC 19	Clarification of accounting for debt for equity swaps.

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 1 (amended)	*Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
IFRS 7 (amended)	*Financial Instruments: Disclosures*
IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurements*
IAS 1 (amended)	*Presentation of Financial Statements*
IAS 12 (amended)	*Deferred Tax: Recovery of Underlying Assets*
IAS 19 (revised)	*Employee Benefits*
IAS 27 (revised)	*Separate Financial Statements*
IAS 28 (revised)	*Investments in Associates and Joint Ventures*
IAS 32 (amended)	*Financial Instruments: Presentation*
IFRIC 20	*Stripping Costs in the Production Phase of Surface Mine*

Other than to expand the disclosure on fair value measurements within the financial statements, 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 ("**IFRSs**") 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, and on a going concern basis. The principal accounting policies adopted are set out below.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Going Concern section of the Directors' Report.

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, VAT and royalties.

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.

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 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 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 property, plant and equipment upon declaration of commerciality. 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 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.

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.

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 12 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 re-measurement 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.

The Standby Equity Distribution Agreement ("**SEDA**") has been designated as a financial asset at FVTPL upon initial recognition and the fair value has been estimated with reference to the fees payable for the SEDA and the percentage of the SEDA drawn down at balance sheet date.

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 re-measured 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 12 months and it is not expected to be realised or settled within 12 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.

Borrowings

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue 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.

Trade payables

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

Provisions

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

Decommissioning provision

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

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the entity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 21.

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.

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Carrying value of intangible exploration and evaluation assets

The outcome of on-going 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 8.

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.

Decommissioning costs

The accounting policy for decommissioning provision is discussed above. 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 15 to the accounts.

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.

Recoverability of deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the value of the deferred tax asset, based upon the timing and level of future taxable profits. The accounting policy for deferred tax is discussed above. Further details are provided in note 16.

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. The accounting policy for share-based payments is disclosed above. Further details are provided in note 21 to the accounts.

Contingent liabilities

The outcome of the legal proceedings related to Excalibur's claim for up to 30 per cent. in the Group's blocks in the Kurdistan Region of Iraq is one of the critical judgements that the Directors of the Company have made in applying the Group's accounting policies. For further information and disclosures see note 20 to the accounts.

Section 9: Notes to the Consolidated Financial Statements for the year ended 31 December 2011

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 Executive Chairman and Chief Executive Officer. He is assisted by the Chief Operating Officer, the Finance 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:

- Algeria: the Algerian segment consists of the Algiers office and the Group's operations in Algeria;
- 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; and
- United Kingdom: the UK segment provides geological, geophysical and engineering services to the Gulf Keystone Group.

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.

	Algeria	*Kurdistan*	*United Kingdom*	*Corporate*	*Elimination*	*Total*
				($'000)		
31 December 2011						
Revenue						
Oil Sales	–	6,919	–	–	–	6,919
Inter-segment sales	–	–	15,166	–	(15,166)	–
Total revenue	–	6,919	15,166	–	(15,166)	6,919
Cost of sales						
Production costs	–	(6,919)	–	–	–	(6,919)
Gross profit/(loss)	–	–	15,166	–	(15,166)	–
Impairment of assets held for sale	(10,000)	–	–	–	–	(10,000)
Allocated general and administrative expenses	(3,099)	(1,634)	(18,779)	(57,463)	21,154	(59,821)
Depreciation and amortisation expense	(1)	(402)	(124)	(2)	–	(529)
(Loss)/profit from operations	(13,100)	(2,036)	(18,903)	(57,465)	21,154	(70,350)
Other gains and losses	(36)	(7)	–	5,834	–	5,791
Interest revenue	–	–	179	1,237	(177)	1,239
Finance costs	(344)	(129)	(177)	–	177	(473)
(Loss)/profit before tax	(13,480)	(2,172)	(3,735)	(50,393)	5,988	(63,793)
Tax benefit	–	–	1,437	–	–	1,437
(Loss)/profit after tax	(13,480)	(2,172)	(2,298)	(50,393)	5,988	(62,356)
Capital expenditure	–	166,643	645	2	–	167,290
Total assets	2,863	426,002	92,217	823,943	(671,612)	673,413

	Algeria	Kurdistan	United Kingdom	Corporate	Elimination	Total
				($'000)		
31 December 2010						
Revenue						
Oil Sales	–	808	–	–	–	808
Inter-segment sales	–	–	7,434	–	(7,434)	–
Total revenue	–	808	7,434	–	(7,434)	808
Cost of sales						
Production costs	–	(808)	–	–	–	(808)
Gross profit	–	–	7,434	–	(7,434)	–
Allocated general and administrative expenses	(1,207)	(388)	(10,222)	(30,430)	10,146	(32,101)
Depreciation and amortisation expense	(143)	(273)	(75)	(3)	–	(494)
Loss from operations	(1,350)	(661)	(2,863)	(30,433)	2,712	(32,595)
Other gains and losses	–	(65)	(63)	6,068	–	5,940
Interest revenue	–	–	–	192	–	192
Finance costs	(313)	(35)	–	–	–	(348)
Loss before tax	(1,663)	(761)	(2,926)	(24,173)	2,712	(26,811)
Tax benefit	–	–	819	–	–	819
Loss after tax	(1,663)	(761)	(2,107)	(24,173)	2,712	(25,992)
Capital expenditure	24	144,857	61	1	–	144,943
Total assets	14,837	245,902	14,691	567,268	(370,035)	472,663

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:

	2011	2010
	($'000)	
Algeria	2,690	2,712
Kurdistan	361,014	225,139
Bermuda	3	3
United Kingdom	593	72
	364,300	227,926

Information about major customers

Included in revenues arising from the Kurdistan Segment are revenues of approximately $4.9 million (2010: $0.5 million) and $0.8 million (2010: $nil) which arose from sales to the Group's largest customers.

2. Loss from operations

	2011	2010
	($'000)	
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	412	464
Amortisation of intangible assets	117	30
Impairment of assets held for sale	10,000	–
Staff costs (see note 3)	45,007	25,570
Auditor's remuneration for audit services (see below)	91	80
Operating lease rentals (see note 19)	766	377
Fees payable to the Company's auditor for the audit of the Company's annual accounts	73	64
Fees payable to the Company's auditor for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	18	16
Total audit fees	91	80
Corporate finance services	290	–
Tax services	–	19
Total fees	381	99

3. Staff costs

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

	2011	2010
	(Number)	
Office and management	41	43
Technical and operational	98	108
	139	151

	2011	2010
	($'000)	
Employee benefits recognised as an expense during the year comprised:		
Wages and salaries	6,831	4,885
Social security costs	3,539	3,812
Share-based payment (see note 21)	34,637	16,873
	45,007	25,570

4. Revenue

	2011	2010
	($'000)	
Oil sales	6,919	808
Interest revenue	1,239	192
	8,158	1,000

Oil sales relate entirely to test production.

5. Other gains and (losses)

	2011	2010
	($'000)	
Exchange gains	4,673	5,855
Mark-to-market valuation of foreign exchange contracts	1,118	319
Change in the fair value of the SEDA derivative financial instrument	–	(234)
	5,791	5,940

6. Tax benefit

	2011	2010
	($'000)	
Provision for current UK corporation tax	1,043	322
Credit for deferred UK corporation tax	(2,480)	(1,141)
Tax attributable to the Company and its subsidiaries	(1,437)	(819)

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 Production Sharing Contracts 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 production sharing contract. The rate of corporate income tax is currently 15 per cent. 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 26.5 per cent. (2010: 28 per cent.) of the estimated assessable profit for the year of the UK subsidiary.

On 21 March 2012, the UK Government announced a reduction in the main rate of UK corporation tax from 26 per cent. to 24 per cent. effective from 1 April 2012. The Government has also indicated that it intends to enact future reductions in the main UK tax rate of 1 per cent. each year down to 22 per cent. by 1 April 2014. As it was not substantively enacted at the balance sheet date, the rate reduction is not yet reflected in these financial statements in accordance with IAS 10, as it is a non-adjusting event occurring after the reporting period.

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 amount credited to the income statement, a $1.4 million deferred tax credit (2010: $2.1 million credit) relating to estimated excess tax deductions related to share-based payments has been recognised directly in equity (see note 16). All deferred tax arises in the UK.

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

	2011	2010
	($'000)	
Loss before tax	(63,793)	(26,811)
Tax at the Bermudian tax rate of 0% (2010: 0%)	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,437	819
Tax benefit for the year	1,437	819

7. Loss per share

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

	2011	2010
	($'000)	
Loss		
Loss for the purposes of basic and diluted loss per share	(62,356)	(25,992)
Number of shares		
Weighted average number of common shares for the purposes of basic loss per share	778,858	622,613
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 Trust	n/a	n/a
Weighted average number of common shares for the purposes of diluted loss per share	778,858	622,613

There is no difference between basic and diluted earnings per share as the Group was loss making in each year and hence the effect of bonus shares, share options, warrants and ordinary shares held by the Employee Benefit Trust is anti-dilutive.

As at 31 December 2011, 41.8 million share options (2010: 31.2 million), 21.5 million un-issued bonus shares (2010: 18.6 million), 1.7 million warrants (2010: 2.5 million), and 8.8 million shares held by the Employee Benefit Trust (2010: 3.4 million) were excluded from the loss per share calculation as they were anti-dilutive. Subsequent to the year end, a further 10.0 million shares were issued to the Exit Event Trustee in relation to the Exit Event Award (see note 17).

8. Intangible assets

	Exploration & evaluation costs	*Computer software ($'000)*	*Total*
At 1 January 2010			
Cost	90,463	286	90,749
Accumulated amortisation	–	(267)	(267)
Net book value	90,463	19	90,482
Year ended 31 December 2010			
Opening net book value	90,463	19	90,482
Additions	143,727	84	143,811
Reclassification as held for sale	(10,441)	–	(10,441)
Amortisation charge	–	(30)	(30)
Foreign currency translation differences	–	2	2
Closing net book value	223,749	75	223,824
At 31 December 2010			
Cost	223,749	369	224,118
Accumulated amortisation	–	(294)	(294)
Net book value	223,749	75	223,824
Year ended 31 December 2011			
Opening net book value	223,749	75	223,824
Additions	166,163	507	166,670
Reclassification as held for sale	(30,355)	–	(30,355)
Amortisation charge	–	(117)	(117)
Foreign currency translation differences	–	(17)	(17)
Closing net book value	359,557	448	360,005
At 31 December 2011			
Cost	359,557	849	360,406
Accumulated amortisation	–	(401)	(401)
Net book value	359,557	448	360,005

The net book value at 31 December 2011 includes intangible assets relating to: Shaikan $220.0 million (2010: $117.8 million); Ber Bahr $37.4 million (2010: $27.9 million), and Sheikh Adi $102.1 million (2010: $58.6 million).

The additions to oil and gas exploration and evaluation costs in the year include the Shaikan-4 and Shaikan-2 appraisal wells drilling and testing, the drilling of Shaikan-5 and Shaikan-6 appraisal wells, the drilling of the Sheikh Adi exploration well, Extended Well Test facilities upgrade, the drilling of the Ber Bahr exploration well, and the acquisition and processing of seismic.

The Akri-Bijeel asset has been re-classified as an asset held for sale (2011: $30.4 million; 2010: $19.4 million) (see note 10) following the Board's resolution to dispose of the Group's 20 per cent working interest in the block.

The amortisation charge of $117,000 (2010: $30,000) for computer software has been included in general and administrative expenses.

9. Property, plant and equipment

	Oil & Gas Properties	*Fixtures & Equipment ($'000)*	*Total*
At 1 January 2010			
Cost	2,690	2,048	4,738
Accumulated amortisation	–	(1,305)	(1,305)
Net book value	2,690	743	3,433
Year ended 31 December 2010			
Opening net book value	2,690	743	3,433
Additions	–	1,132	1,132
Disposals	–	(10)	(10)
Depreciation charge	–	(464)	(464)
Foreign currency translation differences	–	11	11
Closing net book value	2,690	1,412	4,102
At 31 December 2010			
Cost	2,690	3,126	5,816
Accumulated amortisation	–	(1,714)	(1,714)
Net book value	2,690	1,412	4,102
Year ended 31 December 2011			
Opening net book value	2,690	1,412	4,102
Additions	–	620	620
Disposals	–	(8)	(8)
Depreciation charge	–	(412)	(412)
Foreign currency translation differences	–	(7)	(7)
Closing net book value	2,690	1,605	4,295
At 31 December 2011			
Cost	2,690	3,718	6,408
Accumulated amortisation	–	(2,113)	(2,113)
Net book value	2,690	1,605	4,295

The depreciation charge of $0.4 million on fixtures and equipment (2010: $0.5 million) has been included in general and administrative expenses.

10. Asset held for sale

On 14 September 2011 the Group announced the intention to sell the Group's 20 per cent. working interest in the Akri-Bijeel block as part of the Group's forward strategy to rationalise its asset portfolio. The Group subsequently appointed Joint Corporate Advisers responsible for co-ordination of and advice on the sale and this process is on-going.

The Akri-Bijeel intangible asset of $35.8 million (2010: $19.4 million), which is included within the Kurdistan operating segment, is expected to be sold within 12 months and has been classified as an asset held for sale as at 31 December 2011 and presented separately in the balance sheet. The value of the asset held for sale as at 31 December 2011 includes $5.5 million that relates to a prepayment balance to the operator. The proceeds of disposal are expected to substantially 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 $0.2 million, representing the net present value of the decommissioning costs associated with this asset is included within the provisions balance at 31 December 2011 (see note 15).

In 2010, the Company negotiated an agreement with BG North Sea Holdings Limited ("**BG**") which provided for the immediate stay of the arbitration and the proposed withdrawal of the Company from the Hassi Ba Hamou ("**HBH**") Permit in Algeria for a net cash payment from BG of $10.0 million to the Company. On 19 September 2011, an amendment was signed to this agreement resulting in the project being transferred for nil consideration to BG.

All the required documentation was executed and all necessary Government approvals obtained pursuant to the agreement between the Group and BG on 28 December 2011.

As a result the Group recognised an impairment loss of $10 million in respect of the asset and decommissioning provision previously associated with the project (2010: $10.4 million and $0.5 million respectively).

11. Subsidiary

Details of the Company's subsidiaries at 31 December 2011 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	Great Britain	100%	100%	Geological, geophysical and engineering services and administration
Gulf Keystone Petroleum International Limited	Bermuda	100%	100%	Exploration and evaluation activities
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

12. Inventories

	2011	*2010*
	($'000)	
Exploration materials	16,822	14,081
Crude Oil	411	342
	17,233	14,423

13. Trade and other receivables

	2011	*2010*
	($'000)	
Trade receivables	4,122	77
Other receivables	2,185	3,261
Prepayments and accrued income	2,287	325
	8,594	3,663

Included within other receivables for 2011 is an amount of $0.3 million (2010: $0.2 million) being the deposit for the UK office which is receivable after more than one year.

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

14. 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.

	2011	*2010*
	($'000)	
Trade payables	23,450	13,363
Accrued expenses	34,749	25,740
	58,199	39,103

15. Provisions

	($'000)
Decommissioning provision	
At 1 January 2011	6,399
Additional provision in the year	1,730
Relinquishment of HBH permit	(532)
Unwinding of discount	473
At 31 December 2011	8,070

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 four to 30 years. Included within the provision are decommissioning costs of $0.2 million associated with the Akri-Bijeel asset (see note 10). The $0.5 million decommissioning provision associated with the HBH asset was derecognised on the relinquishment of the block (see note 10).

16. 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	*Share-based payments*	*Total*
		($'000)	
At 1 January 2010	16	944	960
(Charge)/credit to income statement	(6)	1,147	1,141
Credit direct to equity	–	2,057	2,057
Exchange differences	(1)	(51)	(52)
At 1 January 2011	9	4,097	4,106
(Charge)/credit to income statement	(43)	2,523	2,480
Credit direct to equity	–	1,389	1,389
Exchange differences	2	–	2
At 31 December 2011	(32)	8,009	7,977

17. Share capital

	2011	2010
	($'000)	
Authorised		
Common shares of $0.01 each	9,500	9,000
Non-voting shares $0.01 each	500	500
Series A Preferred shares of $1,000 each	60,000	60,000
	70,000	69,500

The authorised common share capital was increased from $9.0 million to $9.5 million at the 2011 Annual General Meeting.

	Common shares			
	No. of Shares	*Amount*	*Share capital*	*Share premium*
		($'000)		
Issued and fully paid				
Balance at 1 January 2010	489,976	243,798	3,985	239,813
Bonus scheme shares issued	4,654	47	47	–
Shares issued under the SEDA	8,180	10,781	82	10,699
Private placement	251,243	363,985	2,512	361,473
Issue costs	n/a	(18,719)	–	(18,719)
Shares issued in lieu of cash payment for fees	190	206	2	204
Balance 31 December 2010	754,243	600,098	6,628	593,470
Bonus scheme shares issued	6,966	70	70	–
Share placement	91,120	200,001	911	199,090
Shares issued under Option Scheme	1,028	1,038	10	1,028
Warrants exercised	762	905	8	897
Issue costs	n/a	(4,050)	–	(4,050)
Balance 31 December 2011	854,119	798,062	7,627	790,435

During September 2011 a total of 91.1 million shares were placed at a placing price of £1.40 per share to continue financing exploration and development activities. A further 0.8 million shares were issued at a price of £0.75 per share following an exercise of warrants.

During the year, a total of 6,965,689 shares were issued as part of the Company's bonus share scheme (2010: 4,653,700), of which 5,886,332 new common shares were issued to the Gulf Keystone Employee Benefit Trust ("**EBT**") at par value of $0.01 (see note 21).

A further 1,028,098 shares were issued following exercise of options by the employees of the Company. The details of the issues were as follows:

Date of issue	*Number of shares issued*	*Weighted average option exercise price*	*Weighted average share price realised on issue*
7 February 2011	1,025,098	62.05 pence	182.16 pence
8 July 2011	3,000	39.50 pence	144.50 pence

At 31 December 2011, a total of 8,765,323 shares were held by the EBT and included within reserves.

Subsequent to year end, a further 10,979,672 new common shares were issued as part of the Company's bonus share scheme to satisfy the awards granted for 2009, 2010 and 2011 performance, including 10,246,338 to the Trust. The compensation charge related to the 2011 services provided is included in the 2011 Income Statement (see note 21 for further details). In addition, the Company has been notified by the Trustee of the Company's Employee Benefit Trust and by certain employees of an exercise of options under the Share Option Plan. Consequently, the Board has approved the issue of 322,000 new common shares of $0.01 ("**Option Shares**") raising gross proceeds of £106,285 at an average price of £0.33 per share. A further 761,500 shares were issued at a price of £0.75 per share raising £571,125 following an exercise of warrants.

Post year end, an additional 10,000,000 common shares of $0.01 each were issued to the Exit Event Trustee who were appointed to hold and, subject to the occurrence of an Exit Event, to sell sufficient common shares to satisfy the Exit Event Awards (see note 21 to the accounts).

The total number of common shares in issue on 25 May 2012, including those held by the EBT Trustee and the Exit Event Trustee, is 876,181,620.

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 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.

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

	2011	*2010*
	($'000)	
Loss from operations	(70,350)	(32,595)
Adjustments for:		
Depreciation of property, plant and equipment	412	464
Amortisation of intangible assets	117	30
Impairment loss on assets held for sale	10,000	–
Share-based payment expense	34,637	16,873
Increase in inventories	(2,810)	(13,849)
Increase in receivables	(4,897)	(1,449)
Increase in payables	8,655	4,301
Net cash used in operating activities	(24,236)	(26,225)

19. Commitments

Operating lease commitments – the Group as a lessee

	2011	*2010*
	($'000)	
Minimum lease payments under operating leases recognised as expense for the year	766	377

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

	2011	*2010*
	($'000)	
Within one year	660	766
In the second to fifth years inclusive	308	1,209
After five years	–	–
	968	1,975

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, with break clauses after three and two years. The office equipment lease is for five years and commenced in 2009. The non-cancellable operating leases within Kurdistan range from one to two years in duration.

Exploration commitments

Due to the nature of the Group's operations in exploring and evaluating areas of interest, 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 or by the renegotiation of expenditure commitments. The level of exploration expenditure expected in the year ending 31 December 2012 for the Group is approximately $209 million (2011: $154 million) of which the majority is contracted. This includes the minimum amounts required to retain the relevant licences.

20. Contingent liabilities

In December 2010, Excalibur commenced legal action against the Companies and Texas Keystone Inc. asserting certain contractual and non-contractual claims against the Companies and claiming that Excalibur is entitled to an interest of up to 30 per cent. 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 8 April 2011, the Companies obtained an injunction in the English Commercial Court restraining Excalibur from pursuing the ICC Arbitration proceedings instituted in December 2010. The English Commercial Court gave the reasons for this judgment in favour of the Companies during June 2011 with costs being awarded to the Companies. Excalibur made the required interim payment of £250,000 on account of costs to the Companies in July 2011. In July 2011, Excalibur also confirmed in the English Commercial Court in London that it no longer intended to pursue the ICC Arbitration in New York against the Companies and that it was content that all its claims against the Companies should be determined in the English Commercial Court in London. The trial date in the English Commercial Court of all the claims asserted by Excalibur has been set for October 2012.

Subsequent to year end, in April 2012 and further to the decision of the English Commercial Court in London a payment of £6,000,000 has been made into Court by Excalibur as security for the costs of the Companies of defending the legal action commenced by Excalibur in December 2010. Excalibur has also made a payment of £3,500,000 into Court as security for the costs of Texas Keystone Inc..

The Companies continue vigorously to dispute and contest the allegations and claims asserted by Excalibur.

Due to the uncertain outcome of the legal proceedings and the wide range of potential financial outcomes the ultimate outcome of the legal case cannot presently be reliably estimated, and consequently no provision for any liability that may result has been made in the financial statements.

21. Share-based payments

	2011	2010
	($'000)	
Bonus shares charge	33,560	19,351
Share options charge	8,980	2,379
	42,540	21,730
Warrants – share issue costs	–	3,840

During the year $7,903,000 (2010: $4,857,000) of the above charge has been capitalised into the cost of the Group's intangible 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 a grant 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.

Share Option Plan with Long Term Incentive Performance Conditions

During 2011, following the recommendations of the Remuneration and Appointments Committee, the Trustees granted share options over 9,490,000 common shares to Directors and employees of the Group under the existing Share Option Plan with stretching performance criteria known as the Long Term Incentive Performance Conditions ("**LTIP Share Options**").

The LTIP Share Options vest in equal tranches over three financial years subject to the achievement of the following performance conditions:

(i) One third of the LTIP Share Options will vest on the share price reaching 275 pence.

(ii) One third of the LTIP Share Options will vest on the share price reaching 325 pence.

(iii) One third of the LTIP Share Options will vest on the share price reaching 375 pence.

In addition a further 2,300,000 options with market-based performance conditions attached were granted to new employees and Directors under the Group's share option plan.

	2011		2010	
	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	31,183	61.4	11,000	32.8
Granted during the year	11,790	170.1	20,283	77.2
Exercised during the year	(1,028)	61.9	–	–
Forfeited during the year	(150)	112.2	(100)	30.0
Outstanding at 31 December	41,795	91.9	31,183	61.4
Exercisable at 31 December	20,644	57.0	7,161	71.6

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

	2011	*2010*
Weighted average closing share price on date of grant (in pence)	180.0	76.3
Weighted average exercise price of options granted in the year (in pence)	170.1	77.2

The expected volatility was calculated as 81 per cent., for the February, June and July 2011 awards, 82 per cent. for the September and October 2011 awards (2010: 79 per cent., 95 per cent. and 94 per cent. for the June 2010, September 2010 and October 2010 awards respectively) and has been based on the Company's share price averaged for the five years prior to grant date.

The expected term of the 2011 awards is 2.5 to 4.5 years (2010: three to 7.5 years). The risk free rate was 2.86 per cent. for the February, June and 8 July 2011 awards, 1.3 per cent. for the 21 July 2011 award, 0.9 per cent. for the September 2011 award and 0.6 per cent. for the October 2011 award (June 2010 awards: 2.5 per cent.; September 2010 and October 2010 awards: 1.5 per cent.).

The market-based performance criteria have been included in the fair value of the options with the weighted average fair value of the options granted in 2011 being £0.96 (2010: £0.51).

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:

	Exercise price (pence)	*2011* Options ('000)	*2010* Options ('000)
10 October 2017	39.50	23	400
04 December 2017	33.00	250	250
13 February 2018	30.00	1,450	1,450
24 September 2018	30.00	2,150	2,150
31 December 2018	30.00	4,400	4,400
15 March 2019	30.00	250	250
30 July 2019	30.00	1,650	1,650
18 October 2019	80.75	–	100
7 December 2019	80.75	250	250
3 June 2020	80.75	250	250
23 June 2020	75.00	18,882	19,533
22 September 2020	147.50	250	250
11 October 2020	175.00	250	250
06 February 2021	175.00	9,690	–
19 June 2021	146.25	550	–
07 July 2021	146.25	250	–
14 July 2021	146.25	250	–
21 July 2021	146.25	500	–
19 September 2021	152.50	250	–
26 October 2021	146.25	250	–
		41,795	31,183

Bonus Shares

Through the Company's Executive Bonus Scheme, the Group issues bonus shares to certain employees for nil consideration. Bonuses are generally awarded over three years and vest 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.

Discretionary grants to Directors and employees of 10,000,000 common shares have been made by the Company as part of the 2011 Executive Bonus Scheme.

Awards of 10,979,672 relating to the 2009, 2010 and 2011 Executive Bonus Schemes have vested in March 2012. Details of all awards to Directors have been included in the Directors Emoluments for the year ended 31 December 2011.

	Bonus Shares	
	2011	*2010*
	($'000)	
Balance at 1 January	11,514	8,397
Granted during the year	10,000	10,231
Forfeited during the year	(60)	–
Issued during the year	(10,980)	(7,114)
Balance at 31 December	10,474	11,514

The weighted average fair value of the bonus shares granted in 2011 was £2.52 (2010: £1.73).

Exit Event Awards

Subsequent to the year end, the Remuneration Committee recommended that the Company makes 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 10,000,000 common shares of $0.01 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 Independent Directors approved the Exit Event Awards to certain Executive Directors and employees, subject to the occurrence of an Exit Event, equivalent to the value of 2,000,000 common shares. The Exit Event Trustee will hold the remaining 8,000,000 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.

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

Warrants

During the year the Company issued no warrants (2010: 2,498,350).

22. 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 per cent. participating interest. TKI initially led the pursuit of opportunities in the Kurdistan Region of Iraq and participated in the successful signature of the Production Sharing Contract for the Shaikan Block. In return for this and TKI's continuing participation, GKPI was liable to pay for TKI's share of the costs of the Exploration Work Programme and all costs ancillary to the joint operations up until the drilling of the first exploration well. TKI elected not to participate in the drilling of the Shaikan-1 well and as a consequence agreed to assign its interest under the contract to GKPI. Currently TKI holds its interest in trust for GKPI pending the transfer of its interest to GKPI.

Directors' Transactions

During 2011, the Company paid for certain personal expenses on behalf of a Director of the Company that will be refunded to the Company at its demand during 2012. By virtue of his directorship, this individual is a related party of the Group. The following amounts were outstanding at the balance sheet date and are included within other receivables:

	2011	*2010*
	($'000)	
Personal expenses of key management personnel to be refunded to the Group	1,742	–
	1,742	–

The outstanding receivable is non-interest bearing and is repayable to the Company on demand.

Subsequent to the year end, $1.6 million of the outstanding $1.7 million has been settled.

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. The names and positions held by those Directors and employees identified as key management personnel are as follows:

TF Kozel	*Executive Chairman and Chief Executive Officer*
AA Al Qabandi	*Business Development Director*
JB Gerstenlauer	*Chief Operating Officer*
KE Ainsworth	*Finance Director*
M Varzi	*Non-Executive Director*
PDT Truscott	*Non-Executive Director*
MAC Hanson	*Non-Executive Director*
CRL Guthrie	*Non-Executive Director*
AA Samarrai	*Kurdistan Country Manager*
M Messaoudi	*Algeria Country Manager*
CH Garrett	*Vice President Operations*
AR Peart	*Legal and Commercial Director*

Further information about the remuneration of individual Directors is provided in the Directors' Emoluments section of the Report of the Remuneration and Appointments Committee.

	2011	*2010*
	($'000)	
Short-term employee benefits	8,347	6,199
Other allowances	150	134
Share-based payment – options	7,657	2,175
Share-based payment – bonus shares	30,322	18,670
	46,476	27,178

23. Financial instruments

	2011	2010
	($'000)	
Financial assets		
Cash and cash equivalents	208,103	201,268
Liquid investments	29,528	10,177
Loans and receivables	6,307	3,338
Derivative asset – SEDA (Level 3)	351	340
Other derivative assets (Level 2)	1,487	319
	245,776	215,442
Financial liabilities		
Loans and payables	58,199	39,103
Other derivative liabilities (Level 2)	358	–
	58,557	39,103

All loans and payables are due to be settled within one year and are classified as current liabilities.

The maturity profile of the Group's 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 IAS 39 – 'Financial Instruments: Recognition and 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 and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in note 17, 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. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Given the current stage of development of the Group's assets, it is the Group's policy to finance its business by means of internally generated funds and external share capital. As a result, there was no debt at 31 December 2011.

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 currency risk hedges during 2011. 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 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 has increased following a significant sterling fund-raising during the year and this risk has been addressed by entering into currency hedges. 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 or interest rates. The risks are monitored by the Board on a regular basis.

The Group is also party to a SEDA which represents a derivative over the Company's equity. The fair value of the SEDA reflects the liquidity in the market for the Company's shares at the prevailing share price but since the shares are valued under the SEDA at prices based on the market price, the fair value of the SEDA is not material. Changes in the fair value of the SEDA are recognised in the income statement (see note 5).

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 2011, a 10 per cent. weakening of the USD against the GBP would have resulted in an increase in the Group's net current assets and a decrease in loss before tax of $18.3 million and a 10 per cent. strengthening would have resulted in a decrease in net current assets and an increase in loss before tax of $15.0 million. The carrying amounts of the Group's other foreign currency denominated monetary assets and monetary liabilities at the reporting date were not material to the Group and a 10 per cent. change would not have a material effect.

Interest rate risk management

The Group's policy on interest rate management is agreed at the Board level and is reviewed on an on-going 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 has entered into additional liquid investments of up to 12 months maturity during 2011 to maximise interest returns.

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 per cent. increase or decrease in interest rates would have resulted in $1.1 million increase or decrease in the Group's loss for the year. A rate of 0.5 per cent. 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. The Group does not have any significant trade and other receivables outstanding from any one customer at balance sheet date (2010: $nil).

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 and external share capital. 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. When any of the Group's projects move to the development stage, specific financing, including debt, may be required to enable development to take place.

Part C: Information from the Annual Report for the year ended 31 December 2010

Section 1: Executive Chairman and Chief Executive Officer's Statement for the year ended 31 December 2010

2010 was a year of unprecedented activity for Gulf Keystone as we continued to work hard and fast to capture the huge potential of our world class acreage in the Kurdistan Region of Iraq, one of the few great remaining under-explored hydrocarbon regions of the world.

Our ongoing exploration and appraisal campaign, spanning all four of our blocks (Shaikan, Sheikh Adi, Ber Bahr and Akri-Bijeel), is amongst the most aggressive of any Company active in the Kurdistan Region of Iraq today. The resulting progress that has been made in a relatively short timeframe has been truly remarkable by any standards and is something of which I am incredibly proud.

Gulf Keystone's blocks are massive, undeveloped structures and this virgin territory represents an oil man's dream. To date the Shaikan block has been the crown jewel of our portfolio, but as we continue to progress work on the Sheikh Adi block, as well as with our partners Genel Energy International Limited ("Genel") and MOL Hungarian Oil & Gas Plc ("**MOL**") at the Ber Bahr and Akri-Bijeel blocks respectively, we are increasingly realising that the type of success that we have enjoyed there could in fact be replicated elsewhere across our portfolio.

As stated last year, I believe that of any public listed company active in the Kurdistan Region of Iraq today, Gulf Keystone has made one of the largest discoveries, holds one of the largest licence positions and has amongst the best pre-drill upside in its acreage. It is this upside that Gulf Keystone will test as it implements its ambitious work programme which commenced in 2010 and will continue into early 2012. In 2010, we completed a number of successful share placings with the support of a number of our existing and new institutional shareholders raising a total of $375 million. With a strengthened balance sheet we are fully funded to implement the Company's current plan.

Throughout 2010 considerable further progress was made in better understanding the true magnitude of our acreage.

In January 2010, Dynamic Global Advisors ("DGA") announced the final evaluation report on the Company's first discovery, Shaikan-1, which completed drilling in late 2009, with gross oil-in-place volumes of 1.9 (P90) to 4.2 (P50) to 7.4 (P10) billion barrels. Further upside is thought to be possible from appraisal drilling if the known oil bearing zones prove to be larger or additional oil is present in as yet untested deeper geological horizons. The Shaikan-1 well had to stop drilling at 2,950 metres measured depth due to high pressure beyond the tolerance of the well design. However, at this depth there was a significant inflow of hydrocarbons into the well bore. As yet this zone is untested and is a target for future Shaikan wells.

The first major drilling news of the year was announced in March 2010 as our second exploration well, Bijell-1 on the Akri-Bijeel block, following on from our first successful exploration well Shaikan-1, also tested oil and at an initial rate of 3,200 barrels of oil per day ("bopd") (the subsequent maximum reported rate on test for Bijell-1 was 3,743 bopd). On 8 November 2010, MOL, the Operator, successfully concluded drilling and testing of the Bijell-1 well and in the following month announced petroleum initially in place estimate of 2.4 (P50) billion barrels. These positive results highlight the clear potential of the Akri-Bijeel block which has a number of large exploration targets, one of which, Bekhme-1, began drilling in March 2011.

Following on from the initial results at Bijell-1, and in order to help us build a better picture over the blocks which the Company operates, the acquisition of 814 kilometres of 3D seismic data commenced in the second quarter of 2010, initially for Shaikan and later for Sheikh Adi, and was completed in early 2011. Processing, interpretation and analysis of this data will continue throughout 2011.

During July 2010, additional well testing began on Shaikan-1 to re-test the Jurassic discovery zones in the Butmah and Mus formations. Data acquired during the original drilling indicated that higher test rates were achievable. In the Butmah the information indicated that a rate of approximately 5,000 bopd was achievable and on the original test of this zone no oil was produced to surface. On re-test, a rate of 4,650 bopd was achieved under natural flow. In the Mus the original natural flow rate was 128 bopd which increased to 1,250 bopd on re-test and with an electric submersible pump increased to 2,250 bopd. Following these successful tests the Shaikan-1 well was completed as a producer in the Sargelu section of the Jurassic.

Exploration drilling also commenced in August 2010 on the Sheikh Adi-1 well and operations are ongoing with results eagerly awaited. The depth on 7 April 2011 was 2,685 metres.

On the Shaikan block, a key milestone was the commencement of test production from the successful Shaikan-1 well. Production from the Sargelu section of the Jurassic formation began at low rates in September with first sales in October. Currently oil is sold at the wellhead and transported by truck to either a refinery or processing plant in the Kurdistan Region of Iraq. To be producing and selling oil following first discovery in 2009 is a considerable achievement. Production testing continues and we have been securing a range of comprehensive data to enable us to analyse the potential recovery factors.

The Shaikan-3 shallow appraisal well, designed to evaluate the Cretaceous age reservoirs, commenced in September 2010. This well was ultimately completed as a Jurassic producer in January 2011 and tied into the nearby production testing facilities.

Meanwhile, appraisal drilling saw the commencement in December 2010 of the first deep well, Shaikan-2, which is targeting various formations down to the Permian at a depth of +/- 5,000 metres, and is expected to reach a total depth of 4,994 metres. Following a successful well test in the upper section of the Jurassic in March 2011, the Shaikan-2 drilling operations continue. The depth on 7 April 2011 was 1,975 metres.

With regard to commercial and corporate activity, Gulf Keystone announced in February 2010 an agreement with BG North Sea Holdings Limited (“BG”) for the proposed withdrawal of the Company from the Hassi Ba Hamou (“HBH”) Permit in Algeria (see note 11 to the accounts).

During August 2010, Gulf Keystone completed a reorganisation of its interests in Gulf Keystone Petroleum International (“GKPI”) and in its four blocks in the Kurdistan Region of Iraq, which required, inter alia, approval by the Kurdistan Regional Government (“KRG”) and partners. Further details of the reorganisation are included in the Financial Review.

In December 2010, Gulf Keystone received notice that an International Chamber of Commerce (“ICC”) arbitration was commenced by Excalibur Ventures LLC in New York and similarly commenced proceedings in the English Commercial Court in London on the same grounds asserting certain contractual and non-contractual claims and up to 30% of the Companies’ blocks in the Kurdistan Region of Iraq (see note 21 to the accounts). Gulf Keystone disputes the allegations and claims asserted in the New York arbitration and the English Commercial Court Claim in London and is contesting them vigorously.

On 8 April 2011 Gulf Keystone and two of its subsidiaries obtained an injunction in the English Commercial Court restraining Excalibur from pursuing the ICC arbitration proceedings instituted against Gulf Keystone and two of its subsidiaries on 17 December 2010. The injunction continues until final determination of the English Commercial Court proceedings or until further order. The English Court will decide whether Gulf Keystone and its two subsidiaries are bound by the Agreement that Excalibur seek to rely on.

The financial results for 2010 show a loss of $26.0 million (2009: $96.3 million) a significant narrowing year on year as the Company directs its efforts away from Algeria to focus on the Kurdistan Region of Iraq. The main 2010 charge relates to non-cash share-based awards in line with the Company’s recognition of exceptional performance with an exceptional reward and to ensure that employees have a meaningful stake in the business aligning them with shareholders in the future success of Gulf Keystone.

Whilst highly active in 2010, our work is not done and the momentum that was achieved is firmly continuing into 2011 as we make progress in our multi-well exploration and appraisal programme.

In late 2010, in order to further demonstrate the validity of the data on the Shaikan block, we undertook an additional independent third party analysis of the gross oil-in-place resources resulting from the Shaikan-1 discovery well. The results of this study by Ryder Scott, using more conservative assumptions, supported the previous analysis by DGA and gave a range of 1.52 (P90) to 7.52 (P10) billion barrels of gross petroleum initially in place, with a mean of 4.04 billion barrels. The Shaikan appraisal drilling during 2011 is anticipated to both narrow the range and increase the high point.

During 2011, the Shaikan work programme allows for up to further four wells, Shaikan-4 through to Shaikan-7, with the Shaikan-6 and Shaikan-7 wells being contingent. Shaikan-4 deep appraisal well is scheduled to commence drilling in the second quarter of 2011.

The first exploration well on the Ber Bahr block, operated by Genel, is expected to commence drilling in the third quarter of 2011.

We understand that we are guests in the Kurdistan Region of Iraq. This is a mindset that not only differentiates us from many others, it continues to serve us well as we have created a strong, lasting and mutually rewarding partnership with our hosts.

We are fully committed to our areas of operations, for example, we hire and train local employees and we are proud of having supported a number of community projects on a range of initiatives, including scholarships, school developments and healthcare projects.

At a time of some uncertainty in the world, particularly around North Africa and the Middle East, Iraq continues to make good progress. Iraq today is a young democracy and the Kurdistan Region of Iraq is a professional and business friendly region. We are highly confident of continuing political progress and co-operation which will see the people of Iraq, and in turn Gulf Keystone, continue to prosper.

However great your assets, any business is only as good as its people. To that end I would like to sincerely thank the entire team at Gulf Keystone for their commitment to help fulfil our operational capability whilst conducting operations in an effective, safe and responsible manner and creating value for all our shareholders. As well as extending this gratitude to our teams in the Kurdistan Region of Iraq and the UK, including our Board of Directors, I would also like to thank our shareholders for their continuing support and our hosts in the Kurdistan Region of Iraq for their partnership, support, friendship and trust.

TF Kozel
Executive Chairman and Chief Executive Officer

Section 2: Operational Review for the year ended 31 December 2010

For Gulf Keystone, 2010 was a year of consolidation, planning, evaluation, initial implementation and discovery. The Company became increasingly focused on the Kurdistan Region of Iraq, while continuing to seek an equitable and graceful exit from our long-term relationships and business ties in Algeria.

Kurdistan Region of Iraq

Shaikan Block

In the Kurdistan Region of Iraq, the Company began implementation of the Shaikan field appraisal programme as proposed by Gulf Keystone and approved by the Kurdistan Regional Government through the Ministry of Natural Resources and by our partner, MOL Hungarian Oil and Gas Plc, through its wholly owned subsidiary Kalegran Ltd. The approved appraisal plan calls for:

- Drilling four firm appraisal wells: Shaikan-3, a relatively shallow Cretaceous evaluation well adjacent to Shaikan-1; Shaikan-2, the first deep appraisal well targeted for all zones down to the Permian age rock (+/- 5,000 metres); Shaikan-4 and Shaikan-5, deep appraisal wells.
- Two additional appraisal wells (Shaikan-6 and 7) will be contingent on the results of Shaikan-2 through to Shaikan-5.
- Shaikan-1 re-testing and completion as a producing well
- Installation of an extended well test ("EWT") facility at Shaikan-1 that will allow the long-term production testing of Shaikan-1 as well as the sale of the produced crude oil into the domestic market.
- Three dimensional ("3D") seismic coverage of the entire Shaikan exploration block.

At Shaikan-1, the Mus and Butmah formations were re-tested using a workover rig. Both zones were cleaned and re-perforated with significant improvements in performance. The Mus test rate increased from 128 bopd to 1,250 bopd on free flow and 2,250 bopd using a small electric submersible pump. The Butmah, which initially was incapable of getting oil to surface, re-tested at 4,650 bopd. The well was then completed as a production well in the Sargelu/ Alan and hooked up to the EWT facility.

The EWT facility was constructed as a series of modular units by Qualitas in Calgary, Canada. The construction phase was completed both on schedule and on budget. The installation, hook-up, testing and commissioning work in the Kurdistan Region of Iraq was also completed in a timely fashion and the facility was put online in September.

Truck loading at the EWT facility has functioned extremely well and the facility is capable of loading more than 90 trucks per day with each truck taking a maximum of 30 tonnes of oil (200 barrels). The facility was originally designed to handle 8,000 to 10,000 bopd and while certain portions of the processing system can handle up to 18,000 bopd, other sections are limited in their handling capacity. In particular, the gas/oil separation unit will be expanded and a second oil storage tank will be added to enable the facility to handle a combined flow rate of up to 20,000 bopd. In addition, the facility will be modified to allow it to remove excess sulphur and, therefore, to meet oil pipeline specifications when the option of exports arises.

Shaikan-3 drilled, evaluated and tested the Cretaceous oil zones. Several of the Cretaceous zones are estimated to have significant quantities of oil-in-place (Gulf Keystone estimates of 200 million to 2.2 billion barrels of oil-in-place), however, none of the tested zones were capable of unassisted flow. The actual volume of oil-in-place, which is completely separate from the previous estimates of Shaikan oil resources, carries a wide range of values due to the uncertain nature of the areal extent of the highly fractured Cretaceous reservoirs. These zones are likely to remain undeveloped in the near term and may eventually lend themselves to steam flood development. The Shaikan-3 well was eventually completed as a Sargelu/Alan producer and tied into the EWT facility alongside Shaikan-1.

Following acid treatment of both Shaikan-1 and Shaikan-3 in order to remove formation plugging around the well bores, the combined flow rate from Shaikan-1 and 3 increased significantly and the Company anticipates a combined rate of up to 20,000 bopd after the completion of an EWT facility upgrade.

Shaikan-2 was spudded in late 2010 and, at the date of writing, was making good progress. Shaikan-2, a 9km step-out to Shaikan-1, has already discovered oil in the upper Jurassic confirmed by a production test of 26 degree API oil at a rate of 8,064 barrels per day. The pressure gradients at the Shaikan-2 location are consistent with readings at Shaikan-1. This has increased the depth of the lowest known oil column and will lead to a material increase in the P90 oil-in-place. Updated oil-in-place estimates will be reported in the coming weeks.

The Shaikan-4 well location was constructed and a rig tender was put out to the market with eleven companies responding. The bid winner was the AOS Discoverer 4 and put under contract. The rig has since arrived by ship into Iskenderun, Turkey and the first truck loads have arrived at the Shaikan-4 location. In addition, a drilling location for Shaikan-5 was selected and construction has been completed.

The 3D seismic data acquisition project has been completed and the data is being processed and evaluated. The entire Shaikan block was covered during the data acquisition phase with appropriate overlaps onto the neighbouring blocks. Early results fully support the structural assumptions from the analysis of the earlier 2D seismic lines.

The existing 1.9 to 7.4 billion barrels of oil-in-place estimate (P90 to P10) from Dynamic Global Advisors ("DGA") was verified by a further independent analysis conducted by Ryder Scott. The Ryder Scott findings, using more conservative formation porosity and water saturation cut-offs, provided an estimate of 1.5 to 7.5 billion barrels of petroleum initially in place, also on a P90 to P10 basis.

Oil-in-place volumes are being recalculated based on the Shaikan-2 results and an upgrade will be provided in the near future.

Sheikh Adi Block

The Sheikh Adi-1 exploration well was spudded on 6 August 2010 and immediately began to experience borehole stability problems while trying to drill the long Cretaceous interval. There were a number of encouraging oil shows in the Cretaceous (not a primary target for this well) and several attempts were made to test particularly interesting zones. However, in each case the borehole was too unstable to get any kind of meaningful flow test.

The 12.25" pilot hole eventually reached the 13.375" casing setting depth and hole opening operations started. A 12.25" hole is drilled initially due to limited availability of electric logging tools and thus the hole had to be drilled at 12.25" diameter and then opened to 17.5". Both drilling sequences suffered from extreme hole stability issues.

The 17.5" hole on Sheikh Adi-1 eventually reached what was anticipated to be just above the Jurassic and casing was set. Upon drilling out of the casing into what was expected to be the first of the primary target intervals it was discovered that the borehole had crossed a reverse fault and approximately 400 metres of Cretaceous interval still remained to be drilled before reaching the Jurassic.

Drilling operations have finally reached the Jurassic and well operations are on- going. At 7 April 2011 the well was at a depth of 2,685 metres.

Following the Shaikan 3D seismic programme, the southern half of the Sheikh Adi block was covered by 3D seismic.

Akri-Bijeel Block

On the Akri-Bijeel block, a major oil discovery was made in March 2010 by the Bijell-1 exploration well. The Bijell structure was tested at 3,743 bopd with the Operator's P50 petroleum-initially-in-place estimate of 2.4 billion barrels. Kalegran Ltd, a 100% subsidiary of MOL, is preparing an extensive appraisal programme for the further evaluation of the Bijell structure.

Kalegran Ltd. has begun drilling Bekhme-1, the second exploration well on the Akri-Bijeel block to test a structure that is potentially as large as Shaikan.

Ber Bahr Block

The Ber Bahr block, operated by Genel, will also be the site of exploration drilling in 2011. In 2010, Genel selected a drilling location for the Ber Bahr-1 exploration well. The Ber Bahr structure is the largest single structure on any of the four blocks in which Gulf Keystone has an interest. If this structure contains oil it will be very large, even by Shaikan standards. The Ber Bahr-1 well is anticipated to begin drilling in the third quarter of 2011.

Algeria

After making a decision in 2009 to undertake a strategic exit from Algeria, in early 2010 Gulf Keystone relinquished Blocks 108 and 128b under the Ben Guecha Permit. In February 2010, an agreement was reached between Gulf Keystone and BG Group, the Operator, providing for the transfer of the Company's interests in the Hassi Ba Hamou (HBH) Permit to the Operator. The agreement is awaiting approval by Sonatrach and the Algerian government. Gulf Keystone is currently evaluating a number of options with regard to its interests in Block 126a (GKN and GKS oilfields under the Ferkane Permit).

Summary

On the Shaikan block, Shaikan-2 is drilling in the top of the Jurassic and Shaikan-4 will begin drilling during the second quarter of 2011. Sheikh Adi-1 has reached the Jurassic. Bekhme-1, on the Akri-Bijeel block, spudded on 21 March 2011 and Ber Bahr will spud later in 2011. The EWT facility is to be expanded and domestic oil sales which commenced in 2010 have continued into 2011. In addition, oil exports by other international oil companies active in the Kurdistan Region of Iraq re-commenced in February 2011. 2010 has been a very successful year for Gulf Keystone and 2011 promises even more opportunity for significant value addition.

JB Gerstenlauer
Chief Operating Officer

Section 3: Financial Review for the year ended 31 December 2010

Operating results

Gulf Keystone's test production facilities in the Kurdistan Region of Iraq were commissioned in September 2010 and oil sales from the Sargelu Jurassic section of the Shaikan-1 discovery well commenced in late October 2010. The Company's net entitlement to sales during 2010 was 30,193 barrels of oil which has generated net revenues for the Group of $0.8 million (2009: $nil) with an average realised price achieved for these sales of $26.78 per barrel.

Most importantly, these initial sales have enabled the Group to demonstrate the viability of generating revenues from the Shaikan-1 discovery as well as providing valuable technical, commercial and marketing information.

Revenue from test production is shown in the income statement with an equal and offsetting amount against cost of sales and a nil gross profit for 2010 (2009: $nil). As a result an amount equal to the revenue is credited to intangible assets against exploration and evaluation costs reducing the net book value in the balance sheet. In the future, if oil sales are established on a regular and consistent basis, the Company will consider recognising earnings from oil sales and account for this activity as a gross profit or loss in the income statement. Operating costs on a per barrel basis, excluding inventory movements, depreciation, depletion and amortisation costs were $8.84 per barrel during the period.

There has been no further impairment of oil and gas assets during 2010 (2009: $73.9 million).

Non-operating results

General and administrative expenses for 2010 were $32.6 million, compared to $21.5 million in 2009. Administrative costs have increased by $11.1 million primarily due to the 2010 share bonus awards and options under the long term incentive plan, resulting in a share-based payment expense of $21.7 million and associated taxes of $3.1 million (2009: $6.4 million), and payment of a cash bonus $3.7 million (2009: $nil), of which $6.5 million has been included within intangible assets. This increase was offset by a substantial reduction of $5.7 million in costs for Algeria (2010: $0.8 million; 2009: $6.5 million). The remaining increase in administrative costs of $1.2 million is due to the ramp up of operations in the Kurdistan Region of Iraq following the announcement of the Shaikan discovery and the appraisal activity underway.

Other gains of $5.9 million (2009: other losses of $0.1 million) comprise foreign exchange gains of $5.8 million (2009: $0.3 million gain), a mark-to-market valuation gain on a forward exchange contract entered into during the period ($0.3 million; 2009 $nil) and the change in the fair value of the Standby Equity Distribution Agreement ("SEDA") ($0.2 million loss; 2009: $0.4 million loss). The mark-to-market gain is as a result of the Company entering into a currency hedge to partly mitigate the risk associated with converting sterling to U.S. dollars following funds received from shares placed by Gulf Keystone during 2010.

Interest revenue reduced to $0.2 million in 2010 from $0.3 million in 2009 due to lower rates of interest which more than offset higher average balances for cash, cash equivalents and liquid investments.

Finance costs of $0.3 million (2009: $1.0 million) relate to the accretion charge on the decommissioning provision. In contrast, 2009 included a charge on the bank guarantee relating to Blocks 108 and 128b in Algeria as well as the accretion charge on the decommissioning provision. The bank guarantee was exercised in favour of Sonatrach, Algeria's national oil company, during 2010 and no further charges were incurred.

The tax credit for 2010 is $0.8 million (2009: expense of $0.03 million) and arises on UK activities.

The results for 2010 show a decreased loss after tax of $26.0 million (2009: $96.3 million). Results are comparable to the prior year following the exclusion of foreign exchange gains, bonus awards and share options expenses and the impairment charge in relation to the Group's exit from Algeria.

Cash flow

Net cash outflow from oil and gas operations after general and administrative expenses was $26.2 million (2009: $1.7 million). The significant increase arises from increased inventories held at year end for use in drilling operations and the ramp up in the cost of operations in the Kurdistan Region of Iraq (2010 inventory purchases: $13.8 million; 2009 inventory utilised $1.0 million). In addition the 2009 cash flow from operations also benefited from receipt of funds relating to 2008 oil sales in Algeria of $6.4 million (2010: $nil). Tax paid in 2010 was $0.5 million (2009: $0.1 million refunded) and interest received $0.2 million (2009: $0.3 million). Net cash outflow from operating activities after tax and interest was $26.5 million (2009: $1.3 million).

Cash used in investing activities totalled $157.2 million (2009: $49.2 million). The majority of this relates to capital expenditure in the Kurdistan Region of Iraq and includes a payment of $52.0 million associated with the completion of the Company's Kurdistan asset reorganisation and the acquisition of the interests in the Sheikh Adi and Ber Bahr PSCs. The Company has also invested $10.2 million (2009: $nil) in a short term liquid investment of over three months maturity in order to maximise interest revenue.

The issue of new common shares during the year raised $359.9 million (2009: $35.7 million) net of issue costs.

Taking into account the net cash used in operations, capital expenditure, short term liquid investments and proceeds from the issue of shares the net overall increase in cash and cash equivalents during the year was $176.2 million (2009: $14.9 million decrease) prior to a foreign exchange gain of $5.9 million (2009: $0.4 million).

Cash and cash equivalents totalled $201.3 million at 31 December 2010 (2009: $19.2 million). Inclusive of the liquid investment, cash and cash equivalents totalled $211.4 million at 31 December (2009: $19.2 million).

Issue of equity

In order to fund the Company's stated work programme which commenced in 2010 and will continue into 2012, as well as the $52 million payment associated with the acquisition of interests in the Sheikh Adi and Ber Bahr production sharing contracts, the Company completed a number of significant share placings with existing and new institutional holders during 2010.

Between January and May 2010, the Company issued 8,179,645 new common shares under the Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd at a weighted average price of £0.84 per share for a total value of $10.8 million. At the date of this report, the Company has access to a further £10.0 million funds under this agreement should this be required.

On 15 March 2010 the Company placed 20,915,034 new common shares of $0.01 each at a price of £0.765 each, raising gross proceeds of $24 million and on 25 May 2010 the Company placed a further 152,300,000 new common shares of $0.01 each at a price of £0.75 each, raising gross proceeds of $165 million.

In October 2010, the Company successfully raised gross proceeds of $175 million through an oversubscribed placing of 78,028,000 new common shares of $0.01 each at a placing price of £1.40 per share. This additional funding has placed the Company in a strong financial position as at 31 December 2010 allowing the Company to fully fund its active work programme for the foreseeable future.

In addition, during 2010, 4.8 million shares were issued in lieu of advisors fees and to satisfy outstanding awards made under the Company's Executive Bonus Scheme.

Etamic transaction

On 10 March 2010, the Company announced it had negotiated with the KRG to reorganise the Company's interest in GKPI following the withdrawal by Etamic and non-completion of the transaction as originally negotiated and announced on 20 July 2009. The main components of the reorganisation and transaction were as follows:

- GKPI will continue to be a 100% subsidiary of GKP
- GKPI was required to pay $40 million to the KRG which is an Infrastructure Support Payment in return for GKPI maintaining its 80% interest in Sheikh Adi and 40% interest in Ber Bahr.
- GKP was required to make a termination payment of $12 million to Etamic in full and final settlement of all of their rights.
- The KRG shall also be entitled to receive an Additional Infrastructure Support Payment to be allocated to social programs, amounting to 40% of GKPI's entitlement to Profit Petroleum derived from GKPI's share of profits in all four production sharing contracts (PSCs).

As announced on 9 August 2010 this transaction was completed and effective from 1 August 2010 and payment of the $52 million to the KRG ($40 million) and Etamic ($12 million) was made in July and August 2010.

The net effect of the total expenditure of $52 million is that GKP's net share in each of the four PSCs will be as follows:

	GKP's Interest %	*Fully Diluted* %(3)
PSC		
Shaikan	75.0	51.0(1)
Sheikh Adi	80.0	80.0
Ber Bahr	40.0	40.0
Akri-Bijeel	20.0	12.8(2)

Notes:

(1) Minimum GKPI holding subject to Government back-in right of 20% and Third Party back-in right of 15% if exercised in full.

(2) Minimum GKPI holding subject to Government back-in right of 20% and Third Party back-in right of 20% if exercised in full.

(3) Subject to KRG 40% share of GKPI's profit petroleum.

Other and further events

Gulf Keystone announced in February 2010 an agreement with BG North Sea Holdings Limited ("BG") for the proposed withdrawal of the Company from the Hassi Ba Hamou ("HBH") Permit in consideration for a net cash payment of $10.0 million from BG. The agreement is subject to the conclusion of separate withdrawal documentation which will require the approval of Sonatrach and the necessary Algerian governmental authorities. On 23 August 2010 the parties to the HBH permit executed an amendment to the production sharing contract extending the expiry of the exploration period from 23 September 2010 until 23 September 2012.

During April Gulf Keystone upgraded its American Depository Receipt ("ADR") programme in the United States and began trading on the OTCQX International under the symbol "GFKSY", where each ADR represents 20 ordinary shares listed on the AIM market under the symbol "GKP". US investment bank Madison Williams and Company LLC acted as sponsor and Principal American Liaison ("PAL") for Gulf Keystone.

During May 2010 Sonatrach exercised a guarantee of $15.6 million in relation to the Ben Guecha Permit Blocks 108 and 128b in Algeria as the exploration commitments were not satisfied. This guarantee had been provided for from existing cash resources prior to the various 2010 share placings.

The Company established an Employee Benefit Trust and thereunder i) granted Long Term Incentive Performance Share Options and awarded ii) an executive bonus, all of which are detailed in an announcement on 7 June 2010 and 25 June 2010. Full details were also provided in the 2009 Annual Report and Accounts.

At the Annual General Meeting in early August approval was obtained to increase the authorised share capital of the Company and to issue up to 900 million new common shares of $0.01 each of which 762,233,948 are currently in issue.

Subsequent to year end, a further 7.9 million shares were issued under the Company's Executive Bonus Scheme and Share Option Plan, further details of which are given in the Directors' Report and notes 18 and 22 to the accounts. The shares issued during 2010 and subsequent to year end to satisfy awards under the Company's incentive schemes represent 1.05% of the Company's share capital at 1 April 2011.

Outlook

Following the completion of the reorganisation of the Company's Kurdistan assets during 2010 and the successful equity fundraisings, Gulf Keystone is in a strong financial position at 5 April 2011 with approximately $171.9 million of cash and cash equivalents. The Company has seen its first revenues from oil production from Shaikan-1 during autumn 2010 and this revenue stream along with Shaikan-3 is expected to provide a growing contribution to the Group's funding throughout 2011 and beyond. The Group has achieved strong progress with its active and ambitious exploration and appraisal drilling programme during 2010, and 2011 offers the opportunity to further de-risk the exploration portfolio and add to Gulf Keystone's oil-in-place resources.

KE Ainsworth
Finance Director

Section 4: Directors' Report for the year ended 31 December 2010

The Directors present their Annual Report and the consolidated financial statements of Gulf Keystone Petroleum Limited (the "Group") for the year ended 31 December 2010.

Gulf Keystone Petroleum Limited is a public company, incorporated in Bermuda, and quoted on the Alternative Investment Market of the London Stock Exchange.

Principal Activities

The principal activity of the Group during the year was that of oil and gas exploration and production operating in the Kurdistan Region of Iraq and the Republic of Algeria. During 2009 a strategic decision was made to suspend investment in the Algerian projects and undertake an exit from Algeria.

The subsidiaries principally affecting the profits or net assets of the Group in the year are listed in note 12 to the consolidated financial statements.

Results and Dividends

The Group's net loss after tax for the year was $26.0 million (2009: net loss of $96.3 million). The Directors do not recommend a dividend for the year (2009: $nil).

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 18.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both 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 shares that may result in restrictions on the transfer of securities or on voting rights.

Details of the employee share scheme are set out in note 22 and details of the Directors awards are included in the Report of the Remuneration and Appointments Committee.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its bye-laws, the Companies Act (Bermuda) and related legislation.

Review of the Business and Future Developments

A review of the business is given in the Executive Chairman and Chief Executive Officer's Report, Operating Review and Financial Review.

Directors

The following directors have held office during the year:

Name	*Title*
TF Kozel	*Executive Chairman and Chief Executive Officer*
AA Al Qabandi	*Business Development Director*
M Varzi	*Non-Executive Director*[1]
J Asher	*Non-Executive Director*[1] *(resigned 1 April 2010)*
P Truscott	*Non-Executive Director*[1]
JB Gerstenlauer	*Chief Operating Officer*
KE Ainsworth	*Finance Director*

Note:

(1) Member of the Audit Committee and Remuneration and Appointments Committee.

Directors' Interests in Shares and Options

Directors' interests in the shares of the Company, including family interests, were as follows:

	Number of common shares[1]						
	At 1 January 2010	*Shares issued in 2010*	*Shares sold/ transferred in 2010*	*At 31 December 2010*	*Shares issued post year end*	*Shares sold issued post year end*	*At date of report*
TF Kozel	3,917,781	1,833,334	(2,050,000)	3,701,115	2,825,555	–	6,526,670
AA Al Qabandi	5,150,000	483,333	–	5,633,333	483,333	–	6,116,666
JB Gerstenlauer	–	333,333	(333,333)	–	531,777	(300,000)	231,777
KE Ainsworth	449,400	422,347	–	871,747	605,550	(240,000)	1,237,297
M Varzi	180,000	33,333	–	213,333	255,555	–	468,888
P Truscott	1,000,000	33,333	(533,000)	500,333	255,555	–	755,888

Note:

(1) Includes shares held directly and beneficially through the EBT.

In addition to the above interests, TF Kozel and AA Al Qabandi are shareholders in Gulf Keystone Petroleum Company LLC which owns 40,000,000 Common Shares.

During February 2011, the Gulf Keystone Employee Benefit Trust ("EBT") subscribed for 5,886,332 new common shares so as to be able to fulfil the vested shares awarded under the Executive Bonus Scheme (see the Report of the Remuneration and Appointments Committee and note 22 to the accounts) and a further 1,000,507 new common shares so as to be able to fulfil the exercise of options by employees of the Company in February 2011. At the date of this report, the EBT held 8,765,323 common shares of the Company.

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

Substantial Shareholdings

Other than the Directors' interests shown above, the Company has been notified of the following substantial interests as at 1 April 2011:

	Number of Common Shares	*Percentage of issued share capital*
TD Waterhouse	50,810,288	6.67%
M&G Investments	47,000,000	6.17%
Barclays Personal Investment Management	41,948,918	5.50%
Gulf Keystone Petroleum LLC	40,000,000	5.25%
Capital Research & Management Co	39,362,382	5.16%
Halifax Share Dealing	36,642,748	4.81%
Gokana Trust	29,733,365	3.90%
Selftrade	25,335,227	3.32%

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 Executive Chairman and Chief Executive Officer's Report and Chief Operating Officer's Operating Review. The financial position of the Group, its cash flows, and an available funding facility are described in the Financial Review. In addition, note 24 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, and its exposures to credit risk and liquidity risk.

Following the share-placings during 2010, the Group is in a strong financial position at 5 April 2011 and has approximately $171.9 million of cash and cash equivalents. The Group is receiving production revenue streams from its Kurdistan operations and has access to a further £10 million of funding through the Standby

Equity Distribution Agreement facility if required. Consequently, the Directors believe that the Group is well placed to satisfy its obligations and finance its exploration and evaluation programme in the Kurdistan Region of Iraq for the foreseeable future, being at least the next 12 months.

Based on the forecasts and projections prepared at the time of preparation of these accounts and after making enquiries, 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 the annual report and accounts.

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 Company'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 Company's auditor is aware of that information.

Annual General Meeting 2011

The resolutions to be proposed at the Annual General Meeting ("AGM") to be held on 16 June 2011 will be set out in the Notice of the AGM.

By order of the Board

TF Kozel
Executive Chairman and Chief Executive Officer
8 April 2011

Section 5: Directors' Responsibilities in the Preparation of the Financial Statements for the year ended 31 December 2010

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 ("**IFRSs**").

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the 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 IFRSs. However, the Directors are also responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs is 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
- making an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding assets of the Company 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 Company's website.

Legislation in Bermuda governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Section 6: Independent Auditor's Report for the year ended 31 December 2010

We have audited the consolidated financial statements of Gulf Keystone Petroleum Limited for the year ended 31 December 2010 which 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 25. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs).

This report is made solely to the Company's members, as a body. 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 independent 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.

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.

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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its loss for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards.

Emphasis of matter – uncertain outcome of legal proceedings

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 21 to the financial statements concerning the uncertain outcome of legal proceedings which include a claim against up to 30% of the Group's blocks in the Kurdistan Region of Iraq, which comprise the substantial majority of the Group's petroleum operations. The Company and two of its subsidiaries received notice on 23 December 2010 of the claims, since which time they have been vigorously contesting the claims. The ultimate outcome of the matter cannot presently be determined, and consequently no provision for any liability that may result has been made in the financial statements.

Opinion on other matters

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP
Chartered Accountants
London, United Kingdom
8 April 2011

Section 7: Consolidated Financial Statements for the year ended 31 December 2010

Consolidated Income Statement
For the year ended 31 December

	Notes	*2010*	*2009*
		($'000)	
Continuing operations			
Revenue	5	808	–
Cost of sales		(808)	–
Gross profit		–	–
Other operating expenses			
Impairment of intangible exploration assets	9	–	(57,418)
Impairment of tangible oil and gas properties	10	–	(12,182)
Impairment of inventories	13	–	(4,343)
General and administrative expenses		(32,595)	(21,516)
Loss from operations	3	(32,595)	(95,459)
Other gains and losses	6	5,940	(106)
Interest revenue	5	192	318
Finance costs	16	(348)	(1,027)
Loss before tax		(26,811)	(96,274)
Tax benefit/(expense)	7	819	(28)
Loss after tax for the year		(25,992)	(96,302)
Loss per share (cents)			
Basic	8	(4.17)	(22.80)
Diluted	8	(4.17)	(22.80)

Consolidated Statement of Comprehensive Income
For the year ended 31 December

	Notes	*2010*	*2009*
		($'000)	
Loss for the period	5	(25,992)	(96,302)
Foreign currency translation differences		(154)	27
Total comprehensive loss for the period		(26,146)	(96,275)

Consolidated Balance Sheet
As at 31 December

	Notes	*2010*	*2009*
		($'000)	
Non-current assets			
Intangible assets	9	223,824	90,482
Property, plant and equipment	10	4,102	3,433
Deferred tax asset	17	4,106	960
		232,032	94,875
Current assets			
Assets held for sale	11	10,441	–
Inventories	13	14,423	574
Trade and other receivables	14	3,663	2,214
Liquid investments		10,177	–
Cash and cash equivalents		201,268	19,156
Derivative financial instruments	24	659	574
		240,631	22,518
Total assets		472,663	117,393
Current liabilities			
Trade and other payables	15	(39,103)	(44,117)
Current tax liabilities		(320)	(524)
		(39,423)	(44,641)
Non-current liabilities			
Trade and other payables	15	–	(113)
Provisions	16	(6,399)	(3,545)
		(6,399)	(3,658)
Total liabilities		(45,822)	(48,299)
Net assets		426,841	69,094
Equity			
Share capital	18	6,628	3,985
Share premium account	18	593,470	239,813
Share option reserve		20,468	11,745
Exchange translation reserve		(311)	(157)
Accumulated losses		(193,414)	(186,292)
Total equity		426,841	69,094

The financial statements were approved by the Board of Directors and authorised for issue on 8 April 2011 and are signed on its behalf by:

TF Kozel
Executive Chairman and Chief Executive Officer

KE Ainsworth
Finance Director

Consolidated Statement of Changes in Equity
For the year ended 31 December 2010

	Notes	Share capital	Share premium account	Share option reserve	Exchange translation reserve	Accumulated losses	Total equity
		Attributable to equity holders of the Group					
				($'000)			
Balance as at 1 January 2009		2,765	204,919	4,890	(184)	(89,990)	122,400
Share-based payment expense	22	–	–	6,361	–	–	6,361
Deferred tax on share-based payment transactions	17	–	–	494	–	–	494
Share issue	18	1,220	34,894	–	–	–	36,114
Foreign currency translation differences		–	–	–	27	–	27
Net loss for the year		–	–	–	–	(96,302)	(96,302)
Balance at 1 January 2010		3,985	239,813	11,745	(157)	(186,292)	69,094
Transfer relating to share based payments		–	–	(18,904)	–	18,904	–
Share-based payment expense	22	–	–	21,730	–	–	21,730
Deferred tax on share-based payment transactions	17	–	–	2,057	–	–	2,057
Share issue	18	2,643	353,657	3,840	–	–	360,140
Foreign currency translation differences		–	–	–	(154)	–	(154)
Own shares held	18	–	–	–	–	(34)	(34)
Net loss for the year		–	–	–	–	(25,992)	(25,992)
Balance at 31 December 2010		6,628	593,470	20,468	(311)	(193,414)	426,841

Consolidated Cash Flow Statement
For the year ended 31 December

	Notes	2010	2009
		($'000)	
Operating activities			
Cash used in operations	19	(26,225)	(1,663)
Tax (paid)/refunded		(503)	56
Interest received		192	318
Net cash used in operating activities		(26,536)	(1,289)
Investing activities			
Proceeds on sale of property, plant and equipment		–	37
Purchase of intangible assets		(145,877)	(48,984)
Purchase of property, plant and equipment		(1,132)	(279)
Increase in liquid investments[(1)]		(10,177)	–
Net cash used in investing activities		(157,186)	(49,226)
Financing activities			
Proceeds on issue of share capital		359,895	35,657
Net cash generated by financing activities		359,895	35,657
Net increase/(decrease) in cash and cash equivalents		176,173	(14,858)
Cash and cash equivalents at beginning of year		19,156	33,606
Effect of foreign exchange rate changes		5,939	408
Cash and cash equivalents at end of the year being bank balances and cash on hand		201,268	19,156

Note:

(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 less than three months maturity. The combined cash, cash equivalents and liquid investments balance at 31 December 2010 was $211.4m (2009: $19.2m).

Section 8: Summary of Significant Accounting Policies for the year ended 31 December 2010

General information

The Company is incorporated in Bermuda and it is quoted on the Alternative Investment Market of the London Stock Exchange (registered address: Cumberland House, 9th Floor, 1 Victoria Street, Hamilton, Bermuda). In 2008 the Company established a Level 1 American Depositary Receipt programme in conjunction with the Bank of New York Mellon which has been appointed as the depositary bank. The Company serves as the holding Company for the Group, which is engaged in oil and gas exploration and production, operating in the Republic of Algeria and the Kurdistan Region of Iraq.

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 impact on the amounts reported in these financial statements but may impact the accounting for future transactions.

IFRS 2 (amended) Group Cash-settled Share-based Payment Transactions	The amendment clarifies the accounting for share-based payment transactions between group entities.

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*
IAS 24 (amended)	*Related Party Disclosures*
IAS 32 (amended)	*Classification of Rights Issues*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 14 (amended)	*Prepayment of a Minimum Funding Requirement*
Improvements to IFRS (May 2010)	

The Directors do not anticipate that the adoption of the other 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 ("IFRSs").

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, and on a going concern basis as discussed in the Annual Report of Directors and in note 1 below. The principal accounting policies adopted are set out below.

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. The Group uses the purchase method of accounting for the acquisition of subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those of the Group.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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.

Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue and costs incurred or to be incurred in respect of the transaction can be reliably measured. Revenue is measured at the fair value of consideration received or receivable and reflects actual sales value in respect of petroleum production in the normal course of business, net of sales related taxes. Petroleum sales reflect the Group's share of volumes sold and are recorded when goods are delivered and 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, with 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.

Leasing

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

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the shorter of the period to the next rent review date and the lease term.

Foreign currencies

The functional and presentation currency of the Company, and the presentation currency of the Group, is US Dollars.

In preparing the financial statements of the individual Group companies, transactions in currencies other than the entity's function 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 operations which use functional currencies other than the US Dollar are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for each month in the year. Exchange differences arising, if any, are recognised in other comprehensive income and classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

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

The tax currently payable is based on taxable profit for the year earned in the United Kingdom by the Group's subsidiary. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 year when the liability is settled or the asset is realised using rates that have been enacted or substantially 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 dealt with in equity.

Property, plant and equipment other than oil and gas interests

Property, plant and equipment are 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

Intangible and tangible non-current assets - oil and gas interests

The Group adopts the 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. Under the full cost method of accounting all costs relating to the exploration for and development of oil and gas exploration and evaluation interests, whether productive or not, are accumulated and capitalised as non-current assets within geographic cost pools.

Exploration and evaluation costs are generally classified as intangible non-current assets during the exploration and evaluation phase and are carried forward where 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. Costs dealt with in this way include seismic data, licence acquisition costs, technical work, education and training fund production sharing contract costs, exploration and appraisal drilling (including installed test production equipment), general technical support and directly attributable administrative and overhead costs.

Exploration and evaluation costs are transferred to property, plant and equipment upon declaration of commerciality and amortised, together with development costs and decommissioning costs capitalised, on a unit of production basis as discussed below.

Depreciation, depletion and amortisation is provided under the unit of production method which uses the estimated remaining commercial reserves and the net book value of the cost pool, including any unsuccessful exploration and evaluation costs, and any further anticipated costs to develop such reserves.

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 been adjusted.

If the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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 applied 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.

Inventories

Inventories relating to materials acquired for use in exploration activities and those overheads that have been incurred in bringing the inventories to their present location and condition are valued at the lower of cost and net realisable value.

Hydrocarbon inventories are valued at net realisable value with changes in hydrocarbon inventories being adjusted through cost of sales.

Capitalisation of interest

Any interest payable on funds borrowed for the purpose of obtaining a qualifying asset will be capitalised as a cost of that asset. However, any associated interest charge from funds borrowed principally to address a short-term cash flow shortfall during the suspension of development activities shall be expensed in the year.

Financial instruments

The Group's financial instruments comprise cash and borrowings together with various items such as trade and other receivables and trade payables, which arise directly from its operations. The main purpose of these financial instruments is to provide working capital.

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 do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

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.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis in accordance with the Group's risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement 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.

The Standby Equity Distribution Agreement ("SEDA") has been designated as a financial asset at FVTPL upon initial recognition and the fair value has been estimated with reference to the fees payable for the SEDA and the percentage of the SEDA drawn down at balance sheet date.

Contingent deferred consideration

Contingent deferred consideration embedded in certain asset sale contracts is treated as a financial instrument and recognised immediately at its fair value and then reviewed on a periodic basis until the contractual rights to the cash flows from the financial asset expire. Movements in the fair value are taken to the income statement.

Impairment of financial assets

Financial assets, other than those valued at fair value through the profit and loss, 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.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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.

Borrowings

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue 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.

Trade payables

Trade payables are not interest bearing and are stated at amortised cost. The average maturity for trade and other payables is one to three months.

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 re-measured 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 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 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Cash, 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.

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

The decommissioning provision represents management's best estimate of the Group's liability for restoring the sites of drilled wells to their original status, discounted where the effect is material. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Share-based payments

The Group has applied the requirements of IFRS 2 to bonus shares and share option schemes allowing certain employees within the Group to acquire or receive shares of the Company. For all grants of share options, the fair value as at the date of grant is calculated using an appropriate option pricing model and the corresponding cost is recognised over the expected life of the option.

The fair value of the bonuses granted in shares is recognised as an employee expense with a corresponding increase in equity to the extent that company performance conditions are expected to be met. The fair value of the bonuses granted is measured using the standard methodology applied by the Group taking into account the terms and conditions upon which the bonuses were granted. To the extent that previous estimates relating to the satisfaction of performance conditions change, a corresponding adjustment is recognised in the income statement.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment review

An impairment test of the Group's cost pool requires a comparison of the carrying value of the assets or group of assets (for example, a full cost pool) with its recoverable amount, that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows from future production. The future net cash flows from production reflect estimates of reserves, productive rates, future oil and gas prices and costs, all of which are inherently uncertain, together with the application of an appropriate discount rate. Management uses a set of assumptions as at the date of the test which it considers to be collectively reasonable in its judgement, and employs an economist to assist in performing the tests. However, because of these uncertainties the actual future cash flows could materially differ from those estimated. 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 intangible exploration and evaluation assets

The outcome of ongoing exploration, and therefore whether the carrying value of intangible exploration and evaluation assets will ultimately be recovered, 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.

Decommissioning costs

The accounting policy for decommissioning provision is discussed above. The cost of decommissioning is estimated by reference to the Group's experience. Further details are provided in note 16.

Reserves

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.

Standby Equity Distribution Agreement

In May 2009 the Group secured £30 million by way of a Standby Equity Distribution Agreement ("SEDA"). The Company entered into the £30 million SEDA with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors, LLC. The SEDA has been treated as a derivative financial instrument and its fair value is being determined with reference to the fees payable for the SEDA and the percentage of the SEDA drawn down at balance sheet date.

Section 9: Notes to the Consolidated Financial Statements for the year ended 31 December 2010

1. Presentation of financial statements

These financial statements are presented in US Dollars since that is the currency in which the majority of the Group's transactions are denominated.

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 Executive Chairman and Chief Executive Officer's Report and Chief Operating Officer's Operating Review. The financial position of the Group, its cash flows, and an available funding facility are described in the Financial Review. In addition, note 24 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

Following the equity placings during 2010, the Group is in a strong financial position at 5 April 2011 and has approximately $171.9 million of cash and cash equivalents. The Group is receiving production revenue streams from its operations in the Kurdistan Region of Iraq and has access to a further £10 million of funding through the Standby Equity Distribution Agreement facility if required (see note 18). Consequently, the Directors believe that the Group is well placed to satisfy its obligations and finance its exploration and evaluation programme for the foreseeable future, being at least the next 12 months.

Based on the forecasts and projections prepared at the time of preparation of these accounts and after making enquiries, 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 the annual report and accounts.

2. Segment information

For the purposes of resource allocation and assessment of segment performance, the Group is organised into three business segments based on geography. The chief operating decision maker is the Executive Chairman and Chief Executive Officer. He is assisted by the Chief Operating Officer, the Finance 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:

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

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.

	Algeria	*Kurdistan*	*United Kingdom*	*Corporate*	*Elimination*	*Total*
				($'000)		
31 December 2010						
Revenue						
Oil Sales	–	808	–	–	–	808
Inter-segment sales	–	–	7,434	–	(7,434)	–
Total revenue	–	808	7,434	–	(7,434)	808
Cost of sales						
Production costs	–	(808)	–	–	–	(808)
Gross profit	–	–	7,434	–	(7,434)	–
Allocated general and administrative expenses	(1,207)	(388)	(10,222)	(30,430)	10,146	(32,101)
Depreciation and amortisation expense	(143)	(273)	(75)	(3)	–	(494)
Loss from operations	(1,350)	(661)	(2,863)	(30,433)	2,712	(32,595)
Other gains and losses	–	(65)	(63)	6,068	–	5,940
Interest revenue	–	–	–	192	–	192
Finance costs	(313)	(35)	–	–	–	(348)
Loss before tax	(1,663)	(761)	(2,926)	(24,173)	2,712	(26,811)
Tax benefit	–	–	819	–	–	819
Loss after tax	(1,663)	(761)	(2,107)	(24,173)	2,712	(25,992)
Capital expenditure	24	144,857	61	1	–	144,943
Total assets	14,837	245,902	14,691	567,268	(370,035)	472,663
31 December 2009						
Revenue						
Inter-segment sales	–	–	3,991	–	(3,991)	–
Total revenue	–	–	3,991	–	(3,991)	–
Impairment of intangible assets	(57,418)	–	–	–	–	(57,418)
Impairment of tangible oil and gas properties	(12,182)	–	–	–	–	(12,182)
Impairment of inventories	(4,343)	–	–	–	–	(4,343)
Allocated general and administrative expenses	(6,667)	(2,126)	(3,622)	(11,791)	3,409	(20,797)
Depreciation and amortisation expense	(88)	(122)	(171)	(2)	–	(383)
(Loss)/profit from operations	(80,698)	(2,248)	198	(11,793)	(582)	(95,123)
Other gains and losses	–	–	–	(442)	–	(442)
Interest revenue	–	4	96	218	–	318
Finance costs	(1,027)	–	–	–	–	(1,027)
(Loss)/profit before tax	(81,725)	(2,244)	294	(12,017)	(582)	(96,274)
Tax expense	–	–	(28)	–	–	(28)
(Loss)/profit after tax	(81,725)	(2,244)	266	(12,017)	(582)	(96,302)
Capital expenditure	8,537	44,139	3	–	–	52,679
Total assets	13,591	82,769	4,813	227,393	(211,173)	117,393

Geographical information

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

	2010	*2009*
	($'000)	
Algeria	2,712	13,272
Kurdistan	225,139	80,555
Bermuda	3	5
Other	72	83
	227,926	93,915

3. Loss from operations

	2010	*2009*
	($'000)	
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	464	363
Amortisation of intangible assets	30	20
Impairment of intangible exploration assets	–	57,418
Impairment of tangible oil and gas properties	–	12,182
Impairment of inventories	–	4,343
Staff costs (see note 4)	25,570	10,711
Auditor's remuneration for audit services (see below)	80	113
Operating lease rentals (see note 20)	377	371
Fees payable to the Company's auditor for the audit of the Company's annual accounts	64	93
Fees payable to the Company's auditor for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation and other	16	20
Total audit fees	80	113
Tax services	19	13
Total fees	99	126

4. Staff costs

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

	2010	*2009*
	(Number)	
Office and management	43	14
Technical and operational	108	53
	151	67

Employee benefits recognised as an expense during the year comprised:

	2010	*2009*
	($'000)	
Wages and salaries	4,885	3,474
Social security costs	3,812	876
Share-based payment (see note 22)	16,873	6,361
	25,570	10,711

5. Revenue

	2010	2009
	($'000)	
Oil sales	808	–
Interest revenue	192	318
	1,000	318

6. Other gains and (losses)

	2010	2009
	($'000)	
Exchange gains	5,855	336
Mark-to-market valuation of foreign exchange contracts	319	–
Change in the fair value of the SEDA derivative financial instrument	(234)	(442)
	5,940	(106)

Exchange gains have been reclassified from general and administrative expenses to other gains and losses. Exchange gains primarily arise on cash, cash equivalents and liquid investments which are held in currencies other than the functional currency of the holding entity.

7. Tax expense

	2010	2009
	($'000)	
Provision for current UK corporation tax	322	509
Credit for deferred UK corporation tax	(1,141)	(481)
Tax attributable to the Company and its subsidiaries	(819)	28

Under current Bermuda 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 2016.

Any corporate tax liability in Algeria is settled out of Sonatrach's share of oil under the terms of the Production Sharing Contracts 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 production sharing contract. 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 subsidiary. UK corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year of the UK subsidiary.

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.

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

	2010	2009
	($'000)	
Loss before tax	(26,811)	(96,274)
Tax at the Bermudan tax rate of 0% (2009: 0%)	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	819	(28)
Tax benefit/(expense) for the year	819	(28)

In addition to the amount charged to the income statement, $2.1 million deferred tax credit (2009: $0.5 million credit) relating to estimated excess tax deductions related to share-based payments has been recognised directly in equity (see note 17).

8. Loss per share

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

	2010	*2009*
	($'000)	
Loss		
Loss for the purposes of basic and diluted loss per share	(25,992)	(96,302)

	2010	*2009*
	(Number)	
	($'000)	
Number of shares		
Weighted average number of common shares for the purposes of basic loss per share	622,613	422,471
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 Trust	n/a	n/a
Weighted average number of common shares for the purposes of diluted loss per share	622,613	422,471

There is no difference between basic and diluted earnings per share as the Group was loss making in each year and hence the effect of bonus shares, share options, warrants and ordinary shares held by the Employee Benefit Trust is anti-dilutive.

As at 31 December 2010, 31.2 million share options (2009: 11.0 million), 18.6 million un-issued bonus shares (2009: 13.0 million), 2.5 million warrants (2009: nil) and 3.4 million shares held by the Employee Benefit Trust (2009: nil) were excluded from the loss per share calculation as they were anti-dilutive.

9. Intangible assets

	Exploration & evaluation costs	*Computer software* *($'000)*	*Total*
At 1 January 2009			
Cost	95,483	284	95,767
Accumulated amortisation	–	(247)	(247)
Net book value	95,483	37	95,520
Year ended 31 December 2009			
Opening net book value	95,483	37	95,520
Additions	52,398	2	52,400
Impairment write off	(57,418)	–	(57,418)
Amortisation charge	–	(20)	(20)
Closing net book value	90,463	19	90,482
At 31 December 2009			
Cost	90,463	286	90,749
Accumulated amortisation	–	(267)	(267)
Net book value	90,463	19	90,482
Year ended 31 December 2010			
Opening net book value	90,463	19	90,482
Additions	143,727	84	143,811
Reclassification as held for sale (note 11)	(10,441)	–	(10,441)
Amortisation charge	–	(30)	(30)
Foreign currency translation differences	–	2	2
Closing net book value	223,749	75	223,824
At 31 December 2010			
Cost	223,749	369	224,118
Accumulated amortisation	–	(294)	(294)
Net book value	223,749	75	223,824

The net book value at 31 December 2010 includes intangible assets relating to: Shaikan $117.8 million (2009: $59.5 million); Ber Bahr $27.9 million (2009: $10.0 million), Akri-Bijeel $19.4 million (2009: $10.5 million) and Sheikh Adi $58.6 million (2009: $nil).

The additions to oil and gas exploration and evaluation costs in the year include the acquisition of seismic, the drilling of the Bijell-1 exploration well, the drilling of the Shaikan-2 and Shaikan-3 appraisal wells in addition to site preparation for further appraisal wells on the Shaikan block and the drilling of the Sheikh Adi exploration well.

Following the signing of the settlement agreement with BG in February 2010, the HBH asset has been re-classified as an asset held for sale (2010: $10.4 million; 2009: $10.4 million) (see note 11).

During 2009, the Group recognised an impairment loss in respect of the Algerian Northern Blocks cost pool and the HBH cost pool due to management's decision to withdraw from Algeria. This impairment loss comprises a charge to the exploration and evaluation costs of $57.4 million relating to the impairment of the HBH project and a charge to the oil and gas properties of $12.2 million (see note 10).

The amortisation charge of $30,000 (2009: $20,000) for computer software has been included in general and administrative expenses.

10. Property, plant and equipment

	Oil & Gas Properties	*Fixtures & Equipment ($'000)*	*Total*
At 1 January 2009			
Cost	19,064	1,783	20,847
Accumulated depreciation	(4,192)	(942)	(5,134)
Net book value	14,872	841	15,713
Year ended 31 December 2009			
Opening net book value	14,872	841	15,713
Additions	–	279	279
Impairment write off (note 9)	(12,182)	–	(12,182)
Disposals	–	(51)	(51)
Depreciation charge	–	(363)	(363)
Foreign currency translation differences	–	37	37
Closing net book value	2,690	743	3,433
At 31 December 2009			
Cost	2,690	2,048	4,738
Accumulated depreciation	–	(1,305)	(1,305)
Net book value	2,690	743	3,433
Year ended 31 December 2010			
Opening net book value	2,690	743	3,433
Additions	–	1,132	1,132
Disposals	–	(10)	(10)
Depreciation charge	–	(464)	(464)
Foreign currency translation differences	–	11	11
Closing net book value	2,690	1,412	4,102
At 31 December 2010			
Cost	2,690	3,126	5,816
Accumulated depreciation	–	(1,714)	(1,714)
Net book value	2,690	1,412	4,102

The depreciation charge of $0.5 million on fixtures and equipment (2009: $0.4 million) has been included in general and administrative expenses.

11. Asset held for sale

On 18 February 2010, the Company announced that it had negotiated an agreement with BG North Sea Holdings Limited ("BG") that settled, on confidential terms, the claims and counterclaims between the parties. The agreement provides for the immediate stay of the arbitration and the proposed withdrawal of the Company from the Hassi Ba Hamou ("HBH") Permit for a net cash payment from BG of $10.0 million to the Company.

Following the signing of this agreement, the HBH intangible asset of $10.4 million (2009: $10.4 million), which is included within the Algerian operating segment, has been reclassified as an asset held for sale as at 31 December 2010. A further amount of $0.5 million, representing the net present value of the decommissioning costs associated with this asset is included within the provisions balance at 31 December 2010 (see note 16). The agreement is subject to the conclusion of separate transfer documentation which will require the approval of Sonatrach and any necessary Algerian governmental authorities, which the Company expects to receive in due course. Whilst the Company is confident that the necessary approvals will be forthcoming, there is no guarantee this will be the case.

12. Subsidiary

Details of the Company's subsidiaries at 31 December 2010 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	Great Britain	100	100	Geological, geophysical and engineering services and administration
Gulf Keystone Petroleum International Limited	Bermuda	100	100	Exploration and evaluation activities
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

13. Inventories

	2010	*2009*
	($'000)	
Exploration materials	14,081	574
Crude oil	342	–
	14,423	574

During 2009, the Algerian inventory was written down to its net realisable value, being $nil, due to the Group's intention to exit Algeria. The impairment expense relating to the write down of inventory in 2009 was $4.3 million.

14. Trade and other receivables

	2010	*2009*
	($'000)	
Trade receivables	77	–
Other receivables	3,261	1,507
Prepayments and accrued income	325	707
	3,663	2,214

Included within other receivables for 2010 is an amount of $0.2 million (2009: $0.4 million) being the deposit for the UK office which is receivable after more than one year.

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

15. 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.

	2010	*2009*
	($'000)	
Current		
Trade payables	13,363	8,282
Accrued expenses	25,740	35,835
	39,103	44,117
Non-current		
Accrued expenses	–	113

The non-current accrued expenses in 2009 relate to the fees payable on entering into the Standby Equity Distribution Agreement.

16. Provisions

	($'000)
Decommissioning provision	
At 1 January 2010	3,545
Additional provision in the year	2,506
Unwinding of discount	348
At 31 December 2010	6,399

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 facilities currently in place. This expenditure is estimated to be incurred over the next five to 30 years. Included within the provision are decommissioning costs of $0.5 million associated with the HBH asset (see note 11).

17. Deferred tax

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	*Share-based payments ($'000)*	*Total*
At 1 January 2009	(15)	–	(15)
Credit to income	31	450	481
Credit direct to equity	–	494	494
At 1 January 2010	16	944	960
Credit/(charge) to income	(6)	1,147	1,141
Credit direct to equity	–	2,057	2,057
Exchange differences	(1)	(51)	(52)
At 31 December 2010	9	4,097	4,106

18. Share capital

	2010	2009
	($'000)	
Authorised		
Common shares of $0.01 each	9,000	7,500
Non-voting shares $0.01 each	500	500
Series A Preferred shares of $1,000 each	60,000	60,000
	69,500	68,000

The authorised common share capital was increased from $7.5 million to $9 million at the 2010 Annual General Meeting.

	Common shares			
	No. of Shares	Amount	Share capital	Share Premium
	(000)		($'000)	
Issued and fully paid				
Balance at 1 January 2009	368,008	207,684	2,765	204,919
Bonus scheme shares March 2009	1,119	11	11	–
Shares issued under the SEDA	27,501	21,099	275	20,824
Private placement	91,260	14,807	913	13,894
Issue costs	n/a	(259)	–	(259)
SEDA costs	2,088	456	21	435
Balance 31 December 2009	489,976	243,798	3,985	239,813
Bonus scheme shares issued	4,654	47	47	–
Shares issued under the SEDA	8,180	10,781	82	10,699
Private placement	251,243	363,985	2,512	361,473
Issue costs	n/a	(18,719)	–	(18,719)
Shares issued in lieu of cash payment for fees	190	206	2	204
Balance 31 December 2010	754,243	600,098	6,628	593,470

During March, May and October 2010 a total of 251.2 million shares were placed at an average price of £0.95 per share to continue financing exploration and development activities. A further 0.2 million shares were issued during the year in lieu of advisor fees at an average price of £0.75.

Between January and May 2010, a total of 8.2 million shares were issued under the Standby Equity Distribution Agreement ("SEDA") with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors, LLC, at an average price of £0.84 per share.

In June 2010, the Company announced that it had executed the Gulf Keystone Employee Benefit Trust (the "Trust") and settled an initial cash contribution on the independent trustee (the "Trustee"). The Trustee may acquire common shares in the Company, by subscription or by purchase, and, at the discretion of the Trustee, make available interests in those common shares for the benefit of Directors and employees under the Company's Share Option Plan and Executive Bonus Scheme (the "Plans").

During the year, a total of 4,653,700 shares were issued as part of the Company's bonus share scheme (2009: 1,119,419), of which 3,772,998 new common shares were issued to the Trust at par value of $0.01 (see note 22).

At 31 December 2010, a total of 3,403,991 shares were held by the Trust and included within reserves.

Subsequent to year end, a further 6,990,280 new common shares were issued as part of the Company's bonus share scheme, including 5,886,332 to the Trust. In addition, the Company has been notified by the Trustee of the Company's Employee Benefit Trust and by certain employees of an exercise of options under the Share Option Plan. Consequently, the Board has approved the issue of 1,000,507 new common shares of

$0.01 ("Option Shares") raising gross proceeds of £636,054 at an average price of £0.64 per share. The total number of shares in issue on 8 April 2011 is 762,233,948.

Rights attached to share capital

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

(i) entitled to one vote per 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.

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

	2010	*2009*
	($'000)	
Loss from operations	(32,595)	(95,459)
Adjustments for:		
Depreciation of property, plant and equipment	464	363
Amortisation of intangible assets	30	20
Impairment of intangible exploration assets	–	57,418
Impairment of tangible oil and gas properties	–	12,182
Loss on disposal of property, plant and equipment	–	14
Impairment of inventories	–	4,343
Share-based payment expense	16,873	6,361
(Increase)/decrease in inventories	(13,849)	1,005
(Increase)/decrease in receivables	(1,449)	5,643
Increase in payables	4,301	6,447
Net cash used in operating activities	(26,225)	(1,663)

20. Commitments

Operating lease commitments – the Group as a lessee

	2010	*2009*
	($'000)	
Minimum lease payments under operating leases recognised as expense for the year	377	371

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

	2010	*2009*
	($'000)	
Within one year	766	377
In the second to fifth years inclusive	1,209	1,540
After five years	–	64
	1,975	1,981

Operating lease payments represent rentals payable by the Group for certain of its office and residence properties and facilities in the United Kingdom and the Kurdistan Region of Iraq. The UK office lease is for five years from February 2010. The office equipment lease is for five years and commenced in 2009. The non-cancellable operating leases within Kurdistan range from one to two years in duration.

Exploration commitments

Due to the nature of the Group's operations in exploring and evaluating areas of interest, 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 or by the renegotiation of expenditure commitments. The level of exploration expenditure expected in the year ending 31 December 2011 for the Group is approximately $154.1 million (2010: $109.8 million) of which the majority is contracted. This includes the minimum amounts required to retain the relevant licences.

21. Contingent liabilities

On 23 December 2010, the Company and two of its subsidiaries ("the Companies") received notice that an arbitration ("the ICC Arbitration") was commenced by Excalibur Ventures LLC ("Excalibur") in New York on 17 December 2010 asserting certain contractual and non-contractual claims against the Companies and claiming that Excalibur is entitled to an interest of up to 30% in the Companies' blocks in the Kurdistan Region of Iraq, which comprise the substantial majority of the Group's petroleum operations.

On 21 December 2010, Excalibur applied without notice to the Companies to the Commercial Court in London for a "worldwide freezing injunction" against the Companies' assets, which was refused by the Commercial Court on the basis that the Judge did not consider there was a risk of dissipation of assets. Excalibur also commenced proceedings in the Commercial Court in London on 17 December 2010 on the same grounds as in the ICC Arbitration ("the Commercial Court Claim") in order allegedly to protect its position in relation to potential limitation of actions under New York and/or English law. The Companies received notice on 23 December 2010 of the claims, since which time they have been vigorously contesting the claims. The ultimate outcome of the matter cannot presently be determined, and consequently no provision for any liability that may result has been made in the financial statements.

22. Share-based payments

	2010	*2009*
	($'000)	
Bonus shares charge	19,351	6,340
Share options charge	2,379	21
	21,730	6,361

	2010	*2009*
	($'000)	
Warrants – share issue costs	3,840	–

Equity settled share option plan

The Group's share option plan provides for a grant price at least equal to the closing market price of the Group shares on the date of grant. Awards made under the Group's share option plan have a vesting period of three years except for awards made under the Long Term Incentive Plan, further details of which are given below. 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.

Share Option Plan with Long Term Incentive Performance Conditions

During 2010, following the recommendations of the Remuneration Committee of the Company, the Trustees granted share options over 19,532,948 common shares to Directors and employees of the Group under the existing Share Option Plan with stretching performance criteria known as the Long Term Incentive Performance Conditions ("LTIP Share Options").

The LTIP Share Options vest in equal tranches over three financial years subject to the achievement of the following performance conditions:

(i) One third of the LTIP Share Options are subject to operational performance conditions as follows:

- 50% of the one third tranche of LTIP Share Options vest only on the achievement of sustained production of at least 8,000 barrels of oil per day resulting in sustained oil sales and revenue flow;
- 30% of the one third tranche of LTIP Share Options vest only on successful resource addition through a combination of appraisal and production testing resulting in a significant movement of P10 hydrocarbon in place resources to P90 hydrocarbon in place resources; and
- 20% of the one third tranche of LTIP Share Options vest only in the event of a significant new discovery.

(ii) One third of the LTIP Share Options vest on the share price reaching 150 pence.

(iii) One third of the LTIP Share Options vest on the share price reaching 200 pence.

	2010		*2009*	
	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	11,000	32.8	9,491	39.5p
Granted during the year	20,283	77.2	6,650	33.9p
Cancelled during the year	–	–	(3,550)	46.2p
Forfeited during the year	(100)	30.0	(1,591)	47.3p
Outstanding at 31 December	31,183	61.4	11,000	32.8p
Exercisable at 31 December	7,161	71.6	–	–

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

	2010	*2009*
Weighted average share price on date of grant (in pence)	76.3	11.5p
Weighted average exercise price of options granted in the year (in pence)	77.2	33.9p

The expected volatility was calculated as 79%, 95% and 94% for the June 2010, September 2010 and October 2010 awards respectively (2009: 58%, 68% and 87% for the March 2009, July 2009 and March 2010 awards respectively) and has been based on the Company's share price averaged for the three years prior to grant date.

The expected term of the 2010 awards is three to 7.5 years (2009: three years). The risk free rate was 2.5% for the June 2010 awards and 1.5% for the September 2010 and October 2010 awards (2009: 5% for the March and July 2009 awards, 4.5% for the March 2010 award).

The market-based performance criteria have been included in the fair value of the options with the weighted average fair value of the options granted in 2010 being £0.51 (2009: £0.045).

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:

	Exercise price (pence)	*Options 2010*	*2009 ($'000)*
Expiry date			
10 October 2017	39.50	400	400
04 December 2017	33.00	250	250
13 February 2018	30.00	1,450	1,550
24 September 2018	30.00	2,150	2,150
31 December 2018	30.00	4,400	4,400
15 March 2019	30.00	250	250
30 July 2019	30.00	1,650	1,650
18 October 2019	80.75	100	100
7 December 2019	80.75	250	250
3 June 2020	80.75	250	–
23 June 2020	75.00	19,533	–
22 September 2020	147.50	250	–
11 October 2020	175.00	250	–
		31,183	11,000

Bonus Shares

The Group issues bonus shares to certain employees for a nominal consideration. Bonuses are generally awarded over three years and vest 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.

Executive Bonus Scheme

Discretionary grants to Directors and employees of 8,453,334 common shares have been made by the Gulf Keystone Employee Benefit Trust as part of the 2010 Executive Bonus Scheme. The awards have been made on the same terms as the Company's Executive Bonus Scheme. In addition, the Company has directly granted 1,777,778 common shares to Directors during February 2011 as part of the 2010 Executive Bonus Scheme.

Awards of 7,114,111 relating to the 2008, 2009 and 2010 Executive Bonus Schemes have vested during the year. Details of all awards to Directors have been included in the Directors Emoluments for the year ended 31 December 2010.

	Bonus Shares 2010	*2009*
	(in thousands)	
Balance at 1 January	8,397	1,854
Granted during the year	10,231	11,519
Forfeited during the year	–	(160)
Issued during the year	(7,114)	(4,816)
Balance at 31 December	11,514	8,397

The weighted average fair value of the bonus shares granted in 2010 was £1.73 (2009: £0.75).

Warrants

During the year the Company issued a total of 2,498,350 warrants in lieu of cash payment for placing fees (note 18) (2009: nil). In respect of the May 2010 fund raising, 1,523,000 warrants were issued with an exercise price of £0.75 and a maximum term of three years, expiring on 23 May 2013. In respect of the October 2010 placing, 975,350 warrants were issued with an exercise price of £1.40 and a maximum term of five years, expiring on 14 October 2015. No warrants were exercised during the year.

The fair value of the warrants was determined with reference to the value of the services received and is the amount that would otherwise have been payable to the placing agents had the warrants not been issued.

23. 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, 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 by failing to exercise this election agreed to assign its interest under the contract to GKPI. Consequently TKI holds its interest in trust for GKPI pending transfer of its interest which is subject to the approval of the Kurdistan Regional Government.

Opus Executive Partners

Opus Executive Partners ("Opus"), a specialist recruitment company, is a related party of the Group because Lord Peter Truscott, a Director of the Company, is an Associate Partner of Opus. During 2010, $72,840 was paid to Opus for advice regarding executive remuneration packages provided to the Company (2009: $nil). Opus did not provide any other services to the Group.

No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

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. The names and positions held by those directors and employees identified as key management personnel are as follows:

Name	*Title*
TF Kozel	*Executive Chairman and Chief Executive Officer*
AA Al Qabandi	*Business Development Director*
JB Gerstenlauer	*Chief Operating Officer*
KE Ainsworth	*Finance Director*
M Varzi	*Non-Executive Director*
J Asher	*Non-Executive Director (resigned 1 April 2010)*
P Truscott	*Non-Executive Director*
AA Samarrai	*Kurdistan Country Manager*
M Messaoudi	*Algeria Country Manager*
CH Garrett	*Vice President Operations*
AR Peart	*Legal and Commercial Director*

Further information about the remuneration of individual directors is provided in the Report of the Remuneration and Appointments Committee.

	2010	2009
	($'000)	
Short-term employee benefits	6,199	3,123
Other allowances	134	–
Share-based payment – options	2,175	14
Share-based payment – bonus shares	18,670	6,172
	27,178	9,309

24. Financial instruments

	2010	2009
	($'000)	
Financial assets		
Cash and cash equivalents	201,268	19,156
Liquid investments	10,177	–
Loans and receivables	3,338	1,507
Derivative asset – SEDA	340	574
Derivative asset – foreign exchange contracts	319	–
	215,442	21,237
Financial liabilities		
Loans and payables	39,103	44,230
	39,103	44,230

All financial liabilities are due to be settled within one year and are classified as current liabilities.

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 and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in note 18, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Gearing Ratio

The Group's Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Given the current stage of development of the Group's assets, it is the Group's policy to finance its business by means of internally generated funds and external share capital. As a result, there was no debt at 31 December 2010.

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 a currency risk hedge during 2010. Otherwise, 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 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 during the year has increased following significant sterling fund-raisings during the year and this risk has been addressed by entering into a currency hedge during the year. 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 or interest rates. The risks are monitored by the Board on a regular basis.

The Group is also party to a SEDA which represents a derivative over the Company's equity. The fair value of the SEDA reflects the liquidity in the market for the Company's shares at the prevailing share price but since the shares are valued under the SEDA at prices based on the market price, the fair value of the SEDA is not material. Changes in the fair value of the SEDA are recognised in the income statement (see note 6).

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 2010, a 10% weakening of the USD against the GBP would have resulted in an increase in the Group's net current assets of $16.9 million and a 10% strengthening would have resulted in a decrease in net current assets of $13.8 million. The carrying amounts of the Group's other foreign currency denominated monetary assets and monetary liabilities at the reporting date were not material to the Group and a 10% change would not have a material effect.

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.

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 would not have a material impact on the Group's profit 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. The Group does not have any significant trade and other receivables outstanding from any one creditor at balance sheet date (2009: $nil).

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.

The Group has no other major counterparties.

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 and external share capital. 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. When any of the Group's projects move to the development stage, specific financing, including debt, may be required to enable development to take place.

The maturity profile of the Group's 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 note 1 under "Going Concern".

25. Subsequent events

Share Option Plan with Long Term Incentive Performance Conditions

On 4 February 2011, in addition to the 2010 Bonus share awards (see note 22), the Remuneration Committee recommended to the Trustee grants of options under the existing Share Option Plan with stretching long term incentive performance conditions ("2010 LTIP Options"). It recommended that the Trustee grants 2010 LTIP Options over common shares at a price of 175 pence per share to the following Directors as set out below:

Todd Kozel	4,195,000
Ewen Ainsworth	839,000
John Gerstenlauer	839,000

It was recommended that the 2010 LTIP Options be available for exercise in equal tranches over three financial years subject to the following performance conditions:

(i) One third of the 2010 LTIP Options will vest on the share price reaching 275 pence.

(ii) One third of the 2010 LTIP Options will vest on the share price reaching 325 pence.

(iii) One third of the 2010 LTIP Options will vest on the share price reaching 375 pence.

It was recommended to the Trustee that a total of 9,490,000 common shares may be the subject of 2010 LTIP Options for Directors and employees.

The Trustee confirmed on 4 February 2011 that it wished to grant 2010 LTIP Options at a price of 175 pence per share over a total 9,490,000 common shares including the recommended grant to Todd Kozel, Ewen Ainsworth and John Gerstenlauer as set out above. The closing share price of the Company on the 4 February 2011 was 173.5 pence per share.

Part D: Information from the Half Year Report for the six months ended 30 June 2013

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013 were prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

Section 1: Joint Statement of Non-Executive Chairman and Chief Executive Officer for the six months ended 30 June 2013

The first half of 2013 was another period of intense activity, during which time Gulf Keystone continued to build upon its position as a leading operator in the Kurdistan Region of Iraq and to grow as a company. We are delighted to have been able to complete two important tasks. Firstly, as a result of having the Shaikan Field Development Plan ("**Shaikan FDP**") approved and in line with the Kurdistan Regional Government's ("**KRG**") stated production targets for the Shaikan discovery, we have entered the first phase of commercial production, which was eagerly awaited by the Company's shareholders. It is an important milestone and another highlight of the four years of hard work since striking oil in August 2009. Secondly, while making progress in achieving our goal to move to the Main Market by the end of 2013, we are very pleased to have appointed an adviser of Deutsche Bank's calibre to assist us in this process.

The approval of the Shaikan FDP shortly before the end of the reporting period represented a major milestone as we close in on our strategic objective of transitioning from a pure exploration company to a well-balanced exploration and production ("**E&P**) operator. The approval, the first of its kind awarded in the region since 2007, was the culmination of many months of hard work, paving the way to commercial production from the Shaikan field, oil sales and revenue generation.

As we seek to establish ourselves as leaders of the upstream oil industry in the Kurdistan Region of Iraq, we were extremely honoured to be recognised by the Ministry of Natural Resources of the KRG ("**MNR**") for our "outstanding work during the exploration phase". We reiterate here our gratitude to the MNR for their support as we work hand in hand to help the region achieve its overall oil export target of one million barrels per day by the end of 2015.

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 have arrived in the region from Syria in recent months. 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.

On 4 July 2013, at the well-attended Investor Day in London, we told our audience that Shaikan commercial production was imminent. In mid-July, we completed and commissioned the first Shaikan production facility (PF-1) and delivered first commercial production to the domestic market. The second of the two new production facilities at Shaikan (PF-2) is nearing completion. Coupled with the already operating PF-1, our cumulative production capacity will be 40,000 bopd. As previously announced, we expect this level to increase to 150,000 bopd as we drill more development and production wells and put in place additional production and processing facilities required for the development of Shaikan.

Gulf Keystone's planned ramp up in production dovetails with the Kurdistan Region's ongoing pipeline infrastructure development and we have been very encouraged by recent progress, in particular on a regional oil pipeline for direct crude exports to Turkey. The Company has been awaiting a sustained export solution since 2007 and such remarkable achievement in the development of Kurdistan-controlled pipeline infrastructure is an extremely positive step for Gulf Keystone.

Across its portfolio, Gulf Keystone continued its drilling campaign, designed to continue proving up the value of our acreage.

The year began with a new discovery on the Akri-Bijeel Block. The Bakrman-1 exploration well was the first well to target the Bakrman structure and this success was the second discovery on the block, following the 2010 Bijell discovery. On the Ber Bahr block, the first exploration well confirmed a Jurassic commercial discovery in May.

On the 1.9 billion barrel Sheikh Adi field, following the Jurassic discovery with the Sheikh Adi-2 exploration well at the end of 2012, preparations are underway for the appraisal programme. This is designed to target both the Jurassic and Triassic with the Sheikh Adi-3 appraisal well in 2014. Further exploration work is also planned at Sheikh Adi as we continue to assess the extent that the Shaikan field extends into the Sheikh Adi block.

At the time of writing, drilling continues at the Shaikan-7 deep exploration well, and our first development well, Shaikan-10. This heralds the start of a potentially three rig development and production campaign on track to start next year.

We welcomed to the Board of Gulf Keystone our five new Non-Executive Directors and, under the guidance of Field Marshal the Lord Guthrie of Craigiebank, Deputy Chairman and Chairman of the Nominations Committee, we look forward to announcing one additional non-executive director in due course.

10 September marked the end of the protracted litigation process as the English Commercial Court dismissed all the claims asserted by Excalibur Ventures LLC ("**Excalibur**") against Gulf Keystone and two of its subsidiaries (together the "**Companies**") and Texas Keystone Inc. ("**Texas Keystone**").

With nearly twenty wells drilled and billions of barrels of resources discovered, Gulf Keystone has proven itself as one the most active operating companies in the Kurdistan Region of Iraq. The transition towards full scale production operations and the concurrent pipeline developments underpin the operational progress. Significant corporate developments are equally positive. With the uncertainty of the long running litigation now behind us, a strong board in place and the imminent move to the Main Market, the Board of Directors have great confidence about the future of our Company and are working hard to deliver on all of the Company's stated objectives.

Simon Murray	**Todd F. Kozel**
Independent Non-Executive Chairman	*Chief Executive Officer*

Section 2: Operational Review for the six months ended 30 June 2013

Gulf Keystone achieved a significant milestone in its operations in the Kurdistan Region of Iraq, when in June 2013 the MNR approved the FDP for the Shaikan field, which the Company operates. This event, together with the drilling of Shaikan-10, the Company's first development well, has signalled the beginning of the staged large-scale development of this word-class discovery and the move to commercial production from this prize asset.

In the context of the significant progress made on the independent regional pipeline infrastructure, expected to be completed by the end of 2013, we look forward to delivering Shaikan crude to the export market in 2014 and ramping-up Shaikan production to meet the KRG's ambitious production and export targets.

Following the approval of the Appraisal Programme for the Sheikh Adi discovery, the Company's other operated asset in the region, work began on the drilling location for the first appraisal well, which will be drilled in 2014. In May 2013, Genel Energy, the operator of the Ber Bahr block, confirmed a commercial discovery as a result of the successful side-track of the first exploration well drilled in 2012. MOL Hungarian Oil and Gas plc, the operator of the Akri-Bijeel block, continued to test the Jurassic and Triassic horizons with Bakrman-1, where a new Triassic discovery was made earlier in the year, as well as to work to commence test production operations from the Bijell-1 discovery.

Shaikan (75 per cent. working interest; Operator)

Approval of the Field Development Plan

The work on the Shaikan FDP commenced in the summer of 2011 and was completed and submitted for review and approval by the regulatory authorities in January 2013. In late June 2013, the MNR approved the Shaikan FDP, giving Gulf Keystone the right to commence commercial production and outlining a number of production milestones for the field. The Shaikan FDP envisages the first initial phase with production building up to 20,000-40,000 bopd and then progressing to 150,000 bopd within three years from the date of the approval of the Shaikan FDP and to 250,000 bopd by 2018.

Commencement of commercial production

Following the approval of the Shaikan FDP, the Company commenced commercial production operations at Shaikan. The Shaikan PF-1 was fully commissioned and tested by mid-July, which included emptying two storage tanks of 37,500 barrels of oil produced earlier in the year in the course of the Shaikan extended well test ("**EWT**") operations. Since late July 2013, there has been 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.

Production from the Shaikan PF-1 was temporarily suspended on 4 September 2013 at the request of the competent authority for reasons not connected with the Company. The Company, following dialogue with the competent authority, believes that production is to resume shortly. Once the work on the flowlines to the Shaikan-4 well has been completed, the Company will reach the stated production target of 20,000 bopd. Shaikan-4 is the third producing well, which will be tied to the Shaikan PF-1 and the work on 8km of the connecting flowlines is expected to be completed in October 2013.

The construction of the second Shaikan production facility, which will be tied to the Shaikan-2, -5 and -10 wells, is ongoing. Shaikan PF-2 will be mechanically complete in October and is expected to become operational by the end of 2013 and increase Shaikan production to the second stated production target of 40,000 bopd thereafter. Contracts have been awarded for the work on the flowlines to connect the two existing producing wells and Shaikan-10, once it has been drilled and completed as a producer.

Implementation of Shaikan FDP

In July 2013, we spudded Shaikan-10, launching a development drilling campaign as part of the approved Shaikan FPD. The well is being drilled with the Weatherford 842 rig, which previously drilled Shaikan-8, also part of the agreed phased development. This rig also drilled the Shaikan-1 discovery well in 2009 and the Bijell-1 discovery well in 2010.

Shaikan-10, which is expected to be complete before the end of 2013, will be followed by an active development and production drilling programme, which is expected to target up to eight wells in 2014.

At least eight producing wells will be drilled in order to move from the immediate short-term production target of 40,000 bopd to the first Shaikan FDP milestone of 100,000-150,000 bopd. The timing of the further development drilling campaign and major investment decisions on the construction of additional Shaikan production and processing facilities are contingent on steady oil sales and revenue flow as a result of the production from Shaikan PF-1 and -2. We envisage that two additional facilities (Shaikan PF-3 and -4), equipped with gas and water handling capabilities and gas compression facilities, will be a 18 months project requiring between $200 and 250 million of investment per facility. At this stage, we have initiated a separate project to procure gas compressing equipment required to move beyond the near-tem production target of 40,000 bopd.

Pipeline infrastructure

Significant momentum has been gained since the beginning of 2013 in the development of the regional pipeline infrastructure from the Kurdistan Region of Iraq to Turkey. The completion of the oil pipeline infrastructure is expected by the end of 2013 and we have reached an important agreement with the MNR on the construction of a spur pipeline to connect Shaikan to the regional oil pipeline. The 15km pipeline connection will be running from the Shaikan PF-2 location to blending facilities and pumping stations, which are expected to be put in place in 2015.

Additional exploration upside

Shaikan-7, the first deep exploration well on the Shaikan block, spudded in June 2013 to evaluate the previously undrilled mid to lower Triassic and Permian horizons. The well is being drilled with the Weatherford Rig 319 (3,000HP) close to the crest of the Shaikan structure, approximately 1km east of the Shaikan-1 discovery well.

Following a number of side-tracks, casing is currently being set at the bottom of the Cretaceous at a depth of 1,250 metres. This vertical well is planned to reach a total depth below 4,500m in the Permian and is expected to take about nine months. Exploring this additional exploration potential may lead to discovering as much as between 1 and 5 billion barrels of additional oil in place resources.

Sheikh Adi (80 per cent. working interest; Operator)

After making the Jurassic discovery with the Sheikh Adi-2 well in November 2012, the Company and the KRG, its 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. Currently, the construction of the drilling location for the Sheikh Adi-3 appraisal well is ongoing and the well is expected to be drilled in 2014.

Acquisition of 70km of additional 2D seismic data has been completed and, after drilling the first appraisal well on the block, we plan to target two additional exploration leads, comprising potential extensions of the Atrush and Swara Tika discoveries. The Company is enthusiastic about the forthcoming appraisal programme and additional exploration work, as it is the Company's belief that the Shaikan field shows signs of a significant extension into the Sheikh Adi block.

Ber Bahr (40 per cent. working interest)

In May, Genel Energy, the operator of the block, announced that a successful side-track of the original Ber Bahr-1 exploration well confirmed the existence of a commercial oil discovery. As a result, Ber Bahr-1 made a discovery achieving a sustainable flow rate of 2,100 stock tank barrels ("**STB**") per day of 15 API oil from the Middle Jurassic age Sargelu formation. The operator's current estimates of the recoverable reserves for the Ber Bahr discovery are between 50 and 100 million barrels. Appraisal plans include shooting 160km^2 of 3D seismic in Q3 2013, followed by an appraisal well in 2014. According to the operator, early oil production is expected to begin from the middle of 2014.

Akri-Bijeel (20 per cent. working interest)

After significant progress was achieved in 2012 and early 2013 in the course of an extensive exploration and appraisal programme of the massive Akri-Bijeel block, the operator has been focussing on two key activities. Following the Bakrman-1 Triassic oil discovery, an EWT was conducted in the Triassic. As a result of the well test, the operator decided to side-track the well and re-test multiple Jurassic zones. Initial Triassic test results indicate a significant reservoir. The operator continues to appraise the Bijell discovery with the Bijell-2 and -7 wells, while the commissioning of an EWT facility is awaiting the completion of the Bijell-1 well as a producer, which is on-going.

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

John Gerstenlauer
Chief Operating Officer

Section 3: Financial Review for the six months ended 30 June 2013

In the first half of 2013, Gulf Keystone concentrated its efforts on achieving a number of operational and corporate milestones including the preparation, submission and approval of the Shaikan FDP, the construction and completion of the Shaikan PF-1, successful defence against the litigation launched by Excalibur and preparation for the proposed move from AIM to the standard segment of the Official List ("**Main Market**").

The Company worked to ensure that the Shaikan PF-1 was ready to ramp up production as soon as the Shaikan FDP was approved by the MNR. While the facility was undergoing a number of upgrades, it was not possible for Gulf Keystone to generate production and sales in the first half of 2013. Following the FDP approval, announced on 26 June 2013, the Company started its first commercial production on 24 July 2013 reaching total gross production of 183,000 bbl and 12,400 bopd by 1 September 2013. The Company also achieved steady oil sales of an average 5,150 bopd in August 2013. Production from the Shaikan PF-1 was temporarily suspended on 4 September 2013 at the request of the competent authority for reasons not connected with the Company. The Company, following dialogue with the competent authority, believes that production is to resume shortly.

Following the approval of the Shaikan FDP, the exploration and evaluation costs incurred in relation to the Shaikan field were transferred to development and production assets within property, plant and equipment.

Income statement

General and administrative expenses during the period were $19.3 million (1H12: $34.1 million). The decrease in administrative costs of $14.8 million results from lower advisers' fees incurred in relation to the Group's defence against the claim made by Excalibur as well as lower costs associated with the share bonus awards and the options awarded under the Company Share Options Plan and Long Term Incentive Plan (1H13: $5.5 million; 1H12: $10.7 million).

Other losses of $0.5 million (1H12: $4.1 million gain) comprise foreign exchange loss of $0.1 million (1H12: $3.7 million gain), a mark-to-market valuation loss on forward exchange contracts entered into to mitigate the risk associated with converting U.S. Dollars into Sterling (1H13: $0.5 million loss; 1H12: $0.7 million gain). The 2012 comparative also includes a loss on the revaluation of the Standby Equity Distribution Agreement of $0.3m (1H13: $nil). Interest revenue has decreased to $0.5 million (1H12: $0.8 million) due to lower interest rates achieved on deposits.

Finance costs of $6.5 million (1H12: $0.3 million) relate to the accretion charge on the decommissioning provision (1H 2013: $0.2 million, 1H12: $0.3 million) and interest payable in respect of the Convertible Bonds of $11.2 million (2012: $nil) out of which $4.9 million was capitalised within intangible assets. The cash coupon paid on the convertible bond in 1H13 amounted to $8.6 million. The tax expense of $0.5 million (1H12: $1.9 million) is related to UK activities.

The results for the first half of 2013 show a decreased loss after tax of $26.4 million (1H12: $31.4 million) reflecting the decrease in administrative expenses discussed above.

Cash flow

Net cash outflow from oil and gas operations after general and administrative expenses was $22.3 million (1H12: $18.5 million). The loss from operations of $19.3 million (1H12: $34.1 million) was adjusted for the non-cash expenditure of $5.9 million (1H12: $12.2 million) which included share-based payments and depreciation and amortisation. The 2012 comparative also includes the provision for overdue receivables in 1H12 (1H13: $nil). The working capital adjustments totalled to an $8.9 million cash outflow (1H12: $3.4 million inflow) increasing the operational cash outflow. The increase in inventories is in line with the high levels of drilling and Shaikan PF construction activities while lower payables reflect the lower administrative and operating expenses. The decrease in receivables is attributable to the receipt of the amounts due for 2012 oil sales and the partial repayment of the loans made to certain Directors of the Company in 2012 (see note 12 to the condensed consolidated financial statements). Tax paid in 1H 2013 was $0.4 million (1H12: $0.8 million) and interest received was $0.2 million (1H12: $0.8 million). Net cash outflow from operating activities after tax and interest was $31.1 million (1H12: $18.4 million).

Cash used in investing activities totalled $81.5 million (1H12: $64.4 million), which comprises $90.0 million spent on intangibles assets (1H12: $86.5 million), $0.1 million (1H12: $1.0 million) spent on property, plant and equipment offset by a reduction in liquid investments of $8.6 million (1H12: $23.1 million). The majority of the $90.0 million spent on intangible assets relates to the Group's exploration and appraisal activities in the Kurdistan Region of Iraq, including the drilling of Shaikan -7 and -10, construction of Shaikan PF -1 and -2, costs related to the preparation and submission of the Shaikan FDP as well as costs incurred on the exploration and appraisal of Akri-Bijeel, Ber Bahr and Sheikh Adi wells.

A total of $2.2 million has been raised through the exercises of options under the Company's share option plan (1H12: $1.1 million).

The net overall decrease in cash and cash equivalents during the period was $110.4 million (1H12: $81.7 million increase). Foreign exchange loss on cash balances was $2.1 million (1H12: $4.0 million gain).

Cash and cash equivalents totalled $141.2 million at 30 June 2013 (30 June 2012: $130.4 million; 31 December 2012: $253.7 million). As at 16 September 2013, cash and cash equivalents totalled $101.2 million.

Corporate activities

On 10 September 2013, the English Commercial Court (the "**Court**") announced its ruling following the trial of certain contractual and non-contractual claims asserted by Excalibur against the Companies and Texas Keystone. The Court dismissed all the claims asserted by Excalibur and decided all issues in favour of the Companies and Texas Keystone. The hearing was adjourned to a later date for the argument on costs and any application for permission to appeal. To-date Excalibur has made total payments of £10.7 million into Court as security for the costs of the Companies and a further £6.8 million as security for the costs of Texas Keystone.

As reported in the 2012 Annual Report and Accounts, 7.1 million common shares were issued in 2013, 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. A further 4.4 million common shares were issued in response to option exercises by the Company's employees in February 2013.

Other and Further Events

The Company continues to explore options for the disposal of its 20 per cent. working interest in the Akri-Bijeel block and 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. The Akri-Bijeel intangible asset (30 June 2013: $77.3 million; 31 December 2012: $64.6 million), including the associated working capital balances, continues to be classified as an asset held for sale.

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

Financial strategy and outlook

Our long term financial strategy remains to maintain the appropriate financial flexibility to fund high-impact exploration, appraisal and development programmes in order to realise the full potential of our multi-billion barrel resources. We will also look to broaden the sources of funding available to Gulf Keystone and consider additional debt financing, whilst ensuring the Company maintains an appropriate capital structure. In the medium term, we are expecting to make considerable progress towards our ultimate goal of fully financing our activities from production cash flows. Further details regarding our current funding strategy can be found in note 2 'Going concern'. We made our first steps towards this goal with the approval of the FDP and commissioning of Shaikan PF-1 which is expected to ramp up the production to 20,000 bopd once the work on the connecting flowlines to the Shaikan-4 well has been completed in October 2013. With the completion of Shaikan PF-2 planned for Q4 2013, our short term production is expected to increase further to 40,000 bopd. Allied to this, we will work to manage our cost base as we continue to build our organisational capacity. Achieving these goals will enable us to support the Company's growth strategy set out in the previous sections of this report with a robust, well-funded business. Gulf Keystone has a strong balance sheet and clear plans to grow the value of the business.

KE Ainsworth
Finance Director

Section 4: Directors' Responsibility statement for the six months ended 30 June 2013

The Directors confirm that to the best of their knowledge:

(a) the condensed set of financial statements has been prepared in accordance with lAS 34 "Interim Financial Reporting";

(b) the Half Yearly Report has been prepared in accordance with the AIM rules of the London Stock Exchange;

(c) the Half Yearly Report includes a fair review of the important events of the first six months and description of principal risks and uncertainties for the remaining six months of the year; and

(d) the Half Yearly Report includes the disclosure of related parties' transactions and changes therein.

By order of the Board,

TF Kozel
Chief Executive Officer
18 September 2013

Section 5: Independent Auditor's Report for the six months ended 30 June 2013

We have been engaged by the Company to review the consolidated condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual consolidated financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Deloitte LLP
Chartered Accountants
London, United Kingdom
18 September 2013

Section 6: Condensed Consolidated Financial Statements for the six months ended 30 June 2013

Condensed Consolidated Income Statement
For the six months ended 30 June 2013

	Notes	*Six months ended 30 June 2013 Unaudited*	*Six months ended 30 June 2012 Unaudited*	*Year ended 31 December 2012 Audited*
			($'000)	
Continuing operations				
Revenue		–	15,472	32,190
Cost of sales		–	(15,472)	(32,190)
Gross profit		–	–	–
Other operating expenses				
General and administrative expenses		(19,256)	(34,061)	(82,137)
Loss from operations		(19,256)	(34,061)	(82,137)
Other gains and losses		(543)	4,064	5,210
Interest revenue		463	805	1,199
Finance costs	4	(6,537)	(254)	(4,456)
Loss before tax		(25,873)	(29,446)	(80,184)
Tax expense		(528)	(1,915)	(1,638)
Loss after tax		(26,401)	(31,361)	(81,822)
Loss per share (cents)				
Basic	5	(3.06)	(3.68)	(9.61)
Diluted	5	(3.06)	(3.68)	(9.61)

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2013

	Six months ended 30 June 2013 Unaudited	*Six months ended 30 June 2012 Unaudited*	*Year ended 31 December 2012 Audited*
		($'000)	
Loss for the period	(26,401)	(31,361)	(81,822)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	(1,973)	89	1,010
Total comprehensive loss for the period	(28,374)	(31,272)	(80,812)

Condensed Consolidated Balance Sheet
As at 30 June 2013

	Notes	30 June 2013 Unaudited	30 June 2012 Unaudited	31 December 2012 Audited
			($'000)	
Non-current assets				
Intangible assets	6	196,906	454,755	546,229
Property, plant and equipment	7	445,431	2,339	2,285
Deferred tax asset		4,464	5,613	6,796
		646,801	462,707	555,310
Current assets				
Assets held for sale	10	77,283	44,923	64,612
Inventories		30,062	18,856	19,783
Trade and other receivables		11,870	8,984	23,674
Liquid investments		–	6,428	8,600
Cash and cash equivalents		141,156	130,437	253,713
Derivative financial instruments		–	1,893	207
		260,371	211,521	370,589
Total assets		907,172	674,228	925,899
Current liabilities				
Trade and other payables		(85,837)	(79,158)	(90,872)
Derivative financial instruments		(410)	(349)	(168)
Provisions	11	(4,185)	–	(4,185)
Liabilities directly associated with assets classified as held for sale	10,11	(1,217)	–	–
Current tax liabilities		(17)	(1,612)	(444)
		(91,666)	(81,119)	(95,669)
Non-current liabilities				
Convertible bonds		(246,165)	–	(243,495)
Provisions	11	(12,178)	(5,456)	(9,044)
		(258,343)	(5,456)	(252,539)
Total liabilities		(350,009)	(86,575)	(348,208)
Net assets		557,163	587,653	577,691
Equity				
Share capital	8	7,962	7,848	7,847
Share premium account	8	793,609	791,480	791,479
Share option reserve		34,779	45,852	29,280
Convertible bonds reserve		22,852	–	25,485
Exchange translation reserve		(1,524)	(472)	449
Accumulated losses		(300,515)	(257,055)	(276,849)
Total equity		557,163	587,653	577,691

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2013

		Attributable to equity holders of the Group						
	Notes	*Share Capital*	*Share premium account*	*Share option reserve*	*Exchange translation reserve*	*Accumulated losses*	*Convertible bond reserve*	*Total equity*
					($'000)			
Balance at 1 January 2012 (audited)		7,627	790,435	34,065	(561)	(225,492)	–	606,074
Share-based payment charge		–	–	13,922	–	–	–	13,922
Deferred tax on share-based payment transactions		–	–	(2,135)	–	–	–	(2,135)
Share issue		220	1,044	–	–	–	–	1,264
Exchange differences arising on translation of foreign operations		–	–	–	89	–	–	89
Own shares held		–	–	–	–	(202)	–	(202)
Net loss for the period		–	–	–	–	(31,361)	–	(31,361)
Balance at 30 June 2012 (unaudited)		7,847	791,479	45,852	(472)	(257,055)	–	587,651
Transfer relating to share based payments		–	–	(29,591)	–	29,591	–	–
Share-based payment charge		–	–	11,977	–	–	–	11,977
Deferred tax on share-based payment transactions		–	–	1,042	–	–	–	1,042
Exchange differences arising on translation of foreign operations		–	–	–	921	–	–	921
Issue of convertible bond		–	–	–	–	–	26,561	26,561
Convertible bond equity amortisation		–	–	–	–	1,076	(1,076)	–
Net loss for the period		–	–	–	–	(50,461)	–	(50,461)
Balance at 31 December 2012 (audited)		7,847	791,479	29,280	449	(276,849)	25,485	577,691
Transfer relating to share-based payments		–	–	(166)	–	166	–	–
Share-based payment charge		–	–	7,067	–	–	–	7,067
Deferred tax on share-based payment transactions		–	–	(1,402)	–	–	–	(1,402)
Exchange differences arising on translation of foreign operations		–	–	–	(1,973)	–	–	(1,973)
Share issue	8	115	2,130	–	–	–	–	2,245
Own shares held by EBT[9]			–	–	–	(64)	–	(64)
Convertible bond equity amortisation			–	–	–	2,633	(2,633)	–
Net loss for the period			–	–	–	(26,401)	–	(26,401)
Balance at 30 June 2013 (unaudited)		7,962	793,609	34,779	(1,524)	(300,515)	22,852	557,163

Note:

(9) Employee Benefit Trust ("**EBT**").

Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2013

	Notes	*Six months ended 30 June* *2013* *Unaudited*	*2012* *Unaudited*	*Year ended 31 December* *2012* *Audited*
			($'000)	
Operating activities				
Cash used in operations	9	(22,308)	(18,456)	(58,974)
Tax paid		(444)	(751)	(1,667)
Interest received		245	806	1,199
Interest paid		(8,594)	–	–
Net cash used in operating activities		(31,101)	(18,401)	(59,442)
Investing activities				
Purchase of intangible assets		(89,953)	(86,499)	(191,887)
Purchase of property, plant and equipment		(137)	(977)	(1,345)
Decrease in liquid investments		8,600	23,100	20,928
Net cash used in investing activities		(81,490)	(64,376)	(172,304)
Financing activities				
Proceeds on issue of share capital		2,180	1,063	1,264
Proceeds on issue of convertible bond		–	–	268,972
Net cash generated by financing activities		2,180	1,063	270,236
Net (decrease)/increase in cash and cash equivalents		(110,411)	(81,714)	38,490
Cash and cash equivalents at beginning of period		253,713	208,103	208,103
Effect of foreign exchange rate changes		(2,146)	4,048	7,120
Cash and cash equivalents at end of the period being bank balances and cash on hand		141,156	130,437	253,713

Section 7: Notes to the Condensed Consolidated Financial Statements for the six months ended 30 June 2013

1. General information

The condensed Group interim financial statements, comprised of Gulf Keystone Petroleum Ltd and its subsidiaries (together, the "**Group**"), have been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim Financial Reporting", as adopted by the European Union. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as adopted by the European Union, have been omitted or condensed as is normal practice. The condensed Group interim financial statements for the six months ended 30 June 2013 have been reviewed by the Company's external auditors and were approved by the Directors on 18 September 2013. An electronic version of the half year report has been posted on the Group's website www.gulfkeystone.com. Hard copies are available by writing to Gulf Keystone Petroleum Limited, c/o Gulf Keystone Petroleum (UK) Limited, 16 Berkeley Street, London, W1J 8DZ, United Kingdom.

The financial information for the year ended 31 December 2012 does not constitute the Company's financial statements for that year, but it is derived from those accounts. The auditors have reported on those accounts and their report was not modified but drew attention by way of emphasis to the uncertain outcome of certain legal proceedings. The current status of those legal proceedings is summarised in note 13.

2. Accounting policies

Basis of preparation

The condensed set of financial statements included in this half year financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in this condensed set of financial statements as applied by the Company in its Annual Report and Accounts for the year ended 31 December 2012. The Annual Report and Accounts of the Company are prepared in accordance with International Financial Reporting Standards ("**IFRSs**") as adopted by the European Union.

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 Joint Statement of the Non-Executive Chairman and Chief Executive Officer and Review of Operations. The financial position of the Group and its cash flows are described in the Financial Review.

The Group is currently dependent upon its existing financial resources and production revenues from its operations in the Kurdistan Region of Iraq. As the Group develops the Shaikan field, it may require additional finance through debt financing, fund raisings, farm-out or sale of its oil and gas interests or other methods. The Group has a number of financing possibilities which the Directors believe the Group will be able to pursue if required. However, the possibility remains that the Group's operations, and the availability of additional finance, could be significantly affected by adverse exploration and appraisal results, geopolitical events in the region, macroeconomic conditions or other risks.

In assessing the applicability of the going concern basis, the Directors have assumed that the production and oil sales from the Shaikan field will achieve the stated short term targets (see Review of Operations and Financial Review) or alternatively, that the Company will be able to raise funds from additional sources of financing by the end of 2013.

Accordingly, based on the forecasts and projections prepared at the time of preparation of this half year report and after making enquiries, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of approval of the half year report. Consequently, the Directors continue to adopt the going concern basis in preparing this half year report.

Changes in accounting policy

In 2012, a number of new standards and interpretations became effective as noted in the 2012 Annual Report and Accounts (page 51). The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group. Since the 2012 Annual Report and Accounts was published no significant new standards and interpretations have been issued. The following new and revised standards became effective during 2013:

IAS 1	Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
IAS 19 (revised)	Employee Benefits
IFRS 7 (amended)	Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement

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

In addition, the following standards, which are endorsed by the EU but are not effective until 1 January 2014 will be adopted for the period beginning 1 January 2014:

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

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods.

3. Segment information

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

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

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

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

	Algeria	Kurdistan Region	United Kingdom	Corporate	Elimination	Total
			(unaudited) ($'000)			
30 June 2013						
Revenue						
Oil sales	–	–	–	–	–	–
Inter-segment sales	–	–	5,473	–	(5,473)	–
Total revenue	–	–	5,473	–	(5,473)	–
(Loss)/profit before tax	(51)	(653)	(4,255)	(32,186)	11,272	(25,873)
Tax expense	–	–	(528)	–	–	(528)
(Loss)/profit after tax	(51)	(653)	(4,783)	(32,186)	11,272	26,401
Total assets	175	754,069	25,703	1,009,207	(881,982)	907,172
30 June 2012						
Revenue						
Oil sales	–	15,472	–	–	–	15,472
Inter-segment sales	–	–	7,658	–	(7,658)	–
Total revenue	–	15,472	7,658	–	(7,658)	15,472
(Loss)/profit before tax	(1,425)	(2,107)	2,582	(28,843)	347	(29,446)
Tax expense	–	–	(1,915)	–	–	(1,915)
(Loss)/profit after tax	(1,452)	(2,107)	667	(28,843)	347	(31,361)
Total assets	1,667	528,648	76,482	813,022	(745,591)	674,228
31 December 2012						
Revenue						
Oil sales	–	32,190	–	–	–	32,190
Inter-segment sales	–	–	16,132	–	(16,132)	–
Total revenue	–	32,190	16,132	–	(16,132)	32,190
(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)
Total assets	102	671,680	40,465	1,061,637	(847,985)	925,899

4. Finance costs

	Six months ended 30 June 2013 Unaudited	Six months ended 30 June 2012 Unaudited	Year ended 31 December 2012 Audited
		($'000)	
Interest payable in respect of convertible bonds	11,217	–	4,617
Unwinding of discount on provisions	179	254	348
Capitalised finance costs	(4,859)	–	(509)
	6,537	254	4,456

The amount of finance costs capitalised was determined in accordance with IAS 23 by applying the effective interest rate of 9.26 per cent. on an annual basis applicable to the borrowings under the convertible bonds to the expenditures on the qualifying asset.

5. Loss per share

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

	Six months ended 30 June 2013 Unaudited	*Six months ended 30 June 2012 Unaudited*	*Year ended 31 December 2012 Audited*
		($'000)	
Loss			
Loss for the purposes of basic and diluted loss per share	(26,401)	(31,361)	(81,822)

	30 June 2013 Unaudited	*30 June 2012 Unaudited*	*31 December 2012 Audited*
		(Number (000s))	
Number of shares			
Weighted average number of common shares for the purposes of basic loss per share	862,486	851,361	851,486
Adjustments for:			
– bonus shares	n/a	n/a	n/a
– share options	n/a	n/a	n/a
– warrants	n/a	n/a	n/a
– ordinary shares held by the Employee Benefit Trust	n/a	n/a	n/a
– ordinary shares held by the Exit Event Trustee	n/a	n/a	n/a
– convertible bonds	n/a	n/a	n/a
Weighted average number of common shares for the purposes of diluted loss per share	862,486	851,361	851,486

There is no difference between basic and diluted earnings per share as the Group was loss making in each period and hence the effect of bonus shares, share options, warrants, convertible bonds and common shares held by the Employee Benefit Trustee is anti-dilutive. As at 30 June 2013, 37.5 million share options (2012: 41.9 million), 3.3 million un-issued bonus shares (2012: 6.6 million), 1.0 million warrants (2012: 1.0 million), 10.0 million common shares held by the Exit Event Trustee (2012: 10.0 million), 11.1 million common shares held by the Employee Benefit Trust (2012: 12.9 million) and 62.6 million common shares (2012: 62.6 million) to be issued if the bonds are converted at the initial conversion price of $4.39 were excluded from the loss per share calculation as they were anti-dilutive.

6. Intangible assets

	Exploration & evaluation costs	*Computer software*	*Total*
		($'000)	
At 31 December 2012			
Cost	545,940	858	546,798
Accumulated amortisation	–	(569)	(569)
Net book value (audited)	545,940	289	546,229

	Exploration & evaluation costs	Computer software ($'000)	Total
Six months ended 30 June 2013			
Opening net book value	545,940	289	546,229
Additions	94,192	60	94,252
Transfer to property, plant and equipment	(443,470)	–	(443,470)
Amortisation charge	–	(96)	(96)
Foreign currency translation differences	–	(9)	(10)
Closing net book value (unaudited)	196,662	244	196,906
At 30 June 2013			
Cost	196,662	885	197,547
Accumulated amortisation	–	(641)	(641)
Net book value (unaudited)	196,662	244	196,906

Additions to oil and gas exploration and evaluation costs in the period were $94.2 million and included the drilling of Shaikan -7 and -10, construction of Shaikan PF -1 and -2 and costs related to the preparation and submission of the Shaikan Field Development Plan. Exploration and evaluation costs include intangible assets relating to: Sheikh Adi $140.2 million (2012: $108.6 million) and Ber Bahr $56.5 million (2012: $51.1 million). Other intangible assets (computer software) were $0.2 million (2012: $0.3 million).

Following the approval of the Shaikan Field Development Plan by the Kurdistan Regional Government's Ministry of Natural Resources announced on 26 June 2013, the exploration and evaluation costs incurred in relation to the Shaikan field were transferred to development and production assets within property, plant and equipment.

7. Property, plant and equipment

	Development & Production Assets	Fixtures & Equipment ($'000)	Total
At 31 December 2012			
Cost	–	4,939	4,939
Accumulated depreciation	–	(2,654)	(2,654)
Net book value (audited)	–	2,285	2,285
Six months ended 30 June 2013			
Opening net book value	–	2,285	2,285
Additions	–	137	137
Disposals	–	(139)	(139)
Transfer from intangible assets	443,470	–	443,470
Depreciation charge	–	(306)	(306)
Foreign currency translation differences	–	(16)	(16)
Closing net book value (unaudited)	443,470	1,961	445,431
At 30 June 2013			
Cost	443,470	4,868	448,338
Accumulated depreciation	–	(2,907)	(2,907)
Net book value (unaudited)	443,470	1,961	445,431

8. Share capital

Share capital and share premium as at 30 June 2013 amounted to $801.6 million (2012: $799.3 million). During the period, 11.5 million common shares were issued to satisfy awards made under the Company's bonus share scheme and an exercise of options under the Company's Share Option Plan.

Subsequent to the period end, a further 475,350 shares were issued at a price of £1.40 per share raising £665,490 following an exercise of warrants.

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

	Six months ended 30 June		*Year ended 31 December*
	2013	*2012*	*2012*
	Unaudited	*Unaudited*	*Audited*
		($'000)	
Loss from operations	(19,256)	(34,061)	(82,137)
Adjustments for:			
Depreciation of property, plant and equipment	306	242	559
Amortisation of intangible assets	96	96	175
Increase in Algerian decommissioning provision	–	–	3,462
Share-based payment expense	5,471	10,662	19,974
Provision for overdue receivables	–	1,212	1,212
Increase in inventories	(10,280)	(1,623)	(2,550)
Decrease/(increase) in receivables	11,872	927	(14,845)
Increase/(decrease) in payables	(10,517)	4,089	15,176
Net cash used in operating activities	(22,308)	(18,456)	(58,974)

10. Asset held for sale

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

The Akri-Bijeel intangible asset of $77.3 million (2012: $64.6 million) that is included within the Kurdistan operating segment was classified as an asset held for sale on 30 June 2013. The value of the asset held for sale as at 30 June 2013 includes $2.2 million (2012: $5.9 million) that relates to a prepayment balance to the operator.

Additions to Akri-Bijeel exploration and evaluation costs in the period were $16.4 million and included the drilling of Bakrman-1, Gulak-1, Bijell-2, and Bijell-7 wells as well as seismic studies and construction of surface facilities.

The decommissioning provision associated with the Akri-Bijeel block amounted to $1.2 million as at 30 June 2013 and is included in the liabilities directly associated with assets classified as held for sale (see note 11).

11. Decommissioning provision

	Six months ended 30 June		*Year ended 31 December*
	2013	*2012*	*2012*
	Unaudited	*Unaudited*	*Audited*
		($'000)	
Current	4,185	–	4,185
Non-current	12,178	5,456	9,044
	16,363	5,456	13,229

	Six months ended 30 June 2013 Unaudited	2012 Unaudited ($'000)	Year ended 31 December 2012 Audited
Decommissioning provision			
At 1 January 2013			13,229
New provisions and changes in estimates			4,172
Transfer to liabilities directly associated with assets classified as held for sale			(1,217)
Unwinding of discount			179
At 30 June 2013 (unaudited)			16,363

The additions to the decommissioning provision balance arose from new provisions and changes in decommissioning estimates for operated and non-operated fields in the Kurdistan Region of Iraq.

The Group revised the estimates for the inflation and discount rates used to 3 per cent. (2012: 4 per cent.). The changes in inflation and discount rates did not have impact on the value of the unwinding of discount charge.

The transfer to liabilities directly associated with assets classified as held for sale comprises the decommissioning provision for Akri-Bijeel block.

12. Related party transactions

Directors' transactions

During 2012, the Group issued an interest-bearing loan of $7 million to Todd Kozel 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 per cent. In the six months ended 30 June 2013, the $0.7 million loan was repaid in full and the $7 million loan was repaid in part.

In the six months ended 30 June 2013, the Company also paid for certain personal expenses of $1.1 million (2012: $2.8 million) on behalf of Todd Kozel that will be refunded to the Company at its demand during 2013. No interest is charged on these advances. By virtue of their directorships, these individuals are related parties of the Group.

The following amounts were outstanding at the balance sheet date and are included within other receivables:

	Six months ended 30 June 2013 Unaudited	2012 Unaudited ($'000)	Year ended 31 December 2012 Audited
Personal expenses of key management personnel to be refunded to the Group	3,938	1,208	2,846
Loans to key management personnel	2,268	–	7,710
Interest on loans to key management personnel	219	–	68
	6,425	1,208	10,624

Subsequent to 30 June 2013, Todd Kozel has settled $4.4 million of the outstanding balance.

13. Subsequent events

On 10 September 2013, the English Commercial Court (the "**Court**") announced its ruling following the trial of certain contractual and non-contractual claims asserted by Excalibur Ventures LLC ("**Excalibur**") against Gulf Keystone and two of its subsidiaries (together the "**Companies**") and Texas Keystone Inc. ("**Texas Keystone**"). The Court dismissed all the claims asserted by Excalibur and decided all issues in favour of the Companies and Texas Keystone. The hearing for the argument on costs and any application for permission to appeal will take place at a later date that is to be fixed. To-date Excalibur has made total payments of £10.7 million into Court as security for the costs of the Companies and a further £6.8 million as security for the costs of Texas Keystone.

PART 14

CREST AND DEPOSITARY ARRANGEMENTS

1. CREST and Depositary Arrangements

The Company has established arrangements to enable investors to settle interests in the Common Shares through the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK companies, such as the Company, cannot be held or transferred electronically in the CREST system. However, depositary interests allow such securities to be dematerialised and settled electronically through CREST. Where investors choose to settle interests in the Common Shares through the CREST system, and pursuant to depositary arrangements established by the Company, Computershare Investor Services plc (the "**Depositary**") will hold the Common Shares and issue dematerialised depositary interests (the "**Depositary Interests**") representing the underlying Common Shares, which will be held on trust for the holders of the Depositary Interests. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system. Investors should note that it is the Depositary Interests which will be admitted to and settled through CREST and not the Common Shares.

The Bye-Laws are consistent with CREST membership in respect of Depositary Interests and the holding and transfer of Depositary Interests in uncertified form. Under the Companies Act (Bermuda), companies are not prohibited from issuing shares in book-entry form but shareholders have the right to require the companies to issue physical certificates. The Board has passed a resolution authorising the issuance of shares in book-entry form.

The Company and the Depositary entered into a depositary agreement (the "**Depositary Agreement**") on 24 August 2004, the principal terms of which are summarised below.

The Depositary Interests have been created pursuant to and issued on the terms of a deed poll executed on 24 August 2004 by the Depositary in favour of the holders of the Depositary Interests from time to time (the "**Deed Poll**"). Holders of Depositary Interests should note that they will have no rights against Euroclear UK and Ireland (the operators of CREST) or its subsidiaries in respect of the underlying Common Shares or the Depositary Interests representing them.

If a holder of Common Shares so requests, its Common Shares will be transferred to an account of the Depositary or its nominated custodian (the "**Custodian**") and the Depositary will issue Depositary Interests to participating CREST members. Each Depositary Interest will be treated as one Common Share for the purposes of determining, for example, eligibility for any dividends. The Depositary will pass on to holders of Depositary Interests any stock or cash benefits received by it as holder of Common Shares on trust for such Depositary Interest holder. Depositary Interest holders, through the Depositary, will also be able to receive notices of meetings of holders of Common Shares and other notices issued by the Company to its Shareholders.

The Depositary Interests have the same security code (ISIN) as the underlying Common Shares and will not require a separate admission to the London Stock Exchange's Main Market for listed securities. The Depositary Interests can then be traded and settlement will be within the CREST system in the same way as any other CREST securities. Application will be made for the Depositary Interests to be admitted to CREST with effect from Admission.

If a holder wishes to cancel its Depositary Interest, it will either directly or through its broker instruct the applicable CREST participant to initiate a CREST withdrawal (where such withdrawal is sent to the Depositary) for the name that appears on the Register. The Depositary Interest will then be cancelled by the Depositary and the related Common Shares will be credited to the account on the Register by the Registrar. The Registrar will then send the holder a new Common Share certificate.

The information included within this Part 14 relating to the obtaining and cancellation of Depositary Interests by a holder is intended to be a summary only and is not to be construed as legal, business or tax advice. Each investor should consult his or her own lawyer, financial adviser, broker or tax adviser for legal, financial or tax advice in relation to Depositary Interests.

In addition to the Depositary Interests, the Company has established arrangements to enable investors to hold interests in the Common Shares through American Depositary Shares ("**ADSs**") issued under a deposit agreement between the Company, The Bank of New York Mellon, and all registered holders and beneficial owners of the ADSs. The ADSs are traded on the over-the-counter market in the United States. As at 18 March 2014, 77,574 ADSs were outstanding.

Each ADS represents 20 Common Shares deposited with the principal London office of The Bank of New York Mellon, as custodian for The Bank of New York Mellon. A copy of the deposit agreement is available for inspection at The Bank of New York Mellon's office in New York City and at the London office of The Bank of New York Mellon.

2. Deed Poll

The Deed Poll was executed on 24 August 2004 by the Depositary and contains the following provisions:

2.1 The Depositary will hold (itself or through the Custodian), as bare trustee, the underlying Common Shares and all and any rights and other securities, property and cash attributable to the underlying Common Shares pertaining to the Depositary Interests for the benefit of the holders of the relevant Depositary Interests as tenants in common. The Depositary will re-allocate securities or Depositary Interests distributions allocated to the Depositary or Custodian pro rata to the Common Shares held for the respective accounts of the holders of Depositary Interests, but will not be required to account for fractional entitlements arising from such re-allocation.

2.2 Holders of Depositary Interests agree to give such warranties and certifications to the Depositary as the Depositary may reasonably require. In particular, holders of Depositary Interests warrant, *inter alia*, that the securities in the Company transferred or issued to the Depositary or Custodian on behalf of the Depositary for the account of the Depositary Interest holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's constitutional documents or any contractual obligation, or applicable law or regulation binding or affecting such holder, and holders of Depositary Interests agree to indemnify the Depositary against any liability incurred as a result of any breach of such warranty.

2.3 The Depositary and any Custodian shall pass on to the Depositary Interest holders and, so far as they are reasonably able, exercise on behalf of the Depositary Interest holders all rights and entitlements received or to which they are entitled in respect of the underlying Common Shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received, together with amendments and additional documentation necessary to effect such passing-on, or, as the case may be, exercised in accordance with the Deed Poll. If arrangements are made which allow a holder to take up rights in the Company's securities requiring further payment, the holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.

2.4 The Depositary will be entitled to cancel Depositary Interests and treat the holders thereof as having requested a withdrawal of the underlying securities in certain circumstances, including where a Depositary Interest holder fails to furnish the Depositary with such certificates or representations as to material matters of fact, including his identity, as the Depositary deems appropriate.

2.5 The Depositary warrants that it is an authorised person under the FSMA and is duly authorised to carry out custodian and other activities under the Deed Poll. It also undertakes to maintain that status and authorisation.

2.6 The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any Depositary Interest holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Except in the case of personal injury or death, any liability incurred by the Depositary to a holder under the Deed Poll is limited to the lesser of:

(a) the value of the Common Shares that would have been properly attributable to the Depositary Interests to which the liability relates; and

(b) that proportion of £5 million which corresponds to the portion which the amount the Depositary would otherwise be liable to pay to the holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission or event which gave rise to such liability or, if there are no such amounts, £5 million.

2.7 The Depositary is entitled to charge holders of Depositary Interests fees and expenses for the provision of its services under the Deed Poll.

2.8 Each holder of Depositary Interests is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees), and hold each of them harmless, from and against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of that holder, other than those caused by or resulting from the wilful default, negligence or fraud of: (i) the Depositary; or (ii) the Custodian or any agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.

2.9 The Depositary is entitled to make deductions from the deposited property or any income or capital arising therefrom, or to sell such deposited property and make deductions from the sale proceeds thereof, in order to discharge the indemnification obligations of Depositary Interest holders.

2.10 The Depositary may terminate the Deed Poll by giving not less than 90 days' notice. During such notice period, Depositary Interest holders may cancel their Depositary Interests and withdraw their deposited property and, if any Depositary Interests remain outstanding after termination, the Depositary shall, as soon as reasonably practicable and amongst other things: (i) deliver the deposited property in respect of the Depositary Interests to the relevant Depositary Interest holder or at the Depositary's discretion; (ii) sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll, pro rata to the Depositary Interest holders in respect of their Depositary Interests.

2.11 The Depositary or the Company may require from any holder: (i) information as to the capacity in which Depositary Interests are owned or held by such holders and the identity of any other person with any interest of any kind in such Depositary Interests or the underlying Common Shares and the nature and amounts of such interests; (ii) evidence or declaration of nationality or residence of the legal or beneficial owner(s) of Depositary Interests and such information as is required to transfer the relevant Depositary Interests or Common Shares to the holder; and (iii) such information as is necessary or desirable for the purposes of the Deed Poll or CREST system, and holders are bound to provide such information requested. The holders of Depositary Interests consent to the disclosure of such information by the Depositary, Custodian or Company to the extent necessary or desirable to comply with their respective legal or regulatory obligations.

2.12 Furthermore, to the extent that the Company's constitutional documents, applicable laws or regulations, the Ground Rules for the Management of the FTSE UK Index Series (if applicable), or any court or legal or regulatory authority may require or the Company deems it necessary or desirable in connection therewith (including in response to requests for information), the disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever in, the Company's securities, the Depositary Interest holders are to comply with such provisions and with the Company's securities, the Depositary Interest holders are to comply with such provisions and with the Company's instructions with respect thereto, and consent to the disclosure of such information for such purposes.

It should also be noted that holders of Depositary Interests may not have the opportunity to exercise all of the rights and entitlements available to holders of Common Shares, including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of Depositary Interests to give prompt instructions to the Registrar or its nominated Custodian, in accordance with any voting arrangements made available to them, to vote the underlying Common Shares on their behalf or, to the extent possible, to take advantage of any arrangements enabling holders of Depositary Interests to vote such Common Shares as a proxy of the Registrar or its nominated Custodian.

3. Depositary Agreement

The Depositary Agreement was entered into between the Company and the Depositary on 12 March 2014 and contains the following provisions:

3.1 Under the Depositary Agreement, the Company appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll, a series of Depositary Interests representing Common Shares and to provide certain other services (including depositary services, custody services and dividend services) in connection with such Depositary Interests.

3.2 The Depositary agrees that it will comply with the terms of the Deed Poll and that it will perform its obligations with reasonable skill and care. The Depositary assumes certain specific obligations, including, for example, to arrange for the Depositary Interests to be admitted to CREST as participating securities and provide copies of, and access to, the register of Depositary Interests.

3.3 The Company acknowledges that it shall be its responsibility and undertakes to advise the Depositary promptly of any securities laws or other applicable laws, rules or regulations in Bermuda with which the Depositary must comply in providing the services.

3.4 The Company agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing its duties, responsibilities and obligations under the Depositary Agreement.

3.5 The Depositary is to indemnify the Company and its officers and employees from and against any loss (excluding indirect, consequential or special loss) which any of them may incur in any way as a result of or in connection with the fraud, negligence or wilful default of the Depositary (or its officers, employees, agents or sub-contractors).

3.6 The appointment of the Depositary shall continue until terminated by either party on six months notice, subject to an earlier termination in accordance with the terms of the Depositary Agreement. Should the Depositary Agreement be terminated for any reason, other than arising from the Depositary's fraud, negligence, wilful default or material breach of a term of the Depositary Agreement, the Company shall within 30 days of termination pay to the Depositary the Depositary's reasonable costs and expenses of transferring the Depositary Interest register to its new registrar. Either party may terminate the Depositary Agreement with immediate effect by notice in writing if the other party: (i) shall be in persistent or material breach of any material term (of the Depositary Agreement) and such breach is not remedied within 21 days of a request for such remedy; (ii) goes into insolvency or liquidation or administration or a receiver is appointed over any part of its undertaking or assets, subject to certain provisos; or (iii) shall cease to have the appropriate authorisations which permit it lawfully to perform its obligations under the Depositary Agreement.

3.7 The Depositary will be entitled to employ agents for the purposes of carrying out certain of its obligations under the Depositary Agreement which the Depositary reasonably considers to be of a specialist nature.

3.8 The Company is to pay to the Depositary an annual fee for the services. The Company shall pay a fixed fee for the deposit, cancellation and transfer of the Depositary Interests and the compilation of the initial Depositary Interests register. The Company shall in addition reimburse the Depositary within 30 days of the Depositary's invoice for all network charges, CREST charges, money transmission and banking charges and other out-of-pocket expenses incurred by it in connection with the provision of the services under the Depositary Agreement.

3.9 The Company will indemnify the Depositary from and against all loss suffered by the Depositary as a result of or in connection with the performance of its obligations under the Depositary Agreement.

3.10 The aggregate liability of the Depositary to the Company over any 12-month period under the Depositary Agreement will not exceed twice the amount of the Fees (as defined in the Depositary Agreement) payable in any 12-month period in respect of a single claim or in the aggregate.

PART 15

TAXATION

1. United Kingdom taxation

The following statements are intended only as a general guide to current UK tax legislation and to the current practice of HMRC and may not apply to certain shareholders in the Company, such as dealers in securities, insurance companies and collective investment schemes. They relate (except where stated otherwise) to persons who are resident and domiciled in the UK for UK tax purposes, who are beneficial owners of Common Shares (and any dividends paid on them) and who hold their Common Shares as an investment (and not as employment-related securities and other than via an individual savings account). They are based on current UK legislation and what is understood to be the current practice of HMRC as at the date of this document, both of which may change, possibly with retroactive effect. The tax position of certain categories of shareholders who are subject to special rules (such as persons acquiring their Common Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes or those who, either alone or together with connected parties, hold 5 per cent. or more of the Common Shares) is not considered.

Any person who is in any doubt as to his or her tax position, or who is subject to taxation in any jurisdiction other than that of the UK, should consult his or her own professional advisers immediately.

2. Taxation of dividends

Under UK tax legislation, the Company is not required to withhold tax at source from dividend payments it makes.

For the current tax year, the rate of income tax applied to dividends received by an individual Shareholder liable to income tax at the higher rate will be 32.5 per cent. In the case of a dividend received by an individual Shareholder liable to income tax at the additional rate, the rate of income tax will be 37.5 per cent. After taking into account the 10 per cent. notional tax credit, a higher rate taxpayer will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend, and an additional rate taxpayer will be liable to additional income tax of 27.5 per cent. of the gross dividend (equal to 30.56 per cent. of the net dividend). For example, an individual Shareholder receiving a dividend of £90 would receive a notional tax credit of £10. The gross dividend (the cash dividend plus the tax credit) would be £100. If the Shareholder is a higher rate taxpayer, he would be taxed on the dividend at £32.50 (32.5 per cent. of £100) but can set against this the notional tax credit of £10. This leaves tax to pay of £22.50, which is 25.0 per cent. of the £90 dividend received.

Dividends paid to a UK resident corporate Shareholder will be taxable income of the UK corporate Shareholder unless the dividends fall within an exempt class and certain other conditions are met. It is, however, expected that dividends paid by the Company to a UK resident corporate Shareholder would generally be exempt, provided certain anti-avoidance provisions are not triggered.

To the extent that dividends are not exempt, UK resident corporate Shareholders may be able to obtain credit for any withholding tax and any underlying tax paid by the Company, subject to certain conditions. The UK has complex double tax relief where UK resident companies receive dividends from non-UK resident companies and therefore UK resident corporate Shareholders should seek further advice on these issues.

Trustees who are liable to income tax at the rate applicable to trusts (currently 45.0 per cent.) will pay tax on the gross dividend at the dividend trust rate of 37.5 per cent. for the current tax year and thereafter, against which they can set the tax credit. To the extent that the tax credit exceeds the trustees' liability to account for income tax, the trustees will have no right to claim repayment of the tax credit.

United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive, but they are not entitled to claim repayment of the tax credit.

Other Shareholders who are not resident in the UK for tax purposes should consult their own advisers concerning their tax liabilities on dividends received.

3. Chargeable gains

Shareholders who are resident in the UK for tax purposes and who dispose of their Common Shares at a gain will ordinarily be liable to UK taxation on chargeable gains, subject to any available exemptions or reliefs. The gain will be calculated as the difference between the sale proceeds and any allowable costs and expenses, including the original acquisition cost of the Common Shares.

Shareholders who are not resident in the UK for tax purposes but who carry on a trade, profession or vocation in the UK through a branch, agency or fixed place of business in the UK may be liable to UK taxation on chargeable gains on any gain on a disposal of their Common Shares, if those shares are or have been held, used or acquired for the purposes of that trade, profession or vocation or for the purposes of that branch, agency or fixed place of business.

If an individual Shareholder ceases to be resident in the UK and subsequently disposes of Common Shares, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that Shareholder becoming once again resident in the UK.

4. Stamp duty and Stamp Duty Reserve Tax ("SDRT")

The statements below are intended as a general guide to the current position under UK tax law. They do not apply to certain intermediaries who may be eligible for relief from stamp duty or SDRT, or to persons connected with depository arrangements or clearance services (or, in either case, their nominees or agents), who may be liable to stamp duty or SDRT at a higher rate.

Admission of the Common Shares to the standard segment of the Official List will not give rise to a liability to stamp duty or SDRT on the basis that the Admission does not involve a change in title to the Common Shares for consideration. (The definition of consideration for stamp duty purposes is restricted to consideration in the form of cash, shares or debt. However, the definition for SDRT purposes is broader and will include anything in money or money's worth).

The central management and control of the Company currently takes place outside the UK and the Shareholders' Register is currently maintained outside the UK. As such, upon the admission of the Common Shares to the Official List and to trading on the London Stock Exchange's Main Market for listed securities, any transfer of Depositary Interests should no longer attract SDRT.

Provided that the Register continues to be maintained outside the UK, there will be no SDRT on any agreement to transfer the Common Shares themselves. However, any document transferring title to the Common Shares will attract stamp duty at the rate of 0.5 per cent. (rounded to the nearest £5 if necessary) if it is executed in the UK or relates (wheresoever executed) to any matter or thing done or to be done in the UK.

Where a document transfers title to non-UK shares, but the transfer has such a UK nexus, it may not be relied upon as evidence in civil proceedings within the UK unless it is exempt or has been duly stamped by the UK tax authorities.

5. Inheritance Tax

If any individual Shareholder is regarded as domiciled in the UK for inheritance tax purposes, inheritance tax may be payable in respect of the Common Shares on the death of the Shareholder or on certain gifts of the Common Shares during their lifetime, subject to any allowances, exemptions or reliefs. This is the case regardless of their residence status. In the case of an individual Shareholder who is not regarded as domiciled in the UK for inheritance tax purposes at the date of death, their liability is limited to assets situated in the UK.

A transfer of Common Shares at less than market value may be treated for inheritance tax purposes as a gift of the Common Shares. Special rules may apply to close companies and to trustees of certain settlements who hold Common Shares, which may bring them into the charge to inheritance tax.

Non-UK domiciled individual Shareholders may be regarded as deemed domiciled for inheritance tax purposes only following a long period of residence in the UK. The concept of deemed domicile only applies for inheritance tax purposes and the Shareholder might still qualify as non-UK domiciled for income tax and capital gains tax. Further advice should be sought in these circumstances.

Situs of shares for inheritance tax purposes is a complex matter and is governed by case law. To the extent the Common Shares are not already treated as UK assets for inheritance tax purposes, then admittance of the Common Shares to the standard segment of the Official List may result in the Common Shares being treated as UK assets for UK inheritance tax purposes. Admission of the Common Shares to the Official List will not constitute a disposal of the Common Shares held by existing Shareholders. However, if the Common Shares are considered UK situs, as the Common Shares will no longer be admitted to trading on AIM, this could have an adverse impact on the reliefs available from inheritance tax to individual Shareholders. Common Shares that were admitted to trading on AIM may qualify for business property relief. This relief is available with respect to shares which are not quoted on a recognised stock exchange if certain conditions are met by the company and the individual shareholder. AIM listed shares are considered as unquoted for the purposes of this relief, provided they are not quoted on a recognised stock exchange abroad.

Individual Shareholders who are in any doubt about the impact of this change on their tax position should obtain detailed tax advice from their own professional advisers.

UK inheritance tax is a complex area and individuals should obtain their own advice in respect of this.

6. Bermuda Tax

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by holders of Common Shares. The Group entities incorporated in Bermuda have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until 31 March 2035, be applicable to such entities or to any of their operations or to their shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by such entities in respect of real property owned or leased by such persons or entities in Bermuda.

PART 16

ADDITIONAL INFORMATION

1. The Company

The Company was incorporated and registered in Bermuda on 29 October 2001 under the Companies Act (Bermuda) and the regulations made thereunder as an exempted company limited by shares with the name Gulf Keystone Petroleum Algeria, Ltd and with registered number 31165. Pursuant to a shareholders' resolution dated 18 May 2004, the Company's name was changed to Gulf Keystone Petroleum Limited on 20 May 2004 and its Common Shares were admitted to trading on AIM on 8 September 2004.

The Company is domiciled in Bermuda. The registered office of the Company and business address for all the Directors and Senior Managers, as at the date of this document, is at Cumberland House, 9th Floor, 1 Victoria Street, Hamilton HMFX, Bermuda (telephone number +1 441 295 4630). The principal legislation under which the Company operates is the Companies Act (Bermuda). The liability of the Shareholders of the Company is limited.

2. Share capital of the Company

2.1 As at 18 March 2014, being the latest practicable date before publication of this document, the Company has:

(a) an authorised share capital of U.S.$71,000,000 divided into 1,050,000,000 Common Shares of par value U.S.$0.01 each, 50,000,000 non-voting common shares of par value U.S.$0.01 each, 20,000 Preferred Shares of par value U.S.$1,000.00 each and 40,000 Series A Preferred Shares of par value U.S.$1,000.00 each; and

(b) an issued share capital of U.S.$7,974,742, comprising 888,933,057 Common Shares.

2.2 During the period of the historical financial information, there have been the following changes in the issued and authorised share capital of the Company:

(a) on 26 January 2010, the Company issued and allotted 4,503,039 Common Shares pursuant to a drawdown of £4,000,050 on the SEDA Facility, at a price of approximately 88.83 pence per Common Share;

(b) on 8 March 2010, the Company issued and allotted 1,181,009 Common Shares pursuant to a drawdown of £900,047 on the SEDA Facility, at a price of approximately 76.21 pence per Common Share;

(c) on 15 March 2010, the Company issued and allotted 20,915,034 Common Shares pursuant to a placing at a price of 76.5 pence per Common Share;

(d) on 29 March 2010, the Company issued and allotted 814,036 Common Shares pursuant to the 2007 Executive Bonus Scheme and the 2008 Executive Bonus Scheme;

(e) on 4 May 2010, the Company issued and allotted 2,495,597 Common Shares pursuant to a drawdown of £1,999,971 on the SEDA Facility, at a price of approximately 80.14 pence per Common Share;

(f) on 25 May 2010, the Company issued and allotted 152,300,000 Common Shares pursuant to a placing at a price of 75 pence per Common Share;

(g) on 24 June 2010, the Company issued and allotted 190,375 Common Shares as payment of advisory fees in relation to the placing completed on 25 May 2010;

(h) on 24 June 2010, the Company issued and allotted 3,839,664 Common Shares pursuant to the 2009 Executive Bonus Scheme;

(i) on 15 October 2010, the Company issued and allotted 78,028,000 Common Shares pursuant to a placing at a price of 140 pence per Common Share;

(j) on 7 February 2011, the Company issued and allotted 6,990,280 Common Shares pursuant to the 2008 Executive Bonus Scheme, the 2009 Executive Bonus Scheme and the 2010 Executive Bonus Scheme;

(k) on 9 February 2011, the Company issued and allotted 1,000,507 Common Shares following an exercise of options at an average exercise price of 63.57 pence per Common Share;

(l) on 1 July 2011, the Company issued and allotted 3,000 Common Shares following an exercise of options at an average exercise price of 39.5 pence per Common Share;

(m) on 19 September 2011, the Company issued and allotted 91,120,000 Common Shares pursuant to a placing at a price of 140 pence per Common Share;

(n) on 19 September 2011, the Company issued and allotted 761,500 Common Shares following an exercise of warrants by Renaissance Securities (Cyprus) Limited at an exercise price of 75 pence per Common Share;

(o) on 12 January 2012, the Company issued and allotted 761,500 Common Shares following an exercise of warrants by Mirabaud Securities LLP at an exercise price of 75 pence per Common Share;

(p) on 21 March 2012, the Company issued and allotted 20,979,672 Common Shares pursuant to the 2009 Executive Bonus Scheme, the 2010 Executive Bonus Scheme and the 2011 Executive Bonus Scheme;

(q) on 23 March 2012, the Company issued and allotted 322,000 Common Shares following an exercise of options at an average exercise price of 33 pence per Common Share;

(r) on 25 February 2013, the Company issued and allotted 7,125,837 Common Shares pursuant to the 2010 Executive Bonus Scheme and 2011 Executive Bonus Scheme;

(s) on 25 February 2013, the Company issued and allotted 4,129,500 Common Shares following an exercise of options at an exercise price of 30 pence per Common Share;

(t) on 25 February 2013, the Company issued and allotted 250,000 Common Shares following an exercise of options at an exercise price of 80.75 pence per Common Share;

2.3 Following the period of the historical financial information, there have been the following changes in the issued and authorised share capital of the Company:

(a) on 15 September 2013, the Company issued and allotted 475,350 Common Shares following an exercise of warrants by Mirabaud Securities LLP, at an exercise price of 140 pence per Common Share;

(b) on 20 September 2013, the Company issued and allotted 20,750 Common Shares following an exercise of options at an exercise price of 30 pence per Common Share;

(c) on 23 September 2013, the Company issued and allotted 500,000 Common Shares following an exercise of warrants by Mirabaud Securities LLP, at an exercise price of 140 pence per Common Share; and

(d) on 12 December 2013, the Company issued and allotted 250,000 Common Shares following an exercise of options at an exercise price of 80.75 pence per Common Share.

2.4 The principal legislation under which the issued Common Shares have been and will be created is the Companies Act (Bermuda). The Common Shares were issued in United States Dollars and have a par value of U.S.$0.01 each.

2.5 The existing Common Shares are currently traded on AIM. The Company has submitted a request to the London Stock Exchange for the cancellation of its AIM admission and it is anticipated that this will occur simultaneously with Admission.

2.6 Application has been made for all of the Share Capital to be admitted to trading on the London Stock Exchange's Main Market for listed securities and the Company's International Securities Identification Number (ISIN) number for the Common Shares is BMG4209G1087 and the trading symbol for the Common Shares will remain GKP.

2.7 There have been no public takeover bids by third parties in respect of the Share Capital within the last financial year or in the current financial year as at 18 March 2014, being the latest practicable date before publication of this document.

3. Takeover Code

3.1 As the Company is incorporated in Bermuda, it is subject to Bermuda law. The Takeover Code will not apply to the Company and Bermuda law does not contain any provisions similar to those applicable in the UK which are designed to regulate the way in which takeovers are conducted.

However, the Company's Bye-Laws incorporate the material Takeover Code protections appropriate for a company to whom the Takeover Code does not apply and which is seeking admission of its shares to the standard segment of the Official List and to trading on the Main Market. The relevant provisions of the Bye-Laws are summarised in paragraph 4.7 "*Takeover offers*" of this Part 16.

3.2 The following provisions of the Companies Act (Bermuda) apply in relation to the acquisition of 90 per cent. or 95 per cent. of the shares of a Bermuda company:

(a) broadly, section 102 of the Companies Act (Bermuda) provides that, where a scheme or contract involving the transfer of shares to another company is approved by the holders of 90 per cent. in value of the shares which are the subject of the offer, the offeror can compulsorily acquire the shares of dissentient shareholders. Shares owned by the offeror or its subsidiary or their nominees at the date of the offer do not, however, count towards the 90 per cent. If the offeror or any of its subsidiaries or any nominee of the offeror or any of its subsidiaries together already own more than 10 per cent. of the shares in the subject company at the date of the offer, the offeror must offer the same terms to all holders of the same class and the holders who accept the offer, besides holding not less than 90 per cent. in value of the shares, must also represent not less than 75 per cent. in number of the holders of those shares, although these additional restrictions should not apply if the offer is made by a subsidiary of a parent (where the subsidiary does not own more than 10 per cent. of the shares of the subject company) even where the parent owns more than 10 per cent. of the shares of the subject company, provided that the subsidiary and the parent are not nominees. The 90 per cent. must be obtained within four months of the making of the offer and, once obtained, the compulsory acquisition may be commenced within two months of the acquisition of 90 per cent. Dissentient shareholders do not have express appraisal rights but are entitled to seek relief (within one month of the compulsory acquisition notice) from the Supreme Court of Bermuda which has power to make such orders as it thinks fit; and

(b) under section 103 of the Companies Act (Bermuda), a holder of 95 per cent. of the shares of a Bermuda company can, on giving notice to the minority shareholders, force them to sell their interest to the 95 per cent. shareholders, provided that the terms offered are the same for all of the holders of the shares whose acquisition is involved. Dissentient shareholders have a right to apply to the Supreme Court within one month of the compulsory acquisition notice to have the value of their shares appraised by the Supreme Court. If one dissentient shareholder applies to the Supreme Court and is successful in obtaining a higher valuation, that valuation must be paid to all shareholders being squeezed out.

3.3 The following provisions of the Companies Act (Bermuda) apply in relation to acquisition of the shares of a Bermuda company by way of a scheme of arrangement, an amalgamation or a merger:

(a) Section 99 of the Companies Act (Bermuda) deals with court approved schemes of arrangement. Schemes may be transfer schemes or cancellation schemes. In either case, dissentient shareholders do not have express statutory appraisal rights but the Supreme Court will only sanction a scheme if it is fair. Shares owned by the offeror can be voted to approve the scheme but the Supreme Court will be concerned to see that the shareholders approving the scheme are fairly representative of the general body of shareholders. Any scheme must be approved by a majority in number representing three quarters in value of the shareholders present and voting either in person or by proxy at the requisite special general meeting. If there are dissentient shareholders who hold more than 10 per cent. of the shares, the Supreme Court might be persuaded not to exercise its discretion to sanction the scheme on the ground that the scheme constitutes a takeover within section 102 of the Companies Act (Bermuda) and requires a 90 per cent. acceptance.

(b) Under sections 104 to 109 of the Companies Act (Bermuda), two or more companies may amalgamate or merge and continue as one company. In the case of an amalgamation, whilst the separate corporate existence of each of the amalgamating companies ceases, all the amalgamating companies continue their existence as constituent parts of the amalgamated company (no one amalgamating company can be said to be the sole survivor, although the amalgamated company is the only resulting entity). In practical terms, the effect of an amalgamation is that the assets and liabilities of the amalgamating companies become the assets and liabilities of the amalgamated company. In the case of a merger, the separate corporate existence of one of the merging companies ceases as it is absorbed into the other merging company and the effect of the merger is that all the assets and liabilities of the company that cease to exist become the assets and liabilities of the surviving company.

The statutory threshold for approval of an amalgamation or merger is 75 per cent. of shareholders voting at the special general meeting at which a quorum of at least two persons holding or representing by proxy more than one third of the issued shares are present. Under Bermuda law, this statutory threshold may be altered by providing otherwise in the bye-laws of the amalgamating/merging company. The Bye-Laws provide that an amalgamation requires the approval of a simple majority of shareholders present and voting at the meeting at which at least two shareholders are present. There is no equivalent provision in relation to a merger.

The Bye-Laws provide that they may be amended by a majority of not less than three-quarters of the shareholders present and voting at the requisite meeting.

Dissentient shareholders may apply to the Supreme Court within one month of the notice convening the special general meeting to approve the amalgamation or merger to have the Supreme Court appraise the fair value of their shares.

4. Bye-Laws of the Company

The following summarises certain provisions in respect of the amended and restated bye-laws of the Company (the "**Bye-Laws**"). This summary of the Bye-Laws does not purport to be complete and is subject to and is qualified in its entirety by references to the Bye-Laws. The Bye-Laws are available for inspection at the Company's registered office at the address given in paragraph 1 "*The Company*" of this Part 16.

4.1 *Objects*

The Memorandum of Association provides that the Company's principle objects include the carrying on of a business of a holding company. The objects of the Company are set out in full in clause 7 of its Memorandum of Association, which is available for inspection as set out in paragraph 22 "*Documents available for inspection*" of this Part 16.

4.2 ***Directors***

Number of Directors

The number of Directors shall not be less than three and not more than such number as the Board may from time to time decide.

Power of Directors to appoint Directors

The Directors shall have power at any time to appoint any person as a director to fill any casual vacancy. Any person so appointed shall hold his office up to the date of the next annual general meeting but shall be eligible for re-election at such meeting.

Annual election

At each annual general meeting of the Company, one third of all Directors shall retire by rotation and stand for re-election.

Removal of Directors

The Company may by resolution at any special general meeting remove any Director before the expiry of his period of office. Notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director not less than 14 days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for such Director's removal.

A Director may be removed (with or without cause) by notice in writing by not less than three quarters of his co-Directors or if he becomes UK resident or deemed to be a UK resident and his continued appointment would result in the majority of the Directors being persons who are, or are deemed to be, UK resident.

Directors' fees

The amount of any fees payable to Directors shall be determined by the Board. The Directors are also entitled to be repaid all expenses properly and reasonably incurred by them respectively in the conduct of the Company's business or in the discharge of their duties as Directors.

Directors' additional benefits

The Board may provide additional benefits to any past or present Director or employee of the Group or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

4.3 ***Proceedings of the Board***

Borrowing powers

The Board may exercise all powers of the Company to borrow money and to mortgage or charge or otherwise grant a security interest in its undertaking, property and assets (present or future) and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as security for debt, liability or obligation of the Company or any third party.

Meetings of Directors

The Directors may meet together as a Board for the transaction of business, and adjourn and otherwise regulate their meetings as they see fit.

Notices of the Board Meeting

A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Board. Notice of the meeting shall be deemed to be given to a Director if it is given to him personally or, *inter alia*, by word of mouth, in writing by post or email.

Quorum

The quorum for a board meeting shall be fixed by the Board and unless determined at any other number shall be two Directors.

Chairman

The chairman, if there is one, shall act as chairman at all meetings of the Board at which such person is present. In their absence, a chairman shall be appointed or elected by the Directors present at the meeting.

Voting

Questions arising at any meeting of the Board shall be decided by a majority of votes and, in case of any equality of votes, the chairman shall have a second or casting vote.

Disclosure of interests

Any Director who is, either directly or indirectly, concerned or interested in a contract or arrangement entered into by or on behalf of the Company should disclose the nature of his concern or interest to the Board at the first opportunity.

Any Director who is, either directly or indirectly, concerned or interested in a proposed contract to be entered into by or on behalf of the Company should disclose the nature of his interest during a meeting of the Directors, at which the question of entering into the contract is first taken into consideration. If the Director is not aware of the existence of such interest at such time, he should disclose such interest at the next meeting of Directors.

Such an interested Director is not entitled to vote at the board meeting at which the contract is considered and will not count towards the quorum. A Director who is interested in an actual or proposed transaction or arrangement with the Company shall be entitled to vote on and be counted in the quorum in relation to any resolution where the Directors' conflict of interest arises from a permitted matter under Bye-Law 104.1. The following are permitted matters:

(a) any transaction or arrangement in which he is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;

(b) the giving of any guarantee, security or indemnity in respect of:

  (i) money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries; or

  (ii) any obligation of the Company or any of its subsidiaries for which he has assumed responsibility under a guarantee or indemnity or by the giving of security;

(c) any subscription or purchase by him of shares, debentures or other securities of the Company pursuant to an offer or invitation to shareholders or debenture holders of the Company, or any class of them, or to the public or any section of the public;

(d) becoming a participant in the underwriting or sub-underwriting of an offer of any shares, debentures or other securities of the Company or any of its subsidiaries for subscription, purchase or exchange;

(e) any transaction or arrangement concerning any other company in which he is interested, directly or indirectly, as a shareholder, officer, creditor or otherwise, provided he is not the holder of or beneficially interested in 1 per cent. or more of any class of shares in the capital of that company or of the voting rights available;

(f) a retirement benefits scheme which has been approved, or is conditional upon approval, by the authorities of any country for tax purposes;

(g) any contract or arrangement for the benefit of employees of the Company or any of its subsidiaries which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and

(h) the purchase or maintenance of insurance for the benefit of Directors or for the benefit of persons including Directors.

For the purpose of the Bye-Laws, an interest of a person who is connected with the Director shall be treated as an interest of the Director.

Indemnity

To the extent permitted by the Companies Act (Bermuda), the Bye-Laws permit the Company to indemnify any Director or other officer of the Company against any liability which is incurred or suffered by him by or by reason of any act done, conceived or omitted in the conduct of the Company's business or in the discharge of his duties.

4.4 ***Rights attaching to shares***

Allotments

Subject to the provisions of the Bye-Laws, the unissued shares shall be at the disposal of the Board of the Company from time to time which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may determine.

In addition to the Series A Preferred Shares, the Board shall be authorised to issue other Preferred Shares from time to time, in one or more series with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as may be designed by the Board prior to the issuance of such series, and the Board is hereby expressly authorised to fix by resolution or resolutions prior to such issuance such designations, preferences and relative, participating, optional or other special rights, or qualifications, limitations or restrictions.

Pre-emption rights

Shareholders do not have pre-emption rights under the Bye-Laws or the Companies Act (Bermuda) over further issues of any class of shares in the Company.

Voting rights

Subject to any rights or restrictions attached to any shares, on a show of hands every shareholder who is present in person shall have one vote and on a poll every shareholder present in person or by proxy shall have one vote for every share of which he is the holder.

No shareholder shall be entitled to vote at any general meeting unless all monies presently payable by him in respect of the shares have been paid.

Dividends and other distributions

Subject to the provisions of the Companies Act (Bermuda), the Company may by resolution declare dividends in accordance with the respective rights of the shareholders and their interest in the profit available for distribution, but no dividend shall exceed the amount recommended by the Board.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide:

(a) all dividends or distributions out of contributed surplus may be declared and paid according to the amounts paid up on the shares in respect of which the dividend or distribution is paid, and an amount paid up on a share in advance of calls may be treated as paid up on the share; and

(b) dividends or distributions out of contributed surplus may be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend or distribution is paid.

Subject to the provisions of the Companies Act (Bermuda), the Board may pay interim dividends if it appears to the Board that they are justified by the distributable profits available to the Company.

If the share capital is divided into different classes, the Board may resolve to pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividends, as well as on shares which confer preferential rights with regard to dividends, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

The Board may also pay, at intervals determined by it, any dividend at a fixed rate if it appears to the Board that the profits available for distribution justify the payment. If the Board acts in good faith, it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

No dividend, distribution or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Board may, if authorised by a resolution of the Company, offer any holder of Common Shares the right to elect to receive in respect of all or part of their holdings of Common Shares additional Common Shares by way of scrip dividend instead of cash in respect of the whole (or some part and on such terms as may be specified in the ordinary resolution or determined by the Board) of any dividend.

Any dividend which has remained unclaimed for six years from the date when it became due for payment shall be forfeited and shall revert to the Company and the payment by the Board of any unclaimed dividend, distribution, interest or other sum payable on or in respect of the share into a separate account shall not constitute the Company a trustee in respect thereof.

Winding-up

Holders of Common Shares shall, in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for a reorganisation or otherwise or upon distribution of capital, be 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 an aggregate amount equal to U.S.$1,000.00 in cash per Series A Preferred Share or, if the net assets of the Company shall be insufficient to pay the holders of all outstanding Series A Preferred Shares the full amounts to which they respectively shall be entitled, such assets, or the proceeds thereof, shall be distributed rateably among the holders of the Series A Preferred Shares.

Modification of rights

Rights attached to any class of shares may be varied or abrogated with the written consent of the holders of 75 per cent. of the issued shares of the class, or the sanction of a resolution passed at a separate general meeting of the holders of the shares of the class.

Lien and forfeiture

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all monies payable to it (whether presently or not) in respect of that share. The Company may sell any share on which it has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share demanding payment and stating that if the notice is not complied with the share may be sold.

The Board may from time to time make calls on the shareholders in respect of any monies unpaid on their shares. Each shareholder shall (subject to receiving at least 14 days' notice) pay to the Company the amount called on his shares. If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the Board may give the person from whom it is due not less than 30 days' notice requiring payment of the amount unpaid, together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that, if the notice is not complied with, the shares in respect of which the call was made will be liable to be forfeited.

Transfer of shares

Subject to the Companies Act (Bermuda), any holder of Common Shares may transfer all or any of his Common Shares by an instrument of transfer in the usual common form or in any other form which the Board may approve.

The instrument of transfer shall be signed by or on behalf of the transferor and, unless the Common Share is fully paid, by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the Common Share until the name of the transferee is entered in the Register of Shareholders in respect thereof. All instruments of transfer when registered may be retained by the Company. The Board may, in its absolute discretion and without assigning any reason therefor, decline to register any transfer of any Common Share which is not a fully paid Common Share.

The Board may also decline to register any transfer in respect of shares in certificated form unless:

(a) the instrument of transfer is duly stamped (if required by law) and lodged with the Company, accompanied by the certificate for the shares (if any has been issued) to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of share;

(c) the instrument of transfer is in favour of less than five persons jointly; and

(d) it is satisfied that all applicable consents, authorisations, permissions or approvals of any governmental body or agency in Bermuda or any other applicable jurisdiction required to be obtained under relevant law prior to such transfer have been obtained.

In the case of Common Shares for the time being in uncertificated form, transfers shall be registered only in accordance with the terms of the Uncertificated Securities Regulations, but so that the Board may refuse to register a transfer which would require Common Shares to be held jointly by more than four persons.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share or otherwise making an entry in the Register, except that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed on it in connection with such transfer or entry.

Notification of voting rights

At any time that the Company shall have any of its shares admitted to trading on the Main Market of the LSE, the provisions of Chapter 5 of the Disclosure and Transparency Rules (as amended from time to time) of the UK Financial Conduct Authority Handbook relating to the disclosure of voting rights shall apply to the Company, its shares and persons interested in those shares.

4.5 ***Changes in share capital***

Increase, consolidation, sub-division, cancellation and reduction

The Company may, if authorised by a resolution of the Board and if authorised by a resolution of the members, increase, divide, consolidate, subdivide, change the currency denomination of, diminish or otherwise alter or reduce its share capital in any manner permitted by the Companies Act (Bermuda).

Purchase of own shares

The Board may exercise all the powers of the Company to purchase its own shares in accordance with the Companies Act (Bermuda).

4.6 ***Annual and special general meetings***

Annual general meetings

Annual general meetings shall be held in each year at such time and place as the Board shall appoint.

Special general meetings

The Directors may proceed to convene a special general meeting whenever they think such a meeting is necessary. A special general meeting may also be convened on the requisition of the members holding not less than 1/10th of the paid-up share capital of the Company.

Notice of general meetings

An annual general meeting of the Company may be called by giving not less than 21 clear days' notice in writing.

A special general meeting of the Company may be called by giving not less than 14 clear days' notice in writing.

A general meeting may be called after giving a shorter notice than that specified above if consent is accorded thereto:

(a) in the case of an annual general meeting, by all the members entitled to vote; and

(b) in the case of any other meeting, by a majority in number of the members of the Company holding not less than 95 per cent. in nominal value of the shares giving a right to vote at the meeting.

Quorum at general meetings

No business of the Company shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. The quorum shall be at least two members present in person or by proxy and entitled to vote.

If quorum is not present

If within five minutes (or such longer time as the chairman shall determine) of the time appointed for the meeting a quorum is not present, then, in the case of a meeting convened on a requisition, the meeting shall be deemed cancelled and, in any other case, the meeting shall stand adjourned to such other day and such other time and place as the chairman of the meeting may determine. The Company shall give not less than five clear days' notice of any meeting adjourned. If at an adjourned meeting a quorum is not present within 15 minutes of the time appointed for holding the meeting, the meeting shall be dissolved.

Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person (whether a member or not) as his proxy to attend and vote in his place. The appointment of proxy instrument must be received by the Company at its registered office or such other place or in such other manner as is specified in the notice convening the meeting or in any instrument of proxy sent out by the Company in relation to the meeting not less than 48 hours or such other period determined by the Board.

Voting

All resolutions shall be carried by a simple majority of votes cast except where a different majority is required by the Bye-Laws or the Companies Act (Bermuda).

Chairman of general meeting

Unless otherwise agreed by a majority of those attending and entitled to vote at the general meeting, the Chairman, if there is one, shall act as chairman at all general meetings at which he is present. In his absence a chairman shall be appointed by the Board.

4.7 ***Takeover offers***

The provisions of the Bye-Laws relating to takeover offers shall apply to the Company unless the Takeover Panel has advised the Company that the Company is subject to the Takeover Code.

Except with the consent of a resolution of shareholders other than the offeror (and any persons acting in concert with it), when:

(a) any shareholder (or person acting in concert with such shareholder) acquires, whether in a single transaction or by a series of transactions over a period of time, an interest in shares which (taken together with shares in which such shareholder or persons acting in concert with such shareholder are interested) carry 30 per cent. or more of the voting rights of the Company; or

(b) any shareholder, together with persons acting in concert with such shareholder, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of the Company but does not hold shares carrying more than 50 per cent. of such voting rights and such shareholder, or any person acting in concert with such shareholder, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested,

such offeror shall extend an offer on the basis set out in the Bye-Laws to the holders of all the issued (and to be issued) shares in the Company, conditional only (save with the consent of the Board) upon the offeror having received acceptances in respect of shares which, together with shares acquired or agreed to be acquired before or during the offer, will result in the offeror and any person acting in concert with it holding shares carrying more than 50 per cent. of the voting rights of the Company.

When such an offer is made and the Company has convertible securities outstanding, the offeror must make an appropriate offer or proposal, on terms equivalent to the offer made for shares, to the holders of such convertible securities to ensure that their interests are safeguarded.

4.8 ***Uncertificated securities***

The Company, through the Registrar, has established a depository facility whereby Depositary Interests, representing the Common Shares, are issued to Shareholders who wish to hold their Common Shares in uncertificated electronic form in CREST. Accordingly, settlement of transactions in the Common Shares following Admission may continue to take place within the CREST system, if the relevant Shareholders so wish.

5. Information on the Directors and Senior Managers

5.1 The Directors and Senior Managers, their functions within the Group and brief biographies are set out in Part 9: "*Directors, Senior Management and Corporate Governance*".

5.2 Details of the names of companies and partnerships (excluding directorships in the Group) of which the Directors and Senior Managers are or have been members of the administrative, management or supervisory bodies or partners at any time in the five years preceding the date of this document are set out below:

Name	*Current directorships/partnerships*	*Past directorships/partnerships*
Simon Murray	Essar Energy plc Cheung Kong Holdings Ltd IRC Limited Asia Resources Fund Limited Arnhold Holdings Ltd (registered in BVI) Beryl Overseas Limited Beyond Asia Holdings Ltd Capital Way Holdings Limited China Club (China Investment Incorporations) Ltd China Incorporations Management China Investment Incorporations (BVI) Limited Compagnie Financière Richemont SA Diamond Creek International Limited Eminent Bond Limited Fortune Tiger Fund Limited GEMS III Limited GEMS Investment Management Limited GEMS Natural Resources Fund II (International) Ltd GEMS Natural Resources Fund II Limited General Enterprise Management Services (International) Limited General Enterprise Management Services Limited Greenheart Group Limited Million Star Corporation Morningstar Capital & Investment Ltd Orient Overseas (International) Ltd Poly Stone Holdings Limited San Marino Telecom Simclan Ltd Simon Film Productions Limited Simon Murray & Associates Limited Simon Murray & Co. (Cayman) Limited Simon Murray & Co. China Fund Limited Simon Murray & Co. Limited Simon Murray & Company (Hong Kong) Limited Simon Murray (San Marino) Holdings Ltd SMC China Fund SPC SMC RMB General Partner I Limited SMC RMB Investors I Limited SMC RMB Investors II Limited SMC RMB Investors III Limited Spring REIT (managed by Spring Asset Management Limited)	Vodafone Group plc Arnhold Holdings Ltd (registered in Bermuda) Bemobile Limited Bright Zone Enterprises Ltd GEMS AAA Limited GEMS Oriental And General Fund II Limited GEMS Oriental And General Fund Limited Glencore International plc Grace Semiconductor Manufacturing Corporation Guggenheim Investment Advisors (Europe) Ltd K.K. Jermyn Capital Onyx Overseas Limited Simon Murray & Co. (Japan) Limited Sino Forest Corporation SMC (China) Capital Limited

Name	*Current directorships/partnerships*	*Past directorships/partnerships*
Simon Murray *(continued)*	Tektite Overseas Limited Ultragrand Limited Wing Tai Properties Limited Yarrum Limited	
Todd F Kozel	Texas Keystone Inc. Falcon Partners Vytautas Partners	Falcon Drilling Co. LLC
John B Gerstenlauer	–	–
Ewen Ainsworth	Discovery Energy Ltd Adamant Ventures LLP	
Lord Guthrie	Sciens Capital (US) Colt Defense LLC Petropavlovsk plc Rivada Networks	Region Holdings NM Rothschild & Sons Limited
Mark Hanson	Waikaremoana LP WLCC, Limited Corporation	Cynosure Associates Ltd Urban Barns Inc
Jeremy Asher	Tower Resources plc Tower Resources (Namibia) Limited Pacific Drilling SA Agile Energy Limited Oil Refineries Ltd. Inside Track 2 LLP SCI Rus in Urbis	Gulf Keystone Petroleum Ltd Process Systems Enterprise Ltd Better Place LLC Better Place Danmark AS Better Place BV Ingenious Film Partners LLP Ingenious Film Partners 2 LLP
Thomas Shull	Army & Air Force Exchange Service	Meridian Ventures LLC Zale Corporation
John Bell	Babylon Petroleum Ltd KPA Western Desert Energy Limited Amira KPO Limited Amira KPO Middle East Limited	Petro Canada NANE New Ventures B.V. Petro Canada Palmyra B.V. Easiwash UK Limited
Philip Dimmock	Georgian Energy Ltd Africa Oil Exploration Ltd	Nautical Petroleum plc Equator Exploration Limited
Andrew Simon	Travis Perkins plc Finning International Inc., Vancouver Management Consulting Group plc SGL Carbon SE, Wiesbaden Exova Group plc Icon Infrastructure Management Ltd Hildegard Simon Memorial Trust Limited BCA Osprey I Limited Kurt Salmon Associes France Simon Consultancy Ltd	Dalkia plc Icon Infrastructure LLP
Chris Garrett	–	–
Tony Peart	Cape Advisory Limited	–

Name	*Current directorships/partnerships*	*Past directorships/partnerships*
Umur Eminkahyagil	–	–
Mohamed Messaoudi	–	–

5.3 In February 2008 Jeremy Asher was appointed a director of a company called Better Place LLC, a position he resigned in February 2010, though he remained a director of two of its subsidiaries: Better Place BV and a company jointly owned with DONG, Better Place Danmark AS. On 26 May 2013, Better Place Inc., the successor company to Better Place LLC, filed for bankruptcy as did Better Place Danmark AS. Better Place BV is currently in the process of a solvent shareholders' voluntary liquidation.

5.4 Mr. Murray was a Non-Executive Director of Sino-Forest Corporation ("Sino-Forest"), a forest plantation operator with its headquarters in Hong Kong and its principal operations in the People's Republic of China. Sino-Forest was listed on the Toronto Stock Exchange. Following accusations of misconduct made against certain former members of management of Sino-Forest (not including Mr Murray), Sino-Forest was unable to issue current financial reports, which were necessary to avoid defaults under the company's senior and convertible notes. As a result, on 30 March 2012 Sino-Forest filed for creditor protection and to reorganise in Ontario, Canada, under the Companies' Creditors Arrangement Act (Canada) ("CCAA"). On 10 December 2012, and with the overwhelming support of its creditors, the Ontario court approved a plan of compromise and reorganisation (the "Plan") under the CCAA, which took effect from 30 January 2013. The Plan involved the transfer of substantially all of Sino-Forest's assets, other than certain excluded assets, to a newly formed entity (Emerald Plantation Holdings Limited) owned by the affected creditors of Sino-Forest (the "SF Creditors"), in proportion to the amounts outstanding to each of the SF Creditors, in exchange for a release of the claims of the SF creditors against Sino-Forest and its subsidiaries. The SF Creditors were comprised primarily of holders of approximately US$1.8 billion of outstanding senior and convertible notes issued by Sino-Forest and providers of other loans, amounting to approximately $70.5 million. The Plan also provided a mechanism by which Ernst & Young, Sino-Forest's auditor, will pay C$117 million to shareholders and debt security holders of Sino-Forest.

5.5 Save as set out above, none of the Directors or Senior Managers:

(a) has any convictions in relation to fraudulent offences for at least the previous five years; or

(b) has been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of a senior manager of any company for at least the previous five years; or

(c) has been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including designated professional bodies) or has ever been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for at least the previous five years.

5.6 There are no family relationships between any of the Directors or Senior Managers.

5.7 There are no potential or actual conflicts of interest between any duties owed by the Directors and the Senior Managers to the Company and their private interests and/or other duties, save for their interest as holders of securities in the Company.

6. Directors', Senior Managers' and others' interests

6.1 As at 18 March 2014 (being the latest practicable date before publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors and Senior Managers in the Share Capital are as follows:

Director/Senior Manager	*Number of Common Shares*[1]	*Percentage of the Share Capital (per cent.)*
Simon Murray	160,000	0.02
Todd F Kozel	255,004	0.03
John B Gerstenlauer	1,744,111	0.20
Ewen Ainsworth	2,738,631[2]	0.31
Lord Guthrie	–	–
Mark Hanson	–	–
Jeremy Asher	15,200,000	1.71
Thomas Shull	–	–
John Bell	72,200	0.01
Philip Dimmock	–	–
Andrew Simon	–	–
Chris Garrett	2,386,444[3]	0.27
Tony Peart	2,986,339	0.34
Umur Eminkahyagil	–	–
Mohamed Messaoudi	–	–

Notes:

(1) Includes Common Shares held directly, by family members and through the Gulf Keystone EBT which are held to the discretion of the EBT Trustee (Appleby Trust (Jersey) Limited).

(2) 37,000 Common Shares are held beneficially for Mr Ainsworth's family.

(3) 9,000 Common Shares are held beneficially for Mr Garrett's family.

6.2 As at 18 March 2014 (being the latest practicable date before publication of this document), under the Share Schemes, the Directors and Senior Managers will have the following options and rights over Common Shares:

Director/Senior Manager	*Number of Common Shares under option*	*Option exercise price (£)*	*Option expiration date*
Simon Murray	–	–	–
Todd F Kozel	9,766,473	0.75	23 June 2020
	4,195,000	1.75	6 February 2021
John B Gerstenlauer	2,000,000	0.30	24 September 2018
	1,953,295	0.75	23 June 2020
	839,000	1.75	6 February 2021
Ewen Ainsworth	1,000,000	0.30	13 February 2018
	1,953,295	0.75	23 June 2020
	839,000	1.75	6 February 2021
Lord Guthrie	250,000	1.4625	26 October 2021
Mark Hanson	250,000	2.50	24 November 2021
Jeremy Asher	–	–	–
Thomas Shull	–	–	–
John Bell	–	–	–
Philip Dimmock	–	–	–
Andrew Simon	–	–	–
Chris Garrett	1,302,197	0.75	23 June 2020
	839,000	1.75	6 February 2021
Tony Peart	1,000,000	0.30	30 July 2019
	1,953,295	0.75	23 June 2020
	839,000	1.75	6 February 2021
Umur Eminkahyagil	350,000	1.9450	20 March 2022
Mohamed Messaoudi	350,000	0.30	31 December 2018

7. Major Shareholders

7.1 Save as set out below, as at 18 March 2014 (being the latest practicable date before publication of this document), the Company is not aware of any person who, directly or indirectly, was interested in 3 per cent. or more of the Company's capital or voting rights:

Name of Shareholder	*Number of Common Shares*	*Percentage of the Share Capital (per cent.)*
TD Direct Investing	61,631,833	6.93
Barclays Wealth	57,038,914	6.42
Capital Research Global Investors	49,596,975	5.58
M&G Investment Management	47,973,877	5.40
Hargreaves Lansdown Asset Management	45,738,815	5.15
Halifax Share Dealing	43,440,591	4.89

7.2 None of the Company's major Shareholders has different voting rights from other Shareholders.

7.3 The Company is not aware of any person who, directly or indirectly, owns or controls the Company. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

8. Directors' and Senior Managers' service agreements

The remuneration and benefits received by each of the Directors and Senior Managers for the year ended 31 December 2012 is summarised at paragraph 9 "*Summary of remuneration and benefits*" below. In addition to this, certain of the Directors and Senior Managers have other entitlements (including on termination of their employment) as set out in their respective service agreement or letter of appointment.

8.1 *Executive Directors*

Todd Kozel

Todd Kozel is employed by the Company as Chief Executive Officer and his terms and conditions are set out in a service agreement dated 1 June 2004. His employment under the terms of the agreement commenced on 1 June 2004 and is terminable on 12 months' written notice on either side, save that his employment will automatically terminate upon Mr Kozel reaching his 70th birthday. Mr Kozel is entitled to a salary of U.S.$675,000 per annum.

John Berndt Gerstenlauer

John Berndt Gerstenlauer is employed by the Company as Chief Operating Officer and his terms and conditions are set out in a service agreement dated 1 October 2008. His employment commenced on 1 October 2008 and is terminable on six months' written notice on either side. Mr Gerstenlauer is entitled to a salary of U.S.$594,000 per annum. He is entitled to participate in the Company's discretionary bonus scheme. He is entitled to living accommodation (or an accommodation allowance), private medical insurance and an allowance for travel of up to U.S.$45,000 per annum.

Ewen Ainsworth

Ewen Ainsworth is employed by the Company as Finance Director and his terms and conditions are set out in an agreement dated 15 July 2008. His employment commenced on 23 January 2008 and is terminable on six months' written notice on either side. Mr Ainsworth is entitled to a salary of £180,000 per annum. He is entitled to private medical insurance and to participate in the Company's discretionary bonus scheme.

8.2 ***Non-Executive Directors***

Simon Murray

Simon Murray entered into a letter of appointment with the Company dated 24 June 2013 (subsequently amended by addendum on 28 June 2013) to act as Chairman and Non-Executive Director of the Company. His appointment commenced on 4 July 2013 for a term of 12 months, subject to renewal, and is terminable at any time on six months' written notice on either side. Mr Murray is entitled to a fee of £350,000 per annum.

Lord Guthrie

On 28 September 2011, Lord Guthrie was appointed to act as a Non-Executive Director pursuant to a letter of appointment dated 28 September 2011. Lord Guthrie entered into a further letter of appointment with the Company dated 29 October 2013, under the terms of which, with effect from 25 July 2013, he continues his appointment as Non-Executive Director for a term of 36 months (subject to the Bye-Laws), terminable at any time on one month's written notice on either side. Lord Guthrie is entitled to a fee of £90,000 per annum. Under the terms of his appointment letter, Lord Guthrie is entitled to an additional fee of £10,000 per annum for each committee he chairs and an additional fee of £5,000 per annum for each committee on which he holds any other role. Lord Guthrie received two per diem payments for additional duties in the amounts of £40,000 in July 2013 and a further £40,000 in October 2013.

Mark Hanson

On 18 November 2011, Mark Hanson was appointed to act as a Non-Executive Director pursuant to a letter of appointment dated 18 November 2011. Mr Hanson entered into a further letter of appointment with the Company dated 29 October 2013, under the terms of which, with effect from 25 July 2013, he continues his appointment as Non-Executive Director for a term of 36 months (subject to the Bye-laws) terminable at any time on one month's written notice on either side. Mr Hanson is entitled to a fee of £90,000 per annum Mark Hanson is also entitled to participate in the Company's Share Option, under which has been granted an option over 250,000 shares pursuant to a letter dated 18 November 2011. Under the terms of his appointment letter, Mr Hanson is entitled to an additional annual fee of £10,000 per annum for each committee he chairs and an additional fee of £5,000 per annum for each committee on which he holds any other role. Mr Hanson received two per diem payments for additional duties in the amounts of £40,000 in July 2013 and a further £40,000 in October 2013.

Philip Dimmock

Philip Dimmock entered into a letter of appointment with the Company dated 4 November 2013 to act as Non-Executive Director. His appointment commenced on 25 July 2013 for a term of 36 months (subject to the Bye-laws) terminable by Mr Dimmock at any time on one month's written notice. Under the terms of his appointment letter, Mr Dimmock is entitled to a fee of £90,000 per annum, plus an additional annual fee of £10,000 per annum for each committee he chairs and an additional fee of £5,000 per annum for each committee on which he holds any other role.

John Bell

John Bell entered into a letter of appointment with the Company dated 4 November 2013 to act as Non-Executive Director. His appointment commenced on 25 July 2013 for a term of 36 months (subject to the Bye-laws) terminable by Mr Bell at any time on one month's written notice. Under the terms of his appointment letter, Mr Bell is entitled to a fee of £90,000 per annum, plus an additional fee of £10,000 per annum for each committee he chairs and an additional fee of £5,000 per annum for each committee on which he holds any other role.

Thomas Shull

Thomas Shull entered into a letter of appointment with the Company dated 4 November 2013 to act as Non-Executive Director. His appointment commenced on 25 July 2013 for a term of 36 months (subject to the Bye-laws) terminable by Mr Shull at any time on one month's written notice. Under the terms of his appointment letter, Mr Shull is entitled to a fee of £90,000 per annum, plus an additional fee of £10,000 per annum for each committee he chairs and an additional fee of £5,000 per annum for each committee on which he holds any other role.

Jeremy Asher

Jeremy Asher entered into a letter of appointment with the Company dated 4 November 2013 to act as Non-Executive Director. His appointment commenced on 25 July 2013 for a term of 36 months (subject to the Bye-laws) terminable by Mr Asher at any time on one month's written notice. Under the terms of his appointment letter, Mr Asher is entitled to a fee of £90,000 per annum, plus an additional fee of £10,000 per annum for each committee he chairs and an additional fee of £5,000 per annum for each committee on which he holds any other role.

Andrew Simon

Andrew Simon entered into a letter of appointment with the Company dated 1 September 2013 to act as Non-Executive Director. His appointment commenced on 1 September 2013 for a term of 24 months terminable (subject to the Bye-laws) at any time on one month's written notice on either side. Under the terms of his appointment letter, Mr Simon is entitled to a fee of £90,000 per annum, plus an additional fee of £10,000 per annum for each committee he chairs and an additional fee of £5,000 per annum for each committee on which he holds any other role.

8.3 ***Senior Managers***

Tony Peart

Tony Peart is employed by GKP (UK) Ltd to act as Legal and Commercial Director and his terms and conditions are set out in an agreement dated 27 July 2009. His employment commenced on 27 July 2009 and is terminable on six months' written notice on either side, save that his employment will automatically terminate upon Mr Peart reaching his 70th birthday. Mr Peart is entitled to a salary of £180,000 per annum. He is entitled to participate in a stakeholder pension plan to which no contribution is made by the Group and private medical insurance.

Christopher Garrett

Christopher Garrett is employed by the Company as Vice President Operations and his terms and conditions are set out in an agreement dated 10 March 2005. His employment commenced on 10 March 2005 and is terminable on three months' written notice on either side, save that his employment will automatically terminate upon Mr Garrett reaching his 70th birthday.

Mr Garrett is also employed by GKP (UK) Ltd as Managing Director and his terms and conditions are set out in an agreement dated 1 March 2005. His employment commenced on 1 March 2005 and is terminable on three months' written notice on either side, save that his employment will automatically terminate upon Mr Garrett reaching his 70th birthday.

Mr Garrett is currently entitled to a combined salary under both agreements of £180,000 per annum. He is entitled to participate in a stakeholder pension scheme to which no contribution is made by the Group.

Umur Eminkahyagil

Umur Eminkahyagil was employed as Development and Production Manager in Kurdistan, Iraq as of 1 March 2012. He was subsequently appointed as Country Manager in Kurdistan, Iraq as of 1 September 2012. Under the terms of his agreement dated 1 March 2012, his employment is terminable on three months' written notice on either side, save that his employment will automatically terminate upon Mr Eminkahyagil reaching his 70th birthday. Mr Eminkahyagil is entitled to a salary of U.S.$260,000 per annum. He also receives private medical insurance and an additional U.S.$12,000 per annum in respect of a living allowance.

Mohamed Messaoudi

Mohamed Messaoudi is employed by the Company as Country Manager, Algeria and his terms and conditions are set out in an agreement dated 11 January 2007. His employment commenced on 1 February 2007 and is terminable on three months' written notice on either side, save that his employment will automatically terminate upon Mr Messaoudi reaching his 65th birthday. Mr Messaoudi is entitled to a salary of U.S.$72,000 per annum plus £36,000 per annum, being equivalent to U.S.$72,000 using the exchange rate of £1 to U.S.$2.

Save as disclosed above, there are no existing or proposed service agreements between any of the Directors and the Group providing for benefits upon termination of employment.

9. Summary of remuneration and benefits

A summary of the amount of remuneration paid by the Group to the Directors and Senior Managers (including any contingent or deferred compensation) and benefits in kind for the financial year ended 31 December 2012 for their services, in all capabilities, to the Group is set out below:

Name	*Basic Salary (U.S.$)*	*Benefits in kind*[1] *(U.S.$)*	*Share Bonus*[2] *(U.S.$)*	*Cash Bonus*[3] *(U.S.$)*	*Total Compensation*[4] *(U.S.$)*
Todd F Kozel	675,000	–	8,420,775	4,527,168	13,622,943
John Gerstenlauer	594,000	223,989	1,684,156	825,264	3,327,409
Ewen Ainsworth	285,282	4,327	1,684,156	446,760	2,420,525
Lord Guthrie	158,671	–	–	–	158,671
Mark Hanson	158,635	–	–	–	158,635
Chris Garrett	285,282	4,158	1,684,130	297,840	2,272,410
Tony Peart	285,282	4,047	1,684,130	848,844	2,822,303
Umur Eminkahyagil	216,667	16,505	–	70,000	303,172
Mohamed Messaoudi	141,467	–	–	–	141,467

Notes:

(1) Benefits in kind comprise personal travel and accommodation associated with work in a number of locations and medical insurance.

(2) The share bonus quantums are based on the market value of the Common Shares awarded pursuant to the 2010 and 2011 Executive Bonus Schemes on the vesting date, being 26 February 2013.

(3) The cash bonus quantums represent one third of the discretionary cash bonus for performance year 2012 which was paid in early 2013 and excludes the remaining two thirds of the bonus which will be paid in equal instalments 12 and 24 months from the date of the first cash bonus.

(4) Represents total compensation as at the date of this document and excludes payment of the deferred portion of the cash bonus payable in 2014 and 2015.

10. Pension arrangements

The Group does not provide pension, retirement or similar benefits to the Directors or Senior Managers.

11. Options and Incentives

The Company has the following share-based incentive schemes for the purposes of rewarding its executives and employees and aligning their interests with those of the Company:

11.1 *Share Option Plan*

The Board adopted the Share Option Plan on 20 August 2004, which was amended in April 2006, July 2006 and September 2012, under which options may be granted to eligible participants. Under the rules of the Share Option Plan, the following provisions apply:

(a) the Board may select from time to time in its absolute discretion any persons who are at the intended date of grant eligible participants, being any director or employee of the Company (or any company under its control) or any other individual providing services to the Company (or any company under its control) under any arrangements, and grant options to them subject to the rules and any necessary approval of the Bermuda Monetary Authority;

(b) the number of options which may be granted (excluding options which have lapsed or been surrendered) shall not exceed 10 per cent. of the issued share capital of the Company from time to time;

(c) the exercise period runs from the date of grant of an option and ends on the day prior to the 10th anniversary of the date of grant;

(d) the price at which each share subject to an option may be acquired on exercise shall be not less than the higher of the nominal value of the share and the market value of the shares;

(e) the exercise of an option shall, save in certain circumstances, be subject to the satisfaction of performance conditions which the Board shall specify at the date of grant;

(f) it is a condition of a grant of the option that the option holder agrees to indemnify the Company for any income tax and/or national insurance contributions (or equivalent charges which may arise in territories other than the UK) on the grant, exercise, disposal or release of an option and that the option holder enters into a deed of indemnity relating thereto;

(g) each option shall be exercisable only by the option holder to whom it was granted (or his personal representative) and may not be transferred, assigned or charged and any purported transfer, assignment or charge shall result in the option lapsing;

(h) if an option holder dies, then the unvested option may be exercised within the period ending on the earlier of the expiry of the period of 12 months after the date of death and the expiry of the exercise period. If an option holder ceases to be engaged by the Company, then any option not exercised by the time of such cessation shall remain exercisable until the expiry of the exercise period unless, within three months of cessation of employment, the Board in its absolute discretion shall determine that the option shall (in whole or in part) cease to be exercisable on a specified date within the exercise period;

(i) in the event of a takeover or winding-up of the Company or the making of one or more agreements for an acquisition of the share capital of the Company or there is a court sanctioned compromise or arrangement which, in either case, would give rise to a change of control of the Company, or in the event an unconditional agreement is entered into for the sale of the whole of the business or assets of the Company, the option holders may be allowed to exercise their options notwithstanding any performance conditions, but such exercise must be effected within a certain time period;

(j) in the event of a capitalisation or rights issue or sub-division or consolidation or reduction or otherwise, the Board (with confirmation from the auditors that it is just and reasonable) may make appropriate adjustments to the number of shares under option and the price at which shares may be acquired on exercise;

(k) the Board may make alterations to the rules which it thinks fit, save for any change to the plan limit. However, no alteration can be made which would materially increase the liability of any option holder or materially decrease the value of subsisting rights attached to any option without the option holder's prior consent, save where such alteration is necessary to comply with or to take account of any applicable legislation or maintain favourable tax treatment for the Company;

(l) participation in the Share Option Plan by an option holder shall not form part of his entitlement to remuneration or benefit pursuant to his contract of employment; and

(m) shares issued on exercise of the options shall rank *pari passu* with the Common Shares from the date of exercise.

As at 18 March 2014 (being the last practicable date prior to the publication of this document), the following options are currently outstanding under the Share Option Plan:

Award Description	*No. of Common Shares under Share Option Plan*	*Grant Date*	*Expiry Date*	*Exercise Price*	*Per cent. of Share Capital*
2009 LTIP Options	18,881,850[(1)]	24 June 2010	23 June 2020	75 pence	2.12
2010 LTIP Options	9,190,000[(2)]	7 February 2011	6 February 2021	175 pence	1.03
New Joiner Options	1,100,000[(3)]	14 February 2008	13 February 2018	30 pence	0.12
New Joiner Options	2,000,750[(3)]	25 September 2008	24 September 2018	30 pence	0.23
New Joiner Options	1,350,000[(3)]	16 March 2009	31 December 2018	30 pence	0.15
New Joiner Options	250,000[(3)]	16 March 2009	15 March 2019	30 pence	0.03
New Joiner Options	1,000,000[(3)]	31 July 2009	30 July 2019	30 pence	0.11
New Joiner Options	250,000[(3)]	24 June 2010	23 June 2020	80.75 pence	0.03
New Joiner Options	250,000[(3)]	23 September 2010	22 September 2020	147.5 pence	0.03
New Joiner Options	500,000[(3)]	7 February 2011	6 February 2021	175 pence	0.06
New Joiner Options	550,000[(3)]	20 June 2011	19 June 2021	146.25 pence	0.06
New Joiner Options	250,000[(3)]	8 July 2011	7 July 2021	146.25 pence	0.03
New Joiner Options	250,000[(3)]	15 July 2011	14 July 2021	146.25 pence	0.03
New Joiner Options	500,000[(3)]	22 July 2011	21 July 2021	146.25 pence	0.06
New Joiner Options	250,000[(3)]	20 September 2011	19 September 2021	152.5 pence	0.03
New Joiner Options	250,000[(3)]	27 October 2011	26 October 2021	146.25 pence	0.03
New Joiner Options	250,000[(3)]	23 March 2012	24 November 2021	250 pence	0.03
New Joiner Options	400,000[(3)]	25 February 2013	20 March 2022	194.5 pence	0.04
New Joiner Options	250,000[(3)]	9 July 2013	8 July 2023	158.75 pence	0.03

Note(s):

(1) These options vest in equal tranches over three financial years commencing with the year ended 31 December 2011 and have the following performance criteria:

(a) one third vests subject to the share price reaching 275 pence;

(b) one third vests subject to the share price reaching 325 pence; and

(c) one third vests subject to the share price reaching 375 pence

(2) These options vest in equal tranches over three financial years commencing with the year ended 31 December 2010 and have the following performance criteria:

(a) one third vests subject to operational performance conditions as follows:

(i) 50 per cent. of the one third tranche vest only on the achievement of sustained production of at least 8,000 bopd resulting in sustained oil sales and revenue flow;

(ii) 30 per cent. of the one third tranche vest only on successful resource addition through a combination of appraisal and production testing resulting in a significant movement of P10 hydrocarbon in place resources to P90 hydrocarbon in place resources; and

(iii) 20 per cent. of the one third tranche vest only in the event of a significant new discovery;

(b) one third vests subject to the share price reaching 150 pence (as determined by the Board (in consultation with the Remuneration Committee)); and

(c) one third vests subject to the share price reaching 200 pence (as determined by the Board (in consultation with the Remuneration Committee)).

(3) The applicable vesting period is three years from the date of grant subject to the share price having achieved a level no less than 133 per cent. of the option price at the date of grant at any time during the three-year period.

11.2 *Executive Bonus Scheme*

(a) The Remuneration Committee has discretion to recommend to the Board that awards of bonus shares are made to employees, officers and directors of the Company (or any company under its control) pursuant to the Executive Bonus Scheme. The awards are in the form of bonus awards of Common Shares. Membership of the Executive Bonus Scheme is by invitation and is reserved for senior staff.

(b) Bonus share awards are made at no cost to the participants (either when the award is made or on any subsequent vesting).

(c) Awards under the Executive Bonus Scheme are made to reward participants for their performance in the previous financial year. The Remuneration Committee review corporate performance against budget and plans each year to set the size of the bonus pot.

(d) Any bonus award is expressed in monetary value but is generally payable in Common Shares. One third of the shares may be issued to the eligible participants immediately on award. A further one third will not, subject as noted below, become available to the participants until the financial year following the award and the final one third until the second financial year after the award. Vesting is subject to: (i) the eligible participant remaining an employee, officer or director of the Company (or of any company under its control) and (ii) the discretion of the board.

(e) The second and third tranches of the bonus award shares will vest (if not already vested) on the first to occur of:

(i) a change of control of the Company;

(ii) a person becoming bound or entitled to acquire the Common Shares in circumstances which are equivalent to those set out under sections 979 to 982 of the 2006 Act (squeeze out provisions);

(iii) a court sanctioning a compromise or arrangement in connection with a reconstruction of the Company or its amalgamation with any other company or companies;

(iv) an unconditional agreement being entered into for the sale of the whole or a substantial proportion of the business or assets of the Company; and

(v) a winding-up of the Company.

(f) Any unvested bonus award shares lapse on the 10th anniversary of the date of award.

(g) If a participant dies before a bonus award (or part of a bonus award) has vested, his personal representative may receive the bonus shares so long as: (i) the personal representative notifies the Company within 12 months of the date of death that they wish the bonus shares to be released to them and (ii) the participant was an employee, officer or director of the company at the date of their death.

(h) No rights under the Executive Bonus Scheme may be transferred, assigned or charged and any purported transfer, assignment or charge shall result in the option lapsing.

(i) Any rights pursuant to the Executive Bonus Scheme shall not form part of the participant's entitlement to remuneration or benefit pursuant to his contract of employment.

11.2.1 The participant agrees to indemnify the Company for any income tax and/or national insurance contributions (or equivalent charges which may arise in territories other than the UK) on the release or vesting of Common Shares pursuant to the Executive Bonus Scheme.

11.2.2 If the participant ceases to be an eligible participant (other than on death), then his rights will not lapse as a result of the cessation (but may lapse for any of the other reasons specified under the Executive Bonus Scheme), but the Board can exercise its discretion within three months of the date of cessation to determine that the participant's rights under the Executive Bonus Scheme cease in whole or in part on a specified date.

As at 18 March 2014 (being the last practicable date prior to the publication of this document), the following bonus awards have been made under the Executive Bonus Scheme, but the Common Shares to satisfy these awards have not yet been issued:

No. of Awards under[1] the Executive Bonus Scheme	*Grant Date*	*Expiry Date*	*Per cent. of Share Capital*
3,305,004	26 March 2012	26 March 2022	0.37

Note:

(1) This does not include awards under the 2012 Executive Bonus Scheme, which are payable in cash.

11.3 ***Exit Award Scheme***

The Company has entered into a series of share award agreements with certain Executive Directors and employees of the Company which are conditional on an exit event of the Company ("**Exit Awards**"). Appleby Nominees (Jersey) Limited have been issued and allotted 10,000,000 Common Shares to satisfy existing and future Exit Awards. The Exit Awards are granted subject to the following terms:

(a) the Exit Awards are conditional rights to the sale proceeds of Common Shares, subject to the occurrence of a defined exit event;

(b) no consideration is payable by the participant on the grant of an Exit Award or at a later date;

(c) the participant will at no time become the beneficial owner of the Common Shares subject to the Exit Award and will not be entitled to any voting, dividend or other rights attaching to the Common Shares;

(d) Exit Awards envisage a sale of the Company or a substantial proportion of its assets, i.e. more than 50 per cent., and will vest immediately on the occurrence of an exit event;

(e) the Exit Awards will lapse in full:

    (i) if the participant ceases to be a director or employee of the Group for any reason other than death and the Board decides that the Exit Award should lapse; or

    (ii) on the fifth anniversary of the date of grant of the Exit Award;

(f) if and when the Exit Award vests, the trustee will sell all of the Common Shares subject to the Exit Award. The trustee will pay the net proceeds of such sale, together with any cash it holds from net dividends received or otherwise in respect of those Common Shares, to the participant; and

(g) any right pursuant to the Exit Award shall not form part of the participant's entitlement to remuneration or benefit pursuant to his contract of employment.

As at 18 March 2014 (being the latest practicable date prior to the publication of this document), 2,000,000 Exit Awards have been granted to employees of the Group, including the following Directors and Senior Managers:

Name	*Number of Common Shares to be cash settled*
Todd F Kozel	300,000
John Gerstenlauer	140,000
Ewen Ainsworth	140,000
Tony Peart	140,000
Chris Garrett	140,000

12. Convertible Bonds

On 18 October 2012, the Company executed a Trust Deed constituting the Convertible Bonds. On 6 November 2013, the Company executed a supplemental trust deed supplemental to the Trust Deed constituting the further U.S.$50 million New Convertible Bonds issued on 6 November 2013 (details of which are summarised in paragraph 14 "*Material contracts*" of this Part 16).

The principal terms of the Convertible Bonds are as follows:

(a) each Convertible Bond is in registered form in principal amounts of U.S.$200,000 each;

(b) each Convertible Bond may be converted by the holder thereof into Common Shares at the prevailing USD:GBP spot rate at the time of pricing;

(c) the Convertible Bonds may be converted at any time until 8 October 2017;

(d) the Convertible Bonds can be purchased, cancelled or redeemed by the Company;

(e) unless previously purchased and cancelled, redeemed or converted, the Convertible Bonds will be redeemed on 18 October 2017;

(f) the Convertible Bonds are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's Euro MTF Market;

(g) the Convertible Bonds carry a coupon of 6.25 per cent. per annum payable semi-annually in arrear on 18 April and 18 October in each year;

(h) the Common Shares issued on conversion of the Convertible Bonds will rank for all dividends or other distributions declared after the conversion date but not before such date and otherwise *pari passu* in all respects with the Common Shares in issue on the date of such conversion;

(i) the Trust Deed relating to the Convertible Bonds contains provisions for the appropriate adjustment of the number of Common Shares issued on exercise of the Bonds or the adjustment of the subscription price upon, *inter alia*, consolidation, reclassification or sub-division of the Common Shares, the payment of a dividend to Shareholders, a change of control or the issue or grant of any option, warrant or other rights to subscribe for or purchase or otherwise acquire Common Shares;

(j) the rights and privileges of the Bondholders may be altered by the Trustee if such amendment, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders, otherwise any amendments must be agreed by an extraordinary resolution, being the consent in writing by not less than 75 per cent. of the aggregate principal amount of Bonds outstanding or 75 per cent. of the aggregate principal amount of the Bonds outstanding of the votes cast by those Bondholders present at a quorate meeting of Bondholders;

(k) the Convertible Bonds are freely transferable; and

(l) the conversion of the Convertible Bonds would result, subject to any adjustments, in the allotment and issue of 74,031,890 Common Shares, based on a conversion rate of U.S.$4.39 as at 18 March 2014 (being the latest practicable date before publication of this document).

13. Subsidiaries, investments and principal establishments

The Company acts as the holding company of the Group. The significant Subsidiaries of the Company are as follows:

Name	*Country of incorporation*	*Proportion of ownership interest*	*Principal activity*
Active Subsidiaries			
Gulf Keystone Petroleum (UK) Limited	Great Britain	100 per cent.	Geological, geophysical and engineering services and administration
Gulf Keystone Petroleum International Limited	Bermuda	100 per cent.	Exploration, evaluation, development and production activities
Inactive Subsidiaries			
Gulf Keystone Petroleum HBH Limited	Bermuda	100 per cent.	Exploration and evaluation activities
Gulf Keystone Petroleum Numidia Limited	Bermuda	100 per cent.	Exploration and evaluation activities
Shaikan Petroleum Limited	Bermuda	100 per cent.	Exploration and evaluation activities

14. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business): (i) are or may be material and have been entered into by members of the Group within two years immediately preceding the date of this document; or (ii) have been entered into by members of the Group at any time before the date of this document where those contracts contain provisions under which the Group has an obligation or entitlement which is or may be material to the Group as at the date of this document.

Shaikan PSC

The Shaikan PSC in respect of the Shaikan Block between the KRG (1), GKPI (2), Texas (3) and Kalegran (4) (GKPI, Texas and Kalegran being the "**Shaikan Contractors**") became effective on 6 November 2007 and was amended on 1 August 2010. Pursuant to the terms of the Shaikan PSC, the Shaikan Contractors have been granted exclusive right and authority to conduct exploration, gas marketing, development, production and decommissioning operations in respect of petroleum in the Shaikan Block. The term of the Shaikan PSC comprises an exploration period of up to seven years and, in the event a discovery is made by the Shaikan Contractors during the exploration period, up to four additional years for exploration and gas marketing activities and/or a development period of up to 30 years for a Commercial Discovery in respect of: (i) crude oil and associated natural gas; or (ii) non-associated natural gas.

The exploration period may be further extended for two additional one-year periods if the Shaikan Contractors consider that either: (i) additional work is required prior to submitting an appraisal work programme or budget in respect of a discovery or declaring a Commercial Discovery; or (ii) they have not completed their exploration evaluation of the Shaikan Block, provided that the Shaikan Contractors have satisfied certain minimum exploration and/or work obligations, as applicable. If a discovery is made during such seven-year period but the Shaikan Contractors require additional time to complete the gas marketing operations necessary to declare the discovery a Commercial Discovery, the exploration period may be extended for up to two additional two-year periods.

A Commercial Discovery was announced by the Company in August 2012, therefore the Shaikan Contractors have the exclusive right to develop and produce such Commercial Discovery for a period of 20 years from the date of such Commercial Discovery, with an automatic right to extend for an additional period of five years. The right to develop a Commercial Discovery for up to 25 years following the date of the discovery is a separate right in respect of: (i) crude oil and associated natural gas; and (ii) non-associated natural gas. If, following the expiration of a development period, the Shaikan Contractors consider that commercial production in respect of a particular production area is still possible, it may request to extend the applicable development period for an additional five years.

In accordance with the Shaikan PSC upon declaring a Commercial Discovery, the Shaikan Contractors must submit a proposed Shaikan FDP to the management committee within 180 days of the Commercial Discovery. The KRG is deemed to approve the Shaikan FDP, provided its representatives on the management committee provide written approval. The management committee should use their best efforts to approve the Shaikan FDP within 60 days of receipt; if approval takes over 60 days to approve, the development period will be extended by such number of days. The KRG may request an amendment to the Shaikan FDP and the management committee has an obligation to discuss such amendment within 60 days of receipt. The Shaikan FDP was approved on 25 June 2013.

The Shaikan Contractors are required to prepare and submit a proposed work programme and budget for development (the "**Shaikan Work Program**") within 90 days of the approval of the Shaikan FDP, and this should thereafter be updated on 1 October of each calendar year. The KRG may request an amendment to the Shaikan Work Program, and the management committee has an obligation to discuss such amendment within 60 days of receipt. The Shaikan Work Program and Budget for the period to 31 December 2014 was approved on 9 October 2013. The Shaikan Contractors are authorised to incur expenditures not budgeted in the Shaikan Work Program, provided it does not exceed 10 per cent. of the approved Shaikan Work Program budget, and provided such expenditure is reported as soon as reasonably practicable to the management committee. Such excess will be treated as petroleum costs, except if it exceeds 10 per cent., in which case the Shaikan Contractors will only be able to recover such excess if approved by the management committee.

Under the terms of the Shaikan PSC, the KRG has the option (the "**Shaikan Government Option**") to participate through a public company duly registered and incorporated in Kurdistan and regulated by the KRG under the Kurdistan Oil and Gas Law in an undivided interest in the petroleum operations (and all other rights, obligations and liabilities of the Shaikan Contractors) of the Shaikan Block as a component of the Shaikan Contractors (a "**Shaikan Contractor Entity**"). The Shaikan Government Option must be exercised in respect of an interest between 5 and 20 per cent. and (subject to such extension as may be agreed by the parties) within 180 days of the first Commercial Discovery being declared. In addition to the Shaikan Government Option, the KRG has the option to nominate a third party as a Shaikan Contractor Entity to have an undivided interest in the petroleum operations of the Shaikan Block (the "**Shaikan Third Party Option**") of between 5 and 15 per cent. As at the date of this document, neither the Shaikan Government Option nor the Shaikan Third Party Option had been exercised formally, but the Company are continuing to discuss their exercise and any necessary amendment to the Shaikan PSC with the KRG.

Pursuant to the terms of the Shaikan PSC, the KRG is entitled to a royalty of 10 per cent. for export crude oil and export non-associated natural gas. For the first year following production, the Shaikan Contractors are entitled to a 30 per cent. share in profit petroleum and a 35 per cent. share in profit natural gas, following which the Shaikan Contractor's share of profit petroleum will range between 15 and 30 per cent. and its share in profit natural gas will range between 18 and 35 per cent., which range is determined with reference to the cumulative revenues actually received and the cumulative costs actually incurred by the Shaikan Contractors up to and including the last day of the preceding period of six consecutive months starting from the first day of January or July, respectively. The KRG is entitled to 40 per cent. of GKPI's entitlement to the Profit Petroleum.

In connection with the signing of the Shaikan PSC, the Shaikan Contractors paid the KRG a signing bonus of U.S.$10 million and a capacity building bonus of U.S.$15 million. In addition, the Shaikan Contractors are obliged to pay the KRG the following production bonuses: U.S.$2.5 million upon the first production of crude oil or non-associated natural gas from the Shaikan Block following a Commercial Discovery and further payments of U.S.$5, 10 and 20 million upon reaching cumulative production targets of 10, 25 and 50 million barrels of crude oil or 10, 25 and 50 mmboe of non-associated natural gas from a Commercial Discovery from the Shaikan Block, respectively. The Shaikan Contractors are permitted to recover costs equal to up to 40 per cent. of export crude oil produced and saved from the Shaikan Block and associated natural gas (less, amongst other things, gas used for petroleum operations), and equal to up to 50 per cent. of export non-associated natural gas. The following expenses are recoverable as petroleum costs by the

Shaikan Contractors: an exploration rental fee of U.S.$10/km^2 per year during the exploration period; a production rental fee of U.S.$100/km^2 per year after commercial production; a recruitment or secondment of personnel fund of up to U.S.$150,000 for the first three contract years; a training plan fund in Kurdistan of U.S.$150,000 per year during the exploration period and U.S.$300,000 per year during the development period; U.S.$100,000 per year during the exploration period and U.S.$200,000 per year during the development period towards the KRG's environment fund; and costs associated with the technological and logistical assistance provided during the first year of the Shaikan PSC up to U.S.$1 million.

The Shaikan PSC is governed by English law and the parties to the Shaikan PSC have agreed all disputes will be settled through arbitration in accordance with the rules of the London Court of International Arbitration. The Shaikan Contractors may sell, assign, transfer or dispose of all or part of their rights, obligations and interests in the Shaikan PSC with the prior written approval of the KRG and must notify and obtain the consent of the KRG in respect of any change of control, other than to an affiliated company of the Shaikan Contractors. The Shaikan PSC could also be terminated by the KRG if the Shaikan Contractors fail to meet their contractual obligations under the terms of the Shaikan PSC.

Sheikh Adi PSC

The Skeikh Adi PSC in respect of the Sheikh Adi Block between the KRG and GKPI became effective on 16 July 2009 and was amended on 1 August 2010. Pursuant to the terms of the Sheikh Adi PSC, GKPI has been granted the exclusive right and authority to conduct exploration, gas marketing, development, production and decommissioning operations in respect of petroleum in the Sheikh Adi Block. The term of the Sheikh Adi PSC comprises an exploration period of up to seven years and, in the event a discovery is made by GKPI during the exploration period, up to four additional years for exploration and gas marketing activities and/or a development period of up to 30 years for a Commercial Discovery in respect of: (i) crude oil and associated natural gas; or (ii) non-associated natural gas.

The exploration period may be further extended for two additional one-year periods if GKPI considers that either: (i) additional work is required prior to submitting an appraisal work programme or budget in respect of a discovery or declaring a Commercial Discovery; or (ii) it has not completed its exploration evaluation of the Sheikh Adi Block, provided that GKPI has satisfied certain minimum exploration and/or work obligations, as applicable. If a discovery is made during such seven-year period but GKPI requires additional time to complete the gas marketing operations necessary to declare the discovery a Commercial Discovery, the exploration period may be extended for up to two additional two-year periods.

Pursuant to the terms of the Sheikh Adi PSC, the KRG is entitled to a royalty of 10 per cent. for export crude oil and export non-associated natural gas. For the first year following production, GKPI is entitled to a 30 per cent. share in profit petroleum and a 35 per cent. share in profit natural gas, following which GKPI's share of profit petroleum will range between 15 and 30 per cent. and its share in profit natural gas will range between 18 and 35 per cent., which range is determined with reference to the cumulative revenues actually received and the cumulative costs actually incurred by GKPI up to and including the last day of the preceding period of six consecutive months starting from the first day of January or July, respectively. The KRG is entitled to 40 per cent. of GKPI's entitlement to the Profit Petroleum.

GKPI is required to pay the KRG a signing bonus of U.S.$1 million and a capacity building bonus of U.S.$19 million on the declaration of the first Commercial Discovery. GKPI paid the KRG an additional capacity bonus of U.S.$20 million. In addition, GKPI is obliged to pay the KRG production bonuses.

GKPI is permitted to recover costs to up to 40 per cent. of export crude oil produced and saved from the Sheikh Adi Block and associated natural gas (less, amongst other things, gas used for petroleum operations), and to up to 50 per cent. of export non-associated natural gas. The following expenses are recoverable as petroleum costs by GKPI: an exploration rental fee of U.S.$10/km^2 per year during the exploration period; a production rental fee of U.S.$100/km^2 per year after commercial production; a recruitment or secondment of personnel fund of up to U.S.$250,000 per year for the first five contract years; a training plan fund in Kurdistan of U.S.$150,000 per year during the exploration period and U.S.$300,000 per year during the development period; and U.S.$150,000 per year during the exploration period and U.S.$300,000 per year during the development period towards the KRG's environment fund; and costs associated with the technological and logistical assistance provided during the first year of the Sheikh Adi PSC up to U.S.$2 million.

The Sheikh Adi PSC is governed by English law and the parties to the PSC have agreed all disputes will be settled through arbitration in accordance with the rules of the London Court of International Arbitration. GKPI may sell, assign, transfer or dispose of all or part of its rights, obligations and interests in the Sheikh Adi PSC with the prior written approval of the KRG and must notify and obtain the consent of the KRG in respect of any change of control, other than to an affiliated company. The Sheikh Adi PSC could also be terminated by the KRG if GKPI fails to meet its contractual obligations under the terms of the Sheikh Adi PSC.

Akri-Bijeel PSC

The Akri-Bijeel PSC in respect of the Akri-Bijeel Block became effective on 6 November 2007 (as assigned, novated and modified on 30 October 2007, 21 December 2007 and 1 August 2010) between (1) the KRG, (2) Kalegran and (3) GKPI (Kalegran and GKPI together being the "**Akri-Bijeel Contractors**"). Pursuant to the terms of the Akri-Bijeel PSC, the Akri-Bijeel Contractors have been granted the exclusive right and authority to conduct exploration, gas marketing, development, production and decommissioning operations in respect of petroleum in the Akri-Bijeel Block. The term of the Akri-Bijeel PSC comprises an exploration period of up to seven years and, in the event a discovery is made by the Akri-Bijeel Contractors during the exploration period, up to four additional years for exploration and gas marketing activities and/or a development period of up to 30 years for a Commercial Discovery in respect of: (i) crude oil and associated natural gas; or (ii) non-associated natural gas.

The exploration period may be further extended for two additional one-year periods if the Akri-Bijeel Contractors consider that either: (i) additional work is required prior to submitting an appraisal work programme or budget in respect of a discovery or declaring a Commercial Discovery (as defined below); or (ii) they have not completed their exploration evaluation of the Akri-Bijeel Block, provided that the Akri-Bijeel Contractors have satisfied certain minimum exploration and/or work obligations, as applicable. If a discovery is made during such seven-year period but the Akri-Bijeel Contractors require additional time to complete the gas marketing operations necessary to declare the discovery a Commercial Discovery, the Akri-Bijeel PSC may be extended for up to two additional two-year periods.

A Commercial Discovery was announced by the Company in November 2013, therefore the Akri-Bijeel Contractors have the exclusive right to develop and produce such Commercial Discovery for a period of 20 years from the date of such Commercial Discovery, with an automatic right to extend for an additional period of five years. The right to develop a Commercial Discovery for up to 25 years following the date of the discovery is a separate right in respect of: (i) crude oil and associated natural gas; and (ii) non-associated natural gas. If, following the expiration of a development period, the Akri-Bijeel Contractors consider that commercial production in respect of a particular production area is still possible, it may request to extend the applicable development period for an additional five years.

In accordance with the Akri-Bijeel PSC, upon declaring a Commercial Discovery, the Akri-Bijeel Contractors must submit a proposed field development plan (the "**Akri-Bijeel FDP**") to the management committee within 180 days of the Commercial Discovery. The KRG is deemed to approve the Akri-Bijeel FDP, provided its representatives on the management committee provide written approval. The management committee should use their best efforts to approve the Akri-Bijeel FDP within 60 days of receipt; if approval takes over 60 days to approve, the development period will be extended by such number of days. The KRG may request an amendment to the Akri-Bijeel FDP, and the management committee has an obligation to discuss such amendment within 60 days of receipt.

The Akri-Bijeel Contractors are required to prepare and submit a proposed work programme and budget for development (the "**Akri-Bijeel Work Program**") within 90 days of the approval of the Akri-Bijeel FDP, and this should thereafter be updated on 1 October of each calendar year. The KRG may request an amendment to the Akri-Bijeel Work Program, and the management committee has an obligation to discuss such amendment within 60 days of receipt. The Akri-Bijeel Contractors are authorised to incur expenditures not budgeted in the Akri-Bijeel Work Program, provided that they do not exceed 10 per cent. of the approved

Akri-Bijeel Work Program budget, and provided such expenditure is reported as soon as reasonably practicable to the management committee. Such excess will be treated as petroleum costs, except if it exceeds 10 per cent., in which case the Akri-Bijeel Contractors will only be able to recover such excess if approved by the management committee.

Under the terms of the Akri-Bijeel PSC, the KRG has the option (the "**Akri-Bijeel Government Option**") to participate through a public company duly registered and incorporated in Kurdistan and regulated by the KRG under the Kurdistan Oil and Gas Law in an undivided interest in the petroleum operations and all other rights, obligations and liabilities of the Akri-Bijeel Contractors of the Akri-Bijeel Block as a component of the Contractor (an "**Akri-Bijeel Contractor Entity**"). The Akri-Bijeel Government Option must be exercised in respect of an interest between 5 and 20 per cent. and within 180 days of the first Commercial Discovery being declared. In addition to the Akri-Bijeel Government Option, the KRG have the option to nominate a third party, in respect of the Akri-Bijeel Block, as an Akri-Bijeel Contractor Entity to have an undivided interest in the petroleum operations (the "**Akri-Bijeel Third Party Option**") of between 5 and 20 per cent. As at the date of this document, neither the Akri-Bijeel Government Option nor the Akri-Bijeel Third Party Option had been exercised formally, but the Company are continuing to discuss their exercise and any necessary amendment to the Akri-Bijeel PSC with the KRG.

Pursuant to the terms of the Akri-Bijeel PSC, the KRG is entitled to a royalty of 10 per cent. for export crude oil and export non-associated natural gas. For the first year following production, the Akri-Bijeel Contractors are entitled to a 32 per cent. share in profit petroleum and a 38 per cent. share in profit natural gas, following which the Akri-Bijeel Contractors' share of profit petroleum will range between 16 and 32 per cent. and their share in profit natural gas will range between 20 and 38 per cent., which range is determined with reference to the cumulative revenues actually received and the cumulative costs actually incurred by the Akri-Bijeel Contractors up to and including the last day of the preceding period of six consecutive months starting from the first day of January or July, respectively. The KRG is entitled to 40 per cent. of GKPI's entitlement to the Profit Petroleum.

In connection with the signing of the Akri-Bijeel PSC, the Akri-Bijeel Contractors paid the KRG a signing bonus of U.S.$10 million and a capacity building bonus of U.S.$15 million. In addition, the Akri-Bijeel Contractors are obliged to pay the KRG the following production bonuses: U.S.$2.5 million upon the first production of crude oil or non-associated natural gas from the Akri-Bijeel Block following a Commercial Discovery and further payments of U.S.$5, 10 and 20 million upon reaching cumulative production targets of 10, 25 and 50 million barrels of crude oil or 10, 25, and 50 mmboe of non-associated natural gas from a Commercial Discovery on the Akri-Bijeel Block, respectively.

The Akri-Bijeel Contractors are permitted to recover costs to up to 43 per cent. of export crude oil produced and saved from the Akri-Bijeel Block and associated natural gas (less, amongst other things, gas used for petroleum operations), and to up to 53 per cent. of export non-associated natural gas. The following expenses are recoverable as petroleum costs by the Akri-Bijeel Contractors: an exploration rental fee of U.S.$10/km^2 per year during the exploration period; a production rental fee of U.S.$100/km^2 per year after commercial production; a recruitment or secondment of personnel fund of up to U.S.$250,000 per year for the first five contract years; a training plan fund in Kurdistan of U.S.$150,000 per year during the exploration period and U.S.$300,000 per year during the development period; and U.S.$150,000 per year during the exploration period and U.S.$300,000 per year during the development period toward the KRG's environment fund; and costs associated with the technological and logistical assistance provided during the first year of the Akri-Bijeel PSC up to U.S.$1 million.

The Akri-Bijeel PSC is governed by English law and the parties to the Akri-Bijeel PSC have agreed all disputes will be settled through arbitration in accordance with the rules of the London Court of International Arbitration. The Akri-Bijeel Contractors may sell, assign, transfer or dispose of all or part of their rights, obligations and interests in the Akri-Bijeel PSC with the prior written approval of the KRG and must notify and obtain the consent of the KRG in respect of any change of control, other than to an affiliated company. The Akri-Bijeel PSC could also be terminated by the KRG if the Akri-Bijeel Contractors fail to meet their contractual obligations under the terms of the Akri-Bijeel PSC.

Ber Bahr PSC

The Ber Bahr PSC in respect of the Ber Bahr Block (as assigned, novated and amended on 16 July 2009 and 1 August 2010) between the KRG (1), Genel (2) and GKPI (together the "**Ber Bahr Contractors**") (3), became effective on 31 March 2009. Pursuant to the terms of the Ber Bahr PSC, the Ber Bahr Contractors have been granted exclusive right and authority to conduct exploration, gas marketing, development, production and decommissioning operations in respect of petroleum in the Ber Bahr Block. The term of the Ber Bahr PSC comprises an exploration period of up to seven years and, in the event a discovery is made by the Ber Bahr Contractors during the exploration period, up to four additional years for exploration and gas marketing activities and/or a development period of up to 30 years for a Commercial Discovery in respect of: (i) crude oil and associated natural gas; or (ii) non-associated natural gas.

The exploration period may be further extended for two additional one-year periods if the Ber Bahr Contractors consider that either: (i) additional work is required prior to submitting an appraisal work program or budget in respect of a discovery or declaring a Commercial Discovery (as defined below); or (ii) they have not completed their exploration evaluation of the Ber Bahr Block, provided that the Ber Bahr Contractors have satisfied certain minimum exploration and/or work obligations, as applicable. If a discovery is made during such seven-year period but the Ber Bahr Contractors require additional time to complete the gas marketing operations necessary to declare the discovery a Commercial Discovery, the Ber Bahr PSC may be extended for up to two additional two-year periods.

In the event of a Commercial Discovery, the Ber Bahr Contractors will have the exclusive right to develop and produce such Commercial Discovery for a period of 20 years from the date of such Commercial Discovery, with an automatic right to extend for an additional period of five years. The right to develop a Commercial Discovery for up to 25 years following the date of the discovery is a separate right in respect of: (i) crude oil and associated natural gas; and (ii) non-associated natural gas. If following the expiration of a development period, the Ber Bahr Contractors consider that commercial production in respect of a particular production area is still possible, it may request to extend the applicable development period for an additional five years.

A Commercial Discovery was announced by the Company in May 2013, therefore the Ber Bahr Contractors must submit a proposed development plan (the "**Ber Bahr Development Plan**") to the management committee within 180 days of the Commercial Discovery. The KRG is deemed to approve the Ber Bahr Development Plan, provided its representatives on the management committee provide written approval. The management committee should use their best efforts to approve the Ber Bahr Development Plan within 60 days of receipt; if approval takes over 60 days to approve, the development period will be extended by such number of days. The KRG may request an amendment to the Ber Bahr Development Plan, and the management committee has an obligation to discuss such amendment within 60 days of receipt.

The Ber Bahr Contractors are required to prepare and submit a proposed work programme and budget for development (the "**Ber Bahr Work Program**") within 90 days of the approval of the Ber Bahr Development Plan, and this should thereafter be updated on 1 October of each calendar year. The KRG may request an amendment to the Ber Bahr Work Program, and the management committee has an obligation to discuss such amendment within 60 days of receipt. The Ber Bahr Contractors are authorised to incur expenditures not budgeted in the Ber Bahr Work Program, provided they do not exceed 10 per cent. of the approved Ber Bahr Work Program budget, and provided such expenditure is reported as soon as reasonably practicable to the management committee. Such excess will be treated as petroleum costs, except if it exceeds 10 per cent., in which case the Ber Bahr Contractors will only be able to recover such excess if approved by the management committee.

Pursuant to the terms of the Ber Bahr PSC, the KRG is entitled to a royalty of 10 per cent. for export crude oil and export non-associated natural gas. For the first year following production, the Ber Bahr Contractors are entitled to a 32 per cent. share in profit petroleum and a 35 per cent. share in profit natural gas, following which the Ber Bahr Contractors' share of profit petroleum will range between 16 and 32 per cent. and their share in profit natural gas will range between 20 and 35 per cent., which range is determined with reference to the cumulative revenues actually received and the cumulative costs actually incurred by Genel up to and including the last day of the preceding period of six consecutive months starting from the first day of January or July, respectively. The KRG is entitled to 40 per cent. of GKPI's entitlement to the Profit Petroleum.

In connection with the signing of the Ber Bahr PSC, Genel paid the KRG a signing bonus of U.S.$1 million and a capacity building bonus of U.S.$14 million. The Company is required to pay the KRG a capacity building payment of U.S.$10 million, which is due on the declaration of the first Commercial Discovery and U.S.$20 million on or before 15 August 2010. In addition, the Ber Bahr Contractors are obliged to pay the KRG production bonuses.

The Ber Bahr Contractors are permitted to recover costs to up to 40 per cent. of export crude oil produced and saved from the Ber Bahr Block and associated natural gas (less, amongst other things, gas used for petroleum operations), and to up to 53 per cent. of export non-associated natural gas. The following expenses are recoverable as petroleum costs by the Ber Bahr Contractors: an exploration rental fee of U.S.$10/km^2 per year during the exploration period; a production rental fee of U.S.$10/km^2 per year after commercial production; a recruitment or secondment of personnel fund of up to U.S.$250,000 per year for the first five contract years; a training plan fund in Kurdistan of U.S.$150,000 per year during the exploration period and U.S.$300,000 per year during the development period; and U.S.$150,000 per year during the exploration period and U.S.$300,000 per year during the development period toward the KRG's environment fund; and costs associated with the technological and logistical assistance provided during the first year of the Ber Bahr PSC up to U.S.$500,000.

The Ber Bahr PSC is governed by English law and the parties to the Ber Bahr PSC have agreed all disputes will be settled through arbitration in accordance with the rules of the London Court of International Arbitration. The Ber Bahr Contractors may sell, assign, transfer or dispose of all or part of their rights, obligations and interests in the Ber Bahr PSC with the prior written approval of the KRG and must notify and obtain the consent of the KRG in respect of any change of control, other than to an affiliated company. The Ber Bahr PSC could also be terminated by the KRG if the Ber Bahr Contractors fail to meet their contractual obligations under the terms of the Ber Bahr PSC.

Ferkane PSC

The Ferkane PSC, in respect of the Ferkane Block, between Sonatrach and the Company dated 28 February 2001 became effective on 26 April 2001 when it was approved by the Government of Algeria on 29 April 2001 by decree.

The Ferkane PSC covers two aspects of hydrocarbon activities in Block 126a:

(i) the exploration, development and exploitation of oil and gas under the Ferkane PSC in Block 126a; and

(ii) the appraisal, development and exploitation of oil and gas discoveries made by Sonatrach in respect of two wells (GKN and GKS) it drilled in Block 126a prior to entering into the Ferkane PSC.

Sonatrach is also the holder of the mining title and is therefore the partner of the two Investors as defined under the Ferkane PSC (taken together), namely Sonatrach (in its other capacity as an Investor as defined under the Ferkane PSC) and the Company.

The Company withdrew from the Ferkane PSC on 12 December 2011. The Ferkane PSC will be terminated following the resolution of various outstanding issues between the Company and Sonatrach, including calculation of payments for rights of access.

The Ferkane PSC is subject to the laws of Algeria.

Convertible Bond Subscription Agreements

The Subscription Agreement dated 4 October 2012 between the Company and Mirabaud Securities LLP, BNP Paribas and Natixis (the "**2012 Managers**"), under which, *inter alia*, the Company agreed to issue the Original Convertible Bonds, the 2012 Managers agreed to use reasonable endeavours to procure purchasers for the Original Convertible Bonds, and the Company gave certain warranties and indemnities to the 2012 Managers.

The Subscription Agreement dated 30 October 2012 between the Company and BNP Paribas and Natixis (the "**2013 Managers**"), under which, *inter alia*, the Company agreed to issue the New Convertible Bonds, the 2013 Managers agreed to use reasonable endeavours to procure purchasers for the New Convertible Bonds, and the Company gave certain warranties and indemnities to the 2013 Managers.

Trust Deed

The trust deed dated 18 October 2012 (as supplemented by a supplemental trust deed dated 6 November 2013) (the "**Trust Deed**") between the Company and BNP Paribas Trust Corporation UK Limited ("**Trustee**"), constituting the Convertible Bonds and appointing the Trustee to act as trustee and under which such commission in respect of the service of the Trustee as shall be agreed between the Company and the Trustee shall be paid pursuant to the Trust Deed, the Trustee may retire or be removed by giving three months' written notice or by the passing of an extraordinary resolution of the Bondholders. Further details of the terms of the Trust Deed are set out in paragraph 12 "*Convertible Bonds*" of this Part 16.

Paying, Transfer and Conversion Agency Agreement

The paying, transfer and conversion agency agreement dated 18 October 2012 (as supplemented by a supplementary paying, transfer and conversion agency agreement dated 6 November 2013) (the "**Paying, Transfer and Conversion Agency Agreement**") between the Company (1), the Trustee (2), BNP Paribas Securities Services, Luxembourg Branch (the "**Principal Paying, Transfer and Conversion Agent**") (3) and BNP Paribas Securities Services, Luxembourg Branch in its capacity as registrar (the "**Bond Registrar**", and together with the Principal Paying, Transfer and Conversion Agent, being the "**Agents**") (4) setting out, *inter alia*, the terms of appointment and duties of the Agents and under which such commissions in respect of the services of the Agents as shall be agreed between them and the Company are to be paid. Pursuant to the Paying, Transfer and Conversion Agency Agreement, the Agents may retire or be removed, with the written consent of the Trustee, by giving 60 days' written notice.

Introduction Agreement

Pursuant to the Introduction Agreement dated the date of this document between the Company, Deutsche Bank and the Directors, the Company has agreed to appoint Deutsche Bank as the Financial Adviser to the Company in connection with Admission. The Introduction Agreement provides for the payment of a fee by the Company to the Financial Adviser plus its legal and all other expenses incidental to Admission (in each case plus VAT where applicable). The Introduction Agreement also includes certain warranties and indemnities given by the Company to the Financial Adviser.

15. Statutory auditors

The auditors of the Company for the financial years ended on 31 December 2012, 31 December 2011 and 31 December 2010 have been Deloitte LLP, chartered accountants, whose registered address is at 2 New Street Square, London EC4A 3BZ. Deloitte LLP have audited the annual consolidated financial statements for the Company which have been prepared in accordance with IFRS as adopted by the European Union.

16. Working capital

The Company is of the opinion that the Group does not have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document. See further paragraph 17 of Part 8: "*The Business – Working capital*".

17. No significant change

On 6 November 2013, the Company issued the New Convertible Bonds in a principal amount of U.S.$50 million on the same terms (save for the issue price) as the Original Convertible Bonds, which have been consolidated with and form a single series with the Original Convertible Bonds.

The handing down of the full judgment of the claims asserted by Excalibur against the Company and the hearing of consequential matters, took place on 13 December 2013 where Excalibur confirmed to the Court that it will not be seeking to appeal the judgment. Following this hearing, the Group has now received the £16.9 million which had been paid into the Court as security for costs. The Court further ordered Excalibur to provide an additional security for indemnity costs of the Company and its two subsidiaries in the sum of £3,209,210 and an additional security for indemnity costs of Texas Keystone Inc. in the sum of £2,402,800 by payment into Court by 31 December 2013.

Save as set out above, there has been no significant change in the financial or trading position of the Company since 30 June 2013, being the end of the last financial period of the Company for which historical financial information is included in Part 13: "*Historical Financial Information*".

18. Litigation

Save as disclosed in this paragraph 18, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened and of which the Company is aware) which may have, or have had during the 12 months prior to the date of this document, a significant effect on the Company and/or the Group's financial position or profitability.

On 10 September 2013, the English Commercial Court (the "**Court**") announced its ruling following the trial of certain contractual and non-contractual claims asserted by Excalibur against the Company and two of its subsidiaries (the "**Companies**") and Texas Keystone Inc. (together the "**Defendants**"). The Court dismissed all the claims asserted by Excalibur and decided all issues in favour of the Defendants. The handing down of the full judgment and the hearing of consequential matters, including the arguments on costs and any application for permission to appeal took place on 13 December 2013 where Excalibur confirmed to the Court that it will not be seeking to appeal the judgment. Following this hearing, the Group has now received the £16.9 million which had been paid into the Court as security for costs. The judgment handed down by the Court further ordered Excalibur to provide additional security for indemnity costs awarded in the amount of £3,209,210 for the Companies and £2,402,800 for Texas Keystone Inc. to be paid by 31 December 2013. Failing receipt of this additional security, the Defendants were given leave to commence proceedings for recovery of such costs and to the extent necessary serve proceedings outside of England and Wales against Excalibur's funders. The Company understands that Excalibur did not pay the additional security into Court and accordingly the Defendants have made an application under section 51 of the Senior Courts Act 1981 against Excalibur's funders to recover their costs.

19. Related Party Transactions

Save for the related party transactions set out in note 12 (Related party transactions) of the unaudited interim consolidated financial statements of the Company in respect of the six-month period ended 30 June 2013, note 24 (Related party transactions) of the audited consolidated financial statements of the Company as of and for the year ended 31 December 2012, note 22 (Related party transactions) of the audited consolidated financial statements of the Company as of and for the year ended 31 December 2011 and note 23 (Related party transactions) of the audited consolidated financial statements of the Company as of and for the year ended 31 December 2010, there are no related party transactions that were entered into by the Group during the financial years ended 31 December 2010, 31 December 2011 and 31 December 2012 and the six months ended 30 June 2013 up to and including the date of this document.

20. Consents

20.1 ERC Equipoise (in its capacity as competent person) has given and not withdrawn its written consent to the inclusion in this document of the ERC Equipoise Report in the form and context in which they are included, and has authorised the contents of such parts of this Prospectus as comprise the ERC Equipoise Report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

20.2 Deutsche Bank has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it is included.

21. Miscellaneous

21.1 The total costs (including fees and commissions, but exclusive of VAT) payable by the Company in connection with Admission are estimated to be £2,000,000.

21.2 The Company confirms that all third party information contained in this document has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where third party information has been used in this document, the source of such information has also been identified.

22. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any Business Day at the offices of Memery Crystal LLP for the period of 12 months following Admission:

22.1 this document;

22.2 the Memorandum of Association and the Bye-Laws of the Company;

22.3 the audited consolidated financial statements of the Company in respect of the three financial years ended 31 December 2012, 2011 and 2010, together with the related audit reports from the independent auditor, as set out in Part 13: "*Historical Financial Information*";

22.4 the unaudited interim consolidated financial statements of the Company in respect of the six-month period ended 30 June 2013, together with the related review report thereon, as set out in Part 13: "*Historical Financial Information*";

22.5 the report by ERC Equipoise set out in Part 19: "*Competent Person's Report*"; and

22.6 the letters confirming the consents referred to in paragraph 20 "*Consents*" of this Part 16.

Dated 20 March 2014

PART 17

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

2006 Act	the UK Companies Act 2006, as amended
2007 Draft Bill	the draft legislation proposed by the Iraq Federal Oil and Energy Committee of the Iraqi Cabinet during 2007 relating to oil and gas resources in the whole of Iraq, including Kurdistan
Admission	the admission of the Common Shares to the standard segment of the Official List and to trading on the Main Market for listed securities
AIM	a market operated by the London Stock Exchange
AIM Rules	rules issued by the London Stock Exchange governing admission to, and the operation of, AIM
Akri-Bijeel Block	covers an area of 889km^2 and is situated to the east of the Shaikan Block
Akri-Bijeel PSC	the PSC for the Akri-Bijeel Block
Audit Committee	the audit committee established by the Board, as set out in paragraph 3 of Part 9: "*Directors, Senior management and Corporate Governance – Corporate Governance*"
Ber Bahr Block	covers an area of 208km^2 and lies to the north-west of the Shaikan Block
Ber Bahr PSC	the PSC for the Ber Bahr Block
Board	the directors of the Company from time to time
Bondholders	the holders of the Convertible Bonds
Business Day	a day (other than a Saturday or a Sunday) on which banks are open for business in London
Bye-Laws	the bye-laws of the Company
Common Shares	common shares in the capital of the Company, with a nominal par value of U.S.$0.01
Companies Act (Bermuda)	the Companies Act 1981 of Bermuda
Company	Gulf Keystone Petroleum Limited
Convertible Bonds	the Original Convertible Bonds and the New Convertible Bonds together
CREST	the relevant system (as defined in the Uncertificated Securities Regulations) in respect of which Euroclear UK & Ireland is the operator (as defined in the Uncertificated Securities Regulations)
Deed Poll	the deed poll executed on 24 August 2004 by the Depositary in favour of the holders of the Depositary Interests from time to time
Depositary	Computershare Investor Services plc

Depositary Agreement	the agreement entered into on 12 March 2014 between the Company and the Depositary appointing the Depositary
Depositary Interests	the dematerialised depositary interests issued by the Depositary in respect of the underlying Common Shares
Deutsche Bank	Deutsche Bank AG, London Branch
Directors	the directors of the Company, whose names are set out on page 43
Disclosure and Transparency Rules	the Disclosure and Transparency Rules made by the FCA under Part VI of the FSMA
EBT Trustee	a trustee of the Gulf Keystone Employee Benefit Trust
ERC Equipoise	ERC Equipoise Ltd, the Group's independent Reserves and resources evaluator
ERC Equipoise Report	the independent competent person's report that evaluates the Reserves, Prospective Resources and Contingent Resources of the Group's assets, prepared by ERC Equipoise dated 13 March 2014
Euroclear UK & Ireland	Euroclear UK & Ireland Limited, the operator of CREST
Excalibur	Excalibur Ventures LLC
Executive Bonus Scheme	the Company's executive bonus scheme, which is summarised in paragraph 11.2 of Part 16: "*Additional Information – Executive Bonus Scheme*"
Exit Award Scheme	the Company's exit award scheme, which is summarised in paragraph 11.3 of Part 16: "*Additional Information – Exit Award Scheme*"
FCA	the Financial Conduct Authority
Ferkane Block	covers a 5,891.07km^2 area of land situated in the SE Constantine Basin of Algeria
Ferkane PSC	the PSC for the Ferkane Block
Financial Adviser	Deutsche Bank
FSMA	the Financial Services and Markets Act 2000
FTSE	FTSE International Limited
Genel	Genel Energy International Limited
GKPI	Gulf Keystone Petroleum International Limited
GKP (UK) Ltd	Gulf Keystone Petroleum (UK) Limited
Group	the Company and its Subsidiaries
Gulf Keystone EBT	the employee benefit trust established by the Company
Health, Safety, Security, Environment and CSR Committee	the health, safety, security, environment and CSR committee established by the Board in accordance with the UK Corporate Governance Code and the Listing Rules, as set out in paragraph 10 of Part 8: "The Business"

IFRS	the International Financial Reporting Standards as adopted by the European Commission for use in the European Union
Iraqi Government	the federal government of Iraq
Kalegran	Kalegran Limited (a wholly owned subsidiary of MOL Hungarian Oil & Gas plc), the operator of the Akri-Bijeel Block
KOMO	Kurdistan Oil Marketing Organisation
KRG	the Kurdistan Regional Government
Kurdistan	the Kurdistan region, an autonomous region in Iraq
Kurdistan Blocks	together the Akri-Bijeel Block, the Ber Bahr Block, the Shaikan Block and the Sheikh Adi Block
Kurdistan Oil and Gas Law	the Oil and Gas Law of the Kurdistan Region – Iraq (Law No. 22-2007)
Kurdistan PSCs	together the Akri-Bijeel PSC, the Ber Bahr PSC, the Shaikan PSC and the Sheikh Adi PSC
Listing Rules	the Listing Rules made by the FCA under Part VI of the FSMA
London Stock Exchange or **LSE**	London Stock Exchange plc
Main Market	the Main Market of the LSE
Member State	a member of the EEA
Memorandum of Association	the memorandum of association of the Company
MNR	Kurdistan's Ministry of Natural Resources
Model Code	the model code on directors' dealings in securities set out in the Annex to Chapter 9 of the Listing Rules
New Convertible Bonds	the second tranche of U.S.$50 million convertible bonds issued on 6 November 2013 on the same terms (save for the issue price), which have been consolidated with and form a single series with the Original Convertible Bonds
Nomad	a person approved by the London Stock Exchange under the AIM Rules for Nominated Advisers
Nominations Committee	the nominations committee established by the Board in accordance with the UK Corporate Governance Code and the Listing Rules, as set out in paragraph 3 of Part 9: "*Directors, Senior Management and Corporate Governance*"
Official List	the official list of the FCA
Original Convertible Bonds	the U.S.$275 million senior unsecured convertible bonds issued on 18 October 2012 which have been consolidated with and form a single series with the New Convertible Bonds
Preferred Shares	the 20,000 preferred shares of par value U.S.$1,000.00 each
Premium Listing	a listing on the premium segment of the Official List

Profit Crude Oil	the quantities of available crude oil (which excludes crude oil deducted for royalty payments) and available associated natural gas produced from the production area, after the recovery of petroleum costs
Profit Natural Gas	the quantities of available non-associated natural gas produced from the production area, after the recovery of petroleum costs
Profit Petroleum	Profit Crude Oil and Profit Natural Gas
Prospectus Rules	the prospectus rules made by the FCA under Part VI of the FSMA
Register	the register of members of the Company
Registrar	Computershare Investor Services plc
Remuneration Committee	the remuneration committee established by the Board in accordance with the UK Corporate Governance Code and the Listing Rules, as set out in paragraph 3 of Part 9: "*Directors, Senior Management and Corporate Governance*"
Securities Act	The United States Securities Act of 1933 (as amended)
SEDA Facility	the Standby Equity Distribution Agreement dated 6 May 2009 (as amended on 1 October 2009 and 24 March 2010)
Senior Managers	the senior managers whose names are set out on page 76 of this document
Series A Preferred Shares	the 40,000 Series A preferred shares of par value U.S.$1,000.00 each
Shaikan Block	covers an area of 283km^2 and is situated about 85km to the north-west of Erbil
Shaikan FDP	Shaikan Field Development Plan approved on 25 June 2013
Shaikan PF-1	the first production facility on the Shaikan Block
Shaikan PF-2	the second production facility on the Shaikan Block
Shaikan PSC	the PSC for the Shaikan Block
Share Capital	the 888,933,057 Common Shares in issue as at 18 March 2014 (being the latest practicable date prior to the publication of this document)
Shareholder	a holder of Common Shares
Share Option Plan	the Company's share option scheme adopted on 20 August 2004 (as amended in April 2006, July 2006 and September 2012), which is summarised in paragraph 11.1 of Part 16: "*Additional Information – Share Option Plan*"
Share Schemes	the Share Option Plan and the Executive Bonus Scheme
Sheikh Adi Block	covers an area of 180km^2 and lies to the west of the Shaikan Block
Sheikh Adi PSC	the PSC for the Sheikh Adi Block
Sonatrach	Société Par Actions Sonatrach, Algeria's national oil development enterprise, founded in 1963

Standard Listing	a listing on the standard segment of the Official List
Subsidiary	as defined in section 86 of the Companies Act (Bermuda)
Takeover Code	the UK City Code on Takeovers & Mergers
Takeover Panel	the Panel on Takeovers and Mergers
Texas	Texas Keystone Inc.
Third Party Option	The Akri-Bijeel and Shaikan Third Party Options
Trust Deed	the agreement entered into on 18 October 2012 between the Company and BNP Paribas Trust Corporation UK Limited appointing the trustee, details of which are set out in paragraph 14(vii) of Part 16: "*Additional Information – Material contracts*" of this document
UK or **United Kingdom**	the United Kingdom of Great Britain and Northern Ireland
UK Listing Authority or **UKLA**	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of admission to the Official List
Uncertificated Securities Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
VAT	value added tax

PART 18

GLOSSARY OF TECHNICAL TERMS

boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
Bscf	thousands of millions of standard cubic feet
Commercial Discovery	a discovery which is potentially commercial when taking into account all technical, operational, commercial and financial data collected when carrying out appraisal works or similar operations, including recoverable reserves of petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, all in accordance with prudent international petroleum industry practice and as defined in each of the Kurdistan PSCs
Contingent Resources	quantities of petroleum estimated, as at a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies, as further defined in the PRMS
EWT	Extended well test
Leads	a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation to be classified as a prospect
MMboe	Million barrels of oil equivalent
MMstb	Million stock tank barrels
oil in place	the total quantity of oil that is estimated to exist originally in naturally occurring reservoirs
Possible Reserves	those Reserves that are less certain to be recovered than Probable Reserves. There is a 10 per cent. probability that the quantities actually recovered will equal or exceed the sum of Proved Reserves plus Probable Reserves plus Possible Reserves; as further defined in the PRMS
PRMS	the Petroleum Resources Management System developed by the Society of Petroleum Engineers
Probable Reserves	those Reserves that are less certain to be recovered than Proved Reserves. There is at least a 50 per cent. probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved Reserves plus Probable Reserves, as further defined in the PRMS
Prospective Resources	quantities of petroleum estimated, as at a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources

	have both an associated chance of discovery and a chance of development, as further defined in the PRMS
Proved Reserves	those Reserves which are most certain to be recovered. There is at least a 90 per cent. probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves, as further defined in the PRMS
PSC	a production sharing contract
Reserves	quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development projects applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates as: Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P), as further defined in the PRMS
stb	Stock tank barrels

PART 19

COMPETENT PERSON'S REPORT

12 March 2014

The Directors
Gulf Keystone Petroleum Ltd
16 Berkeley Street
London W1J 8DZ

Attention: John B Gerstenlauer

Dear Sirs,

RE: Competent Person's Report on Certain Petroleum Interests of Gulf Keystone Petroleum Ltd and its Subsidiaries in Kurdistan, Iraq

In accordance with your request set out in the engagement letter dated 23 June 2013 between Gulf Keystone Petroleum Limited (GKP) and ERC Equipoise Limited (ERCE), we have completed an evaluation of estimates of volumes of petroleum in place, Reserves, Contingent Resources and Prospective Resources of certain petroleum interests of GKP and its subsidiaries in the Kurdistan region of Iraq. In addition, ERCE has carried out an economic evaluation of Reserves. The results of ERCE's evaluations are described in this Competent Person's Report (CPR), with an effective date of 31 December 2013.

ERCE understands that GKP intends to pursue a listing on the London Stock Exchange and also to conduct a possible debt financing. This CPR has been prepared for the purposes of being included, in its entirety, in the Prospectus prepared by GKP and its advisors in support of the listing or in relation to a possible debt financing and that as such it may be released by way of a Regulatory News Service (RNS) announcement to the London Stock Exchange. It may not be used for any other purpose without the prior written approval of a director of ERCE.

GKP has made available to ERCE a technical dataset including geophysical, geological, petrophysical and engineering data and interpretations as well as commercial information and fiscal and contractual terms pertaining to the licence holdings. ERCE has relied on the accuracy and completeness of the information provided by GKP in the preparation of this report and has taken all reasonable care to present the information accurately. ERCE has not undertaken a site visit.

We have reviewed raw data, analyses and interpretations presented by GKP and have audited GKP's estimates of volumes of petroleum in place, Reserves, Contingent Resources and Prospective Resources. We have carried out our own analyses and have made our own estimates of volumes where we have deemed this to be necessary. The volumes reported in this CPR are based on data and information available up to 31 December 2013. They represent ERCE's professional opinion at the time of preparing this report following the instructions outlined in the engagement latter. The estimation of volumes of petroleum is subject to uncertainty and therefore the volumes reported in this CPR may change, upwards or downwards, as new data become available.

ERC Equipoise Ltd, 6th Floor Stephenson House, 2 Cherry Orchard Road, Croydon, CR0 6BA
Tel: 020 8256 1150 Fax: 020 8256 1151
Registered England No. 03587074 Registered Office Eastbourne House, 2 Saxbys Lane, Lingfield, Surrey, RH7 6DN

We have constructed an economic model that incorporates estimates of future production volumes of petroleum for the Phase 1 development of Shaikan together with estimates of future expenditure and commodity price scenarios to estimate economic cut-off dates for reporting a range of estimates of gross field Reserves. We have incorporated the fiscal terms governing the Shaikan licence block to estimates Net Present Values (NPV) for Reserves. The NPVs in this report do not represent ERCE's opinion of a market value of the asset, as it is necessary to account for additional factors such as potential upside and various risk and market related factors.

ERCE has estimated and reported the volumes of petroleum in place, Reserves, Contingent Resource and Prospective Resources in accordance with the March 2007 "Petroleum Resources Management System" (SPE PRMS), sponsored by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE). These definitions are set out in Section 10. ERCE has also followed the "Guidelines for Application of the Petroleum Resources Management System", November 2011, sponsored by the SPE, the AAPG, the WPC, the SPEE and the Society of Exploration Geophysicists (SEG). Volumes reported in this CPR have been rounded to the nearest 1 MMstb for oil or 1 Bscf for gas.

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates as Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P).

We have reported GKP "Gross Field Reserves", GKP "Working Interest Reserves" and GKP "Net Entitlement Reserves". GKP "Gross Field Reserves" are 100% of the volumes estimated to be economically recoverable from the field from 31 December 2013 onwards. GKP "Working Interest Reserves" are GKP's working interest (WI) fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs these assets. GKP "Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan. GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments. The evaluation of Net Entitlement Reserves also includes an additional entitlement from "Tax Barrels" arising from the deemed Corporate Income Tax under the PSC paid on GKP's behalf from the Government's share of Profit Petroleum.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates as 1C, 2C and 3C.

We have reported GKP "Gross Field Contingent Resources" and GKP "Working Interest Contingent Resources". GKP "Gross Field Contingent Resources" are 100% of the volumes estimated to be economically recoverable from the field from 31 December 2013 onwards. GKP "Working Interest Contingent Resources" are GKP's working interest (WI) fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs these assets, which are expected to be less.

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery (COS) and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development as Low, Best and High. Prospective Resources can be sub-classified as Prospects, Leads and Plays. A Prospect is a potential accumulation that is sufficiently well defined to represent a viable drilling target. A Lead is a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect. A Play is a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

We have reported GKP "Gross Field Prospective Resources" and GKP "Working Interest Prospective Resources". GKP "Gross Field Prospective Resources" are 100% of the volumes estimated to be economically recoverable from the field from 31 December 2013 onwards. GKP "Working Interest Prospective Resources" are GKP's working interest (WI) fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs these assets, which are expected to be less.

GKP is the operator and has a 54.4% fully diluted working interest (including 3.4% held in trust by Texas Keystone Inc.) in the Shaikan PSC (80.0% undiluted, including 5.0% held in trust by Texas Keystone Inc.). Within the Shaikan PSC area, GKP has discovered oil in the Cretaceous, Jurassic and Triassic intervals and gas in the Triassic interval of the Shaikan field. GKP submitted a field development plan (FDP) to the Kurdistan authorities in 2013 for the development of Shaikan with more than 100 wells. ERCE has been informed that the development was approved. We have made estimates of recoverable volumes of oil and gas for the Jurassic interval and have classified a portion of these that are estimated to be recoverable upon implementation of the first phase of the development, comprising 26 production wells, as Reserves (Table 1). The remaining volumes have been classified as Contingent Resources (Table 3), contingent upon refinement of the further phases of development at which time the further amounts being developed and recovered commercially will be reclassified as Reserves. We have reviewed production and cost forecasts and have carried out an economic evaluation of the Reserves for the Phase 1 development of the Shaikan Jurassic interval. The results are presented in Table 2. We have also assigned Contingent Resources to volumes of oil estimated to be recoverable from the Cretaceous and Triassic as the development planning for these is relatively immature (Table 3).

GKP is the operator and has an 80.0% working interest in the Sheikh Adi PSC, in which the Sheikh Adi discovery has been made. Oil has been tested in the Jurassic interval and ERCE has estimated recoverable volumes, which have been classified as Contingent Resources (Table 3), contingent upon the definition of a field development plan. Oil has been intersected in the Cretaceous, but information is insufficient to ascertain whether or not the oil is moveable, and consequently ERCE has estimated volumes of oil in place but has not reported resources for the Cretaceous. Oil has been intersected in the Triassic, but no successful flow tests have been achieved and consequently estimates of recoverable oil for the Triassic have been classified as Prospective Resources (Table 4). A bifurcation of the southerly thrust fault can be interpreted to the west of the Sheikh Adi structure, defining a separate prospect in the hanging-wall limb, to which ERCE has attributed Prospective Resources (Table 4).

GKP has a 40.0% working interest in the Ber Bahr PSC which is operated by Genel. Oil has been discovered in the Jurassic interval and ERCE has classified the volumes of oil estimated to be recoverable from the Jurassic as Contingent Resources (Table 3). Oil has been intersected in the Cretaceous, but information is insufficient to ascertain whether or not the oil is moveable, and consequently ERCE has estimated volumes of oil in place but has not reported resources for the Cretaceous. Oil has been intersected in the Triassic, but no successful flow tests have been achieved and consequently estimates of recoverable oil for the Triassic have been classified as Prospective Resources (Table 4).

GKP has a 12.8% fully diluted working interest (20.0% undiluted) in the Akri Bijeel PSC, operated by Kalegran, in which the Bijell and Bakrman discoveries have been made. Oil was tested successfully in the Jurassic interval of the Bijell structure and ERCE has assigned Contingent Resources to this interval (Table 3). In the Bakrman structure, a successful oil test was carried out in the Triassic interval for which ERCE has assigned Contingent Resources. There is evidence from logs of oil in the Cretaceous in both Bijell and Bakrman, but the limited technical data precluded quantitative assessment of the Cretaceous interval. We have treated the Cretaceous as a Lead and have not quantified oil initially in place.

Table 1: Summary of GKP Working Interest and Net Entitlement Oil Reserves at PSC Level

PSC	GKP WI (%)	GKP Working Interest Oil Reserves (MMstb)			GKP Net Entitlement Oil Reserves (MMstb)		
		1P	2P	3P	1P	2P	3P
Shaikan	54.4	108	163	212	47	58	67

Table 2: Summary of Base Case Economic Evaluation of Phase 1 Reserves

Reserves Category	Economic limit (Year)	GKP Net Entitlement Reserves (MMstb)	Net Present Value Net to GKP at 1 January 2014 (US$ million Nominal) At annual discount rates of:				Gross field Reserves (MMstb)
			7.5%	10.0%	12.5%	15.0%	
1P	2031	47	859	737	633	544	198
2P	2036	58	1,156	1,004	876	768	299
3P	2038	67	1,395	1,219	1,075	953	389

Notes

1) The values in this table are based on the economic 'base case' price scenario, comprising a Brent oil price of US$100/stb in 2014, escalated at 2.5% pa.

Table 3: Summary of GKP Working Interest Oil and Gas Contingent Resources at PSC Level

PSC	GKP WI (%)	GKP WI Oil Contingent Resources (MMstb)			GKP WI Gas Contingent Resources (Bscf)		
		1C	2C	3C	1C	2C	3C
Shaikan	54.4	133	382	885	128	313	645
Sheikh Adi	80.0	53	122	218	13	29	52
Ber Bahr	40.0	4	9	15	1	2	3
Akri Bijeel	12.8	1	5	21	0	1	6
Totals		191	518	1,139	142	345	706

Notes

1) The volumes reported here are unrisked in that they have not been multiplied by a chance of development.

Table 4: Summary of GKP Working Interest Unrisked Oil Prospective Resources

Prospect	GKP WI (%)	GKP WI Unrisked Oil Prospective Resources (MMstb)			COS (%)
		Low	Best	High	
Sheikh Adi Jurassic HW	80.0	2	4	10	80
Sheikh Adi Triassic	80.0	30	67	162	80
Ber Bahr Triassic	40.0	6	22	74	80

Notes

1) Prospective Resources reported here are "unrisked" in that the volumes have not been multiplied by the COS.

ERCE is an independent consultancy specialising in geoscience, engineering and economics evaluation. Except for the provision of professional services on a fee basis, ERC Equipoise Limited has no commercial arrangement with any other person or company involved in the interests that are the subject of this report. The work has been supervised by Mr Simon McDonald, Engineering Director of ERCE, a Chartered Petroleum Engineer, a member of the Board of Directors of the Society of Petroleum Evaluation Engineers and a member of the Energy Institute and the Society of Petroleum Engineers. He has 37 years' experience in the evaluation of oil and gas fields and acreage, preparation of development plans and assessment of reserves and resources.

For the purposes of Prospectus Rule 5.5.3R(2)(f) ERCE accepts responsibility for the information contained in this section of the Prospectus and those sections of the Prospectus which include references to the information in this section. ERCE declares that to the best of its knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained herein is in accordance with the facts and does not omit anything likely to affect the import of such information.

Yours faithfully,
ERC Equipoise Limited
Simon McDonald, C.Eng.
Engineering Director

Competent Person's Report on Certain Petroleum Interests of Gulf Keystone Petroleum and its Subsidiaries in Kurdistan, Iraq

PREPARED FOR: Gulf Keystone Petroleum

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Table of Contents

List of Tables

List of Figures

1. Executive Summary

ERC Equipoise Limited (ERCE) has reviewed and evaluated properties in four Production Sharing Contract (PSC) concessions in the Kurdistan region of Iraq in which Gulf Keystone Petroleum Limited (GKP) has interests (Figure 1.1). The PSC concessions are:

- The Shaikan PSC, in which GKP is the operator and has a 75% working interest plus 5% held by Texas Keystone Inc. (TKI) in trust (51.0% diluted interest plus 3.4% if the state exercises its back-in rights).
- The Sheikh Adi PSC, in which GKP is the operator and has an 80% working interest.
- The Ber Bahr PSC, in which Genel is the operator and where GKP has a 40% working interest.
- The Akri Bijeel PSC, in which Kalegran (a wholly owned subsidiary of MOL) is the operator and where GKP has a 20% working interest (12.8% diluted interest).

At the time of preparing this report, GKP's working interest in the Shaikan PSC was 75%. An additional 5% working interest was held in trust by TKI for GKP. GKP has requested ERCE to carry out this evaluation on the basis of a fully diluted working interest of 54.4%, comprising 51.0% for GKP and 3.4% for the interest held in trust by TKI. Fully diluted interests are based on the Kurdistan Regional Government (KRG) exercising its option to take up a maximum 20% interest (see Section 9.1.3) and the option for a third party nominated by the KRG to take up a maximum 15% (see Sections 9.1.4), although, according to the fiscal terms, both of these options have expired. ERCE has not verified GKP's legal position of ownership with respect to TKI, which is explained more fully in Section 9.1.18. For consistency, ERCE has also applied the fully diluted interest of 12.8% for the Akri Bijeel PSC. The KRG has 20.0% working interests in the Sheikh Adi and Ber Bahr PSCs with no further back-in rights.

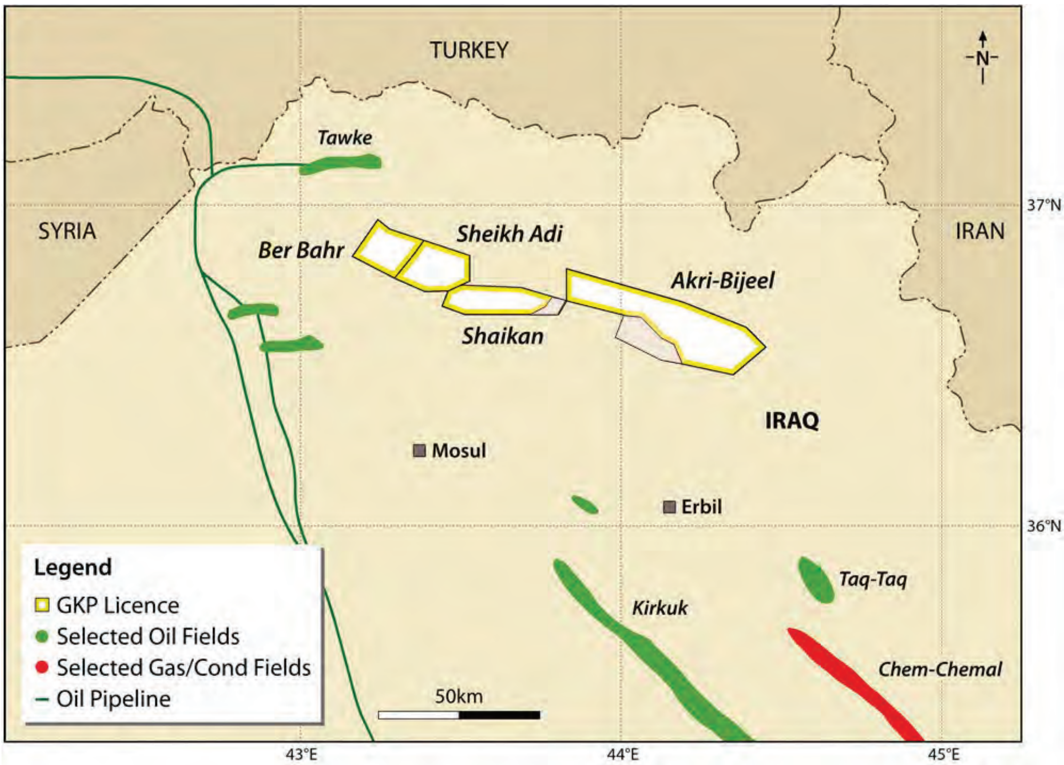


Figure 1.1: Location Map of GKP Licence Blocks

ERCE has estimated and reported the volumes of petroleum in place, Reserves, Contingent Resource and Prospective Resources in accordance with the March 2007 "Petroleum Resources Management System" (SPE PRMS), sponsored by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE). These definitions are set out in Section 10 of this report. The results of ERCE's evaluation are summarised in Table 1.1 to Table 1.7.

Shaikan PSC. All of GKP's oil Reserves and the bulk of GKP's oil and gas Contingent Resources are to be found in the Shaikan PSC area, where GKP has discovered oil in the Cretaceous, Jurassic and Triassic intervals and gas in the Triassic interval of the Shaikan field. The discovery was made by Well Shaikan-1B in 2009. The field has subsequently been appraised, with a total of eight wells having been drilled and one further well is in the process of being drilled at the time of preparing this report. GKP has acquired a comprehensive dataset include seismic data, cores, petrophysical logs and fluid samples. Multiple flow tests have been carried out including an extended test in two wells.

GKP declared the field commercial with "The First Commercial Declaration Date" under the terms of the PSC set at 1 August 2012. GKP submitted a field development plan (FDP) to the Kurdistan authorities in 2013 for the development of Shaikan comprising more than 100 wells and ERCE has been informed that the development was approved. The first phase of the development (Phase 1) comprises 26 production wells, including the use of five wells that were drilled during the appraisal stage and one that was in the process of being drilled at the time of compiling this report. The FDP includes a water disposal well and a sour gas disposal well in Phase 1, both of which have been drilled.

ERCE has made estimates of hydrocarbons in place (Table 1.6) and estimates of recoverable volumes of oil and gas for the Jurassic interval and has classified a portion of these that are estimated to be recoverable upon implementation of the Phase 1 development, as Reserves (Table 1.1). The gross field Proved plus Probable oil Reserves estimated by ERCE for the Phase 1 development of the Jurassic interval in Shaikan amount to 299 MMstb. The remaining volumes have been classified as Contingent Resources (Table 1.3 and Table 1.4), contingent only upon refinement of the additional phases of the development, at which time the further amounts being developed and recovered commercially will be reclassified as Reserves. The gross field 2C Contingent Resources estimated by ERCE for the Jurassic interval in Shaikan amount to 440 MMstb of oil and 164 Bscf of solution gas.

We have constructed an economic model that incorporates estimates of future production volumes of petroleum for the Phase 1 development of Shaikan together with estimates of future expenditure and commodity price scenarios to estimate economic cut-off dates for reporting a range of estimates of gross field Reserves. We have incorporated the fiscal terms governing the Shaikan licence block to estimates Net Present Values (NPV) for Reserves. The results are presented in Table 1.2.

We have also made estimates of volumes of hydrocarbons in place (Table 1.6) and estimates of recoverable volumes for the Cretaceous and Triassic intervals, which we have classified as Contingent Resources (Table 1.3 and Table 1.4) contingent upon further definition and refinement of a field development plan. The gross field 2C Contingent Resources estimated by ERCE are 124 MMstb of oil for the Cretaceous interval and 138 MMstb of oil and 411 Bscf of gas for the Triassic interval.

Sheikh Adi PSC. The Sheikh Adi discovery was made by Well Sheikh Adi-1B in 2010 and the structure was appraised by Well Sheikh Adi-2 in 2012. Oil was successfully flow tested in the Jurassic interval. ERCE has made estimates of volumes of hydrocarbons in place (Table 1.6) and estimates of recoverable volumes for the Jurassic interval, which have been classified as Contingent Resources (Table 1.3 and Table 1.4), contingent upon the definition of a development plan. The gross field 2C Contingent Resources estimated by ERCE for the Sheikh Adi Jurassic interval are 152 MMstb of oil and 36 Bscf of solution gas. Oil has also been intersected in the Cretaceous interval, but information is insufficient to ascertain whether or not the oil is moveable, and consequently, ERCE has estimated volumes of oil in place (Table 1.6) but has not reported resources for the Cretaceous. Oil has been intersected in the Triassic interval, but no successful flow tests have been achieved and consequently estimates of recoverable volumes of oil for the Triassic have been classified as Prospective Resources (Table 1.5).

Ber Bahr PSC. Oil was intersected in the Ber Bahr structure by Well Ber Bahr-1 in 2011 and successfully flow tested in the Jurassic interval by Well Ber Bahr-1ST in 2013. ERCE has made estimates of volumes of hydrocarbons in place (Table 1.6) and estimates of recoverable volumes for the Jurassic interval, which we have classified as Contingent Resources (Table 1.3 and Table 1.4), contingent upon the definition of a development plan. The gross field 2C Contingent Resources estimated by ERCE for Ber Bahr are 22 MMstb of oil and 4 Bscf of solution gas. Oil has also been found in the Cretaceous interval, but information is insufficient to ascertain whether or not the oil is moveable, and consequently, ERCE has estimated volumes of oil in place (Table 1.6) but has not reported resources for the Cretaceous.

Akri Bijeel PSC. Two discoveries have been made in the Akri Bijeel PSC area, Bijell and Bakrman. Oil was tested successfully in the Jurassic interval of the Bijell structure by Well Bijell-1. ERCE has made estimates of volumes of hydrocarbons in place (Table 1.6) and estimates of recoverable volumes, which we have classified as Contingent Resources (Table 1.3 and Table 1.4) contingent on the definition of a development plan. The gross field 2C Contingent Resources estimated by ERCE for Bijell are 41 MMstb of oil and 10 Bscf of solution gas. In the Bakrman structure, a successful oil test was carried out in the Triassic interval for which ERCE has estimated Contingent Resources (Table 1.3 and Table 1.4). The gross field 2C Contingent Resources estimated by ERCE for Bakrman are 2 MMstb of oil and 3 Bscf of solution gas. There is evidence from logs of oil in the Cretaceous in both Bijell and Bakrman, but the limited technical data precluded quantitative assessment of the Cretaceous interval. We have treated the Cretaceous as a Lead and have not quantified oil initially in place.

Summary of Results. A summary of the estimates of Reserves is shown in Table 1.1. The results of the economic evaluation of Reserves are shown in Table 1.2. Summaries of estimates of Contingent Resources are shown in Table 1.3 for oil and in Table 1.4 for gas. A summary of estimates of Prospective Resources is shown in Table 1.5. A summary of estimates of discovered volumes of oil initially in place (STOIIP) and gas initially in place (GIIP) is shown in Table 1.6. A summary of estimates of prospective volumes of STOIIP is shown in Table 1.7. No economic evaluation of Contingent Resources or Prospective Resources has been carried out by ERCE.

***Reserves** are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates as Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P).*

Oil Reserves shown in Table 1.1 are for the first phase of the development of the Jurassic interval of the Shaikan field comprising 26 production wells. GKP has received approval for the full development of Shaikan, comprising more than 100 wells. Estimates of recoverable volumes from the Jurassic interval beyond the first phase of the development have been classified as Contingent Resources (Table 1.3 and Table 1.4), contingent only upon refinement of the additional phases of the development at which time the further amounts being developed and recovered commercially will be reclassified as Reserves.

Table 1.1: Summary of Oil Reserves

Field	Formation	Gross Field Oil Reserves (MMstb)			GKP WI (%)	GKP Working Interest Oil Reserves (MMstb)			GKP Net Entitlement Oil Reserves (MMstb)		
		1P	2P	3P		1P	2P	3P	1P	2P	3P
Shaikan	Jurassic	198	299	389	54.4	108	163	212	47	58	67

<u>Notes</u>

1) "Gross Field Reserves" are 100% of the volumes estimated to be economically recoverable from the field from 31 December 2013 onwards.
2) GKP "Working Interest (WI) Reserves" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs this asset.
3) GKP "Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan.
4) GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments.
5) The evaluation of Net Entitlement Barrels includes an additional entitlement from "Tax Barrels" arising from the deemed Corporate Income Tax under the PSC paid on GKPI's behalf from the Government's share of Profit Petroleum.
6) The working interest used in this report for the Shaikan PSC is 54.4%, comprising the fully diluted interest of GKP (51.0%) plus the fully diluted interest of Texas Keystone Inc. (3.4%) which is held in trust for GKP.

Table 1.2: Summary of Base Case Economic Evaluation of Reserves

Reserves Category	Economic limit (Year)	GKP Net Entitlement Reserves (MMstb)	Net Present Value Net to GKP at 1 January 2014 (US$ million Nominal) At annual discount rates of:				Gross field Reserves (MMstb)
			7.5%	10.0%	12.5%	15.0%	
1P	2031	47	859	737	633	544	198
2P	2036	58	1,156	1,004	876	768	299
3P	2038	67	1,395	1,219	1,075	953	389

<u>Notes</u>

1) The values in this table are based on the economic 'base case' price scenario, comprising a Brent oil price of US$100/stb in 2014, escalated at 2.5% pa.

Contingent Resources *are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates as 1C, 2C and 3C.*

Oil Contingent Resources for the Shaikan Jurassic interval shown in Table 1.3 are contingent only upon refinement of the additional phases of the development at which time the further amounts being developed and recovered commercially will be reclassified as Reserves. All other Contingent Resources shown in Table 1.3 are contingent on the definition of development plans and the demonstration of commerciality.

Table 1.3: Summary of Oil Contingent Resources

Field	Formation	Gross Field Oil Contingent Resources (MMstb)			GKP WI (%)	GKP WI Oil Contingent Resources (MMstb)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	36	124	373	54.4	20	68	203
	Jurassic	153	440	980		83	239	533
	Triassic	55	138	273		30	75	149
Sheikh Adi	Jurassic	66	152	273	80.0	53	122	218
Ber Bahr	Jurassic	10	22	38	40.0	4	9	15
Bijell	Jurassic	10	41	155	12.8	1	5	20
Bakrman	Triassic	0	2	6	12.8	0	0	1
Totals		330	919	2,098		191	518	1,139

Notes

1) "Gross Field Contingent Resources" are 100% of the volumes estimated to be economically recoverable from the field without any economic cut-off being applied.
2) GKP "Working Interest (WI) Contingent Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.
3) Contingent Resources are estimates of volumes that might be recovered from the field under as yet undefined development scheme(s). It is not certain that the fields will be developed or that the volumes reported as Contingent Resources will be recovered.
4) The volumes reported here are unrisked in that they have not been multiplied by a chance of development.
5) The working interest used in this report for the Aki Bijeel PSC (Bijell and Bakrman) is the fully diluted interest of 12.8%.

Gas volumes shown in Table 1.4 are solution gas, apart from the gas reported for the Shaikan Triassic interval where a portion of the gas is from a gas cap. Gas Contingent Resources are subject to the same contingencies as the corresponding oil Contingent Resources shown in Table 1.3. In addition, they are contingent on securing gas sales agreements and gas export routes.

Table 1.4: Summary of Gas Contingent Resources

Field	Formation	Gross Field Gas Contingent Resources (Bscf)			GKP WI (%)	GKP WI Gas Contingent Resources (Bscf)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	0	0	0	54.4	0	0	0
	Jurassic	77	164	304		42	89	166
	Triassic	157	411	880		86	224	479
Sheikh Adi	Jurassic	16	36	65	80.0	13	29	52
Ber Bahr	Jurassic	2	4	7	40.0	1	2	3
Bijell	Jurassic	2	10	36	12.8	0	1	5
Bakrman	Triassic	1	3	9	12.8	0	0	1
Totals		255	628	1,301		142	345	706

Notes

1) "Gross Field Contingent Resources" are 100% of the volumes estimated to be economically recoverable from the field without any economic cut-off being applied.
2) GKP "Working Interest (WI) Contingent Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.
3) Contingent Resources are estimates of volumes that might be recovered from the field under as yet undefined development scheme(s). It is not certain that the fields will be developed or that the volumes reported as Contingent Resources will be recovered.
4) The volumes reported here are unrisked in that they have not been multiplied by a chance of development.
5) Gas Contingent Resources are estimates of recoverable hydrocarbon gas volumes and exclude any non-hydrocarbon volumes that might be produced.
6) The working interest used in this report for the Aki Bijeel PSC (Bijell and Bakrman) is the fully diluted interest of 12.8%.
7) To the extent that gas is flared after the effective date of this report, the gas Contingent Resources reported for Shaikan Jurassic will be reduced

***Prospective Resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery (COS) and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development as Low, Best and High. Prospective Resources can be sub-classified as Prospects, Leads and Plays. A Prospect is a potential accumulation that is sufficiently well defined to represent a viable drilling target. A Lead is a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect. A Play is a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.*

Table 1.5: Summary of Unrisked Oil Prospective Resources (Prospects)

Prospect	Gross Field Unrisked Oil Prospective Resources (MMstb)			GKP WI (%)	GKP WI Unrisked Oil Prospective Resources (MMstb)			COS (%)
	Low	Best	High		Low	Best	High	
Sheikh Adi Jurassic HW	3	5	12	80.0	2	4	10	80
Sheikh Adi Triassic	38	84	202	80.0	30	67	162	80
Ber Bahr Triassic	14	55	186	40.0	6	22	74	80

Notes

1) Prospects are features that have been sufficiently well defined through analysis of geological and geophysical data that they are considered drillable targets.
2) "Gross Field Unrisked Prospective Resources" are 100% of the volumes estimated to be recoverable from an accumulation.
3) GKP "Working Interest Prospective Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.
4) The geological chance of success (COS) reported here is an estimate of the probability that drilling the Prospect would result in a discovery as defined under SPE PRMS (Section 10).
5) Prospective Resources reported here are "unrisked" in that the volumes have not been multiplied by the COS.
6) Sheikh Adi Triassic and Ber Bahr Triassic intervals intersected by the wells are classified as Prospective Resources. No successful flow tests have been achieved, precluding their classification as discoveries (and Contingent Resources).
7) Further Prospective Resources have been identified in the Akri Bijeel PSC area. However, these are sub-classified as Leads due to immaturity and have not been quantified in this report.

Discovered Petroleum Initially-in-place *is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.*

Undiscovered Petroleum Initially-in-place *is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.*

Table 1.6: Summary of Discovered Oil and Gas Initially in Place

Field	Formation	Gross Field STOIIP (MMstb)			Gross Field GIIP (Bscf)		
		Low	Best	High	Low	Best	High
Shaikan	Cretaceous	1,792	2,635	4,090	0	0	0
	Jurassic	4,684	6,194	8,490	0	0	0
	Triassic	222	386	674	556	988	1,710
Sheikh Adi	Cretaceous	256	398	631	0	0	0
	Jurassic	1,479	1,858	2,522	0	0	0
Ber Bahr	Cretaceous	67	293	1,956	0	0	0
	Jurassic	275	363	457	0	0	0
Bijell	Jurassic	131	371	980	0	0	0
Bakrman	Triassic	2	8	30	0	0	0

<u>Notes</u>

1) GIIP is free gas and excludes solution gas
2) GIIP is sour, wet gas
3) No Contingent Resources are attributed to the Sheikh Adi Cretaceous and to the Ber Bahr Cretaceous reservoirs as these discovered volumes are currently classified as unrecoverable.

Table 1.7: Summary of Undiscovered Oil Initially In Place

Prospect	Gross Field STOIIP (MMstb)		
	Low	Best	High
Sheikh Adi	464	657	1,007
Ber Bahr Triassic	32	102	305

2. Introduction

In July 2013, ERCE was instructed by GKP to produce an independent assessment of Reserves, Contingent Resources and Prospective Resources for assets located in Kurdistan, Iraq.

GKP is an independent oil and gas company registered in Bermuda, with further offices in Erbil in the Kurdistan Region of Iraq and in London in the UK. GKP and its subsidiaries hold certain interests in the Kurdistan Region of Iraq (Figure 1.1). The interests that ERCE has reviewed for the preparation of this report comprise properties governed by Production Sharing Contracts (PSCs) in four blocks (Figure 2.1), the Shaikan and Akri Bijeel blocks, with the interest acquired by GKP in November 2007, and the Sheikh Adi and Ber Bahr blocks acquired in July 2009. GKP is the operator of the PSCs for the Shaikan and Sheikh Adi blocks. The current interests in the PSCs are shown in Table 2.1.

Table 2.1: GKP Working Interests in Kurdistan PSCs

Field Name	Working Interest	Diluted Working Interest(Note 1)	Operator	Other Partners
Shaikan(Note 2)	75.0% + 5.0%	51.0% + 3.4%	GKP	MOL (20%)
Sheikh Adi	80.0%	80.0%	GKP	KRG (20%)
Ber Bahr	40.0%	40.0%	Genel	Genel (40%), KRG (20%)
Akri Bijeel	20.0%	12.8%	MOL	MOL (80%)

Notes

1) GKP is subject to third party and Kurdistan Regional Government's (KRG) back-in rights for Shaikan and Akri Bijeel.
2) Texas Keystone Inc. (TKI) holds its interest in Shaikan (5.0%, or 3.4% fully diluted) in trust for GKP pending transfer of its interest.

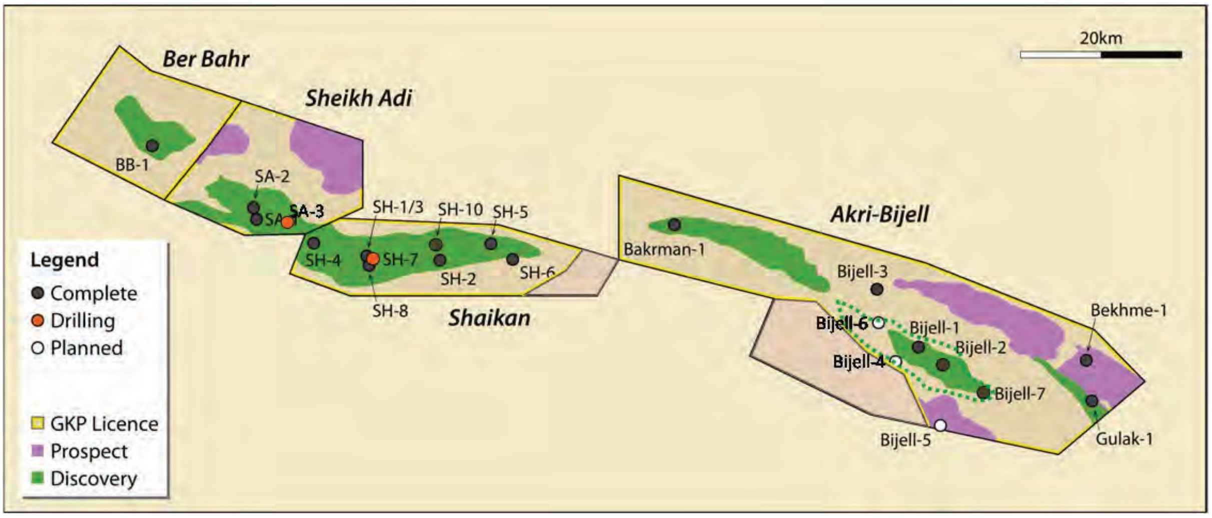


Figure 2.1: GKP Licence Blocks

3. Dataset

ERCE has relied upon data provided by GKP in completing the work, as well as data available in the public domain. Data were made available up to the data cut-off date of 31 December 2013. The data included, amongst others:

- Field Development Plan (FDP) and Addendum, Appraisal Report and Discovery Report for Shaikan. Within the FDP facilities and associated cost information were included.
- Discovery Report and Appraisal Programme for Sheikh Adi
- Discovery Report for Ber Bahr
- Appraisal Programme and Discovery Report for the Bijell structure
- Documents, graphs and tables of general geological and well data
- Seismic workstation projects and interpretations together with time and depth structure maps for Shaikan, Sheikh Adi, Ber Bahr, Bijell and Bakrman structures
- Structural models in Petrel of the Shaikan field
- Well logs for all drilled wells
- Core data retrieved from select intervals
- Drilling and well reports for all wells in Shaikan and Sheikh Adi
- All well test data and interpretations for Shaikan
- Well test data for Sheikh Adi
- Well test data for Ber Bahr
- All well test results for the discovery and appraisal wells in Bijell
- All well test results for the Bakrman discovery well
- PVT reports for selected intervals within the Jurassic and Triassic in Shaikan and Sheikh Adi
- PVT reports available for Bakrman and Bijell
- TCM and OCM information for Ber Bahr
- PSC information for Shaikan, with past costs
- PSC information for Sheikh Adi, Ber Bahr and Akri Bijeel
- Production forecasts and cost information for the 26 production well development of the Jurassic interval in the Shaikan field

ERCE has relied upon GKP for the completeness and accuracy of the dataset used in the preparation of this report. No site visit was undertaken during this evaluation. GKP has informed ERCE that there has been no material change in its portfolio between the data cut-off date, 31 December 2013 and the date of issue of this report.

4. Evaluation Basis

The dataset provided by GKP enabled ERCE to complete a satisfactory audit of:

- Volumes of oil and gas initially in place
- Oil Reserves
- An economic evaluation of oil Reserves
- Oil and gas Contingent Resources and oil Prospective Resources

For the purposes of economic modelling, ERCE constructed independent economic models, utilising the PSC and country fiscal system information presented by GKP.

ERCE has used standard petroleum evaluation techniques in the preparation of this report. These techniques combine geophysical and geological knowledge with assessments of porosity and permeability distributions, fluid characteristics and reservoir pressure. There is uncertainty in the measurement and interpretation of basic data. ERCE has estimated the degree of this uncertainty and determined the range of petroleum initially in place and recoverable hydrocarbons. Our methodology adheres to the guidelines of the SPE PRMS (Summarised in Section 10 of this report).

ERCE has evaluated the development scheme for the Shaikan field presented by GKP and has conducted an audit of the capital and operating costs. ERCE has audited production forecasts prepared by GKP for the 26 production well development of the Jurassic interval of the Shaikan field. Audited production, Capex and Opex forecasts have then been used as input into the economic model. ERCE's economic analysis is based on the Kurdistan PSC applicable to Shaikan on a stand-alone basis and does not take into account any outstanding debt, nor future indirect corporate costs of GKP.

At the effective date of this report, GKP had not yet signed any oil or gas sales agreements. In the estimation of future cash flows, ERCE has relied upon oil prices and contract terms assumed and provided by GKP, which may not reflect future signed contract values. There is no guarantee that actual economic parameters will match the assumed values. Note that the economic values associated with the Reserves calculations contained within this report do not necessarily reflect a fair market value. Values presented in this report have been calculated using the economic interest method.

The accuracy of estimates of volumes of oil and gas and production forecasts is a function of the quality and quantity of available data and of engineering interpretation and judgment. While estimates of Reserves and production forecasts, Contingent Resources and Prospective Resources presented herein are considered reasonable, these estimates should be accepted with the understanding that reservoir performance subsequent to the date of the estimate may justify revision, either upward or downward.

In the case of Contingent Resources presented in this report, there is no certainty that it will be commercially viable to produce any portion of the volumes of oil and gas. In the case of Prospective Resources presented in this report, there is no certainty that any portion of the volumes of oil and gas will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the volumes of oil and gas.

5. Shaikan Field

The Shaikan PSC was awarded to GKP on 6 November 2007 by the Kurdistan Regional Government (KRG), with GKP as the operator. At the time of preparing this report, GKP had a 75% working interest in the concession. In addition, TKI had a 5% working interest, held for GKP in trust. These interests could be diluted to 51% and 3.4% respectively if the state exercises its option to back-in up to a maximum of 20% and exercises the option for a third party nominated by the KRG to take up a maximum of 15%. At the time of preparing this report, GKP informed ERCE that the state had not exercised these options, and that they had expired. Nonetheless, the possibility remains that the state might still exercise these options. GKP has requested ERCE to carry out this evaluation on the basis of a 54.4% working interest, comprising 51.0% for GKP plus 3.4% held by TKI in trust. ERCE has not reviewed the legal ownership of the TKI interest by GKP.

The Shaikan field is located some 60 km north of Erbil in northern Kurdistan (Figure 1.1 and Figure 2.1). Oil and gas condensate have been tested in naturally fractured formations in the Cretaceous, Jurassic and Triassic intervals. Oil from the Cretaceous is very heavy, although viscosity decreases with increasing depth and temperature. The Jurassic contains medium to heavy crude with a gravity of approximately 18° API and a GOR of approximately 440 scf/stb. The Triassic contains light oil and gas condensate. The oil contained within all intervals of the field has a high content of H_2S and CO_2.

The original discovery well Shaikan-1B (also referred to as SH-1B) was drilled in November 2009 to a depth of 2,950 mMDRKB and oil was successfully tested. Appraisal drilling commenced in 2010, with the drilling of Well Shaikan-3 in December 2010 to a depth of 1,518 mMDRKB. In August 2011 Well Shaikan-2 was drilled to 3,300 mMDRKB and in December 2011 Well Shaikan-4 was drilled to 3,400 mMDRKB. In April 2012 Well Shaikan-6 was drilled on the eastern flank and is likely to be used for water disposal in the future. Subsequently, Well Shaikan-5B was drilled north-east of Well Shaikan-6 and Well Shaikan-8, planned as a future gas injector, was drilled in the vicinity of Wells Shaikan-1 and Shaikan-3. Well Shaikan-10A, a future production well located north of Well Shaikan-2, was drilled and suspended in October 2013. At the time of preparing this report, Well Shaikan-7, planned to test the deeper prospective formations not yet fully penetrated by any of the wells, was being drilled. GKP plans to use Wells Shaikan -1, -2, -3, -4, -5B and -10A as production wells. The development area for the Shaikan field is shown in Figure 5.1.

GKP submitted an Appraisal Report to the Ministry of Natural Resources in Kurdistan in the third quarter of 2012. GKP declared the field commercial with "The First Commercial Declaration Date" under the terms of the PSC being set at 1 August 2012. GKP prepared and submitted a field development plan (FDP) to the Kurdistan authorities dated January 2013 for the development of the Shaikan field. The FDP focussed on exploitation of the Jurassic interval. At the request of the Kurdistan authorities, an Addendum to the FDP, dated June 2013, was submitted by GKP, which included a more aggressive and comprehensive development than the original FDP. GKP has informed ERCE that the authorities have approved the development of Shaikan following submission of the Addendum.

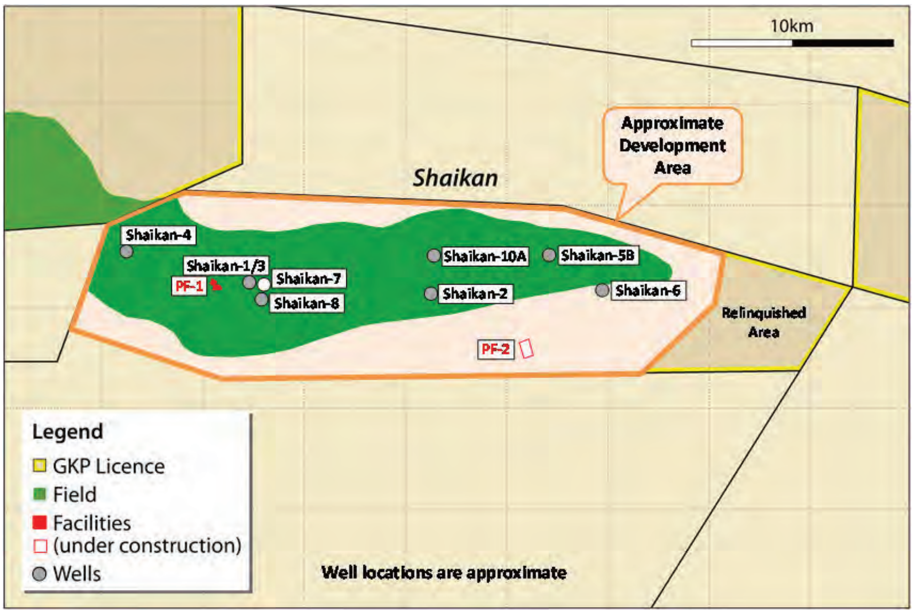


Figure 5.1: Shaikan Development Area

5.1. Seismic Interpretation

The Shaikan field is covered by 3D seismic data, acquired by Gulf Keystone in 2010. The seismic reference datum is 1,300 m above mean sea level. The original processed seismic volume exhibited poor image quality over the core of the anticline, where rocks of Cretaceous age are exposed and progressively eroded. Subsequently, GKP has undertaken pre-stack reprocessing of the data over the whole of the Shaikan anticline, and image quality in the core of the anticline is much improved (Figure 5.2). Vertical Seismic Profiles (VSPs) have been acquired in Wells Shaikan-1B, Shaikan-2, Shaikan-4, Shaikan-5B and Shaikan-6 to tie wells to seismic data.

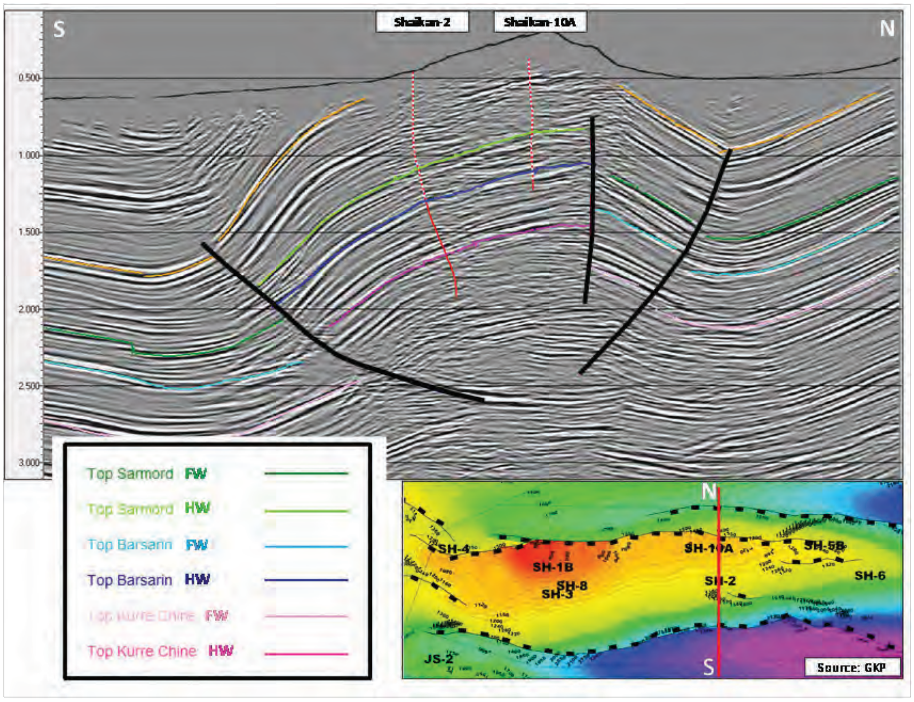


Figure 5.2: Dip Seismic Line, Shaikan Field

Using a combination of seismic mapping, extrapolation of structural dip, well formation dip and mapped surface structure, GKP has constructed a depth structure map of the Shaikan structure. In its simplest terms, the structure is a compressional, asymmetric anticline, with a faulted or possibly steeply folded northern limb and a subsidiary back fault developing to the south. It maps as dip closed plunging eastwards, and appears to be separated from the Sheikh Adi structure by a saddle and possibly cross-faulting to the west of Well Shaikan-4. Care has been taken to map key markers (Sarmord, Barsarin and Kurre Chine) separately in the footwall and hanging wall, to ensure accurate reconstruction for volumetric purposes.

ERCE has reviewed the seismic interpretation carried out by GKP and has accepted it as a reasonable basis for estimating volumes. Although seismic image quality is now sufficient within the core of the Shaikan anticline to allow structural form to be mapped directly, we note that the field is likely to be more structurally complex than is currently mapped.

5.2. Depth Conversion

A multi-layer time-to-depth conversion approach has been used to convert the key mapped marker horizons over the Shaikan field. These are: top Sarmord, top Barsarin, top Butmah, top Kurre Chine and top Kurre Chine C. Tertiary age rocks which outcrop on the flanks of the structure are of relatively low velocity, and also of variable thickness due to erosion, and this has been accounted for in the depth conversion. Deeper layers were depth converted using an interval velocity function, and then tied to the wells. Intermediate stratigraphic layers were created by isopach between the main mapped surfaces. ERCE estimate that the combined seismic pick and depth error within the core of the field is less than 100 m. The top Jurassic depth map for Shaikan based on the modelling work undertaken by GKP and used by ERCE for volumetric estimation is shown in Figure 5.3.

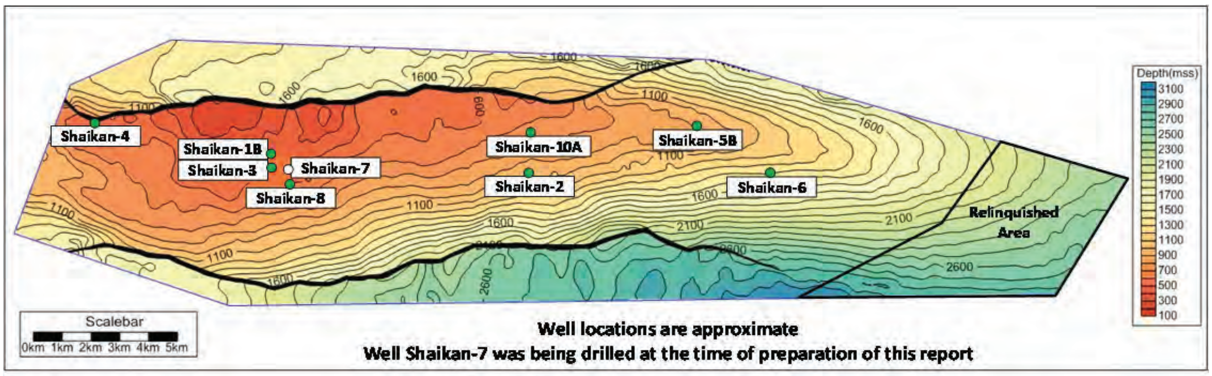


Figure 5.3: Shaikan Top Jurassic Depth Map

5.3. Geological Description

5.3.1. Reservoir Description

Hydrocarbons were discovered in the fractured carbonates of the Cretaceous, Jurassic and Triassic intervals (Figure 5.4). Cores were cut in a number of the wells and wireline logs were acquired in all wells. However, Wells Shaikan-3, Shaikan-8 and Shaikan-10A were terminated in the Jurassic interval and therefore no data were available from these wells for the Triassic.

The hydrocarbon bearing sections in the Cretaceous that ERCE has evaluated and reported on here are the Sarmord, Garagu and Chia Gara. These reservoirs comprise dolomite, limestone and shale. Matrix porosity is generally in the range from 0% to 22% with permeability generally ranging between <0.01 and 50 md. The Sarmord, Garagu and Chia Gara appear, from logs, to have different fluid contacts and have been evaluated as separate reservoirs.

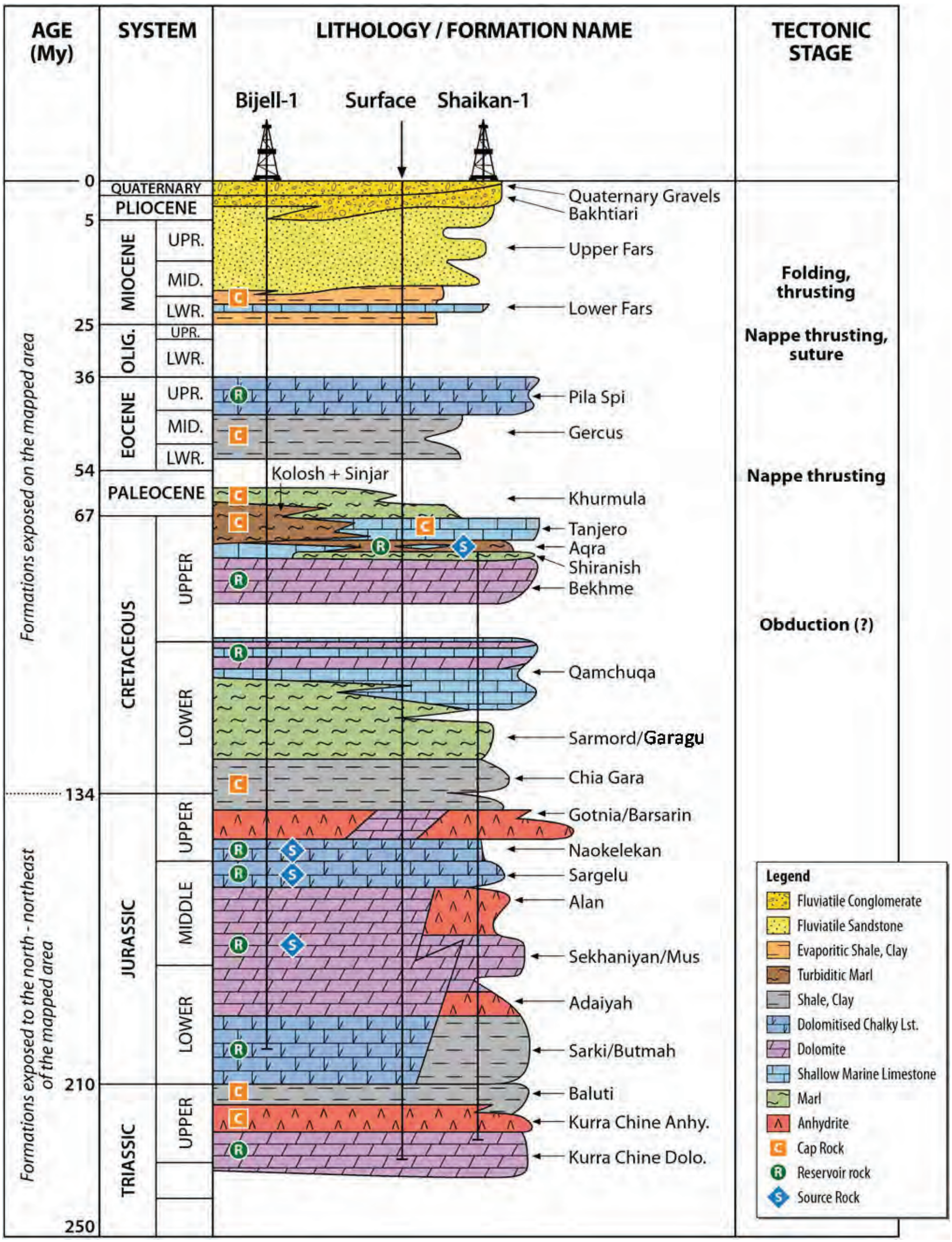


Figure 5.4: Shaikan and Bijell Stratigraphy

The Jurassic reservoir comprises, from the top, the Sargelu, Alan, Mus, Adaiyah and Butmah formations. The Barsarin formation at the top of the Jurassic is non-reservoir and the Adaiyah formation lying between the Mus and Butmah is very poor reservoir quality. Formation pressure data indicate that all the Jurassic reservoir intervals are in vertical communication. Dolomite and anhydrite make up the majority of the lower part of the Jurassic, while limestone and anhydrite are prevalent in uppermost formations (Sargelu and Alan). Shales are also common across the field in the Sargelu. The lowermost Sargelu and Alan formations exhibit high gamma ray log responses, which are believed to be due to organic richness and the possible presence of bitumen. These formations are known to contain source rock in the region. The limited cored section and the results from the Nuclear Magnetic Resonance (NMR) and Elemental Capture Spectroscopy (ECS) logs prove that the interval represents a low porosity section, which contrasts markedly with values derived from the standard logs. This discrepancy has been fully accounted for in our calculations. Matrix porosity generally ranges from 0% to 25% with permeability from cores varying between <0.01 and 1 md, with occasional intervals up to 700 md.

Well Shaikan-4 penetrated the northerly fault within the Sargelu (Jurassic). Here, a repeat reservoir section due to the faulting is recognised, and from log evaluation it was concluded that hydrocarbons occur in both the hanging wall and footwall of the structure. Dips of 60^{o} were interpreted from the image logs adjacent to the thrust in Well Shaikan-4 and highlight the distortion occurring along the thrust. This distortion was accounted for in determining the thickness value for each of the geological intervals in this well.

The Triassic section has not been fully penetrated by any well in the field and the hydrocarbons discovered to date in the field occur within the Kurre Chine A, B and C formations. These comprise heavily anhydritic dolomites and limestones having porosity between 0 and 15% and permeability from <0.01 to 2.5 md.

5.3.2. **Fracture Description**

From the available data, comprising fieldwork, core and image logs, ERCE has concluded that two families of fractures are present in the Shaikan field. These are the small-scale fractures (including hairline, stylolites, stratabound joints and tension gashes), which form a background fracture system that is present throughout each reservoir interval and are often partially occluded by mineralisation. The second family of fractures at Shaikan are larger scale and include non-stratabound joints, ‘fracture corridors’ and sub-seismic faults. The presence of this latter category was inferred by GKP, because of the frequent rubble zones in the core.

Shaikan has the form of an elongate linear feature, probably controlled by the reactivation of a basement fault (Figure 5.2). The boundary faults to the north and south define an asymmetric anticline with hinge lines and relatively little crestal bending. Based on the observations from the well data, combined with an understanding of the structural geometry and drawing upon comparisons with other structures in the region, we estimated a range of bulk fracture porosity for the Jurassic reservoirs of 0.1%, 0.4% and 0.7% for low, mid and high case estimates.

The available fracture data for the Cretaceous and Triassic are more limited than for the Jurassic, but image logs suggest a lower fracture density and therefore we reflected this, together with consideration of the geological aspects of each interval , in our estimated ranges of fracture porosity. For the Cretaceous interval, we estimated a wider range of fracture porosity, with lower values for the low and mid cases than for the Jurassic, i.e. 0.05%, 0.3% and 0.7% for low, mid and high case estimates. For the Triassic interval, we used the same values as the Cretaceous for the mid and high cases, but used the same low case as the Jurassic, because of its more heterogeneous and inter-bedded nature; thus for the Triassic, fracture porosities of 0.1%, 0.3% and 0.7% have been estimated for the low, mid and high case estimates.

Fracture porosity estimates described in this section are applicable to net reservoir only. Net-to-gross ratios for fractures were estimated by identifying poorly fractured rock such as shale and anhydrite and defining any interval of rock containing more than 50% shale or 50% anhydrite as non-net.

5.4. Log Analysis

The composited wireline log data for Wells Shaikan-5B and Shaikan-8 were provided by GKP in digital format, and include curves containing total gamma ray, thorium, potassium and uranium components from the spectral gamma, caliper, deep, shallow and micro resistivity, density, neutron sonic, and NMR logs. GKP also provided ERCE with interpreted logs comprising shale volume, porosity and water saturation, as well as the average reservoir properties derived from these interpretations by GKP.

ERCE analysed the wireline logs for these two wells and calculated shale volume, porosity and water saturation. The ERCE interpretations were used as a basis for auditing the log analysis provided by GKP, from which property values and ranges of uncertainty were estimated for volumetric calculations. The interpreted logs for Well Shaikan-5B are shown in Figure 5.5.

5.4.1. Shale Volume

ERCE derived shale volume (Vsh) from the gamma ray and density and neutron logs. Where the spectral gamma was available, the value that excludes the uranium contribution was used, and the linear gamma ray index was calculated. The density neutron method was also used to calculate Vsh and where the hole was in gauge the minimum value for Vsh estimated using the two methods was accepted. Where the hole was out of gauge, the gamma ray index method was used.

5.4.2. Porosity

ERCE derived total porosity from the density neutron cross plot method where the hole was in gauge. Where the hole was over gauge the sonic porosity was used if it was lower than the density neutron porosity. Core poroperm data were available over the interval 1,936.3 to 1,947.4 mMDRKB in Well Shaikan-5B. There is generally only moderate agreement with the density neutron porosity here, but this may be in part explained by core grain densities. More than half of the core plugs show laboratory derived grain density below 2.71 g/cc, the textbook value for limestone. The mudlog showed the Alan formation over the cored interval to be composed of limestone with minor discrete shale bands. Assuming that the plugs have not been taken from the shaley bands, this implies that sample cleaning may not have removed all of the residual hydrocarbon, and in consequence the derived porosity will be too low. This is consistent with the separation between the total gamma reading and the Potassium/Thorium contribution over this interval. The separation is probably due to the contribution from Uranium bearing organic material. This separation is significant over the Alan formation, but is much less so over the predominantly clean limestone of the Mus formation.

ERCE calculated effective porosity using:

$$\emptyset_e = \emptyset_t(1 - V_{sh})$$

where: $\emptyset_e$ = effective porosity
$\emptyset_t$ = total porosity
V_{sh} = Shale volume

5.4.3. Water Saturation

ERCE used the Archie equation to calculate water saturation:

$$S_w{}^n = FF \times \frac{R_w}{R_t}$$

$$FF = \frac{a}{\emptyset^m}$$

where: FF = formation factor
R_w = formation water resistivity (ohm.m)
R_t = resistivity log value (ohm.m)
$\emptyset$ = porosity log value
a = Archie constant (= 1)
m = cementation exponent
n = saturation exponent

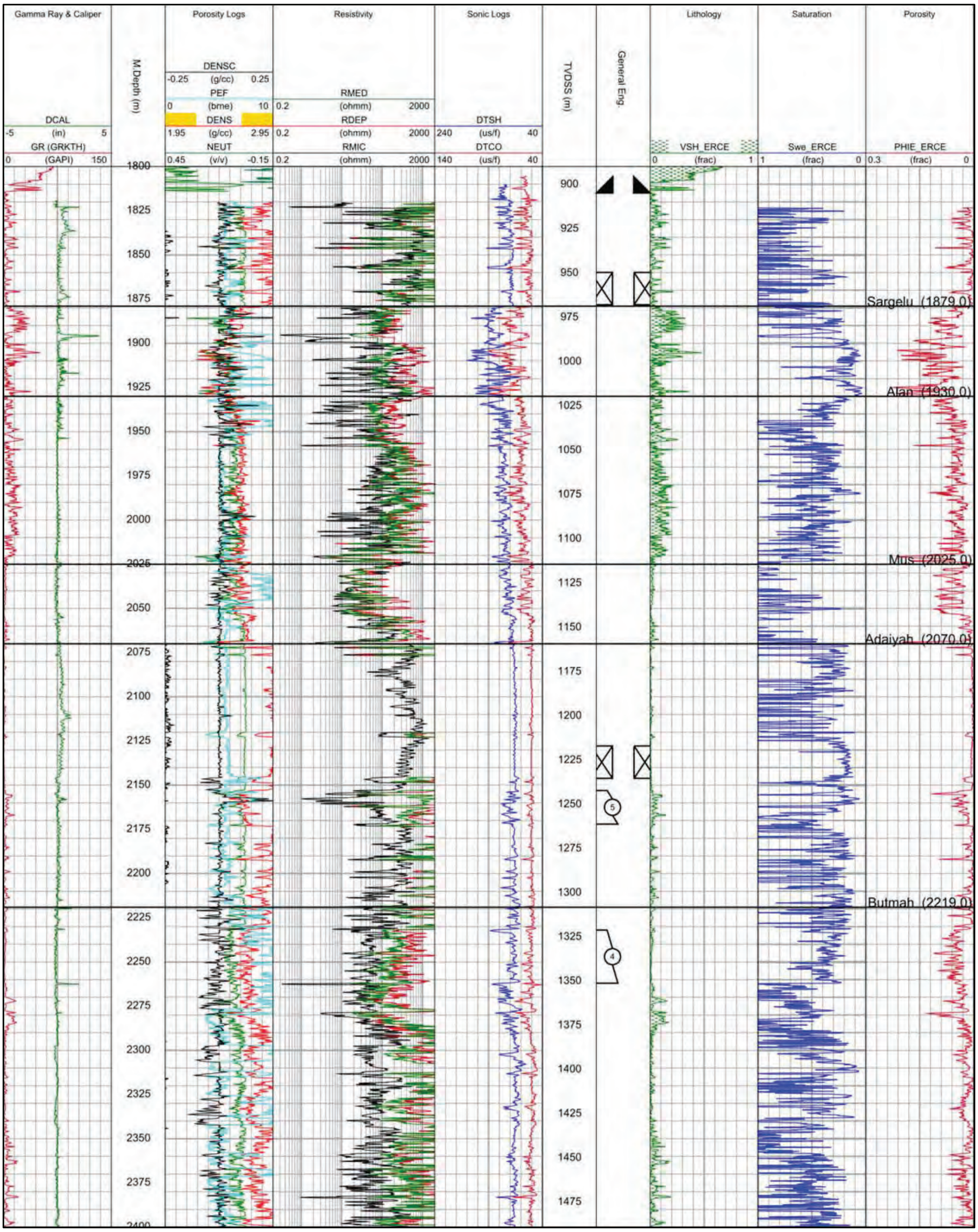
Special core analysis gave values of m=1.86 and n=1.95 for the Sargelu, and Alan formations. Other SCAL measurements gave m=1.90 for the Mus Formation, and m=2.04 for the Butmah Formation. For both these formations a value of 2 was used for “n”. For other formations, saturation was calculated using “m”=2 and ”n”=2.

ERCE calculated formation temperature with the formula:

$$T = 27 + 0.02 \times D$$

where: T = Temperature (°C)
D = Depth (mTVDRKB)

Rw was reported to be 0.7 ohm.m @ 15.5° C in the Sarmord and Chia Gara formations, equivalent to approximately 10,000 ppm NaCl. In the Jurassic Barsarin-Mus Formation, a value of 0.45 ohm.m @ 15.5° C was used, equivalent to approximately 16,000 ppm NaCl. In the lower Jurassic Adaiyah – Baluti formations, and Upper Triassic Kurre Chine A & B formations, Rw was 0.3 ohm.m, equivalent to approximately 25,000 ppm NaCl. In the Triassic Kurre Chine C, Rw was 0.053 ohm.m, equivalent to approximately 205,000 ppm NaCl.



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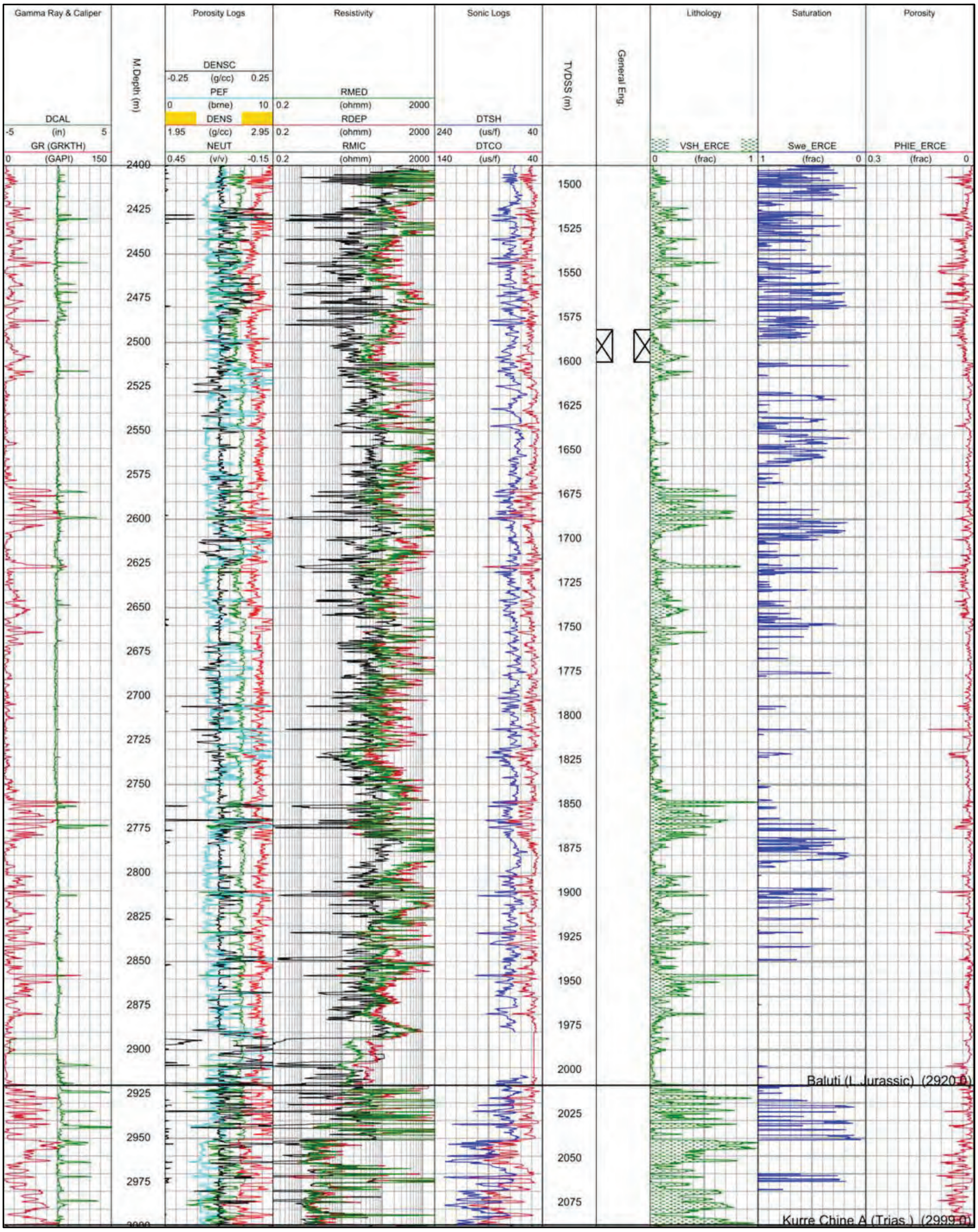


Figure 5.5: Well Shaikan-5B CPI of Jurassic Interval

5.4.4. Cut-offs

We carried out our petrophysical interpretation to provide a basis for auditing the reservoir property ranges provided by GKP. From our analysis, we concluded that the property ranges provided by GKP were satisfactory and these were consequently used by ERCE for making our volumetric estimates. For estimating N/G, porosity cut-offs of 7.0%, 4.5% and 3.0% were applied for the low, best and high cases. Low, best and high porosity cut-offs lead to low, best and high estimates of hydrocarbon pore thickness, with the constituent reservoir properties N/G ratio, porosity and oil saturation. The field-wide averages of N/G, porosity and saturation estimates included data from all wells where log data were available.

5.5. Fluid Contacts

A major uncertainty in the Shaikan field is the fluid contacts in the Jurassic reservoir. Several sources of data were analysed to identify the contacts and estimate the ranges of uncertainty in contact depths. These include the analysis of oil and water pressure gradients, the distinction between oil and water producing zones from DST data, analysis of wireline logs, inspection of fluid content of recovered cores and indications of fluids while drilling. An illustrative cross section through the Shaikan field is given in Figure 5.6.

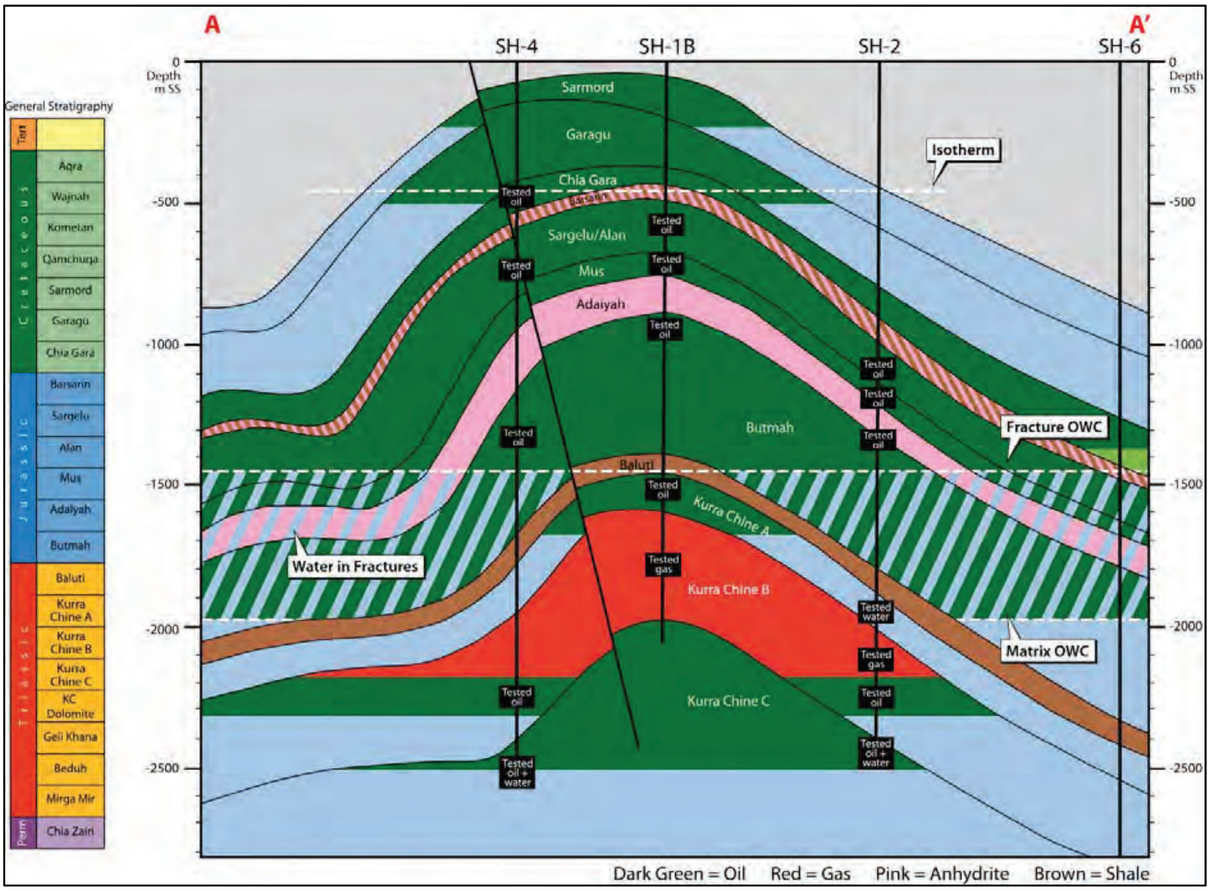


Figure 5.6: Illustrative Cross Section through Shaikan Field

It should be noted that there is considerable uncertainty regarding the depth intervals from which fluids flowed during the flow tests and hence there is considerable uncertainty in the definition of fluid contacts based on flow tests. Casing (or tubing) inserted into the well over intervals to be tested was (generally) not cemented in place, as cement would have penetrated the fractures and blocked the flow of fluids. Zone isolation was in the form of packers placed externally to the casing above and below the zone to be tested. The casing was then perforated, providing access directly to the formation across the perforations, but also to the formation behind casing via the annulus above and below the perforated interval as far as the external packers and, in the event of the formation being extensively fractured, to the formation above and below the packers via the fractures. Due to the low permeability of the matrix, flow of oil and water during testing was most likely to have come from fractures, and therefore the test results have been used to define the fluid contacts in the fractures only.

Another consideration in the analysis was whether or not a primary gas cap exists in the Shaikan field. Based on the field pressure gradient and PVT analysis, it is possible that a primary gas cap has formed at the top of the structure. However, there is uncertainty in the PVT analysis where the bubble point measurements range from 1,570 psia to 1,907 psia. In addition, the reservoir temperature decreases when moving up-dip from measured data points. For the purposes of this evaluation, we have assumed that no primary gas cap is present and the structure is oil filled to the crest. As a result of this assumption, our STOIIP volumes are contingent on a well drilled in the crest to ascertain the presence or absence of a primary gas cap.

5.5.1. Cretaceous

Within the Cretaceous (Sarmord, Garagu and Chia Gara formations), a distinction was made between highly viscous oil at shallow depth, which is considered to be biodegraded and immobile unless heated, and oil at greater depth, which appears to have sufficiently low viscosity to flow under pressure drawdown. In-place and recoverable volumes are only reported for the deeper zone of lower viscosity. The point of transition between viscous and moveable oil is likely to be related to temperature. However, there were insufficient reliable data from which to construct a temperature model of the reservoir to identify the depth of the isotherm at which this transition takes place. Consequently, the test results have been used to infer the isotherm.

Three attempts were made to flow test the Garagu formation in Well Shaikan-3, with perforations open between 290 mTVDSS and 410 mTVDSS in DST-1, DST-1A and DST-2A. These tests resulted in the down hole tools becoming clogged with viscous, sticky hydrocarbons. For the high case estimate, ERCE used the base of the Garagu formation tested by Well Shaikan-3 (DST-2A), at approximately 390 mTVDSS for the isotherm. DST-7 in Well Shaikan-4 was a successful test of the Chia Gara formation that flowed 130 stb/d of oil and 10 bbl/d of water from perforations over the interval 525 to 542 mTVDSS. We used the deepest perforation in Well Shaikan-4 DST-7 in the Chia Gara at approximately 540 mTVDSS for the isotherm in the low case. We assumed the most likely depth of the isotherm to occur 1/3 of the distance from the deep to shallow depths, i.e. at 490 mTVDSS.

ERCE analysed wireline logs, supported by DST results, to identify oil down to (ODT) and water up to (WUT) depths in each of the Cretaceous reservoirs. These are;

Sarmord ODT (wireline logs):	220 mTVDSS (Well Shaikan-8)
Sarmord WUT (wireline logs):	250 mTVDSS (Well Shaikan-5B)
Garagu ODT (wireline logs):	398 mTVDSS (Well Shaikan-3)
Garagu WUT (wireline logs):	1,120 mTVDSS (Well Shaikan-6)
Chia Gara ODT (test):	1,390 mTVDSS (Well Shaikan-6)

The ODT and WUT depths were used to define the low case and high case estimates of oil water contact (OWC), apart from the Chia Gara where a single value of 1,390 mTVDSS was used for all cases. In the Sarmord the best case was defined by a simple arithmetic average, while in the Garagu, due to the wide range in values, a log normal approach was used.

5.5.2. Jurassic

The Jurassic comprises the Barsarin, Sargelu, Alan, Mus, Adaiyah and Butmah formations, all of which contain oil apart from the Barsarin, which is considered non-reservoir. Pressure data acquired during a comprehensive campaign of flow testing suggest that the oil accumulation is continuous across all the formations of the Jurassic interval and hence fluid contacts are common to all formations. However, for volumetric estimation purposes, distinctions were made between oil occurring in the fractures and in the matrix and between clearly mobile oil and highly viscous, semi-mobile oil in the fractures (referred to as the 'high viscosity zone'). ERCE has therefore assigned multiple sets of fluid contacts, fluid properties and recovery factors to the Jurassic accumulations according to oil quality and to whether the oil is in the fractures or the matrix.

The general model for the Jurassic interval comprises moveable oil in the fractures down to a depth of between 1,350 and 1,400 mTVDSS, below which an interval with only semi-mobile oil, the high viscosity zone, extends to approximately 1,450 mTVDSS. Below this depth, the fractures appear to be water bearing. However, oil has been identified in the matrix all the way down to approximately 1,950 mTVDSS. This apparent anomaly, in which water occurs in fractures surrounding oil saturated blocks of matrix (between approximately 1,450 and 1,950 mTVDSS) could be explained by possible updip leakage of the oil from the structure in recent geological time, causing drainage of the fractures accompanied by influx of water from the aquifer. It is possible that the influx of fresh water caused degradation of the oil to form an interval in the fractures of high viscosity, semi-mobile oil or tar. Details are described below.

The log and core data from Well Shaikan-6 indicate an OWC in the matrix at 1,975 mTVDSS. Cores above this depth show high saturations of oil and oozing of oil upon release of pressure at surface. We have consequently used a depth of 1,975 mTVDSS for the OWC in the matrix for the low, best and high cases.

The OWC in the fractures (i.e. the contact between free water and the highly viscous oil in the fractures) has been estimated at 1,450 mTVDSS for the low, best and high cases. This is constrained by the results of Well Shaikan-6 DST-5A, which flowed water at a rate of 1,100 bbl/d with small amounts of heavy oil from the Sargelu formation that was perforated from 1,471 to 1,491 mTVDSS, suggesting a WUT at 1,471 mTVDSS.

Oil has been tested down to a depth estimated to be somewhere between 1,350 and 1,400 mTVDSS in the Jurassic, but no oil has been recovered in a successful flow test from the Jurassic below this. The deepest test that flowed oil at good rates from the Jurassic is DST-8 in Well Shaikan-2, which was perforated in the Butmah from 1,329 to 1,345 mTVDSS and flowed 723 stb/d of oil and 38 bbl/d of water. The shallowest depth at which the transition from medium to high viscosity occurs has therefore been assumed to be 5 m below this depth, at approximately 1,350 mTVDSS. We have used 1,350 mTVDSS for both the low and best cases.

Pressure data obtained from the many DSTs carried out by GKP have been used to estimate the formation pressure as a function of depth. These have been used to estimate the free water level (FWL), interpreted as the depth at which the oil pressure trend intersects the water pressure trend. Both absolute pressure and excess pressure plots have been analysed (Figure 5.8 and Figure 5.9). Due to the inherent difficulty of defining a precise relationship between pressure and depth from well test information, there is much scatter in the data points. However, the plots indicate a FWL somewhere between 1,350 mTVDSS and 1,450 mTVDSS.

Heavy, tar-like oil was recovered from DST-7 in Well Shaikan-2 between 1,370 and 1,376 mTVDSS and water and tar-like heavy oil was recovered from DST-6 in the same well between 1,397 and 1,407 mTVDSS, defining the high viscosity zone. While these tests suggested that the oil in the fractures is increasingly heavy with depth, it is possible that the transition to very high viscosity oil could occur at a greater depth than 1,350 mTVDSS and therefore, for the high case, we have used a depth of 1,400 mTVDSS for the transition.

Test results from Well Shaikan-5B appear to contradict the selection of contacts described above, in that clean water flowed from the Butmah formation that was perforated from 1,321 to 1,351 mTVDSS in DST-4. GKP has explained this by noting that the swell packer was located some 241 m deeper than the deepest perforation, i.e. at 1,592 mTVDSS, considerably below the OWC in the fractures at 1,450 mTVDSS, resulting in a direct route behind casing between the perforations and an extensively fractured interval below the OWC. We agree that this is possible as the high density of the oil and very low viscosity of the water would allow water production via the annulus with little pressure drawdown on the well.

5.5.3. Triassic

The Triassic interval comprises the Kurre Chine A, B and C formations, in which separate hydrocarbon accumulations were intersected. The oil in the Triassic is significantly lighter than the oil encountered in the Jurassic, with low viscosity (less than 0.5 cp). The Kurre Chine A is a relatively small light oil accumulation. The Kurre Chine B can be divided into an upper and a lower part, possibly separated by a seal. Fluids recovered during testing suggest that gas was discovered in the shallower part of the Upper Kurre Chine B with oil deeper in the Upper Kurre Chine B and in the Lower Kurre Chine B. The Kurre Chine C is the deepest interval in which hydrocarbons have been positively tested in the Shaikan field. Hydrocarbons in the Kurre Chine C appear to be a light oil. A few wells have penetrated the deeper Kurre Chine dolomites, which showed inconclusive evidence of containing hydrocarbons, possibly gas. However, the Kurre Chine dolomites have not been appraised and no resources have been attributed to them in this report.

Triassic Kurre Chine A: GKP has used an OWC of 1,680 mTVDSS for the Kurre Chine A. This is fairly reliably supported by extrapolation of the pressures recorded during DST-4 of Well Shaikan-1B onto a regional water line. ERCE has used this as the best case. DST-4 of Well Shaikan-1B tested dry oil at a rate of 1,784 stb/d over an interval from 1,518 to 1,598 mTVDSS. ERCE used a depth of 1,640 mTVDSS, approximately midway between the greatest depth of the interval from which dry oil flowed (1,598 mTVDSS) and the best case OWC of 1,680 mTVDSS for the low case OWC. ERCE used 1,720 mTVDSS for the high case OWC, resulting in a symmetric distribution. DST-5 of Well Shaikan-2 flowed water from an interval between 1,856 and 1,964 mTVDSS and DST-3 of Well Shaikan-4 flowed water from an interval from 1,969 to 1,984 mTVDSS. Pressures from these two water tests confirm the regional water gradient. The same set of contacts was used for the fractures and the matrix.

Triassic Kurre Chine B: Two alternative interpretations of the dataset for the Kurre Chine B lead to two different reservoir models. In the first model, the KCB Upper and KCB Lower are in pressure communication with an oil accumulation and gas cap and fluid contacts that are common to both intervals. In the second model, the KCB Upper and KCB lower are separated by a seal, with different pressures and fluid contacts. In this model, KCB Upper is an oil accumulation with a gas cap, while KCB lower is an oil accumulation which may not have a gas cap. Data were insufficient to conclusively eliminate either one of these models. ERCE adopted the first model on the basis that the pressure measurements more strongly support a single continuous accumulation of oil with a gas cap. This model leads to more conservative estimates of Resources than the alternative model.

We defined the depth to the gas oil contact (GOC) by analysing test results. Well Shaikan-1B tested gas in DST-5 from an interval between 1,755 and 1,775 mTVDSS and Well Shaikan-2 tested gas in DST-4A from an interval between 2,121 and 2,127 mTVDSS, both in the KCB Upper. The greatest depth in an interval from which gas flowed was therefore 2,127 mTVDSS. This was defined as a gas down to (GDT) and was used for the high case GOC. Well Shaikan-4 DST-2 flowed oil at a rate of 5,086 stb/d from an interval between 2,234 and 2,254 mTVDSS in the KCB Lower. The shallowest depth of an interval from which oil flowed was therefore 2,234 mTVDSS. This was defined as an oil up to (OUT) and used by ERCE for the low case GOC. We set the best case GOC at 2,180 mTVDSS, half way between the low and high case GOCs. Oil was also tested in Well Shaikan-2, DST4, which flowed 2,620 stb/d from a KCB lower interval between 2,288 and 2,297 mTVDSS and Well Shaikan-5B DST 3, which flowed 600 stb/d from a KCB lower interval between 2,290 and 2,302 mTVDSS. The greatest depth of an interval from which oil flowed was therefore 2,302 mTVDSS, defined as an ODT and used by ERCE for the low case OWC. Water was tested from greater depths: Well Shaikan-6 DST-2 flowed water between 2,700 and 2,710 mTVDSS and Well Shaikan-6 DST-1 flowed water between 2,817 and 2,850 mTVDSS.

Extrapolation of pressures obtained from all these tests suggest that the greatest reasonable depth for an OWC is approximately 2,410 mTVDSS (described in Section 5.9.1) and we used this for the high case. GKP used a depth of 2,325 mTVDSS for the most likely OWC, approximately 25% of the depth difference between the low and high case OWCs. This is reasonable and was used by ERCE for the best case.

Triassic Kurre Chine C: Well Shaikan-2 tested oil at a rate of 1,000 stb/d and water at a rate of 900 bbl/d from an interval open between 2,426 and 2,506 mTVDSS. We have consequently set the low and best case OWCs at 2,426 and 2,506 mTVDSS respectively.

Well Shaikan-4 DST-1A tested oil at a rate of 440 stb/d with water at a rate of 68 bbl/d in a barefoot test from 2,324 to 2,611 mTVDSS. The well was tested with a fish in the hole, up to 2,508 mTVDSS. A production logging tool (PLT) showed that gas with some oil was flowing around the fish from below, but it was not clear what the hydrocarbon type was, nor which formation it was coming from, although it did suggest that hydrocarbons might exist below the depth of the best case OWC. A single pressure point obtained from this test was extrapolated to the regional water gradient, giving an estimate to the OWC at 2,947 mTVDSS. However, the extrapolation is tenuous and confidence in this depth as an OWC is much less and consequently we have used this depth to define the high case OWC.

5.6. Gross Rock Volume Estimation

5.6.1. Cretaceous

The structural depth map to the top of the Jurassic Barsarin formation described in Section 5.2 was used by ERCE to generate structural depth maps to the tops of the Garagu and Chia Gara formations using formation isochores derived from the wells. Dip corrected thicknesses were determined for each reservoir interval in each well and true stratigraphic thickness maps were defined across the structure.

ERCE estimated a range of gross rock volume (GRV) for each Cretaceous interval using the uncertainty ranges of OWCs described in Section 5.5.1. GRVs were estimated for the region both above and below the isotherm separating viscous immobile oil from the deeper, mobile oil. However, ERCE has reported Contingent Resources only for the oil below the isotherm. Since the entire Sarmord formation lies above the isotherm, no Contingent Resources have been reported for this formation.

5.6.2. Jurassic

A Top Basarin structural depth map was used by ERCE to generate structural depth maps for each Jurassic reservoir interval using formation isochores derived from the wells, in the same manner described above for the Cretaceous. ERCE estimated ranges of GRVs for the Jurassic interval for the different zones and OWCs as described in Section 5.5.2.

5.6.3. Triassic

A top Triassic Kurre Chine A structural depth map was generated as described in Section 5.2. Depth maps for the Kurre Chine B and C were created by the addition of true stratigraphic thickness isopachs derived from the wells, in the same manner described for the Jurassic and Cretaceous reservoir sections above. ERCE estimated ranges of GRVs for the Triassic interval for the different zones and OWCs as described in Section 5.5.3.

5.7. Reservoir Fluid Properties

GKP has collected many bottom hole and surface samples of oil and gas and has sent them to specialist laboratories for PVT analysis. Summaries of the PVT results used in the preparation of this report are shown in Table 5.1 for the Jurassic oil, Table 5.2 for the Triassic oil and Table 5.3 for the Triassic gas. ERCE has used the PVT data to estimate oil formation volume factors and solution gas oil ratios for oil zones and gas expansion factors and condensate-gas ratios for gas zones, as well as the uncertainty ranges in these properties for the purposes of estimating volumes of hydrocarbons in place. In instances where no PVT reports were available, we estimated fluid properties from an understanding of the test results. In the Cretaceous interval, the oil is very heavy or bituminous in nature and no PVT analysis has been reported. In the Jurassic interval the oil is medium to heavy with a gravity of between 14 and 20 °API and relatively high in-situ viscosity. In the Triassic interval, hydrocarbons are light oil, with a gravity of between 38 and 43 °API, and gas. The oil contained within all intervals of the field has a high content of H_2S and CO_2.

Table 5.1: Shaikan Jurassic Oil PVT Summary

Measurement/entity	Units	SH-1B Sargelu	SH-1B Mus	SH-1B Butmah	SH-1B Sargelu/ Alan	SH-3 Sargelu/ Alan	SH-2 Alan	SH-2 Mus
DST number		1	2	7	(Note 1)	3A	1	8
Sample type(Note 2)		Rec.	Rec.	BH	BH	BH	BH	BH
Top perforations	mMDRKB	1,451	1,627	1,790	1,470	1,303	1,792	2,040
Base perforations	mMDRKB	1,510	1,668	1,815	1,540	1,513	1,836	2,058
Mid perforation depth	mTVDSS	599	763	917	621	631	1,113	1,337
Reservoir pressure	psia	1,989	2,175	2,279	1,990	2,162	2,588	2,871
Reservoir temperature	°F	119	129	128	119	120	142	149
Saturation pressure	psia	172	330	1,818	1,838	1,907	1,570	1,272
Density at reservoir	g/cc	0.914	0.924	0.860	0.856	0.859	0.883	0.904
Density at standard conditions	g/cc	0.935	0.955	0.946	0.939	0.942	0.961	0.972
Density at standard conditions	°API	19.9	16.7	18.1	19.2	18.7	15.7	14.0
Viscosity at reservoir	cp	57.70	81.70	13.52	11.41	9.85	26.25	55.88
GOR	scf/stb	57	52	413	442	480	325	240
FVF at reservoir	rb/stb	1.044	1.042	1.208	1.208	1.225	1.159	1.150
Compressibility at reservoir	10^{-6} psi^{-1}	4.9	4.7	7.1	7.8	7.4	6.4	5.6
Solution gas non HC content	mol %	23.6	23.8	19.7		25.2	21.3	22.7

Notes

1) The Sargelu/Alan sample from Well Shaikan—1B was taken while the completion was being run.

2) 'Rec.' means recombined. 'BH' means bottom hole.

Table 5.2: Shaikan Triassic Oil PVT Summary

Measurement/entity	Units	SH-1B Kurre Chine A	SH-2 Kurre Chine B	SH-4 Kurre Chine B	SH-2 Kurre Chine C
DST number		4	4	2	3
Sample type(Note 2)		Rec.	BH		Rec.
Top perforations	mMDRKB	2,402	3,057	3,010	3,195
Base perforations	mMDRKB	2,483	3,066	3,030	3,275
Mid perforation depth	mTVDSS	1,558	2,292	2,244	2,466
Reservoir pressure	psia	3,254	4,444	4,191	6,015
Reservoir temperature	°F	151	185	183	186
Saturation pressure	psia	2,555	4,163	4,098	4,668
Density at reservoir	g/cc	0.657	0.585	0.638	0.608
Density at standard conditions	g/cc	0.810	0.819	0.840	0.833
Density at standard conditions	°API	43.2	41.2	37.1	38.3
Viscosity at reservoir	cp	0.32	0.14	0.19	0.19
GOR	scf/stb	1,086	2,647	1,719	1,873
FVF at reservoir	rb/stb	1.579	2.363	1.858	1.965
Compressibility at reservoir	10^{-6} psi^{-1}	16.6	32.92		17.8
Solution gas non HC content	mol %	14.3	27.94		9.7

Notes

1) Limited data are available for Well Shaikan-4 DST-2. Information reported here is from GKP's FDP report.

2) 'Rec.' means recombined. 'BH' means bottom hole.

Table 5.3: Shaikan Triassic Gas PVT Summary

Measurement/entity	Units	SH-2
		Kurre Chine B
DST number		4A
Sample type		recombined
Top perforations	mMDRKB	2,882
Base perforations	mMDRKB	2,888
Mid perforation depth	mTVDSS	2,124
Reservoir pressure	psia	4,191
Reservoir temperature	°F	178
Saturation pressure (dew point)	psia	4,191
Density at reservoir conditions	g/cc	0.421
Condensate density at standard conditions	g/cc	0.775
Condensate density at standard conditions	°API	51.1
Viscosity at reservoir conditions	cp	0.08
CGR	stb/MMscf	120
Z factor at reservoir conditions	dimensionless	0.826
Expansion factor from reservoir conditions	scf/rcf	281

5.7.1. Cretaceous

For all of the Cretaceous formations, we used a formation volume factor (FVF) of 1.0 rb/stb for both the shallow, highly viscous and immobile oil and for the deeper, mobile oil in the fractures and in the matrix. No uncertainty range was applied to the FVF. We assumed that no gas would be liberated from the produced oil. No data were available to confirm these assumptions, but they are consistent with the known heavy nature of the oil.

5.7.2. Jurassic

We estimated the oil FVF for the Jurassic above the high viscosity zone from PVT reports of good quality oil samples. The arithmetic mean of the FVFs from seven samples is 1.15 rb/stb. We used this value for the best case and applied an uncertainty range of ±5%. This range was applied to the oil in all the Jurassic formations in the fractures and in the matrix down to the top of the high viscosity zone. For the high viscosity zone in the fractures we used a FVF of 1.00 rb/stb for low, best and high cases. No PVT data were available to support this value but it is consistent with the heavy nature of the oil. In the case of the matrix, the oil between the top of the high viscosity zone in the fractures and the OWC in the matrix at 1,975 mTVDSS, was assigned a range of FVFs of 1.10, 1.05 and 1.00 rb/stb for the low, best and high cases. No data were available to support these values but the oil is known to be heavier than the shallower oil in the matrix and hence should have lower values for the FVF.

GKP used a value for the GOR of 350 scf/stb for oil in all Jurassic formations in both the matrix and fractures down to the top of the high viscosity zone. We reviewed this and found it to be largely consistent with PVT laboratory reports. We accepted this for the best case and applied an uncertainty range of ±10%. For the oil in the fractures in the high viscosity zone we have not attributed any solution gas. In the case of the matrix, GKP used a GOR value of 200 scf/stb for the oil between the top of the high viscosity zone in the fractures and the OWC in the matrix at 1,975 mTVDSS. No data were available to support this value, but it appears reasonable considering the nature of the oil discovered while drilling, coring and attempting flow testing. We used this for the best case and applied an uncertainty range of ±10%.

5.7.3. Triassic

Triassic Kurre Chine A: ERCE used the results of PVT laboratory experiments carried out on oil samples collected during DST-4 of Well Shaikan-1B to define properties for volumetric estimation. The laboratory derived oil formation volume factor of 1.58 rb/stb was used for the best case input and an uncertainty range of ±5% was applied. The laboratory derived gas oil ratio of 1,086 scf/stb was used for the best case with a ±10% uncertainty range. The non-hydrocarbon fraction of the solution gas was estimated to be approximately 14 % (molar).

Triassic Kurre Chine B: Two sets of samples were recovered from the gas cap, during DST-5 of Well Shaikan-1B and during DST-4A of Well Shaikan-2. When Well Shaikan-1B was tested, the wellbore was open to both the gas cap in the KCB, from 1,951 to 1,961 mTVDSS and a deeper oil bearing zone. Therefore, the PVT analysis of the samples from this test, which shows a very high condensate gas ratio (CGR), is not representative. Samples were recovered during DST-4A from Well Shaikan-2. The sample that was analysed in the laboratory was reported to exhibit dew point characteristics, i.e. it is likely to be in the gas phase at reservoir conditions. There is considerable uncertainty regarding the CGR as separator conditions are not yet defined. ERCE has used a range from 108 to 180 stb/MMscf for volumetric purposes. The range of gas expansion factors was estimated to be 238, 250 and 263 scf/rcf for the low, best and high cases. The dry gas is expected to contain approximately 29% (molar) of non-hydrocarbons (primarily H_2S and CO_2). These non-hydrocarbon gas volumes were removed from the estimated recoverable gas volumes before reporting.

For the oil interval in the KCB, ERCE used PVT analyses from DST-4 of Well Shaikan-2 and DST-4 of Well Shaikan-4. We selected a range for the oil formation volume factor of 1.33, 2.12 and 1.91 rb/stb for the low, best and high cases with a corresponding range in GOR of 1,856, 2,183 and 2,510 scf/stb. We estimated that approximately 28% (molar) of the solution gas comprises non-hydrocarbon components.

Triassic Kurre Chine C: Fluid samples from Well Shaikan-4 DST-1A show very high gas content and have not been used by ERCE. An oil sample obtained from Well Shaikan-2 during DST-3 was analysed in a PVT laboratory and the results have been used to estimate fluid properties. We used the laboratory derived oil formation factor of 1.97 rb/stb to define the best case value and applied a ±10% uncertainty range. Likewise, the laboratory derived GOR of 1,873 scf/stb was used to define the best case value, with a ±15% uncertainty range. The solution gas was estimated to contain approximately 10% (molar) of non-hydrocarbon components, which have been removed before reporting of volumes.

5.8. Volumetric Input Parameters

Details of the ranges of parameters used by ERCE for estimating STOIIP and GIIP for each reservoir interval are shown in Table 5.4, for the Cretaceous, Table 5.5 for the Jurassic and Table 5.6 for the Triassic formations. These parameters were used as input into the probability distribution functions for estimating Contingent Resources as described in Section 5.10. For fractures, we applied the fracture porosity ranges described in Section 5.3.2 to the net rock volume.

Table 5.4: Volumetric Input Parameters for Shaikan Cretaceous

Property	Sarmord			Garagu			Chia Gara		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	2,671	3,043	3,427	4,778	10,733	24,111	22,453	22,453	22,453
N/G (fraction)	0.080	0.113	0.140	0.024	0.026	0.048	0.105	0.122	0.148
Phi (fraction)	0.121	0.104	0.100	0.171	0.169	0.164	0.144	0.136	0.151
So (fraction)	0.709	0.688	0.691	0.515	0.513	0.544	0.698	0.694	0.717
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Fractures									
GRV (10^6 m^3)	2,671	3,043	3,427	4,778	10,733	24,111	22,453	22,453	22,453
N/G (fraction)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Phi (fraction)	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Notes

1) GRV estimates in this table are above and below the isotherm depth at which oil becomes mobile.
2) No volumes are reported for the Sarmord formation as the entire reservoir interval lies above the isotherm depth.

Table 5.5: Volumetric Input Parameters for Shaikan Jurassic

Property	Sargelu			Alan			Mus			Adaiyah			Butmah		
	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High
Matrix															
GRV (10^6 m^3)	19,865	19,865	19,865	19,057	19,057	19,057	10,785	10,785	10,785	18,547	18,547	18,547	58,971	58,971	58,971
N/G (fraction)	0.007	0.052	0.291	0.064	0.111	0.251	0.261	0.326	0.477	0.017	0.041	0.078	0.040	0.092	0.182
Phi (fraction)	0.125	0.077	0.056	0.134	0.096	0.084	0.132	0.122	0.130	0.099	0.079	0.080	0.103	0.083	0.079
So (fraction)	0.648	0.763	0.726	0.657	0.695	0.700	0.626	0.615	0.633	0.769	0.752	0.767	0.312	0.669	0.683
Bo (rb/stb)	1.21/1.10	1.15/1.05	1.09/1.00	1.21/1.10	1.15/1.05	1.09/1.00	1.21/1.10	1.15/1.05	1.09/1.00	1.21/1.10	1.15/1.05	1.09/1.00	1.21/1.10	1.15/1.05	1.09/1.00
Fractures															
GRV (10^6 m^3)	12,401	12,401	12,401	11,030	11,030	11,030	6,051	6,051	6,051	9,524	9,524	9,524	21,836	21,836	21,836
N/G (fraction)	0.350	0.350	0.350	0.900	0.900	0.900	1.000	1.000	1.000	0.020	0.046	0.083	0.850	0.850	0.850
Phi (fraction)	0.0010	0.0040	0.0070	0.0010	0.0040	0.0070	0.0010	0.0040	0.0070	0.0010	0.0040	0.0070	0.0010	0.0040	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.21/1.10	1.15/1.05	1.09/1.00	1.21/1.10	1.15/1.05	1.09/1.00	1.21/1.10	1.15/1.05	1.09/1.00	1.21/1.10	1.15/1.05	1.09/1.00	1.21/1.10	1.15/1.05	1.09/1.00

Notes

1) Volumes reported in this table include oil in the fractures above and below the depth at which the transition from highly viscous oil to less viscous oil takes place.
2) Volumes reported in this table include oil in the matrix down to the OWC in the matrix below the OWC in the fractures.
3) For each case two values are reported for FVF. The low value applies to the region of high viscosity oil and vice versa.

Table 5.6: Volumetric Input Parameters for Shaikan Triassic Oil

	Kurre Chine A			Kurre Chine B Oil			Kurre Chine C		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	1,778	2,208	2,651	2,661	5,567	10,837	8,039	9,911	22,358
N/G (fraction)	0.024	0.107	0.232	0.044	0.094	0.194	0.031	0.040	0.076
Phi (fraction)	0.089	0.067	0.063	0.104	0.080	0.076	0.093	0.086	0.072
So (fraction)	0.722	0.676	0.682	0.712	0.710	0.722	0.922	0.912	0.721
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91	2.17	1.97	1.77
Fractures									
GRV (10^6 m^3)	1,778	2,208	2,651	2,661	5,567	10,837	8,039	9,911	22,358
N/G (fraction)	0.650	0.650	0.650	0.500	0.500	0.500	0.200	0.200	0.200
Phi (fraction)	0.0010	0.0030	0.0070	0.0010	0.0030	0.0070	0.0010	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91	2.17	1.97	1.77

Table 5.7: Volumetric Input Parameters for Shaikan Triassic Gas Cap

	Kurre Chine B Gas		
	Low	Best	High
Matrix			
GRV (10^6 m^3)	16,283	14,297	12,462
N/G (fraction)	0.044	0.094	0.194
Phi (fraction)	0.104	0.080	0.076
So (fraction)	0.712	0.710	0.722
Eg (scf/rcf)	238	250	263
Fractures			
GRV (10^6 m^3)	16,283	14,297	12,462
N/G (fraction)	0.500	0.500	0.500
Phi (fraction)	0.0010	0.0030	0.0070
So (fraction)	1.000	1.000	1.000
Eg (scf/rcf)	238	250	263

Notes

1) Gas volumes reported in this table are free gas in the gas cap and exclude solution gas in the oil leg.
2) Gas volumes reported in this table are wet gas volumes.
3) Gas volumes reported in this table include non-hydrocarbon components.

5.9. Dynamic Evaluation

The reservoir engineering dataset for the Shaikan field comprised a large number of DSTs carried out in all intervals in multiple well and PVT laboratory reports for a comprehensive set of oil, gas and water samples. DST programmes in the Cretaceous have been hindered by mechanical difficulties and the bituminous nature of the oil, with the exception of Well Shaikan-4 which flowed oil at a rate of 130 stb/d from the Chia Gara formation during DST-7. In the Jurassic many DSTs have been carried out successfully with oil flowing to surface from the Sargelu, Alan, Mus, Adaiyah, and Butmah formations, including a long term interference test between Wells Shaikan-1B and Shaikan-3. In some wells high flow rates were achieved from individual zones with little pressure drawdown, indicating high flow potential of the fracture system. However, several other DSTs failed to flow to surface or had low flow rates, due to low productivity and viscous oil, and in some cases due to mechanical problems. In the Triassic, several DSTs were conducted, flowing light oil and gas to surface, in some cases at high rates.

Limited special core analysis has been carried out on core plugs from Well Shaikan-2. Centrifuge air-brine capillary pressures were measured on four plugs from the Butmah formation and one core plug from the Mus formation. Steady-state water-oil relative and steady-state gas-oil relative permeability measurements were made on four plugs from the Butmah formation. Electrical measurements were made on seven plugs from the Butmah formation and three plugs from the Mus formation.

5.9.1. Well Tests

Attempts to take Modular Formation Dynamic Tester (MDT) and Repeat Formation Tester (RFT) pressure measurements in Shaikan have been unsuccessful, due in large part to the highly fractured nature of the reservoir rock. Therefore GKP has carried out an extensive DST programme, attempting approximately 47 DSTs at different intervals in Wells Shaikan-1B, Shaikan-2, Shaikan-3, Shaikan-4, Shaikan-5B, Shaikan-6 and Shaikan-8. Some of the tests showed extremely high potential flow rates, which is attributed to the well having penetrated networks of natural fractures. Other tests were unsuccessful, with low or no flow, due to the bituminous nature of the oil in places, and possibly the paucity of connected fractures in parts. In addition, some tests failed due to operational difficulties.

The carrying out of DSTs has been challenging operationally, due to safety constraints caused by the high H_2S content of produced fluids, frequently coupled with variable wind directions. Operational challenges were also caused by the fractured nature of the reservoir, which made it impossible to obtain reliable reservoir information by testing with cemented and perforated liners. GKP employed a variety of testing techniques, including open hole tests and by perforating through un-cemented tubing with external inflatable packers. In addition, the high density and viscosity of the oil required the use of nitrogen lift to initiate and in some instances, to maintain flow of reservoir fluids to surface. These factors in turn combined to make the interpretation of the DSTs difficult. However, GKP has largely addressed the ambiguity in DST interpretations caused by these limitations by conducting a large number of tests, thereby improving confidence in the overall results through repetition.

Sufficient data were gathered to ascertain oil productivity from the Jurassic and Triassic, to determine pressure gradients within the reservoirs and to identify fluid contacts. While most tests in the Jurassic produced dry oil, water was produced from Well Shaikan-5B and from Well Shaikan-6 at depths above the depth to which oil had been identified in the matrix, leading to a fairly complex model to explain the relationship between oil in the fractures and matrix (Section 5.5.2). Several tests in the Triassic produced water and samples were collected from the Kurre Chine A and Kurre Chine C reservoir intervals. In addition to the DST tests, GKP conducted a long term interference test between Wells Shaikan-1B and Shaikan-3.

GKP recorded pressures with gauges deployed down hole during the DSTs. GKP used down hole valves to shut wells in for pressure build-up, providing the best possible circumstances for obtaining data that could be subjected to pressure transient analysis to obtain reservoir information. Some of these data were interpretable, while other datasets were not, often due to non-stabilised flow rates caused by operational challenges. Transient pressure build-up analyses presented by GKP suggested that dual porosity flow may have occurred during many of the Jurassic formation tests. Dual porosity behaviour occurs when fluids flow rapidly towards the wellbore under pressure drawdown, followed by slower seepage from the matrix. This results in a characteristic shape to the derivative plot from which fracture and matrix properties can sometimes be estimated.

GKP's interpretation of test data indicated variable flow capacity with the permeability-thickness product over different zones ranging from 12 to nearly 10,000 Darcy.ft. The latter value is extremely high and corresponds to a well productivity index greater than 100 stb/d/psi. This suggests significant flow contribution of the fracture network. Table 5.8 summarises the interpreted results for some of the tests. After auditing the work completed by GKP, ERCE agreed with the methodology. However, at this juncture the dual porosity signature that was identified has not been proven to be a matrix/fracture signature. Instead it could also represent the difference in transmissibility between the two families of fracture systems described in Section 5.3.2. It is likely that the degree of contribution that the matrix will have over the field life and whether the matrix is responsible for the dual porosity response seen in the well tests will only become clear after the field has been on stream for some time.

Table 5.8: Summary of Shaikan DST Interpretations

Well	DST	Top	Base	Permeability thickness product	Thickness	Permeability	Productivity index
		(mMDRKB)	(mTVDSS)	(Darcy.ft)	(ft)	(md)	(stb/d/psi)
Shaikan-1B	1	1,451	1,510	1,400	164	8,537	30
Shaikan-1B	4	2,405	2,485	108	30	3,600	39
Shaikan-1B	5	2,649	2,659	234	300	780	13
Shaikan-1B	7	1,783	1,814	1,400	131	10,687	5
Shaikan-1B	7A	1,783	1,814	1,400	131	10,687	32
Shaikan-1B	8	1,627	1,668	90	30	3,000	4
Shaikan-2	1	1,792	1,836	9,650	656	14,710	148
Shaikan-4	2	3,010	3,030	12	66	180	32
Shaikan-4	5	1,530	1,550	753	131	5,748	12
Shaikan-4	6	1,370	1,460	41	197	210	5

Wells Shaikan-1B and Shaikan-3, located 500 m apart, were put on long term production test on 20 September 2010 (Figure 5.7). Both wells produced from the Upper Jurassic reservoirs. Production was intermittent, with periods of flow interspersed with long periods of shut-in. This allowed the pressure readings in both wells to be analysed for interference effects. GKP's interpretation of the data showed very good communication between the wells in the Upper Jurassic and very good pressure support. By the end of April 2012, Well Shaikan-1B and Well Shaikan-2 had produced approximately 405,000 and 330,000 stb of oil respectively. Long term pressure measurements showed diurnal fluctuations that have been attributed to "earth tides". There was also evidence that the reservoir pressure varies over a yearly cycle, probably as a consequence of the artesian nature of the underlying aquifer. These effects make any calculation of the contributing reservoir volume on the basis of material balance in the longer term test unreliable. However, the likelihood that the pressures observed in a well are responding to changing artesian aquifer conditions does suggest that the fracture system is connected to the aquifer, which is an encouraging indication that influx from the aquifer will provide a measure of pressure support once the field comes on stream

Although the volumes of oil recovered during the extended well test (EWT) are small relative to the size of the field, these results are encouraging and improve confidence that the fracture system is interconnected and continuous, at least in the central part of the field. The EWT came to an end at beginning of May 2012 as GKP did not have permission to continue producing under EWT conditions.

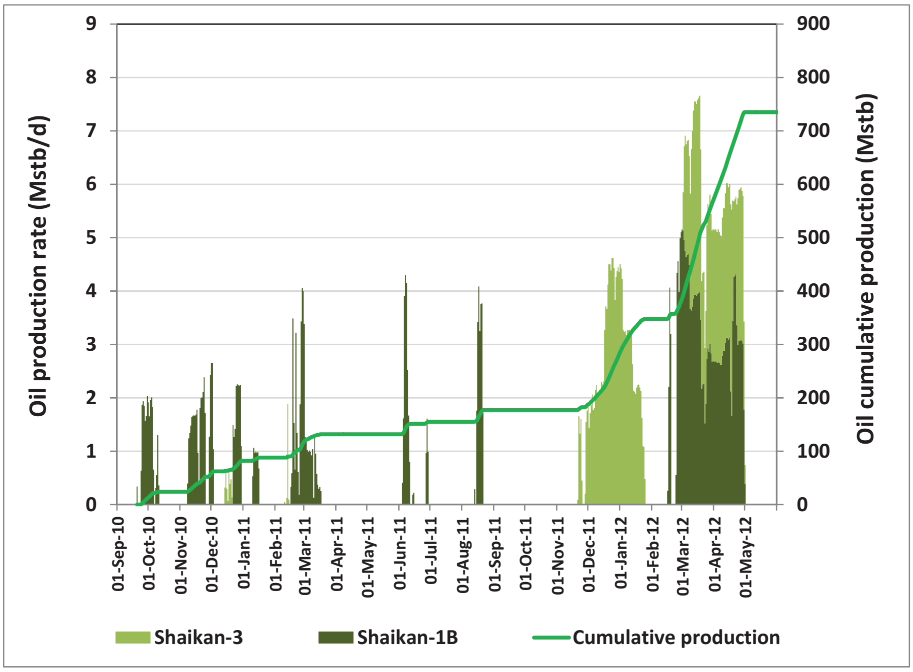


Figure 5.7 Shaikan Extended Well Test Production Data

From the down hole pressure gauges deployed during the DSTs, a total of 33 estimates of reservoir pressure could be made. These data, presented in Table 5.9, were interpreted by GKP, audited and used by ERCE, albeit with minor adjustments. Build-up pressures were extrapolated to infinite shut-in time and then adjusted from gauge depth to mid perforation depth. The accuracy of these pressure estimates is affected by the reliability of the extrapolation and by the assumptions that were made regarding the density of fluid between gauge depth and mid perforation depth. In general, they are not as accurate as conventional wireline derived pressure measurements, such as obtained using the MDT tool. Fluid contacts derived from an interpretation of these pressure gradients are therefore subject to considerable uncertainty. Pressure as a function of depth is illustrated in Figure 5.8. The pressure data were also transformed to excess pressure, illustrated in Figure 5.9. Excess pressure is the amount by which the absolute pressure at a point deviates from the regional water pressure. Plots of excess pressure vs. depth sharpen the definition of fluid contacts.

Table 5.9: Shaikan DST Pressure Estimates

Well	DST	Age	Formation	Gauge depth		Pressure at gauge depth	Mid-perf. depth	Pressure at mid-perf. depth
				(mMDRKB)	(mTVDSS)	(psia)	(mTVDSS)	(psia)
Shaikan-1B	1	Jurassic	Sargelu/Alan	1,461	572	1,979	591	2,002
Shaikan-1B	2	Jurassic	Mus	1,628	736	2,188	755	2,211
Shaikan-1B	3	Jurassic	Butmah	1,785	891	2,376	905	2,392
Shaikan-1B	4	Triassic	Kurre Chine A	2,408	1,524	3,255	1,561	3,299
Shaikan-1B	5	Triassic	Kurre Chine B	2,614	1,730	3,948	1,765	3,989
Shaikan-1B	7	Jurassic	Butmah	1,748	865	2,340	918	2,402
Shaikan-1B	7A	Jurassic	Butmah	1,748	865	2,337	917	2,398
Shaikan-1B	8	Jurassic	Mus	1,584	703	2,117	748	2,170
Shaikan-2	1	Jurassic	Sargelu	1,782	1,082	2,589	1,084	2,591
Shaikan-2	2	Jurassic	Mus	1,858	1,155	2,698	1,216	2,771
Shaikan-2	4	Triassic	Kurre Chine B (L)	2,997	2,230	4,250	2,292	4,323
Shaikan-2	4A	Triassic	Kurre Chine B (U)	2,833	2,074	4,154	2,124	4,213
Shaikan-2	5	Triassic	Kurre Chine A	2,654	1,906	3,714	1,960	3,791
Shaikan-2	6	Jurassic	Butmah	2,060	1,348	2,941	1,402	3,005
Shaikan-2	7	Jurassic	Butmah	2,049	1,338	2,941	1,373	2,983
Shaikan-2	8	Jurassic	Butmah	2,012	1,302	2,873	1,337	2,914
Shaikan-2	9	Jurassic	Muss	1,851	1,148	2,662	1,193	2,716
Shaikan-3	3A	Jurassic	Sargelu	1,290	512	1,907	525	1,922
Shaikan-4	1A	Triassic	Kurre Chine C	3,061	2,285	4,658	2,467	4,873
Shaikan-4	2	Triassic	Kurre Chine B	2,967	2,191	4,217	2,244	4,280
Shaikan-4	3	Triassic	Kurre Chine A	2,700	1,924	3,727	1,977	3,801
Shaikan-4	4	Jurassic	Butmah	1,892	1,116	2,647	1,169	2,709
Shaikan-4	5	Jurassic	lower Sargelu	1,478	709	2,148	765	2,214
Shaikan-5B	3	Triassic	Kurre Chine B (U)	3,164	2,253	4,260	2,296	4,312
Shaikan-5B	4	Jurassic	Upper Butmah	2,190	1,282	2,860	1,336	2,937
Shaikan-5B	Cmpl.	Jurassic	Alan	1,916	1,006	2,511	1,034	2,545
Shaikan-6	1	Triassic	Kurre Chine B	3,305	2,770	5,029	2,834	5,120
Shaikan-6	2	Triassic	Kurre Chine B	3,188	2,653	4,762	2,705	4,837
Shaikan-6	4	Jurassic	Butmah	2,372	1,837	3,641	1,659	3,386
Shaikan-6	5	Jurassic	Sargelu	1,979	1,445	3,111	1,501	3,190
Shaikan-6	5A	Jurassic	Sargelu	1,957	1,425	3,064	1,481	3,143
Shaikan-8	1	Jurassic	Butmah	1,976	1,075	2,585	1,179	2,708
Shaikan-8	2	Jurassic	Alan/Mus	1,765	880	2,331	920	2,377

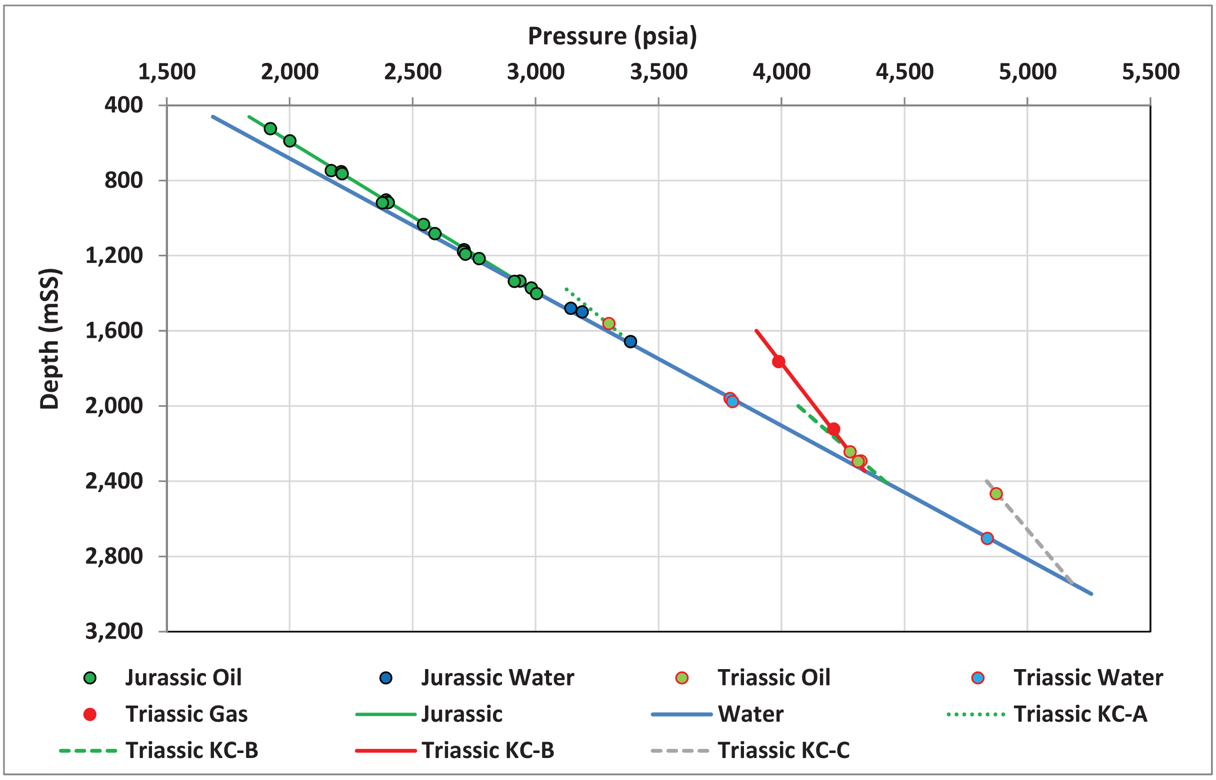


Figure 5.8: Shaikan Pressure vs Depth

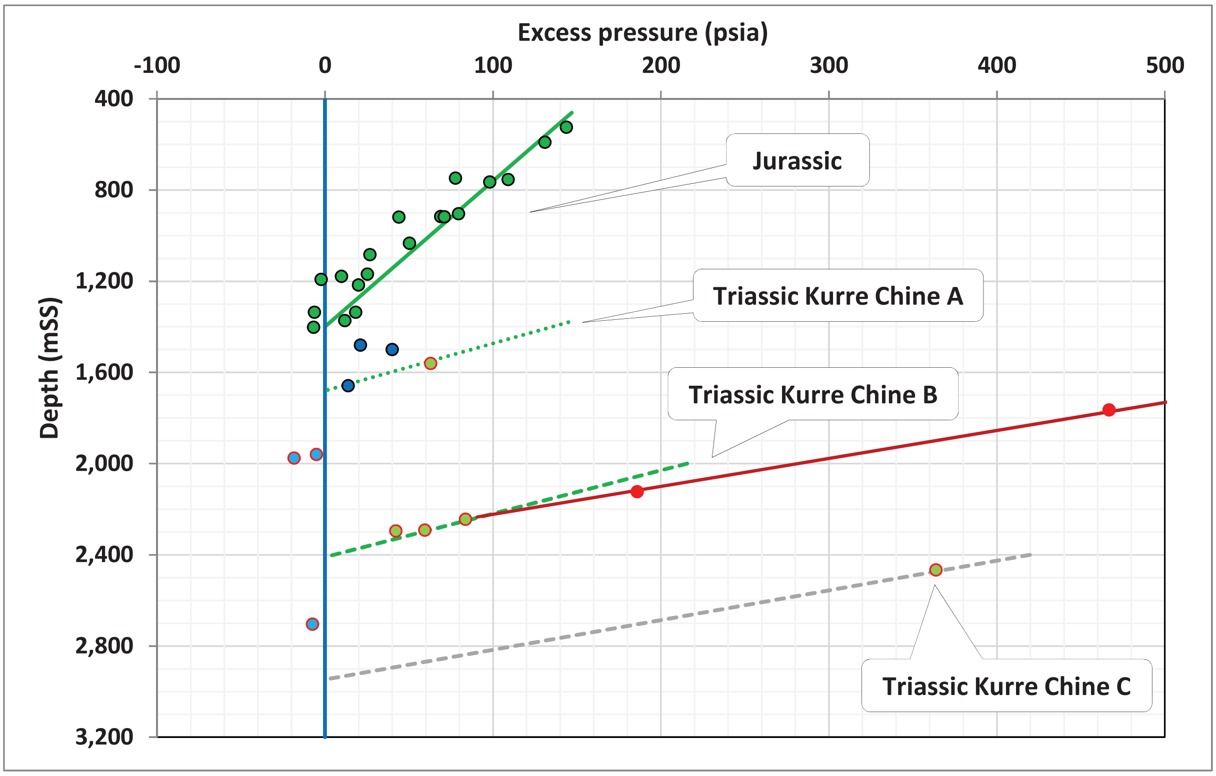


Figure 5.9: Shaikan Excess Pressure vs Depth

5.9.2. Depletion Strategy

The development for which Reserves have been audited by ERCE applies to the Jurassic interval in Shaikan. GKP plans to develop the Jurassic reservoirs through a series of deviated wells. The reservoir layers are stacked vertically. They are in pressure communication in geological terms as they have a constant pressure gradient (Figure 5.8). However, they are considered separate flow units in terms of oil production, due to poorly fractured anhydrite and shale layers within the reservoirs. Therefore, horizontal wells are not considered appropriate for the development of the field.

Our understanding of the development plan provided by GKP is that the 200 scf/stb of solution gas from produced oil will be processed. Sweet gas will be utilised in the field and possibly exported or re-injected. Sour gas will be re-injected into the reservoir for disposal at a depth that will maximise its containment, most likely in liquid phase at reservoir conditions. Studies are currently being undertaken by GKP to optimise the composition of the injected gas and the injection strategy. GKP has informed ERCE verbally that GKP has permission from the authorities to dispose of sour gas by injection into the reservoir.

The field appears to sit upon an artesian aquifer, an interpretation used by GKP to explain the seasonal fluctuations in reservoir pressure as groundwater levels swell and recede with spring run-off. Therefore there will likely be aquifer support, but the amount of pressure support is unknown, and may even fluctuate seasonally. The fracture network provides a mechanism for an encroaching aquifer to displace oil to the wells and to maintain reservoir pressure, potentially leading to very high recovery factors for the oil contained in the fractures. However, due to the vertical orientation of the fractures, the presence of the aquifer might also have a detrimental effect on production as the fracture network also creates a high permeability path for water to travel to the wells.

The development scheme proposed by GKP depends on the fracture network providing paths for oil to flow to the wellbores, both from the extensive fracture network and from the matrix. It is possible that water advancing from the peripheral aquifer could flood the fracture network, leading to early water breakthrough which will dramatically reduce oil production. However, the fact that the oil column in the Jurassic is over 1,000 m thick, and that the aquifer is only present on the flanks of the reservoir rather than directly underneath, reduce the chance of early water production. We anticipate the flanks to be at the greatest risk of early water breakthrough. We also recognise that spontaneous imbibition effects as water sweeps through the system will likely lead to some recovery from the matrix. However, due to a lack of capillary pressure and relative permeability data we are unable to quantify the impact of this production mechanism.

Once the field is on production, understanding of the dynamic behaviour of the reservoir and aquifer will improve and field management practices might need to be implemented aimed at mitigating the risk of early water breakthrough. The mechanism of production from Shaikan Jurassic is therefore expected to be immiscible displacement of oil by natural water influx together with depletion drive if the aquifer strength is only moderate, although it might become beneficial in the future to implement other recovery mechanisms, such as water injection or gas injection in parts of the field.

5.9.3. Recovery Factors

5.9.3.1. Cretaceous

The highly viscous oil at shallow depth is currently considered unrecoverable, both in the fractures and in the matrix. At the time of preparing this report, no realistic method for recovering this oil was evident although further studies into the use of thermal methods might be usefully undertaken.

The lower viscosity oil at greater depth is likely to be recoverable and we assigned recovery factors of 20%, 30% and 40% for the low, best and high case estimates for the fracture network. These recovery factors are based on the assumption of an effective water drive through the fractures, either in the form of influx from a natural aquifer or from water injection. Achieving these recovery factors also relies on an adequate number of wells and appropriate well design, which have yet to be defined. GKP has included a nominal development of the Cretaceous in the Field Development Plan Addendum, which was approved by the Kurdistan authorities. However, the development concept is still immature and consequently, ERCE has classified the estimates of recoverable volumes for the Cretaceous as Contingent Resources, contingent on further clarification of the development plan.

Despite this oil being lower viscosity than the overlying oil, it is still highly viscous and therefore we do not consider the oil in the matrix to be recoverable. Within the Cretaceous interval of the Shaikan field, therefore, we have reported Contingent Resources for oil from the fractures only and, within the fracture network, only for oil occurring below the depth at which the transition from a highly viscous state to a state of lower viscosity occurs.

5.9.3.2. Jurassic

The fracture network in the Jurassic is the primary source of oil that the development concepts described in the Field Development Plan and Addendum aim to recover. Very high flow rates have been achieved on test and good pressure communication has been demonstrated laterally between two wells. The primary recovery mechanism upon which the development plan is based is water drive. There is strong evidence that a responsive natural aquifer exists that will provide pressure support. The development plan makes allowance for water injection should the natural aquifer prove to be inadequate and require supplementation. Based on these principles, ERCE estimated recovery factors for the Jurassic under water drive. Two elements need consideration: the fracture network and the matrix blocks.

Recovery of oil from the fractures under a gravity stable water drive mechanism is likely to be very high. This is substantiated by conceptual simulation models carried out by GKP. ERCE estimated low, best and high case recovery factors of 50%, 65% and 80% for the medium viscosity oil in the fractures down to the top of the high viscosity zone. These recovery factors are based on the assumption that the field will be extensively developed, with an adequate number of wells and appropriate well design and with the implementation of water injection if necessary.

Recovery from the deeper high viscosity oil in the fractures down to 1,450 mTVDSS will be lower. However, pressure data show that this oil may form a continuous hydrocarbon column with the shallower, lower viscosity oil, indicating that it might not be hydraulically sealed. Furthermore, pressure fluctuations reported in the wells over a period of approximately one year have been ascribed by GKP to annual artesian water cycles. This would indicate a communication pathway through the oil into the regional aquifer. The high viscosity oil must therefore have some capacity for pressure transmittal and cannot be completely immobile. We have therefore assigned recovery factors of 5% 10% and 15% to the high viscosity oil in the fractures.

Recovery of oil from the matrix is considerably more difficult to quantify than recovery from the fractures. The matrix within the Shaikan Jurassic is highly variable in terms of permeability. Three fundamentally different recovery mechanisms are possible, which, if implemented would result in different recovery factors. These three mechanisms are water drive, depletion and gas injection. GKP's preferred plan for exploitation of the Shaikan Jurassic reservoir is water drive, either natural or artificial.

An important recovery mechanism in fractured reservoirs in which water moves through the fracture network involves natural imbibition of water into matrix blocks resulting in the expulsion of oil from the matrix blocks into the fractures where the oil is transported to the producing wells. The existence of water filled fractures surrounding oil saturated matrix blocks in the Jurassic between 1,450 mTVDSS and 1,950 mTVDSS should allow some evaluation of this recovery mechanism in situ. Some imbibition of water from the fractures into the matrix blocks may have occurred in the depth range 1,950 to 1,450 mTVDSS where the matrix blocks have become surrounded by water in the fractures. This should have resulted in an increase in water saturation in the matrix below the OWC in the fractures. No obvious increase was evident in the interpreted wireline logs, and core recovered from this depth was clearly highly oil saturated, suggesting that large quantities of oil have not been expelled from the matrix blocks through spontaneous imbibition. While it is acknowledged that the estimation of saturation from wireline logs is subject to significant uncertainty and is not sufficiently accurate to quantify conclusively the extent to which this may have occurred, it is our view that recovery of oil from the matrix under water influx, whether it be from a natural aquifer or from water injection, is likely to be small. Recovery from the matrix might be improved under depletion drive or from gas injection.

ERCE assigned recovery factors of 3%, 7% and 11% for the low, best and high cases for the oil in the matrix in the shallower interval of lower viscosity oil above the high viscosity zone in the fractures. From the top of the high viscosity zone in the fractures down to the OWC in the matrix at 1,975 mTVDSS, we applied recovery factors of 0%, 2% and 5% to the oil in the matrix for the low, best and high cases. These recovery factors rely on the implementation of an appropriate development plan, which may eventually require gas injection, depletion or the implementation of an improved recovery technique.

As the full development required to reach these recovery factors has not yet been defined or committed to, the recoverable volumes estimated by applying these recovery factors to the estimates of in place volumes have been divided into two parts for classification purposes. ERCE has attribute Reserves to part of the recoverable volumes according to the Phase 1 development described in this report, which is an initial phase of the overall FDP and Addendum submitted to the Kurdistan authorities. The remainder of the estimated recoverable volumes are currently classified as Contingent Resources, pending greater definition of the development plan, which is contingent on the outcome of the first phase of development.

5.9.3.3. Triassic

The Triassic reservoirs are materially different from the Jurassic in pressure, fluid properties and hydrocarbon column height. In the Triassic, the pressure is higher, the fluid is light oil with high GOR and rich gas condensate and the hydrocarbon columns are significantly shorter than in the Jurassic. The light nature of the oil, low viscosity and high pressure favour higher recovery factors than the Jurassic. Development of the Triassic has not been finalised and estimates of recoverable volumes from all reservoirs in the Triassic have been classified as Contingent Resources.

Triassic Kurre Chine A: Estimates of recovery factors for the fracture network have been based on the premise that a future development plan will result in efficient displacement of oil by water, either by influx from a natural aquifer or by water injection from the fractures. ERCE used a range of 60%, 70% and 80% for the low, best and high cases for recovery factors from the fractures. The corresponding values for the matrix were 5%, 10% and 20%. It has been assumed that appropriate, as yet undefined, plans will be put in place to recover oil from the matrix.

Triassic Kurre Chine B: ERCE has assumed that an effective waterflood would be implemented, allowing recovery to take place under gravity stable conditions at high pressure. These assumptions lead to relatively high estimates of recovery factors for the fractures and we applied an uncertainty range of 60%, 70% and 80% for low, best and high cases to the free gas, the condensate and the oil in the fractures. Lower recovery factors are expected from the matrix. In the gas cap, we assumed a range of recovery factors for gas from the matrix of 5%, 20% and 40%, while for the condensate we assumed a range of 4%, 12% and 20% for the low, best and high cases. No detailed studies have been undertaken to support these estimates, hence the uncertainty ranges are wide.

Triassic Kurre Chine C: No development plan has been defined and no detailed analysis of recovery factors has been completed. For the fracture network the range of recovery factors used by ERCE was 60%, 70% and 80% for the low, best and high cases. The corresponding range for the matrix was 5%, 10% and 20%.

5.10. Shaikan Contingent Resources Estimates

The FDP and its Addendum provided by GKP include the full development of the Shaikan Jurassic with immature development plans for the Triassic and Cretaceous intervals. It is likely that the plans will be modified and optimised as dynamic behaviour is gathered and understanding of the response of the aquifer and the interaction between fractures and matrix improves. On the basis of this, ERCE has attributed Reserves to the first part of the development for which GKP has informed ERCE it is committed to proceed, referred to here as Phase 1. Phase 1 comprises a total of 26 production wells in the Jurassic reservoirs. Further volumes of oil and gas that would be recovered from the Jurassic interval beyond the Phase 1 development have been classified as Contingent Resources. The reclassification of these volumes as Reserves is contingent on a better understanding of the recovery mechanisms and the refinement of a suitably augmented development plan.

ERCE has also assigned Contingent Resources to discoveries in the Cretaceous and Triassic intervals, which are not included in the Phase 1 development of the Jurassic and for which further technical and commercial hurdles must be overcome prior to re-classification as Reserves. The mechanism of production from the Triassic will depend on decisions of how to manage the Jurassic from a pressure and production perspective, and how to develop facilities to handle the volatile oil produced from the Triassic.

ERCE has estimated recoverable volumes of oil and gas for Shaikan using a combination of probabilistic and deterministic methods.

For each interval (Cretaceous, Jurassic and Triassic), ERCE calculated resources within each reservoir layer and/or zone separately for the matrix and the fractures using Monte Carlo simulation, in which input distribution functions of variables were probabilistically combined in the volumetric equations. The distribution functions were created by fitting normal, log-normal and triangular functions to the ranges of uncertainty in the various properties described in this report as low, best and high cases. The ranges of uncertainty are quantified in Section 5.6 for GRV, Section 5.3.2 for fracture porosity, Section 5.4 for petrophysical properties, Section 5.7 for fluid properties and Section 5.9.3 for recovery factors. Resources in the matrix were then aggregated probabilistically across reservoir layers, while those for the fractures were aggregated deterministically. The reason for this is that the reservoir layers are considered independent with respect to matrix properties but not with respect to the primary uncertainty in the fractures, namely porosity. Total resources for the Jurassic were then estimated by adding matrix and fracture volumes deterministically. The Cretaceous and Triassic intervals were treated in a similar fashion.

The volumetric equations for oil used in this evaluation were:

$$STOIIP = C_1 \times \frac{GRV \times N/G \times \emptyset \times S_o}{B_o}$$

$$Oil\_Resources = STOIIP \times RF$$

where:
$STOIIP$ = stock tank oil initially in place (MMstb)
C_1 = conversion constant (6.29 stb/m^3)
GRV = gross rock volume (MMm^3)
N/G = net to gross ratio (fraction)
$\emptyset$ = porosity (fraction)
S_o = oil saturation (fraction)
B_o = oil formation volume factor (rb/stb)
$Oil\_Resources$ = ultimate recovery of oil (MMstb)
RF = recovery factor (fraction)

The volumetric equations for free gas used in this evaluation were:

$$GIIP = C_2 \times GRV \times N/G \times \emptyset \times S_g \times E_g$$

$$Gas\_Resources = GIIP \times RF$$

where:
$GIIP$ = gas initially in place (Bscf)
C_2 = conversion constant (35.37*10^{-3} Mscf/m^3)
S_g = gas saturation (fraction)
E_g = gas expansion factor (scf/rcf)
$Gas\_Resources$ = ultimate recovery of gas (Bscf)

Solution gas volumes were obtained by multiplying oil volumes with gas oil ratio (GOR) and adjusting for non-hydrocarbon components. Condensate volumes were estimated by multiplying gas volumes with CGR.

In following these steps, ERCE made estimates of STOIIP and GIIP (Table 5.10) as well as estimates of ultimate recoverable volumes (resources) of oil and gas volumes. These volumes were classified as Contingent Resources for the Cretaceous and Triassic (Table 5.11 and Table 5.12). For the Jurassic, the balance of the estimates of resources, after accounting for Reserves, were classified as Contingent Resources and are shown in Table 5.11. For the Cretaceous and Triassic, gas Contingent Resources are solution gas volumes from which non-hydrocarbon volumes (H_2S and CO_2) have been subtracted.

Table 5.10: Summary of Discovered Oil and Gas Initially in Place for Shaikan

Field	Formation	Gross Field STOIIP (MMstb)			Gross Field GIIP (Bscf)		
		Low	Best	High	Low	Best	High
Shaikan	Cretaceous	1,792	2,635	4,090	0	0	0
	Jurassic	4,684	6,194	8,490	0	0	0
	Triassic	222	386	674	556	988	1,710

Notes

1) Cretaceous STOIIP includes oil above and below the isotherm.

Table 5.11: Summary of Oil Contingent Resources for Shaikan

Field	Formation	Gross Field Oil Contingent Resources (MMstb)			GKP WI (%)	GKP WI Oil Contingent Resources (MMstb)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	36	124	373	54.4	20	68	203
	Jurassic	153	440	980		83	239	533
	Triassic	55	138	273		30	75	149

Table 5.12: Summary of Gas Contingent Resources for Shaikan

Field	Formation	Gross Field Gas Contingent Resources (Bscf)			GKP WI (%)	GKP WI Gas Contingent Resources (Bscf)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	0	0	0	54.4	0	0	0
	Jurassic	77	164	304		42	89	166
	Triassic	157	411	880		86	224	479

Note: Gas contingent Resources being flared

5.11. Shaikan Phase 1 Development Plan

GKP has described the full field development of Shaikan in the FDP and Addendum submitted to the Kurdistan Authorities. GKP informed ERCE that it has received approval for its plans to proceed with the development. The FDP and Addendum focus on development of the Jurassic interval, but also include limited development of the Cretaceous and Triassic, the objective being to gauge reservoir response before further development of these intervals is planned.

The proposed full development comprises more than 100 wells and the installation of extensive surface infrastructure. The reservoirs and fluids in Shaikan are complex and it is not known how the fractures, the matrix and the aquifer will respond. This applies to the Cretaceous and Triassic intervals, but also to the Jurassic interval. It is likely that GKP will adapt the development as time progresses and the responses of the reservoirs become more apparent. It is possible that the exploitation strategy for the Jurassic, currently envisaged to be displacement of oil by water, will be modified and optimised and may, in the future, involve elements of depletion drive and/or gas injection. These uncertainties are not unusual given the nature of the reservoir and fluids in Shaikan.

ERCE has attributed Reserves to the Jurassic interval for a first stage limited development involving a total of 26 production wells and four processing facilities (Figure 5.10). This is referred to as the 'Phase 1' development and ERCE understands that the budget for this has been approved by GKP. The Phase 1 development includes existing Wells Shaikan -1, -2, -3, -4, -5B and -10A (currently drilling), completed as oil producers. The existing Well Shaikan-6 in the eastern extremity will be used for water disposal and the existing Well Shaikan-8 in the centre will be used for gas disposal. Well Shaikan-9 will be drilled in the crest of the structure to test for the presence of a gas cap.

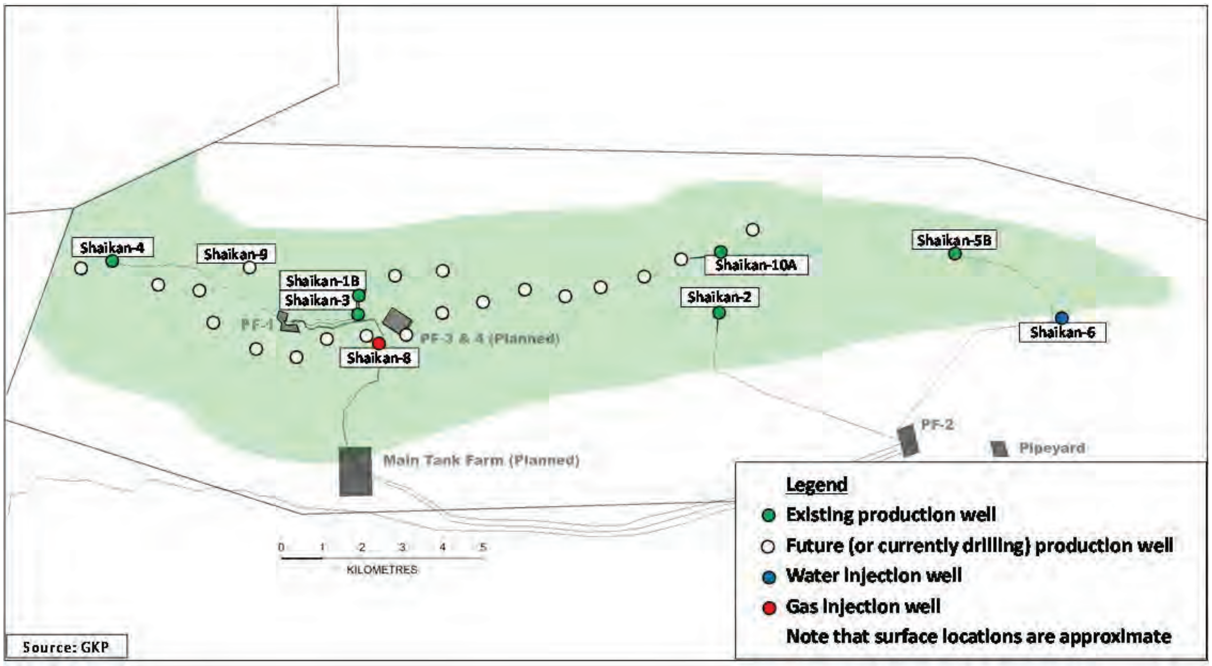


Figure 5.10: Nominal Well Locations for Phase 1 Development of Shaikan Jurassic

At the time of preparing this report, ERCE was informed by GKP that limited production from Well Shaikan-1 and Well Shaikan-3 commenced on 24 July 2013 through Production Facility 1. Oil is being transported by truck and production rates had reached approximately 8 Mstb/d in December 2013. Preliminary (unaudited) production rates provided by GKP are shown in Figure 5.11. ERCE has not independently verified these production rates.

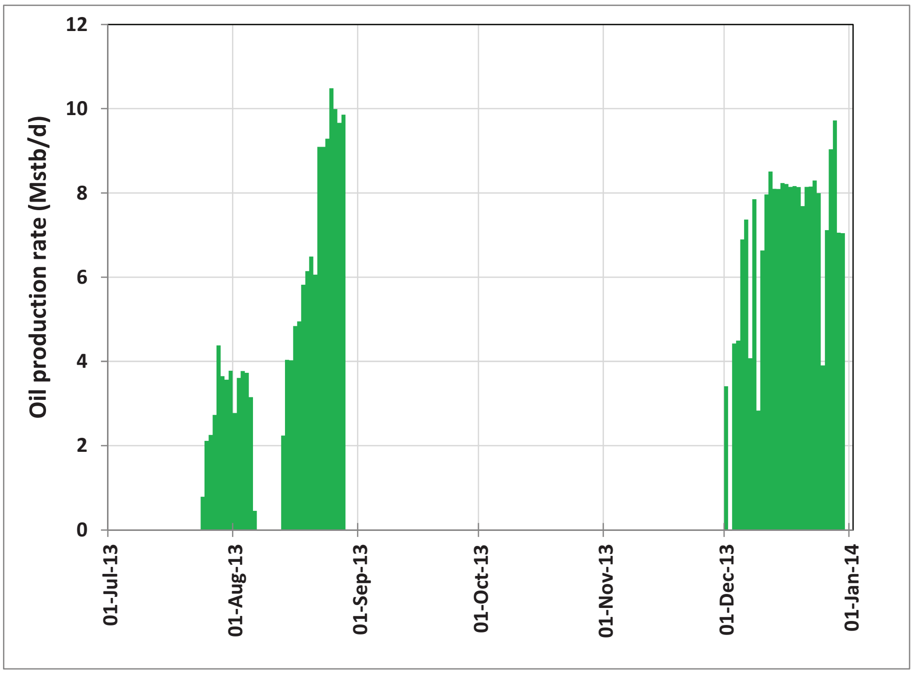


Figure 5.11: Start-up of Phase 1 Historical Production Rates

5.11.1. Shaikan Phase 1 Production Forecasts

GKP has presented three sets of production forecasts, with associated Capex and Opex for low, best and high cases for the Phase 1 development.

The foundation of the production forecasting work presented by GKP is dynamic simulation. GKP has completed a number of studies involving cross-sectional model, sector models and dual porosity conceptual models. The modelling was used by GKP to forecast how an "average" well will produce, taking into consideration wells that are located on the flanks and down-dip and to estimate the range of uncertainty in recoverable volumes per well. GKP then matched the drilling schedule to plans for facilities developments, capping production rates based on drilling rates and facilities constraints. ERCE has reviewed the methodology and has found it to be appropriate, based on the work and information available to date.

The assumptions made by GKP in developing production profiles for Shaikan are shown in Table 5.13. ERCE has reviewed these assumptions and finds them reasonable. The forecasts are presented graphically in Figure 5.12 and listed in Table 5.14. An overall downtime factor of 10% has been assumed. The forecasts show average oil production rates that take downtime into account. The profiles shown here are forecasts to the end of 2043 and are estimates of technically recoverable volumes. These profiles have been used as input into an economic model, which has been used to estimate the economic cut-off dates for each of the cases to assign Reserves. Volumes estimated to be recoverable after the economic cut-off dates have been classified as Contingent Resources.

The actual long term field production profiles will exceed those shown in Figure 5.12 and in Table 5.14, as the development will be rolled out beyond phase 1 and volumes that are currently classified as Contingent Resources become reclassified as Reserves, with an accompanying decrease in the range of uncertainty.

There are three critical items that affect the ramp-up to plateau production rate. These are 1) the drilling rate, 2) the oil export mechanism and 3) the ability to deal with sour gas. GKP considers the sour gas handling as the item on the critical path.

Table 5.13: Characteristics of GKP Production Forecasts

	Low	Best	High
Number of wells	26	26	26
Maximum oil rate per well (Mstb/d)	3.0	4.0	4.5
Field oil plateau production rate (Mstb/d)	67.5	90.0	90.0
Plateau length (years)	2.7	3.1	5.4
Fraction of ultimate recovery, recovered per year on plateau (% pa)	11.8	10.7	8.3
Field decline rate (% pa)	17.5	15.5	14.5
Average recovery per well to 2043 (MMstb)	8.0	11.8	15.2
Field recovery to 2043 (no economic cut-off) (MMstb)	208	306	395

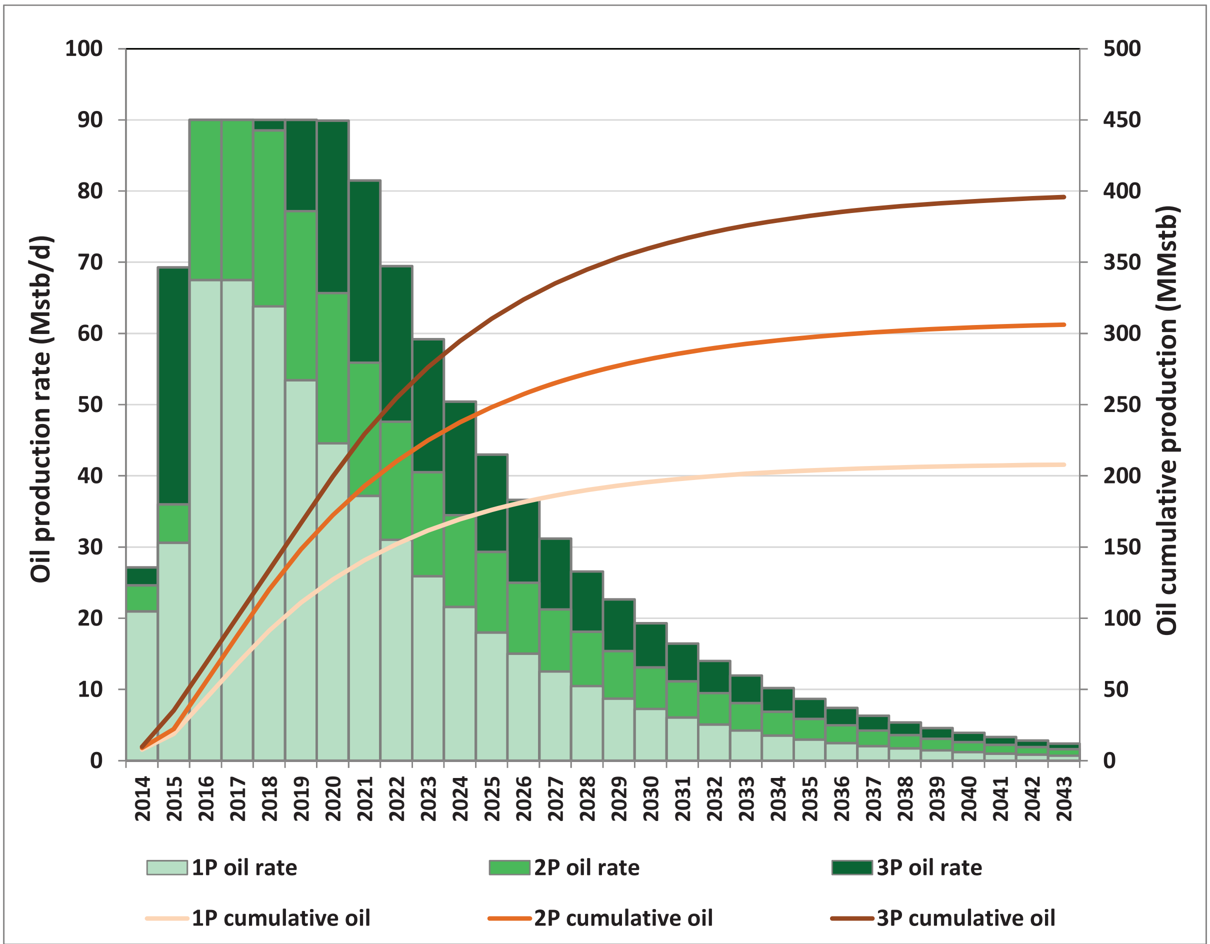


Figure 5.12: Production Forecasts for Phase 1 Development of Shaikan Jurassic

Table 5.14: Shaikan Jurassic Phase 1 Development Production Forecasts

Year	Low Case		Best Case		High Case	
	Oil rate (Mstb/d)	Cumulative oil (MMstb)	Oil rate (Mstb/d)	Cumulative oil (MMstb)	Oil rate (Mstb/d)	Cumulative oil (MMstb)
2014	21.0	7.7	24.6	9.0	27.1	9.9
2015	30.6	18.8	36.0	22.1	69.3	35.2
2016	67.5	43.5	90.0	55.1	90.0	68.1
2017	67.5	68.2	90.0	87.9	90.0	101.0
2018	63.8	91.4	88.5	120.2	90.0	133.8
2019	53.4	111.0	77.2	148.4	90.0	166.7
2020	44.6	127.3	65.7	172.4	89.9	199.6
2021	37.2	140.8	55.9	192.9	81.5	229.3
2022	31.0	152.2	47.6	210.2	69.5	254.7
2023	25.9	161.6	40.5	225.0	59.2	276.3
2024	21.6	169.5	34.5	237.6	50.4	294.7
2025	18.0	176.1	29.3	248.3	43.0	310.4
2026	15.0	181.6	25.0	257.4	36.6	323.8
2027	12.5	186.1	21.3	265.2	31.2	335.2
2028	10.5	190.0	18.1	271.8	26.6	344.9
2029	8.7	193.2	15.4	277.4	22.7	353.2
2030	7.3	195.8	13.1	282.2	19.3	360.2
2031	6.1	198.0	11.2	286.3	16.4	366.2
2032	5.1	199.9	9.5	289.8	14.0	371.4
2033	4.2	201.4	8.1	292.7	11.9	375.7
2034	3.5	202.7	6.9	295.2	10.2	379.4
2035	2.9	203.8	5.9	297.4	8.7	382.6
2036	2.5	204.7	5.0	299.2	7.4	385.3
2037	2.0	205.4	4.2	300.7	6.3	387.6
2038	1.7	206.1	3.6	302.0	5.4	389.6
2039	1.4	206.6	3.1	303.2	4.6	391.2
2040	1.2	207.0	2.6	304.1	3.9	392.7
2041	1.0	207.4	2.2	304.9	3.3	393.9
2042	0.8	207.7	1.9	305.6	2.8	394.9
2043	0.7	207.9	1.6	306.2	2.4	395.8

5.11.2. Capex and Opex Forecasts

GKP provided ERCE with the description of a 26 production well development plan of the Shaikan Jurassic reservoirs, which has been used by ERCE to evaluate Reserves. This constitutes a portion of the overall full field development plans generated by GKP, described in two documents:

- Shaikan Field Development Plan, GKP, January 2013 (the 'Original FDP')
- Shaikan Field Development Plan Addendum 01, GKP, June 2013 (the 'FDP Addendum').

The original FDP described a phased development as follows:

- **Extended Well Test,** with a design capacity of 10,000 stb/d, but constrained to 7,000 stb/d by gas flaring, to process fluids from two wells (Well Shaikan-1B and Well Shaikan-3), in order to obtain dynamic data about reservoir and well performance.
- **Phase 0** consisting of two Production Facilities, (PF-1 and PF-2), each with a design capacity of 20,000 stb/d. (PF-1 was operational at the time of preparing this report).
- **Phase 1** to take production capacity to 100,000 stb/d by means of two addition 25,000 stb/d Production Facilities (PF-3 and PF-4, together referred to as the 'CPF') and the debottlenecking of the Phase 0 Production Facilities.
- **Phases 2 & 3**, which are dependent on Phase 1 performance.

The extended well test commenced in September 2010 (see Section 5.9.2). At the time of preparing this report, Phase 0 was under development. Reserves estimates in this report have been based on a revision of the Phase 1 development (incorporating Phase 0) described in the FDP and presented by GKP to ERCE. Specifically it includes a total of 26 production wells. GKP has not finalised all well locations. However, a schematic field layout with some nominal well locations is shown in Figure 5.10.

The FDP Addendum described an accelerated development that had been requested by the KRG, with the objective of reaching a production plateau of 250,000 stb/d at the end of five years by means of the rapid drilling of additional wells and delivery of additional surface facilities.

ERCE has audited plans and costs provided by GKP. Data made available in various GKP documents have been reviewed, rationalised (simplified) and re-categorised, to arrive at an independent cost model that is appropriate for the scale of the Phase 1 development. ERCE has classified the costs for the Phase 1 development as follows:

- Facilities Capital Expenditure.
- Drilling Expenditure.
- Facilities Fixed Operating Expenditure.
- Well Operating Expenditure – Workovers and Pump Replacements.
- Well Operating Expenditure – Installation of Sour Service Tubing.
- Operating Expenditure – Tariffs.

ERCE has not included any element of variable Opex relating directly to production flow rate other than that incorporated into the tariff since the variable element is likely to be small compared with the fixed element. Plant energy requirements were assumed to be served by using produced associated gas as fuel. The gas content of the produced oil (the GOR) was considered sufficient for these purposes. The inclusion of variable Opex would be needed to account for significant energy costs if the planned re-injection of sour gas is not satisfactory, and it becomes necessary to install an elemental sulphur recovery unit. There would also be significant Capex associated with this.

The definition, specification and cost of wells, process and export facilities, as documented in various GKP documents and data sets, including the budget forecasts for the next few years, have been reviewed by ERCE and found to be broadly acceptable. GKP has considerable experience of facilities procurement and construction within the region and is therefore in well placed to estimate costs.

Note that whilst the overall costs used by ERCE are broadly similar to those provided by GKP, the classification of some costs is substantially different. In particular whereas GKP classified considerable sums relating to well maintenance and workovers as Capex, ERCE has reclassified these sums as Opex. This is essentially an accounting issue, and does not affect the validity of costs.

Facilities Capital Expenditure. The key facilities components include production facilities (PF), central processing facility (CPF), wellheads and flow-lines. The estimated total Capex for Phase 1 is US$ 815 million. The individual cost items based on estimates submitted by GKP and audited by ERCE are:

- PF-1 and PF-2 — 206.6 US$ million
- Wellheads and flow-lines — 208.8 US$ million
- PF-3 and PF-4 (CPF) — 320.1 US$ million
- Studies — 5.1 US$ million
- 15 km, 24 inch spur pipeline — 59.5 US$ million
- Camp relocation — 15.0 US$ million
- **Total** — **815.2 US$ million**

ERCE has allocated these Capex costs across the development years 2014 to 2016 in the same proportions as GKP. A block flow diagram of a 20 Mstb/d nameplate capacity production facility (of which four are required) is shown in Figure 5.13.

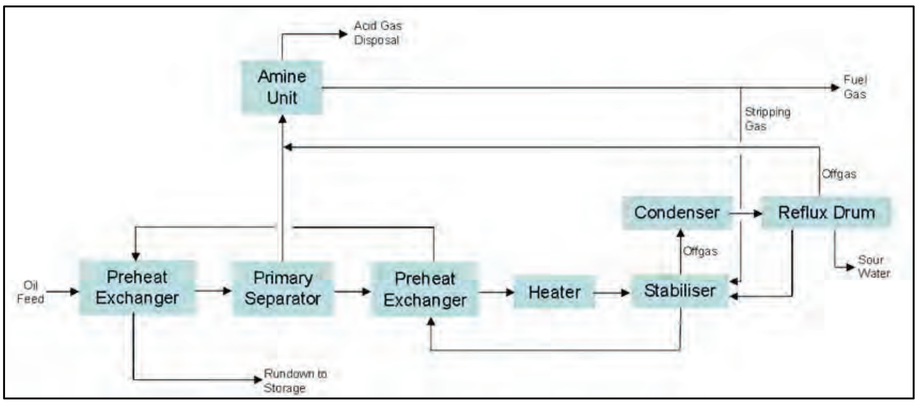


Figure 5.13: Block Flow Diagram of Production Facility

Drilling Expenditure. This covers the drilling and completion of development wells. The actual costs of existing wells, and the estimated costs of future development wells, as provided by GKP, have been reviewed by ERCE and found to be broadly acceptable. ERCE has estimated the rationalised cost for a single typical development well at US$ 19.1 million, based upon an average of GKP well costs. The total drilling expenditure for Phase 1, spread evenly over the years 2014 and 2015, for 26 development wells is estimated at US$ 529.9 million.

Facilities Fixed Operating Expenditure. This covers facilities operating costs that are a function of the extent and complexity of installed facilities that need to be manned, maintained and operated, and are largely independent of the variable production throughput. ERCE reviewed the overall Opex figures provided by GKP and found them to be broadly acceptable. The Opex figures provided by GKP were based on an analysis of both historic and forward-looking data.

From data provided by GKP, ERCE extracted the fixed Opex component appropriate for each phased introduction of processing capacity, i.e. the three name-plate capacities of facilities: 10, 24 and 90 Mstb/d. Whilst fixed Opex is not directly linked to production rate, it is likely that costs will decline in future years as the scope of capital equipment employed in the field reduces. ERCE has therefore used a fixed Opex component that decreases with time.

The fixed Opex for the various name-plate capacities of facilities that are progressively installed and commissioned are as follows.

- 10 Mstb/d name-plate facilities capacity: US$ 16.7 million
- 24 Mstb/d name-plate facilities capacity: US$ 29.5 million
- 90 Mstb/d name-plate facilities capacity: US$ 50.2 million

Well Operating Expenditure – Workovers and Pump Replacements. This covers the cost of maintaining the development wells during their productive life and is expected to be considerable, due to the heavy and sour nature of the oil, the potential for water production, and the use of electrical submersible pumps (ESPs).

Based on data provided by GKP and audited by ERCE, we has estimated the operating cost of wells as an 'annualised cost' for periodic planned and un-planned well interventions. This annualised well operating cost was applied in each year to the number of wells that were deemed to be operational in that year. The estimated costs are:

- Estimated cost of a well workover: US$ 4.0 million
- Approximate time between workovers of typical well. 2.0 years
- Estimated annualised cost of well workovers: US$ 2.0 million/well/year

Well Operating Expenditure – Installation of Sour Service Tubing. This covers the cost of replacing the carbon steel production tubing, planned to be installed by GKP at the time of well construction, with corrosion resistant alloy (CRA) tubing that is expected to be necessary when significant amounts of water are produced, after a few months or years of production.

GKP has opted to install carbon steel completions in the first instance, and until water breakthrough, in order to gain a better understanding of the sour content of well fluids, and to avoid potentially unnecessary or inappropriate specification of expensive CRA completions. GKP indicated that all 26 production wells will be re-completed with CRA as and when needed. Water breakthrough is anticipated about the same time as the 90 Mstb/d CPF comes on stream, which has been specified to deal with the water. Under conditions of combined sour oil and water production, carbon steel well completions can corrode very rapidly, potentially in a matter of weeks. GKP did not include this item in the costs provided for review. ERCE has estimated the cost of recompleting wells with sour-service tubing as follow:

- Replace carbon steel tubing with sour service tubing: US$ 9.0 million/well

Whilst these costs have been classified as 'Opex' in the CPR development plan, they could arguably equally be classified as Capex.

Operating Expenditure – Tariffs. GKP has estimated tariffs for a succession of stages of the development linked to changing export methods. The tariffs were based on a fiscal point at the Shaikan production facility and took account of the cost of exporting crude to the end point of sale, Ceyhan in Turkey. The tariffs provided by GKP were in the form of estimates of discount factors to Brent, expressed in US$/stb and GKP has informed ERCE that they included all tariffs, fees and any quality banking discounts, that they were netback prices and that there were no additional associated costs. GKP has instructed ERCE to use these estimates, which are listed in Section 9.2.2. ERCE has used the information provided by GKP but we have not been provided with the detailed information that would be necessary to audit them.

5.12. Shaikan Reserves Estimates

ERCE estimated Reserves for the Jurassic on the basis of the Phase 1 development. Production profiles described in Section 5.11.1, together with cost estimates described in Section 5.11.2 were incorporated into the economic evaluation described in Section 9.4 to estimate economic cut-off dates, and hence gross field Reserves and GKP Net Entitlement Reserves. The estimated Reserves are shown in Table 5.15.

Table 5.15: Summary of Oil Reserves for Shaikan

Field	Formation	Gross Field Oil Reserves (MMstb)			GKP WI (%)	GKP Working Interest Oil Reserves (MMstb)			GKP Net Entitlement Oil Reserves (MMstb)		
		1P	2P	3P		1P	2P	3P	1P	2P	3P
Shaikan	Jurassic	198	299	389	54.4	108	163	212	47	58	67

<u>Notes</u>

1) "Gross Field Reserves" are 100% of the volumes estimated to be economically recoverable from the field from 31 December 2013 onwards.
2) GKP "Working Interest (WI) Reserves" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs this asset.
3) GKP "Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan.
4) GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments.
5) The evaluation of Net Entitlement Barrels includes an additional entitlement from "Tax Barrels" arising from the deemed Corporate Income Tax under the PSC paid on GKPI's behalf from the Government's share of Profit Petroleum.
6) The working interest used in this report for the Shaikan PSC is 54.4%, comprising the fully diluted interest of GKP (51.0%) plus the fully diluted interest of Texas Keystone Inc. (3.4%) which is held in trust for GKP.

6. Sheikh Adi Discovery

The Sheikh Adi PSC was awarded to GKP on 17 July 2009, with GKP as the operator holding an 80% working interest. Currently GKP is within the exploration and appraisal phase. The Sheikh Adi PSC is located adjacent to and north west of the Shaikan field (Figure 2.1). Two wells have been drilled on the concession, Well Sheikh Adi-1B (SA-1B) and Well Sheikh Adi-2 (SA-2). Sheikh Adi is a faulted structure with a single major fault.

Well Sheikh Adi-1B drilled into the footwall side of the fault at the Jurassic level, but penetrated the Cretaceous in both the hanging wall and footwall. It was spudded on 4 August 2010 and was drilled to a depth of approximately 3,800 mMDRKB. Hydrocarbons were encountered in the Cretaceous and Jurassic based on core and log data. Oil was recovered during DST-7B in the Jurassic using nitrogen lift. In the Triassic, logs suggested the presence of oil but no core was collected and no oil was recovered.

Well Sheikh Adi-2 targeted the hanging wall side of the fault. It was spudded on 23 May 2012 and was drilled to a depth of 2,754 mMDRKB. Oil was encountered in the Cretaceous and Jurassic of both the hanging wall and footwall, but the well was not drilled deep enough to test the Triassic. ERCE interpret that a very thin section of Triassic (non-reservoir) occurs in the hanging wall section of the well. DSTs within Sheikh Adi-2 successfully flowed oil from the Jurassic Mus, Sargelu and Butmah formations.

Based on the test results in the two wells, ERCE has attributed Contingent Resources to the oil discovered in the Jurassic interval in both the hanging wall and footwall of the structure. In the Triassic, due to the lack of testing, we have maintained a classification of Prospective Resource. For the Cretaceous, due to a lack of PVT and core data and positive flow tests, it is not known whether the oil encountered whilst drilling is recoverable or not. More technical information is needed before estimates can be made of recoverable volumes. As a result we have reported only STOIIP for the Cretaceous, deferring the quantification of Contingent Resource until more data are gathered.

The new 3D seismic data indicates a potential bifurcation of the hanging-wall thrust fault of the Sheikh Adi discovery to the west of the block. This results in an undrilled segment of Jurassic and Cretaceous stratigraphy that may or may not be in charge communication with the discovered hydrocarbons in the Sheikh Adi hanging-wall. We recognise this panel as containing Prospective Resource in the Jurassic, and have made estimates of these. As with the main body of the discovery, we have made estimates of STOIIP for the prospective Cretaceous section in this panel. In this report, we describe this prospective structure as the Sheikh Adi Hanging Wall prospect.

Mapping of the available 2D seismic data identified a prospective structure to the north of the Sheikh Adi block, with in the Sarsang block, termed Swara Tika West. It is possible to map an extension of this structure onto the Sheikh Adi licence. However, seismic control is poor, and we have assigned Lead status to this structure, pending further seismic control and geotechnical work. As a result we have not quantified the Prospective Resources associated with the Swara Tika West structure.

6.1. Seismic Interpretation

The Sheikh Adi discovery is covered by an extension of the Shaikan field 3D seismic dataset, acquired by Gulf Keystone in 2010. The seismic reference datum is 1,300 m above mean sea level. Similar reprocessing techniques to those that improved the image of the core of the Shaikan anticline have been used by GKP over Sheikh Adi, and the core of the anticline is also fairly well imaged (Figure 6.1). VSPs have been acquired in Wells Sheikh Adi-1B and Sheikh Adi-2, to provide well to seismic ties.

GKP has mapped the Sheikh Adi structure using these 3D seismic data, well formation dip and mapped surface structure (Figure 6.1). The structure is a compressional anticline, with significant over-thrusting of the hanging wall in a southerly direction. The frontal thrust complex is intersected by Well Sheikh Adi-1B. Care has been taken to map key markers (Sarmord, Barsarin and Kurre Chine) separately in the footwall and hanging wall, to ensure accurate reconstruction for volumetric purposes. A bifurcation of the southerly thrust fault can be interpreted to the west of the Sheikh Adi structure, which defines a separate prospect in the hanging-wall limb (Figure 6.2), termed here the Sheikh Adi Hanging Wall prospect.

ERCE has reviewed the seismic interpretation carried out by GKP and has accepted it as a reasonable basis for estimating volumes.

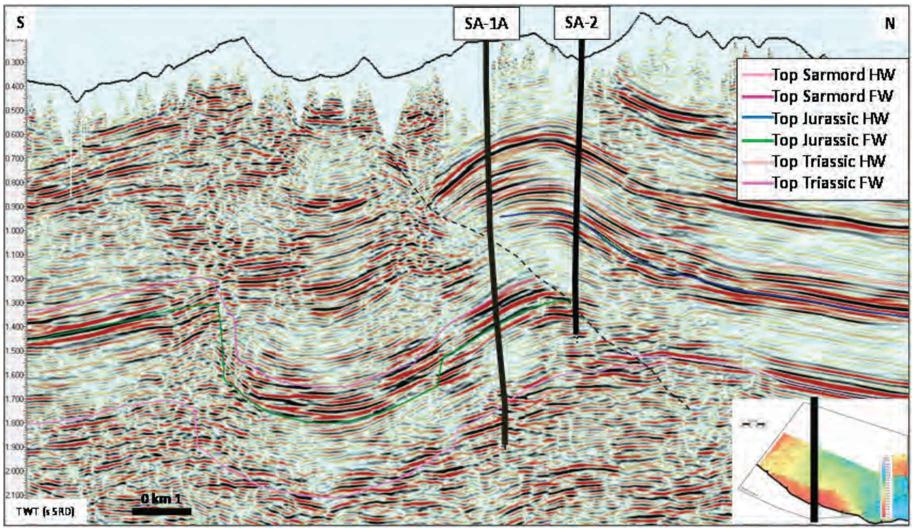


Figure 6.1: Dip Seismic Line, Sheikh Adi Discovery

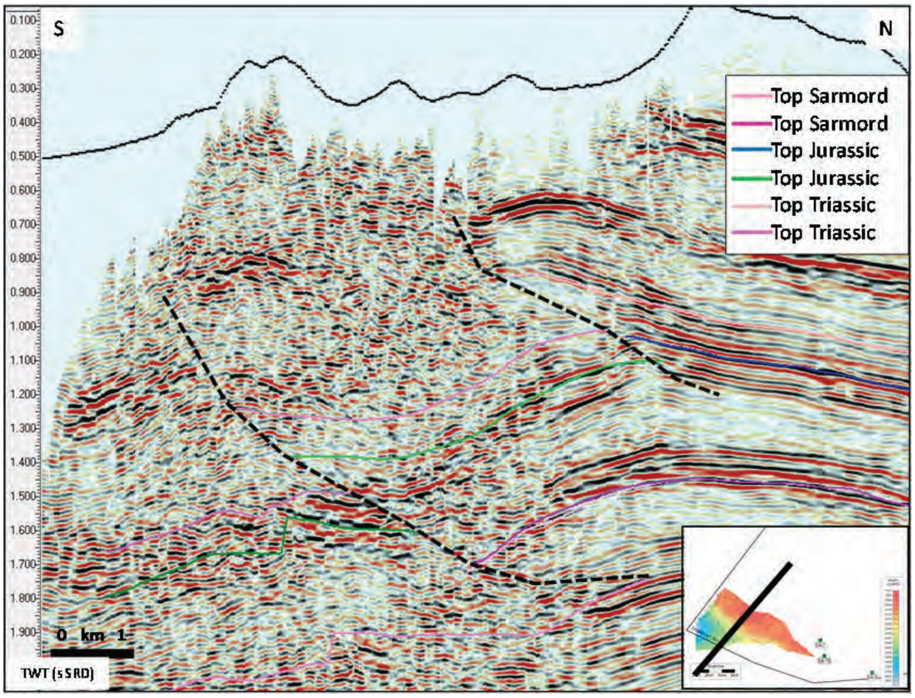


Figure 6.2: Dip Seismic Line, Sheikh Adi Hanging Wall Prospect

6.2. Depth Conversion

ERCE has used a multi-layer depth conversion to convert the key mapped markers Top Sarmord, Top Barsarin, and Top Kurre Chine. Top Jurassic depth maps for the footwall and hanging wall of Sheikh Adi are shown in Figure 6.3 and Figure 6.4, respectively. A Top Jurassic depth map for the Sheikh Adi Hanging-Wall prospect is presented in Figure 6.5.

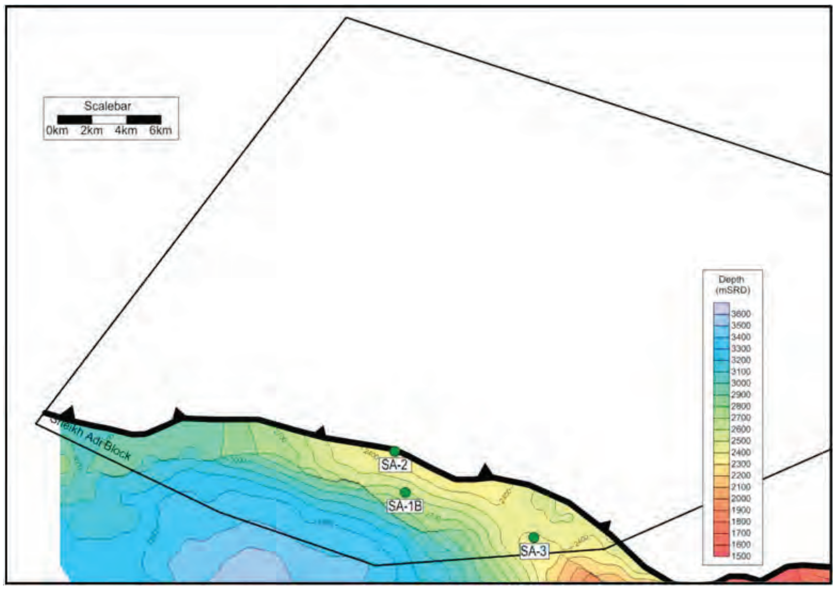


Figure 6.3: Sheikh Adi Footwall Top Jurassic Depth Map.

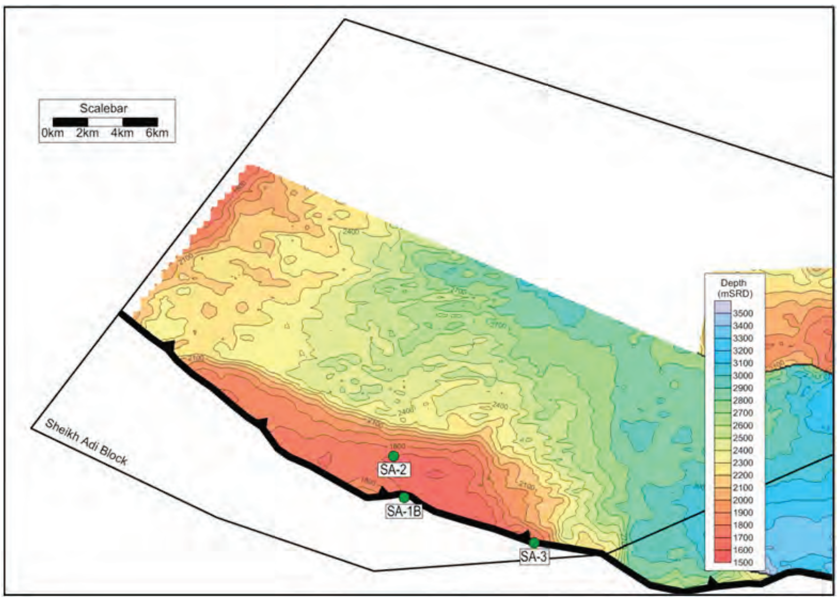


Figure 6.4: Sheikh Adi Hanging Wall Top Jurassic Depth Map

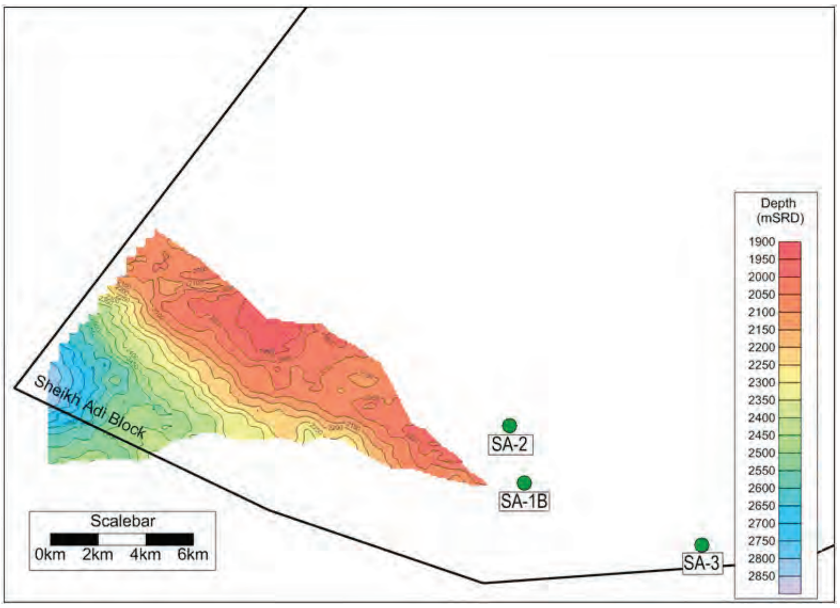


Figure 6.5: Sheikh Adi hanging-Wall Prospect Top Jurassic Depth Map

6.3. Geological Description

6.3.1. Reservoir Description

The Cretaceous interval interpreted as oil bearing from logs includes the Sarmord, Garagu and Chia Gara formations, which comprise a mixture of dolomite and limestone, and are often argillaceous and shaley. These intervals are oil bearing in both the hanging wall and footwall. Porosity ranges from 0 to 27%. Only a small amount of core was available from the Chia Gara formation in Well Sheikh Adi-1B, but it is assumed that the reservoir has permeability similar to that measured at Shaikan. ERCE has evaluated individual Cretaceous formations separately, following a similar process to that used for Shaikan.

Well Sheikh Adi-1B penetrated the thrust forming the south-eastern boundary of the structure. This was interpreted in the well as a thrust zone lying between 475 mTVDSS and 754 mTVDSS. (1,495 mMDRKB and 1,775 mMDRKB), within the Cretaceous section. The Sargelu, Alan, Mus, Adaiyah and Butmah intervals have been evaluated as hydrocarbon bearing in the hanging wall (Well SA-2) and footwall (Well SA-1B and Well SA-2) of the Sheikh Adi discovery. As at Shaikan, the Jurassic comprises a mixture of limestone, dolomite (in particular the Butmah), anhydrite and shale. Porosity ranges from 0% to 15% with occasional higher streaks. Core data were available from Wells Sheikh Adi-1B and Sheikh Adi-2 and permeability is similar to Shaikan. The high gamma ray intervals of the Sargelu, as observed in Shaikan, are also present in the Sheikh Adi wells and have been accounted for by ERCE in our estimation of volumes.

The Kurre Chine A and B formations of the Triassic interval and the uppermost part of the Kurre Chine C formation were penetrated by Well Sheikh Adi-1B and from the wireline logs are shown to be hydrocarbon bearing. These intervals comprise anhydrite and dolomite. Porosity ranges between 0% and 15%. No core data were available for the Triassic in Sheikh Adi and ERCE has assumed that the reservoir has permeability similar to that measured at Shaikan.

6.3.2. Fracture Description

Only two wells have been drilled on the structure and data relating to fracturing is limited. The current dataset includes core fracture studies, image log analysis for well SA-1B, geological fieldwork and a restoration study. Based on these data, the ranges of fracture porosity estimated for the Shaikan field were also applied to each interval in Sheikh Adi by ERCE. These are low, best and high estimates of 0.1%, 0.4% and 0.7% for the Jurassic, 0.05%, 0.3% and 0.7% for the Cretaceous and 0.1%, 0.3% and 0.7% for the Triassic.

Fracture porosity estimates described in this section are applicable to net reservoir only. Net-to-gross ratios for fractures were estimated by identifying poorly fractured rock such as shale and anhydrite and defining any interval of rock containing more than 50% shale or 50% anhydrite as non-net.

6.4. Log Analysis

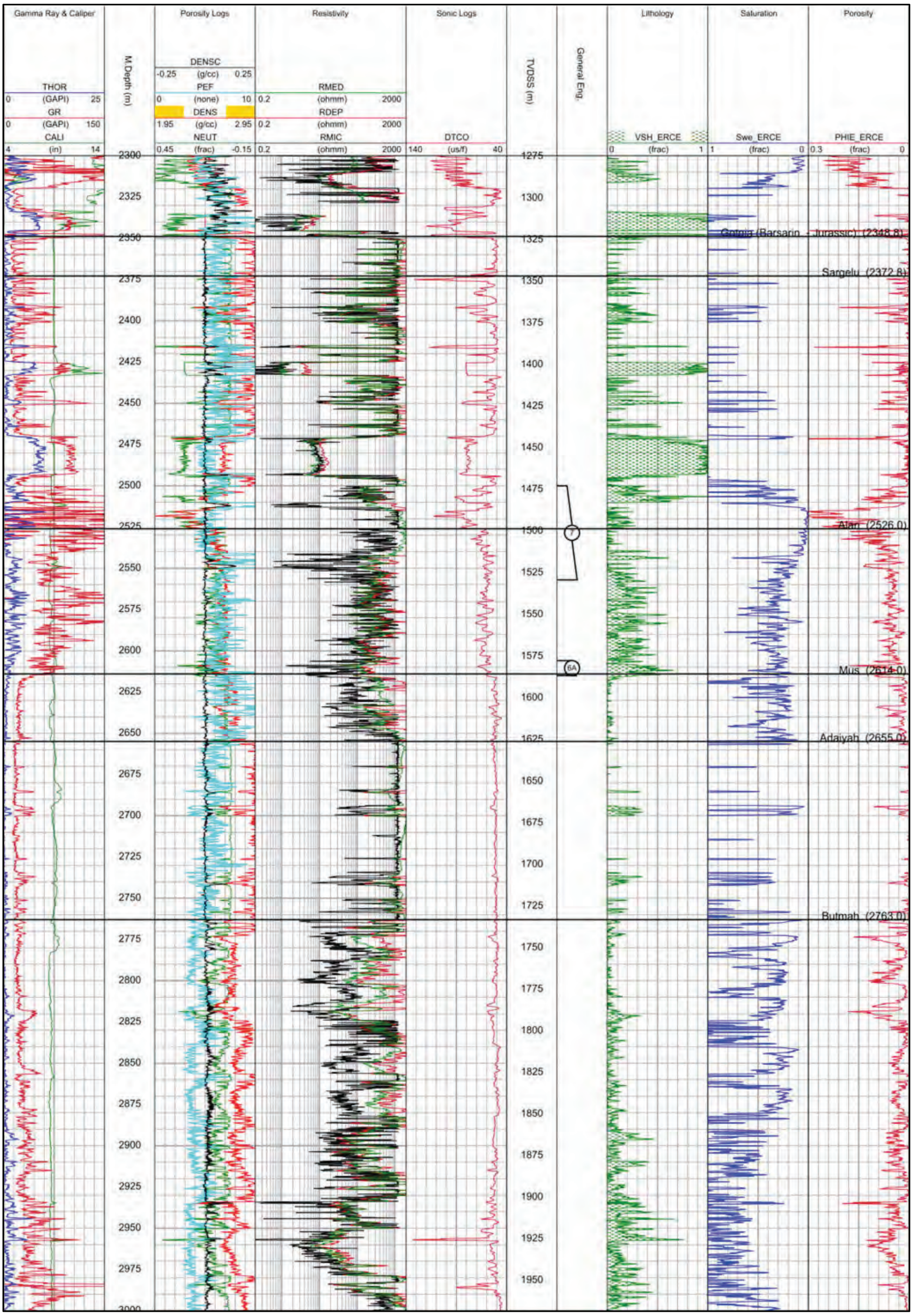
GKP provided ERCE with composited log data in digital format, including total gamma ray, thorium, potassium and uranium components from the spectral gamma, caliper, deep, medium and micro resistivity, density, neutron and sonic logs. GKP also provided ERCE with interpreted logs comprising shale volume, porosity and water saturation, as well as the average reservoir properties derived from these interpretations by GKP. A processed and interpreted set of logs of the Jurassic and Triassic intervals from Well Sheikh Adi-1B prepared by ERCE is presented in Figure 6.6.

6.4.1. Shale Volume

ERCE calculated Vsh from the gamma ray logs following a similar approach to that used for Shaikan.

6.4.2. Porosity

ERCE derived total porosity from the density log and the density neutron cross plot method. ERCE calculated effective porosity as described for the Shaikan field in Section 5.4.2.



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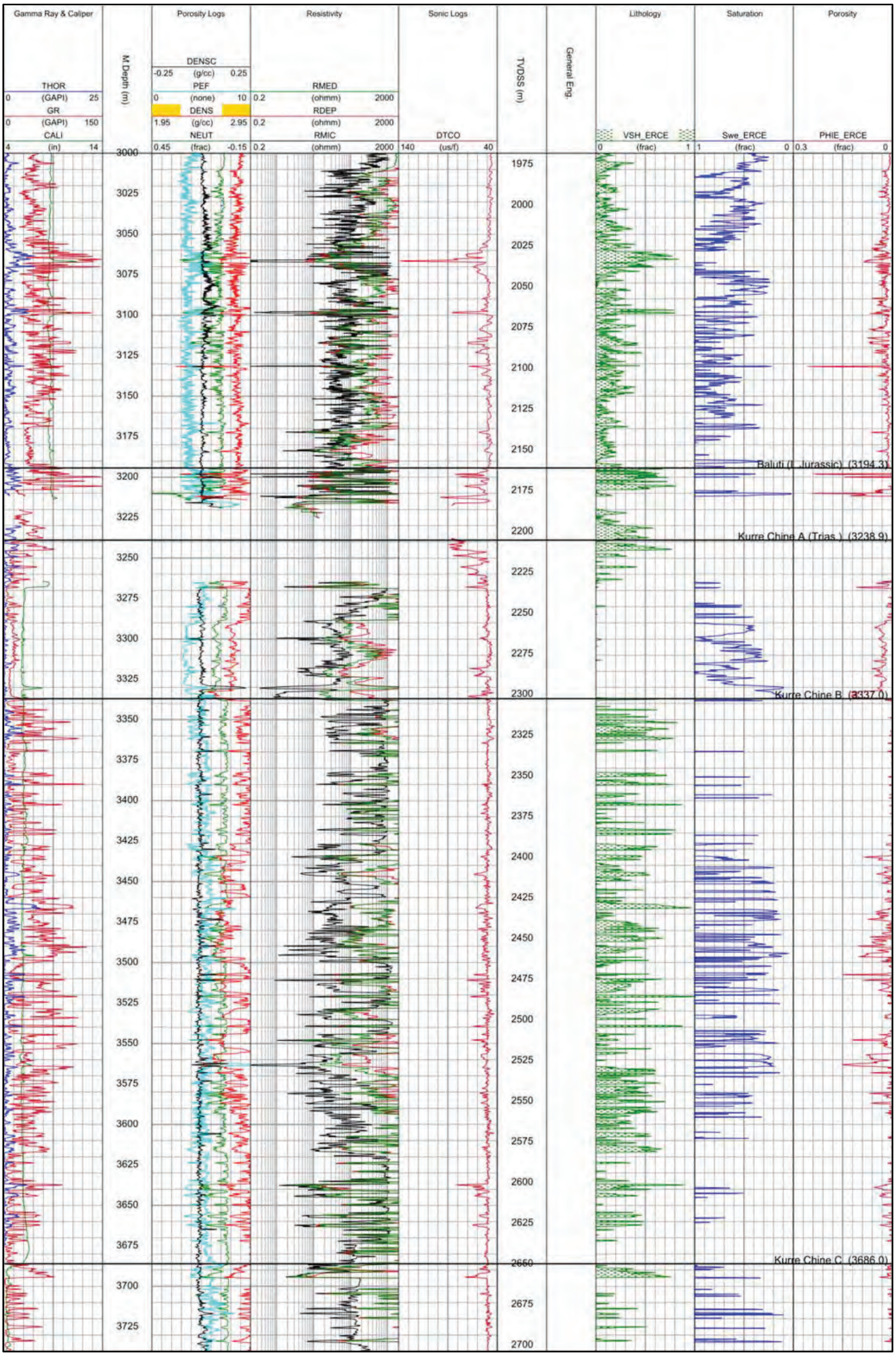

Figure 6.6: Well Sheikh Adi-1B CPI of Jurassic and Triassic Intervals

6.4.3. Water Saturation

ERCE estimated formation temperature and used the Archie equation to calculate water saturation as described in Section 5.4.3 for Shaikan. Special core analysis carried out on samples from the Jurassic Alan and Triassic Kurre Chine A & B formations from Well Shaikan-1B with porosity equal to or greater than 3% gave average Archie parameters of a=1, m=1.93, and n=1.95. Water resistivity was estimated to be 3.0 ohm.m @ 15.6°C in the Sarmord which is approximately 2,000 ppm NaCl equivalent.

From below the Sarmord to the base of the Kurre Chine B formation, a value of 0.27 ohm.m @ 15.6° C was used. This was obtained from a measurement made on a sample of water recovered from the Jurassic Alan and Mus formations. The concentration of total dissolved solids was estimated at approximately 30,000 ppm NaCl equivalent. The Kurre Chine C water resistivity derived from a sample from DST-3 of Well Shaikan-2, was 0.053 ohm.m @ 60° F, equivalent to a salinity of approximately 270,000 ppm NaCl equivalent.

6.4.4. Cut-offs

We carried out our petrophysical interpretation to provide a basis for auditing the reservoir property ranges provided by GKP. From our analysis, we concluded that the property ranges provided by GKP were satisfactory and these were consequently used by ERCE for making our volumetric estimates.

For estimating net to gross ratio, porosity cut-offs of 7.0%, 4.5% and 3.0% were applied for the low, best and high cases. Low, best and high porosity cut-offs lead to low, best and high estimates of hydrocarbon pore thickness, with the constituent reservoir properties N/G ratio, porosity and oil saturation. Field-wide averages of net to gross ratio, porosity and water saturation were derived from the logs of Wells Sheikh Adi-1B and Sheikh Adi-2 at each of the porosity cut-offs for the Cretaceous and Jurassic intervals. For the Triassic interval, reservoir properties were based on information from Well Sheikh Adi-1B and analogous Shaikan wells.

6.5. Fluid Contacts

Multiple sources of data were analysed to identify fluid contacts and estimate the ranges of uncertainty in contact depths. These included the analysis of oil and water pressure gradients, the distinction between oil and water producing zones from DST data and analysis of wireline logs. An illustrative cross section through the Sheikh Adi field is given in Figure 6.7.

6.5.1. Cretaceous

ERCE used ODTs in Well Sheikh Adi-1B obtained from wireline logs and tests as best case estimates of OWCs in the Cretaceous formations in the footwall. In the Sarmord and Garagu formations, wireline logs indicated ODT depths of 1,052 mTVDSS and 1,240 mTVDSS. In the Chia Gara formation, a test indicated an ODT depth of 1,311 mTVDSS. As no WUT or structural spill information was available to define a range of uncertainty in OWC in the footwall, ERCE applied an uncertainty range of ± 20% directly to the best case GRV to estimate low and high cases.

ERCE used ODTs in Well Sheikh Adi-2 obtained from wireline logs as low case estimates of OWCs in the Cretaceous formations in the hanging wall. In the Sarmord, Garagu and Chia Gara formations, these were 188, 334 and 385 mTVDSS respectively. ERCE used the westerly spill points as estimates of OWCs for the high cases. For the Sarmord, Garagu and Chia Gara formations these were 570 mTVDSS, 660 mTVDSS and 815 mTVDSS respectively. The low and high case OWCs were used to define the low and high case GRVs. The best case GRVs were obtained by fitting log-normal probability distributions to the low and high case GRVs.

6.5.2. **Jurassic**

As recognised at Shaikan, the test (Table 6.11) and log data from Sheikh Adi indicated, in both the hanging wall and footwall, that different OWCs exist in the fractures and matrix, which is thought to be caused by a breach of the top seal and the flooding of the fractures by water up to the level of the current OWC in recent geological time.

The fracture system dominates flow and therefore the well test results were considered to be indicative of fracture characteristics and fluids present in the fractures. ERCE has therefore used test data to estimate ranges of uncertainty in the OWC in the Jurassic fracture system by analysing test results.

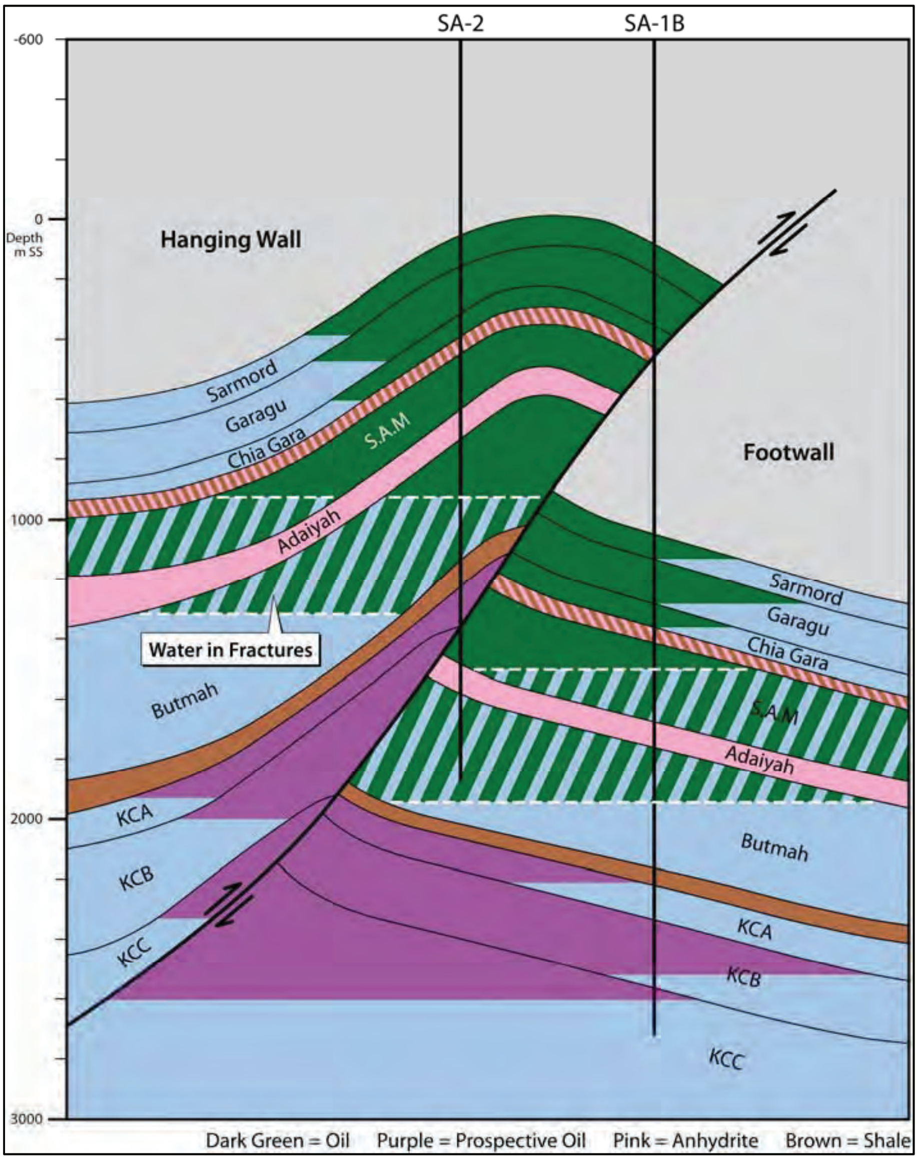

Figure 6.7: Illustrative Cross Section through Sheikh Adi Field

Oil was produced from the footwall in DST-7B of Well Sheikh Adi-1B, proving the existence of moveable oil in the fractures. Analysis of the water produced during the test showed it to be drilling fluid. There was uncertainty as to which perforations produced oil. The well was perforated from 1,473 mTVDSS to 1,502 mTVDSS and from 1,512 mTVDSS to 1,529 mTVDSS. Thus, in the footwall we have set the low case OWC for the fractures at approximately the shallowest perforation of DST-7B, i.e. 1,475 mTVDSS. We have set the best case OWC at approximately the base of the shallow set of perforation of DST-7B, i.e. 1,500 mTVDSS. The high case OWC was uncertain, and we have set it at 1,555 mTVDSS, approximately midway between the base of the lower perforations in DST-7B (1,529 mTVDSS) and the top of the shallowest interval that tested formation water, i.e. 1,577 mTVDSS in DST-6A of Well Sheikh Adi-1B.

There is uncertainty in the OWC in fractures in the hanging wall. The deepest tested oil with no water production came from DST-4 of Well Sheikh Adi-2 at a depth of approximately 790 mTVDSS. ERCE has used this depth for the low case OWC in the fractures. Four oil samples were collected during testing of Well Sheikh Adi-2 (DST-4, -5, -6 and -7) and the oil samples were analysed in PVT laboratories. ERCE estimated a range of oil pressure gradients from the laboratory derived oil density values. These gradients were used, together with the regional aquifer gradient to estimate theoretical oil water contacts. One point (from DST-6) was anomalous and was discarded, while the OWCs calculated from the other three tests were in good agreement. From this work, a best case OWC for the fractures of 920 mTVDSS was estimated. The high case OWC was taken as the midpoint between the shallowest tested water from DST-3 at 978 mTVDSS and the best case OWC, i.e. 950 mTVDSS.

ERCE estimated OWCs in the matrix from log analysis. In the hanging wall, a depth of 1,323 mTVDSS was used for the low, best and high cases. In the footwall, a depth of 1,945 mTVDSS was used for the low, best and high cases.

6.5.3. Triassic

In the footwall, ERCE identified ODTs for the Kurre Chine A, B and C from wireline logs. These were 2,205 mTVDSS for Kurre Chine A, 2,529 mTVDSS for Kurre Chine B and 2,605 mTVDSS for Kurre Chine C, and were used by ERCE for the best case OWCs. No uncertainty range was estimated for the OWC, but an uncertainty range of ± 20% was applied to the best case GRV to obtain low and high estimates of GRV.

In the case of the hanging wall, identification of fluid contacts was hampered by lack of a well penetration. ERCE estimated ranges of uncertainty in OWCs from structural mapping. For each formation, the low case was limited to the first structural culmination and the high case was defined by the spill points. The low and high case OWCs were used to define the low and high case GRVs. The best case GRVs were obtained by fitting log-normal probability distributions to the low and high case GRVs.

For the Kurre Chine A formation, the low and high case OWC estimates were 1,855 mTVDSS and 1,960 mTVDSS respectively. For the Kurre Chine B formation, the low and high case OWC estimates were 1,950 mTVDSS and 2,050 mTVDSS respectively, and for the Kurre Chine C formation, the low and high case OWC estimates were 2,295 mTVDSS and 2,400 mTVDSS respectively.

6.6. Gross Rock Volume Estimation

6.6.1. Cretaceous

GKP constructed a top Cretaceous (Sarmord) structural depth map for the footwall and hanging wall as described in Section 6.2. This was reviewed by ERCE and found to be acceptable for the purposes of estimating GRVs. Ranges of uncertainty in GRV for the individual Cretaceous formations (Sarmord, Garagu and Chia Gara) were estimated using the top Sarmord structural depth map and isochores derived from both wells. As no WUT or structural spill information was available to define a range of uncertainty in the OWC in the footwall, ERCE applied an uncertainty range of ± 20% directly to the best GRV to estimate low and high cases of GRV. In the hanging wall, the low and high case OWCs were used to estimate high and low case GRVs for each of the formations. Log-normal probability distributions were fitted to these end members from which best case GRVs were extracted for each of the formations. A similar approach was taken for the OWC used to constrain the GRV for the Sheikh Adi Hanging-Wall prospect.

6.6.2. Jurassic

A structural depth map of each Jurassic formation was constructed by the addition of simple isochore values, defined by the average from the two wells, to the geophysically defined top Jurassic map (Section 6.2). The hanging wall and the footwall have different sets of OWCs (Section 6.5.2). In both the hanging wall and in the footwall, estimates of GRV are different for the fractures and the matrix as the OWCs are different. For the fractures in the hanging wall and footwall, different low, best and high OWCs were used to estimate low, best and high GRVs. For the matrix, a single OWC was used in the hanging wall and a single (but different) OWC was used in the footwall for the low, best and high estimates of GRV. We use the range of fracture and matrix FWL described in Section 6.5.2 to define a range of OWC for the Sheikh Adi Hanging-Wall prospect.

6.6.3. Triassic

A top Triassic Kurre Chine A structural depth map was generated as described in Section 6.2. The top and base depth maps for the Kurre Chine B were created by the addition of an average isochore value defined by Well Sheikh Adi-1B. The test data from the Kurre Chine reservoirs in the Shaikan field indicated that each has a different fluid type and hence are separate reservoirs. This model was applied in the Sheikh Adi Triassic discovery. In the case of the footwall, no uncertainty range was estimated for OWC and hence an uncertainty range of ± 20% was applied to the best case GRV to obtain low and high GRVs. In the case of the hanging wall, the low and high case OWCs were used to estimate low and high case GRVs for each of the formations. These end members were used to define log-normal probability distribution functions from which best case GRVs were extracted.

6.7. Reservoir Fluid Properties

Tests and bottom hole samples collected from both wells in the Jurassic demonstrated that mobile oil was encountered in both the hanging wall and footwall. PVT analysis has been conducted on samples from four tests in the hanging wall and one in the footwall of the Jurassic.

In the Cretaceous only high viscosity bitumen has been recovered, and the oil was not proven to flow naturally. No fluid samples were collected and therefore no PVT analysis has been completed on oil from the Cretaceous interval.

PVT results from all bottom hole samples collected in Sheikh Adi are presented in Table 6.1. We have excluded the results from the analysis of Well Sheikh Adi-1B DST-7B due to concerns about the quality and representativeness of the sample.

The crude appears to be of similar quality to Shaikan. Although the density varies with depth, the average density is in the order of 18° API. As with Shaikan, the crude is sour and separator gases have approximately 6% H_2S and 20% CO_2. Viscosity in the Jurassic at reservoir conditions is approximately 60 cp, suggesting that whilst heavy, the crude will be able to flow without the need for thermal recovery techniques.

In respect to formation water, detailed water analysis was carried out on four samples. The results are presented in Table 6.2.

Table 6.1: Sheikh Adi Jurassic Oil PVT Summary

Measurement/entity	Units	SA-2	SA-2	SA-2	SA-2
		Sargelu	Mus	Adiyah	Upper Butmah
DST number		7	6	5	4
Type of sample		bottom hole	bottom hole	bottom hole	bottom hole
Top tested Interval	mMDRKB	1,420	1,540	1,600	1,890
Base tested interval	mMDRKB	1,430	1,560	1615	1,910
Reservoir pressure	psia	1,715	1,875	2,000	2,015
Reservoir temperature	°F	126	130	134	135
Saturation pressure	psia	1610	1455	665	770
Density at reservoir pressure	g/cc	0.865	0.877	0.915	0.903
Density at standard conditions	g/cc	0.94	0.945	0.955	0.949
Density at standard conditions	°API	19.0	18.3	16.6	17.6
Viscosity at reservoir	cp	15	26	103	52
GOR	scf/stb	339	311	134	174
FVF at initial conditions	rb/stb	1.18	1.15	1.08	1.09
Separator Gas H_2S	mole%	5.2%	5.9%	6.6%	5.2%
Separator Gas CO_2	mole%	10.7%	12.2%	16.2%	30.3%
Separator Gas N_2	mole%	1.4%	2.8%	2.0%	2.4%

Table 6.2: Sheikh Adi Formation Water Properties

Well	DST	Formation	Water Sample Specific Gravity	Total Dissolved Solids (ppm)
SA-2	1	Butmah	1.008	9,780
SA-2	3	Lower Butmah	1.012	13,950
SA-1B	6A	Mus	1.015	18,280
SA-1B	7B	Sargelu/Alan	1.163	225,070

6.8. Volumetric Input Parameters

Details of the ranges of parameters used by ERCE for estimating STOIIP and GIIP for each reservoir interval are shown in Table 6.3 to Table 6.8. These parameters were used as input into the probability distribution functions for estimating Contingent Resources as described in Section 6.10. For fractures, we applied the fracture porosity ranges described in Section 6.3.2.

Table 6.3: Volumetric Input Parameters for Sheikh Adi Cretaceous Footwall

Property	Sarmord			Garagu			Chia Gara		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	378	472	566	866	1,083	1,299	795	994	1,192
N/G (fraction)	0.049	0.126	0.174	0.035	0.080	0.089	0.188	0.188	0.188
Phi (fraction)	0.118	0.081	0.070	0.127	0.092	0.088	0.112	0.112	0.112
So (fraction)	0.712	0.706	0.689	0.646	0.614	0.611	0.621	0.621	0.621
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Fractures									
GRV (10^6 m^3)	378	472	566	866	1,083	1,299	795	994	1,192
N/G (fraction)	0.600	0.600	0.600	0.800	0.800	0.800	0.750	0.750	0.750
Phi (fraction)	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Table 6.4: Volumetric Input Parameters for Sheikh Adi Cretaceous Hanging Wall

Property	Sarmord			Garagu			Chia Gara		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	1,481	1,887	2,403	2,251	3,002	4,002	287	6566	1,115
N/G (fraction)	0.045	0.116	0.149	0.008	0.021	0.037	0.188	0.188	0.188
Phi (fraction)	0.087	0.071	0.064	0.122	0.094	0.071	0.112	0.112	0.112
So (fraction)	0.699	0.65	0.628	0.498	0.539	0.569	0.621	0.621	0.621
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Fractures									
GRV (10^6 m^3)	1,481	1,887	2,403	2,251	3,002	4,002	287	6566	1,115
N/G (fraction)	0.900	0.900	0.900	0.900	0.900	0.900	0.750	0.750	0.750
Phi (fraction)	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Table 6.5: Volumetric Input Parameters for Sheikh Adi Jurassic Footwall

Property	Sargelu			Alan			Mus			Adiyah			Butmah		
	Low	Best	High	Low	Low	Low	Low	Best	High	Low	Best	High	Low	Best	High
Matrix															
GRV (10^6 m^3)	2,942	2,942	2,942	2,615	2,615	2,615	1,003	1,003	1,003	2,972	2,972	2,972	7,221	7,221	7,221
N/G (fraction)	0.016	0.040	0.100	0.130	0.130	0.130	0.116	0.212	0.381	0.004	0.070	0.100	0.130	0.268	0.365
Phi (fraction)	0.106	0.084	0.058	0.108	0.108	0.108	0.096	0.079	0.063	0.080	0.090	0.100	0.108	0.083	0.071
So (fraction)	0.804	0.803	0.805	0.237	0.237	0.237	0.719	0.703	0.709	0.820	0.850	0.880	0.237	0.767	0.766
Bo (rb/stb)	1.21	1.15	1.09	1.21	1.21	1.21	1.21	1.15	1.09	1.21	1.15	1.09	1.21	1.15	1.09
Fractures															
GRV (10^6 m^3)	1,390	1,452	1,595	1,205	1,268	1,388	407	496	575	729	927	1,447	68	165	501
N/G (fraction)	0.350	0.350	0.350	0.850	0.850	0.850	1.000	1.000	1.000	0.100	0.100	0.100	0.850	0.850	0.850
Phi (fraction)	0.0010	0.0040	0.0070	0.0010	0.0010	0.0010	0.0010	0.0040	0.0070	0.001	0.004	0.007	0.0010	0.0040	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.21	1.15	1.09	1.21	1.21	1.21	1.21	1.15	1.09	1.21	1.15	1.09	1.21	1.15	1.09

Table 6.6: Volumetric Input Parameters for Sheikh Adi Jurassic Hanging Wall

Property	Sargelu			Alan			Mus			Adiyah			Butmah		
	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High
GRV (10^6 m^3)	4,151	4,151	4,151	3,474	3,474	3,474	1,193	1,193	1,193	2,755	2,755	2,755	3,642	3,642	3,642
N/G (fraction)	0.016	0.040	0.100	0.016	0.100	0.209	0.223	0.472	0.660	0.004	0.070	0.100	0.078	0.204	0.291
Phi (fraction)	0.106	0.084	0.058	0.115	0.069	0.056	0.112	0.083	0.071	0.080	0.090	0.100	0.094	0.073	0.063
So (fraction)	0.804	0.803	0.805	0.636	0.581	0.598	0.738	0.730	0.709	0.820	0.850	0.880	0.775	0.757	0.752
Bo (rb/stb)	1.21	1.15	1.09	1.21	1.15	1.09	1.21	1.15	1.09				1.21	1.15	1.09
GRV (10^6 m^3)	1,229	1,449	1,449	1,017	1,017	1,017	316	464	489	493	1,021	1,121	55	292	407
N/G (fraction)	0.350	0.350	0.350	0.900	0.900	0.900	1.000	1.000	1.000	0.100	0.100	0.100	0.850	0.850	0.850
Phi (fraction)	0.0010	0.0040	0.0070	0.0010	0.0040	0.0070	0.0010	0.0040	0.0070	0.001	0.004	0.007	0.0010	0.0040	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.21	1.15	1.09	1.21	1.15	1.09	1.21	1.15	1.09	1.21	1.15	1.09	1.21	1.15	1.09

Table 6.7: Volumetric Input Parameters for Sheikh Adi Triassic Footwall

	Kurre Chine A			Kurre Chine B Oil			Kurre Chine C		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	1,473	1,842	2,210	6,606	8,257	9,9,09	3,745	4,681	5,617
N/G (fraction)	0.058	0.232	0.331	0.042	0.070	0.111	0.031	0.040	0.076
Phi (fraction)	0.124	0.072	0.062	0.107	0.091	0.073	0.093	0.086	0.072
So (fraction)	0.870	0.762	0.738	0.783	0.773	0.774	0.922	0.912	0.721
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91	2.17	1.97	1.77
Fractures									
GRV (10^6 m^3)	1,473	1,842	2,210	6,606	8,257	9,9,09	3,745	4,681	5,617
N/G (fraction)	0.650	0.650	0.650	0.500	0.500	0.500	0.500	0.500	0.500
Phi (fraction)	0.0010	0.0030	0.0070	0.0010	0.0030	0.0070	0.0010	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91	2.17	1.97	1.77

Table 6.8: Volumetric Input Parameters for Sheikh Adi Triassic Hanging Wall

	Kurre Chine A			Kurre Chine B Oil			Kurre Chine C		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	104	272	709	43	222	1,148	64	283	1,250
N/G (fraction)	0.058	0.232	0.331	0.042	0.070	0.111	0.031	0.040	0.076
Phi (fraction)	0.124	0.072	0.062	0.107	0.091	0.073	0.093	0.086	0.072
So (fraction)	0.870	0.762	0.738	0.783	0.773	0.774	0.922	0.912	0.721
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91	2.17	1.97	1.77
Fractures									
GRV (10^6 m^3)	104	272	709	43	222	1,148	64	283	1,250
N/G (fraction)	0.650	0.650	0.650	0.500	0.500	0.500	0.500	0.500	0.500
Phi (fraction)	0.0010	0.0030	0.0070	0.0010	0.0030	0.0070	0.0010	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91	2.17	1.97	1.77

Table 6.9: Volumetric Input Parameters for Sheikh Adi Hanging Wall prospect, Cretaceous

Property	Sarmord			Garagu			Chia Gara		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	229	393	674	327	594	1,078	319	474	705
N/G (fraction)	0.045	0.116	0.149	0.008	0.021	0.037	0.188	0.188	0.188
Phi (fraction)	0.087	0.071	0.064	0.122	0.094	0.071	0.112	0.112	0.112
So (fraction)	0.699	0.65	0.628	0.498	0.539	0.569	0.621	0.621	0.621
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Fractures									
GRV (10^6 m^3)	229	393	674	327	594	1,078	319	474	705
N/G (fraction)	0.900	0.900	0.900	0.900	0.900	0.900	0.750	0.750	0.750
Phi (fraction)	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Table 6.10: Volumetric Input Parameters for Sheikh Adi Hanging Wall prospect, Jurassic

Property	Sargelu			Alan			Mus		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	87	301	329	7	152	207	1	20	37
N/G (fraction)	0.016	0.040	0.100	0.016	0.100	0.209	0.223	0.472	0.660
Phi (fraction)	0.106	0.084	0.058	0.115	0.069	0.056	0.112	0.083	0.071
So (fraction)	0.804	0.803	0.805	0.636	0.581	0.598	0.738	0.730	0.709
Bo (rb/stb)	1.21	1.15	1.09	1.21	1.15	1.09	1.21	1.15	1.09
Fractures									
GRV (10^6 m^3)	87	301	329	7	152	207	1	20	37
N/G (fraction)	0.350	0.350	0.350	0.900	0.900	0.900	1.000	1.000	1.000
Phi (fraction)	0.0010	0.0040	0.0070	0.0010	0.0040	0.0070	0.0010	0.0040	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.21	1.15	1.09	1.21	1.15	1.09	1.21	1.15	1.09

6.9. Dynamic Evaluation

At the time of preparing this report no special core analysis (SCAL) had been carried out in any reservoir layer. Therefore no relative permeability or capillary pressure data were available.

6.9.1. Well Tests

Oil was successfully tested in 4 Jurassic intervals within the hanging wall and oil was recovered from the Sargelu/Alan formations in the footwall on nitrogen lift. A summary of the well test results is presented in Table 6.11.

6.9.2. Recovery Factors

ERCE has used Shaikan as an analogue for Sheikh Adi with respect to dynamic behaviour and recovery factors. Recovery factors for the Jurassic and Triassic intervals are the same as those used for Shaikan as described in Section 5.9.3.

Table 6.11: Sheikh Adi DST Summary

Reservoir Age	Zone	Well	DST	Cased/Open/Barefoot	Test Interval (mMDRKB)	Test Interval (mTVDSS)	Result
Cretaceous	Kometan (Hanging Wall)	SA-1B	1	Open	885 – 913	-133 to -106	mechanical failure
Cretaceous	Kometan (Footwall)	SA-1B	2	Open	1,898 – 1,946	876 – 923	mechanical failure
Cretaceous	Chia Gara (Footwall)	SA-1B	3	Open	2,289 – 2,337	1,264 – 1,311	high viscosity oil collected
Triassic	Kurre Chine A (Footwall)	SA-1B	4	Open	3,264 – 3,293	2,230 – 2,259	no natural flow
Triassic	Kurre Chine B/C (Footwall)	SA-1B	5	Barefoot	3,610 – 3,800	2,574 – 2,763	no natural flow
Jurassic	Mus (Footwall)	SA-1B	6A	Cased	2,606 – 2,615	1,577 – 1,586	2,332 bbl formation water
Jurassic	Butmah (Footwall)	SA-1B	6	Cased	2,770 – 2,800	1,740 – 1,770	mechanical failure
Jurassic	Sargelu/Alan (Footwall)	SA-1B	7	Cased	2,500 – 2,530 2,540 – 2,560	1,473 – 1,502 1,512 – 1,532	mechanical failure
Jurassic	Sargelu/Alan (Footwall)	SA-1B	7A	Cased	2500 – 2,530 2,540 – 2,560	1,473 – 1,502 1,512 – 1,532	mechanical failure
Jurassic	Sargelu/Alan (Footwall)	SA-1B	7B	Cased	2,500 – 2,530 2,540 – 2,557	1,473 – 1,502 1,512 – 1,529	81 stb oil and 51 bbl water collected on N_2 lift. water appears to be drilling fluid
Jurassic	Butmah (Footwall)	SA-2	1	Cased	2,600 – 2,635	1,687 – 1,722	461 bbl water
Jurassic	Adaiyah (Footwall)	SA-2	2	Cased	2,520 – 2,540	1,607 – 1,627	no natural flow. 5 litres of oil reversed out
Jurassic	Lower Butmah (Hanging wall)	SA-2	3	Cased	1,890 – 1,910	978 – 998	99% BS&W produced at a maximum liquid rate of 1,344 bbl/d
Jurassic	Upper Butmah (Hanging wall)	SA-2	4	Cased	1,680 – 1,700	769 – 789	oil produced at a rate of approximately 312 stb/d
Jurassic	Adaiyah (Hanging wall)	SA-2	5	Cased	1,600 – 1,615	689 – 704	oil produced at a rate of approximately 170 stb/d
Jurassic	Mus (Hanging wall)	SA-2	6	Cased	1,540 – 1,560	629 – 649	979 stb of oil produced at an average rate of 1,653 stb/d
Jurassic	Sargelu (Hanging wall)	SA-2	7	Cased	1,420 – 1,430	510 – 520	1,827 stb of oil produced at an average rate of 1,732 stb/d

6.10. Sheikh Adi Contingent and Prospective Resources Estimates

ERCE has attributed Contingent Resources to the Jurassic, based on the successful recovery of oil to surface during testing of both the hanging wall and footwall areas of the field. In the Cretaceous, we had insufficient data to determine whether the oil is recoverable or not and we could not determine if any enhanced oil recovery (EOR) method would be appropriate. Therefore, we have reported only STOIIP for the Cretaceous. In the Triassic, log analysis of Well Sheikh Adi-1B has indicated oil pay. However, as no cased tests have occurred in the Triassic intervals, we have classified the intervals as Prospective Resources. Resource estimates have been made probabilistically, following the same methodology described for Shaikan in Section 5.10. Results are presented in Table 6.12 to Table 6.16. Gas Contingent Resources are solution gas volumes from which non-hydrocarbon volumes (H_2S and CO_2) have been subtracted.

Table 6.12: Summary of Discovered Oil and Gas Initially in Place for Sheikh Adi

Field	Formation	Gross Field STOIIP (MMstb)			Gross Field GIIP (Bscf)		
		Low	Best	High	Low	Best	High
Sheikh Adi	Cretaceous	256	398	631	0	0	0
	Jurassic	1,479	1,858	2,522	0	0	0

Table 6.13: Summary of Oil Contingent Resources for Sheikh Adi

Field	Formation	Gross Field Oil Contingent Resources (MMstb)			GKP WI (%)	GKP WI Oil Contingent Resources (MMstb)		
		1C	2C	3C		1C	2C	3C
Sheikh Adi	Jurassic	66	152	273	80.0	53	122	218

Table 6.14: Summary of Gas Contingent Resources for Sheikh Adi

Field	Formation	Gross Field Gas Contingent Resources (Bscf)			GKP WI (%)	GKP WI Gas Contingent Resources (Bscf)		
		1C	2C	3C		1C	2C	3C
Sheikh Adi	Jurassic	16	36	65	80.0	13	29	52

Table 6.15: Summary of Undiscovered Oil Initially In Place for Sheikh Adi

Prospect	Gross Field STOIIP (MMstb)		
	Low	Best	High
Sheikh Adi HW Cretaceous	120	182	286
Sheikh Adi HW Jurassic	99	124	162
Sheikh Adi Triassic	245	351	559

Table 6.16: Summary of Unrisked Oil Prospective Resources for Sheikh Adi

Prospect	Gross Field Unrisked Oil Prospective Resources (MMstb)			GKP WI (%)	GKP WI Unrisked Oil Prospective Resources (MMstb)			COS (%)
	Low	Best	High		Low	Best	High	
Sheikh Adi Triassic	38	84	202	80.0	30	67	162	80
Sheikh Adi HW Jurassic	3	5	12	80.0	2	4	9	80

7. Ber Bahr

The Ber Bahr PSC was awarded on 31 March 2009. Genel Energy plc is the operator and GKP has a 40% working interest. The Ber Bahr structure is located approximately 14 km north west of the Sheikh Adi discovery (Figure 2.1). The first well in the concession, Well Ber Bahr-1 (BB-1), penetrated the structure in Q4 2011. Oil pay was identified in the structure from open-hole logs. A follow up side-track Well Ber Bahr-1ST (BB-1ST) was spudded on 15 March 2013. This well was logged from 350 mMDRKB to 1,112 mMDRKB, and four DSTs were attempted. Oil was successfully tested in the Sargelu formation, between 961 mMDRKB and 985 mMDRKB, flowing between 700 and 900 stb/d with a jet pump.

As a result of this positive test, Contingent Resources have been assigned to the Jurassic in Ber Bahr. Mobile oil has not been proven in the Cretaceous, although wireline logs indicate the presence of oil. As with the Cretaceous in Sheikh Adi (Section 6.10), in this report we present only STOIIP for the Cretaceous. No Contingent Resources were assigned as further technical data are needed to determine if the oil is moveable. Similarly, due to the lack of testing, the Triassic has been classified as Prospective Resources.

7.1. Seismic Interpretation

The Ber Bahr structure is covered by a sparse grid of 2D seismic data. In all, three seismic lines provide structural control, although the down-dip and easterly extension of the anticline onto the Sheikh Adi block is covered by the Shaikan – Sheikh Adi 3D seismic dataset. However, the seismic reference datum for the 2D seismic is 1,000 m above sea level, which is 300 m below that of the 3D survey. Thus, there is considerable uncertainty in the shape and form of the trap. On the available seismic data, the Ber Bahr structure maps as a compressional anticline, with significant over-thrusting of the hanging wall in a southerly direction (Figure 7.1).

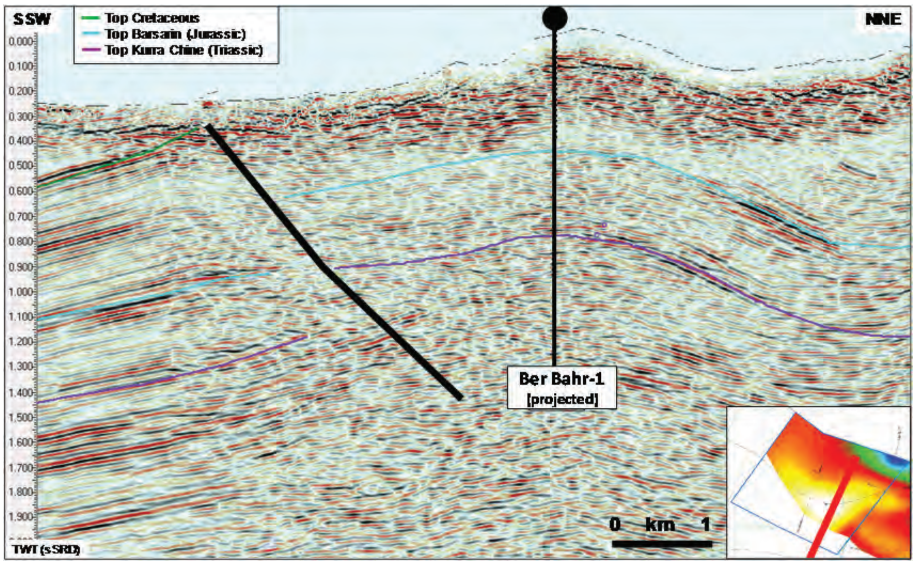

Figure 7.1: Dip Seismic Line, Ber Bahr Discovery

Due to the differences in seismic datum, we have not mapped the 3D seismic data directly to constrain the structural extent down-dip, but have taken account of the mapped form in the creation of our time structure maps for the wider Ber Bahr structure.

7.2. Depth Conversion

Depth conversion of the Ber Bahr structure was undertaken in a similar manner to the Shaikan and Sheikh Adi structures. Well data were available to tie the seismic picks of the main Cretaceous and Jurassic formations and the top of the Triassic to depths. ERCE used an average velocity function to convert the seismic interpreted Top Jurassic surface to the well depth pick, and then applied an interval velocity to construct the Top Triassic depth surface. The Top Cretaceous surface was then constructed by stacking an isopach of the Cretaceous interval to the Top Jurassic depth surface. To review pick and depth conversion uncertainty, a multi-deterministic depth conversion was run, varying input parameters to simulate variations in formation dip on the flanks of the structure. These multi-deterministic cases have been used in our volumetric assessment of the discovery. A top Jurassic map of Ber Bahr is shown in Figure 7.2.

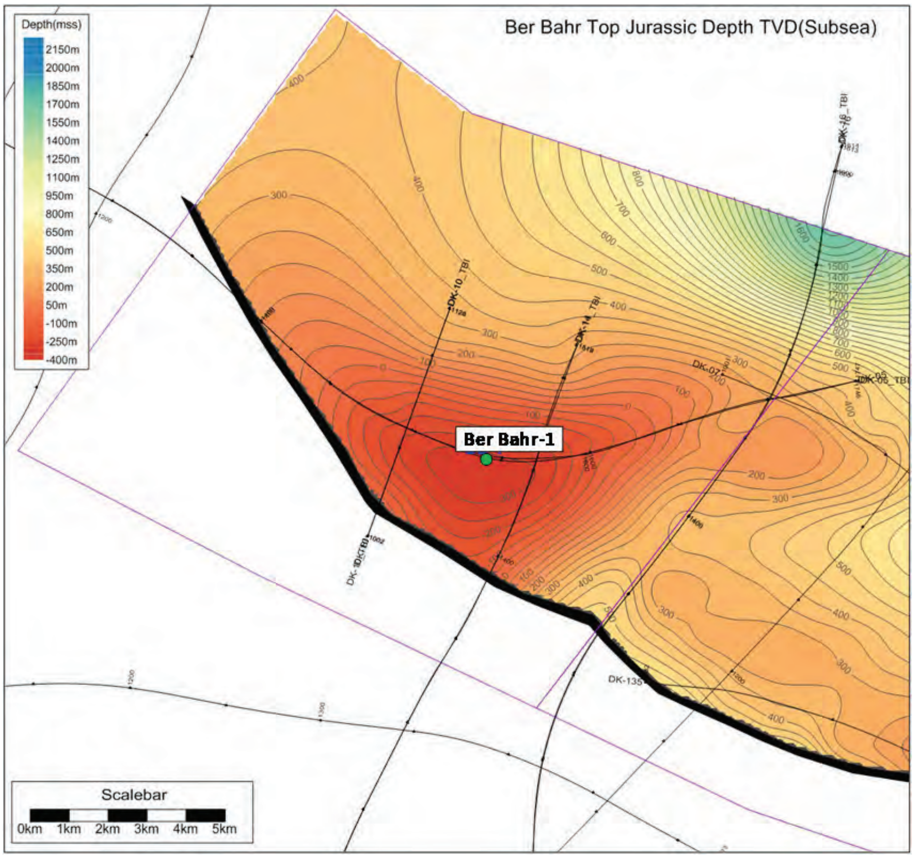

Figure 7.2: Ber Bahr Top Jurassic Depth Map

7.3. Geological Description

7.3.1. Reservoir Description

The Cretaceous interval interpreted as oil bearing from logs includes the Sarmord, Garagu and Chia Gara formations which comprise a mixture of dolomite and limestone, and are often argillaceous and shaley. Porosity ranges from 0 to 25% with occasional thin intervals as high as 30%. No core data were available from Ber Bahr, but it was assumed that the reservoir has permeability similar to Shaikan.

Within the Jurassic, wireline logs from Well Ber Bahr-1 suggested that the Sargelu, Alan, Mus, Adaiyah and Butmah intervals are hydrocarbon bearing. The side-track Well Ber Bahr-1ST flowed oil from the Sargelu and water from the Alan. As at Shaikan and Sheikh Adi, the Ber Bahr Jurassic comprises a mixture of limestone, dolomite, anhydrite and shale. Porosity ranges from 0% to 20%. No core data were available for Ber Bahr but it was assumed that the reservoir permeability is similar to that of Shaikan.

The Triassic, Kurre Chine A and B formations were shown to be hydrocarbon bearing on wireline logs and comprise limestone, anhydrite and subsidiary shale. Porosity is generally low and is in the range 0% to 10%. No core data were available, but permeability was assumed to be similar to the Kurre Chine in Shaikan and Sheikh Adi. In Well Ber Bahr-1, the Kurre Chine C showed no porosity development.

7.3.2. Fracture Description

Based on the available image logs from Well Ber Bahr-1, low, best and high estimates of fracture porosity were made. These are 0.1%, 0.35% and 0.6% in the Jurassic and 0.1%, 0.25% and 0.5% in the Cretaceous and Triassic. These fracture porosity estimates are applicable to net reservoir only. Net-to-gross ratios for fractures were estimated by identifying poorly fractured rock such as shale and anhydrite and defining any interval of rock containing more than 50% shale or 50% anhydrite as non-net.

7.4. Log Analysis

GKP provided ERCE with composited log data in digital format, which included total gamma ray, thorium, potassium and uranium components from the spectral gamma, caliper, deep, medium and micro resistivity, density, neutron and sonic logs. GKP also provided ERCE with interpreted logs comprising shale volume, porosity and water saturation, as well as the average reservoir properties derived from these interpretations by GKP.

7.4.1. Shale Volume

ERCE derived Vsh from the gamma ray logs, following a similar approach to that used for Shaikan.

7.4.2. Porosity

Total porosity was derived using the density log. Matrix parameters were inferred from the calcimetry results and PEF response. ERCE calculated effective porosity as described for the Shaikan field in Section 5.4.2.

7.4.3. Water Saturation

ERCE estimated formation temperature and used the Archie equation to calculate water saturation as described in Section 5.4.3 for Shaikan.

Special core analysis carried out on samples from the Jurassic Alan and Triassic Kurre Chine A & B formations from Well Shaikan-1B with porosity equal to or greater than 3% gave average Archie parameters of a=1, m=1.93, and n=1.95. These values were used for Ber Bahr.

ERCE analysed Pickett plots and estimated the water resistivity to be 1.32 ohm.m @ 15.56° C. This corresponds to a salinity of approximately 5,100 ppm NaCl equivalent. This was applied to all reservoir intervals.

7.4.4. Cut-offs

We carried out our petrophysical interpretation to provide a basis for auditing the reservoir property ranges provided by GKP. From our analysis, we concluded that the property ranges provided by GKP were satisfactory and these were consequently used by ERCE for making our volumetric estimates. For estimating net to gross ratio, porosity cut-offs of 7.0%, 4.5% and 3.0% were applied for the low, best and high cases. Low, best and high porosity cut-offs lead to low, best and high estimates of hydrocarbon pore thickness, with the constituent reservoir properties N/G ratio, porosity and oil saturation. Field-wide averages of net to gross ratio, porosity and water saturation were derived from the logs of Wells Sheikh Adi-1B and Sheikh Adi-2 at each of the porosity cut-offs.

7.5. Fluid Contacts

7.5.1. Cretaceous

ERCE determined a spill point from the top Cretaceous structural depth map and used this to estimate the spill point for each formation by progressively appending the isopach of each formation to the overlying surface. ERCE used spill points to define the high case OWCs. These were 1,087, 1,189 and 1,286 mTVDSS for the Sarmord, Garagu and Chia Gara formations. We identified ODTs from wireline logs and used these for the low case estimates. These were -470, -373 and -330 mTVDSS (note that negative values indicate that the depths are shallower than sea level) for the Sarmord, Garagu and Chia Gara.

7.5.2. Jurassic

Pressure data from Shaikan indicated that the Jurassic intervals are in vertical communication and represent a single reservoir. This model has also been applied to the Ber Bahr evaluation.

Log and test data suggested that the Jurassic interval of Ber Bahr is probably analogous to Shaikan in that the structure appears to have been breached, allowing water to invade the reservoir, displacing oil in the fracture network, while leaving oil in the matrix. As a result, wells flowed water during testing from intervals that appeared, on the basis of log analysis, to be oil bearing in the matrix. We have therefore estimated different OWCs for the fractures and matrix, with the fracture OWCs being shallower than those of the matrix.

ERCE has estimated the OWC in the fractures using well test data. In Well Ber Bahr-1ST, the operator ran a PLT to identify which perforations were producing water. The results were not conclusive, but indicated a WUT in the fractures of -88 mTVDSS. ERCE has used this for the high case OWC. Dry oil flowed from the perforation at -98 mTVDSS and ERCE has used this for the low case OWC. The best case OWC has been taken midway between the two measurements, at -93 mTVDSS.

ERCE has estimated OWCs in the matrix from log analysis. An ODT was identified on the logs of Well Bar Bahr-1 at 245 mTVDSS and a WUT was identified at 265 mTVDSS. We have used a single value midway between these depths at 255 mTVDSS for the low, best and high case estimates of OWC.

7.5.3. Triassic

ERCE has used ODTs from the log analysis of Well Ber Bahr-1 to define low case estimates of OWCs for each of the formations. In the Kurre Chine A, an ODT was identified at 797 mTVDSS and in the Kurre Chine B, an ODT was identified at 1,042 mTVDSS. The structural spill points determined from the mapping in each of the Triassic intervals were 2,356 mTVDSS for Kurre Chine A and 2,463 mTVDSS for Kurre Chine B. Spill points were used to define the high case OWCs. The low and high case OWCs were used to define the low and high case GRVs. The best case GRVs were obtained by fitting log-normal probability distributions to the low and high case GRVs.

7.6. Gross Rock Volume Estimation

Top Cretaceous, Jurassic and Triassic time structure maps were generated as described in Section 7.2 Intermediate maps for each of the intervals in the Cretaceous, Jurassic and Triassic were created by the addition of a constant interval isochore derived from Well Ber Bahr-1.

7.6.1. Cretaceous

For the evaluation of GRV in the Cretaceous, the low and high case OWCs were used to obtain end member GRVs from the depth structure maps for each of the formations. These were fitted to log-normal distribution functions, from which best case GRVs were extracted.

7.6.2. Jurassic

Top structure maps were used in conjunction with estimates of OWCs in the matrix and in the fractures to estimate GRVs for each of the reservoir zones. For the matrix, a single OWC was defined for each zone and hence a single value of GRV has been used for low, best and high cases. For the fractures, low, best and high estimates of OWC were made resulting in low, best and high estimates of GRV for each zone.

7.6.3. Triassic

The top Kurre Chine B and C maps were created from the top Triassic Kurre Chine A structural depth map by the addition of interval isochores derived from the data of Well Ber Bahr-1. Based on the information from the Shaikan field, it was assumed that each interval is a separate hydrocarbon accumulation. For each of the formations, low case and high GRVs were calculated using the low and high case OWCs. These end members were used to define log-normal distribution functions of GRV, from which a best case GRV was extracted.

In a limited number of our structural realisations the Ber Bahr structure extended eastwards onto the Sheikh Adi Block. In the Jurassic a very small portion (approximately 2.5%) of the Sargelu GRV in the interval between the OWC in the fractures and the OWC defined from logs lay in the Sheikh Adi Block. The Sargelu GRV above the fracture OWC was entirely on-block and the remaining Jurassic intervals (above and below current OWC) did not extend into the Sheikh Adi Block. The Triassic GRV was also entirely on-block.

7.7. Reservoir Fluid Properties

No PVT analysis or well site report was available for review. Fluid information was limited to comments in the Genel Discovery Report. Preliminary field data indicated that the oil had a density between 12° API and 14° API, and a GOR of approximately 225 scf/stb. The H_2S, N_2 and CO_2 content of the produced gas was not reported. Well-site oil analysis suggested the oil contained 4.5 % H_2S by weight. On the basis of a comparison with Sheikh Adi we have assumed an inert content of 20% making the effective hydrocarbon GOR of 180 scf/stb.

Based on the limited data available, we have used industry standard correlations to estimate a range of values for the oil FVF in the Jurassic reservoirs of 1.05, 1.10 and 1.15 rb/stb for low, best and high cases.

For the Triassic we used the Triassic oil in the Kurre Chine B in Shaikan as an analogue for fluid properties in the estimation of Prospective Resources (Section 5.7.3).

7.8. Volumetric Input Parameters

Details of the ranges of parameters used by ERCE for estimating volumes for each reservoir interval are shown in Table 7.1 for the Cretaceous, Table 7.2 for the Jurassic and Table 7.3 for the Triassic formations. These parameters were used as input into the probability distribution functions for estimating Contingent Resources as described in Section 7.10. For fractures, we applied the fracture porosity ranges described in Section 7.3.2.

Table 7.1: Volumetric Input Parameters for Ber Bahr Cretaceous

Property	Sarmord			Garagu			Chia Gara		
	Low	Best	High	Low	Best	High	Low	Best	High
Matrix									
GRV (10^6 m^3)	195	1,157	6,869	190	1,104	6,417	11	197	3,541
N/G (fraction)	0.100	0.122	0.123	0.014	0.020	0.028	0.509	0.583	0.604
Phi (fraction)	0.128	0.116	0.115	0.179	0.141	0.113	0.128	0.119	0.116
So (fraction)	0.649	0.643	0.642	0.576	0.582	0.590	0.858	0.853	0.852
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Fractures									
GRV (10^6 m^3)	195	1,157	6,869	190	1,104	6,417	11	197	3,541
N/G (fraction)	0.829	0.829	0.829	0.738	0.738	0.738	0.784	0.784	0.784
Phi (fraction)	0.0010	0.0025	0.0050	0.0010	0.0025	0.0050	0.0010	0.0025	0.0050
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Table 7.2: Volumetric Input Parameters for Ber Bahr Jurassic

Property	Sargelu			Alan			Mus			Adaiyah			Butmah		
	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High
Matrix															
GRV (10^6 m^3)	9,219	9,219	9,219	2,428	2,428	2,428	649	649	649	1,416	1,416	1,416	918	918	918
N/G (fraction)	0.028	0.037	0.049	0.030	0.088	0.134	0.230	0.255	0.255	0.028	0.037	0.049	0.028	0.037	0.049
Phi (fraction)	0.091	0.109	0.126	0.059	0.070	0.099	0.114	0.114	0.099	0.091	0.109	0.126	0.091	0.109	0.126
So (fraction)	0.761	0.763	0.764	0.595	0.694	0.705	0.494	0.490	0.705	0.761	0.763	0.764	0.761	0.763	0.764
Bo (rb/stb)	1.05	1.10	1.15	1.05	1.10	1.15	1.05	1.10	1.15	1.05	1.10	1.15	1.05	1.10	1.15
Fractures															
GRV (10^6 m^3)	2,065	2,151	2,237	10	17	26	0	0	0	0	0	0	0	0	0
N/G (fraction)	0.422	0.422	0.422	0.422	0.422	0.422	0.422	0.422	0.422	0.422	0.422	0.422	0.874	0.874	0.874
Phi (fraction)	0.0010	0.0035	0.0060	0.0010	0.0035	0.0060	0.0010	0.0035	0.0060	0.0010	0.0035	0.0060	0.0010	0.0035	0.0060
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.05	1.10	1.15	1.05	1.10	1.15	1.05	1.10	1.15	1.05	1.10	1.15	1.05	1.10	1.15

Table 7.3: Volumetric Input Parameters for Ber Bahr Triassic

	Kurre Chine A			Kurre Chine B		
	Low	Best	High	Low	Best	High
Matrix						
GRV (10^6 m^3)	825	2,326	6,559	3,384	7,869	18,299
N/G (fraction)	0.001	0.007	0.023	0.010	0.023	0.033
Phi (fraction)	0.073	0.058	0.043	0.095	0.075	0.063
So (fraction)	0.439	0.484	0.544	0.673	0.708	0.696
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91
Fractures						
GRV (10^6 m^3)	825	2,326	6,559	3,384	7,869	18,299
N/G (fraction)	0.976	0.976	0.976	0.941	0.941	0.941
Phi (fraction)	0.0010	0.0025	0.0050	0.0010	0.0025	0.0050
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91

7.9. Dynamic Evaluation

The bulk of the material containing dynamic information made available to ERCE for Ber Bahr was in the form of a discovery report and documents handed out at operating and technical committee meetings, all prepared by the operator Genel. Well test analysis results were presented in the documents. However, as the well test was conducted in June 2013, no oil PVT analysis, SCAL or other detailed information was yet available. At the time of preparing this report, the discovery was at a very early stage of appraisal. Field measurements showed that the oil is mobile but heavy, with a density between 12° API and 14° API. However, field API measurements have proven unreliable in the past in Kurdistan, and PVT laboratory analysis will be required to ascertain the quality of the crude.

7.9.1. Well Tests

In Well Ber Bahr-1ST, four DSTs were conducted. ERCE was provided with data for DST-3 and -3A. The analysis provided by Genel stated that three of the four tests produced only water, whilst the fourth flowed dry oil. In the Sargelu, between DST-3 and -3A, a PLT indicated that water flowed from the lower perforation interval between 995 and 1,007 mMDRKB. Based on this analysis, a bridge plug was set, and dry oil flowed from DST-3A. A summary of the results of all the tests is presented in Table 7.4.

7.9.2. Recovery Factors

The Shaikan field has been used as an analogue for Ber Bahr. ERCE has used Shaikan recovery factors described in Section 5.9.3 for the Jurassic and Triassic in Ber Bahr.

Table 7.4: Ber Bahr DST Summary

Reservoir Age	Zone	Well	DST	Cased/Open/Barefoot	Test Interval (m MDRT)	Test Interval (mTVDSS)	Result
Jurassic	Mus	BB-1ST	1	Cased	1,080 – 1,092	-3 to 9	produced water
Jurassic	Alan	BB-1ST	2	Cased	1,033 – 1,057	-50 to -26	produced water
Jurassic	Sargelu	BB-1ST	3	Cased	963 – 1,007	-109 to -66	produced water
Jurassic	Sargelu	BB-1ST	3A	Cased	961 – 985	-122 to -98	oil produced at rates of 700 - 900 stb/d
Jurassic	unknown	BB-1	1	Open	1,124 – 1,165	37 to 72	produced water at 1,450 bbl/d after acid stimulation
unknown	Chiazairi	BB-1	2	Barefoot	3,345 – 3,933	2251 to 2838	mechanical failure
unknown	Geli Khana	BB-1	3	Cased	2,795 – 2,805 2,980 – 2,990	1701 to 1711	recovered drilling mud
Triassic	Upper Kurre Chine A	BB-1	4	Cased	1,835 – 1,845	1,886 to 1,896	recovered drilling mud
Jurassic	Alan	BB-1	5	Cased	1,027 – 1,037 1,080 – 1,090	742 to 752 -66 to -56	recovered drilling mud
Jurassic	Sargelu	BB-1	6	Cased	921 – 931 992 – 1,002	-172 to -162 -101 to -91	no natural flow
Jurassic	Sargelu	BB-1	6A	Cased	921 – 931 992 – 1,002	-172 to -162 -101 to -91	no natural flow, traces of heavy oil recovered
Jurassic	Sargelu	BB-1	6B	Cased	921 – 931	-172 to -162	no natural flow

7.10. Ber Bahr Contingent and Prospective Resources Estimates

ERCE has attributed Contingent Resources to the Jurassic reservoirs in Ber Bahr, based on the available data including the positive flow test. As with Sheikh Adi (Section 6.10), Contingent Resources have not been assigned to the Triassic, due to the lack of a positive flow test, but Prospective Resources have been assigned. In addition, as with Sheikh Adi, lack of technical data for the Cretaceous has meant that it has not been possible to ascertain whether or not the oil is recoverable, and hence only STOIIP estimates have been reported. We have adopted the same probabilistic methodology as described in Section 5.10 for Shaikan to estimate Contingent Resources and Prospective Resources. Our results are presented in Table 7.5 to Table 7.9. Gas Contingent Resources are solution gas volumes from which non-hydrocarbon volumes (H_2S and CO_2) have been subtracted.

Table 7.5: Summary of Discovered Oil and Gas Initially in Place for Ber Bahr

Field	Formation	Gross Field STOIIP (MMstb)			Gross Field GIIP (Bscf)		
		Low	Best	High	Low	Best	High
Ber Bahr	Cretaceous	67	293	1,956	0	0	0
	Jurassic	275	363	457	0	0	0

Table 7.6: Summary of Oil Contingent Resources for Ber Bahr

Field	Formation	Gross Field Oil Contingent Resources (MMstb)			GKP WI (%)	GKP WI Oil Contingent Resources (MMstb)		
		1C	2C	3C		1C	2C	3C
Ber Bahr	Jurassic	10	22	38	40.0	4	9	15

Table 7.7: Summary of Gas Contingent Resources for Ber Bahr

Field	Formation	Gross Field Gas Contingent Resources (Bscf)			GKP WI (%)	GKP WI Gas Contingent Resources (Bscf)		
		1C	2C	3C		1C	2C	3C
Ber Bahr	Jurassic	2	4	7	40.0	1	2	3

Table 7.8: Summary of Undiscovered Oil Initially In Place for Ber Bahr

Prospect	Gross Field STOIIP (MMstb)		
	Low	Best	High
Ber Bahr Triassic	32	102	305

Table 7.9: Summary of Oil Prospective Resources for Ber Bahr

Field Prospect	Gross Field Unrisked Oil Prospective Resources (MMstb)			GKP WI (%)	GKP WI Unrisked Oil Prospective Resources (MMstb)			COS (%)
	Low	Best	High		Low	Best	High	
Ber Bahr Triassic	14	55	186	40.0	6	22	74	80

8. Akri Bijeel

The Akri Bijeel PSC has an effective date of 6 November 2007. Within the licence two discoveries have been declared; Bijell and Bakrman. Bijell has proven mobile oil in the Jurassic interval, and Bakrman has proven mobile oil in the Triassic interval.

To date, three wells have been drilled targeting the Bijell structure. The discovery well, Bijell-1 successfully tested oil. In Well Bijell-7 interpretation of wireline logs showed the presence of oil in the Jurassic, but only traces of hydrocarbons were recovered during testing, probably due to the absence of fractures intersected by the well. The well was side-tracked (Well Bijell-7A) and tested in the Jurassic in October 2013. The well flowed oil and brine to surface under nitrogen lift at an oil cut of about 25%. . Well Bijell-3 was drilled off structure and encountered no hydrocarbon pay. A test in the Triassic produced only water and hence no resources have been assigned to the Triassic. Well Bijell-2 was tested in the Jurassic and flowed at a rate of 1,900 stb/d. No geological information was made available from the Jurassic section for this well.

Well Bijell-2 was also tested in the Cretaceous but flowed small quantities of mud under gas lift with traces of oil.

The Bakrman discovery has been penetrated by one well, Well Bakrman-1. The well flowed only water during testing of the Jurassic, although wireline logs showed evidence of the presence of oil. This suggests that the fracture network possibly has filled with water in the Jurassic. ERCE has not attributed resources to the Jurassic. Within the Triassic, positive oil flows have occurred in the Kurre Chine B. The oil is light, of similar quality to the Triassic in Shaikan. The Kurre Chine A tested water. As with the other discoveries in the region, the oil is sour with a high H_2S content.

We have classified the Jurassic in Bijell and the Triassic in Bakrman as Contingent Resources, based on the positive oil tests and other technical data. Although there is evidence from logs of oil in the Cretaceous in both Bijell and Bakrman, the limited technical data made available during the audit precluded quantitative assessment of the Cretaceous interval. As such we have treated the Cretaceous as a Lead and have not quantified STOIIP. Similarly, within the Bijeel block there are a number of Prospects (Figure 2.1) which have not been quantitatively evaluated in this report.

8.1. Seismic Interpretation

Seismic data coverage is sparse over the Bakrman discovery with five dip and three strike lines available for our evaluation. Data quality is poor over the core of the anticline, where older rocks are exposed and the seismic signal quality is degraded. Dip line spacing varies between 3 km and 5 km.

The Bijell structure is covered by a grid of modern 3D seismic data. Data quality is good throughout.

ERCE has reviewed the seismic interpretation over the Bakrman and Bijell structures. For the Bakrman structure, the operator, MOL, has recently presented a depth structure map for the Top Triassic, showing an anticline, plunging to the east. ERCE has reviewed this structural form against the available seismic data, and although it is difficult to define the form at Triassic level due to data quality, (Figure 8.1), mapping is coincident with the surface exposure of the Bakrman anticline, and we accept the operator's map as representing structure at Triassic level (Figure 8.2).

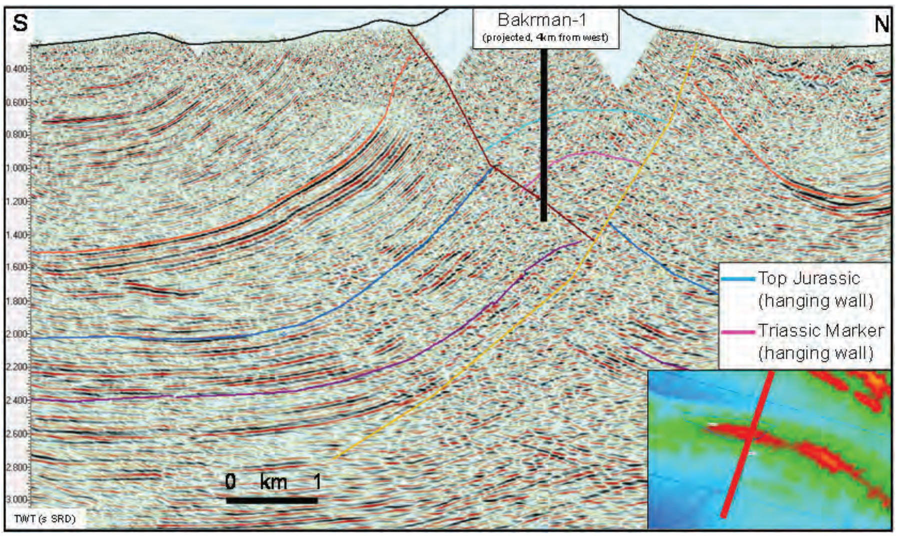

Figure 8.1: Seismic Line through the Bakrman Structure

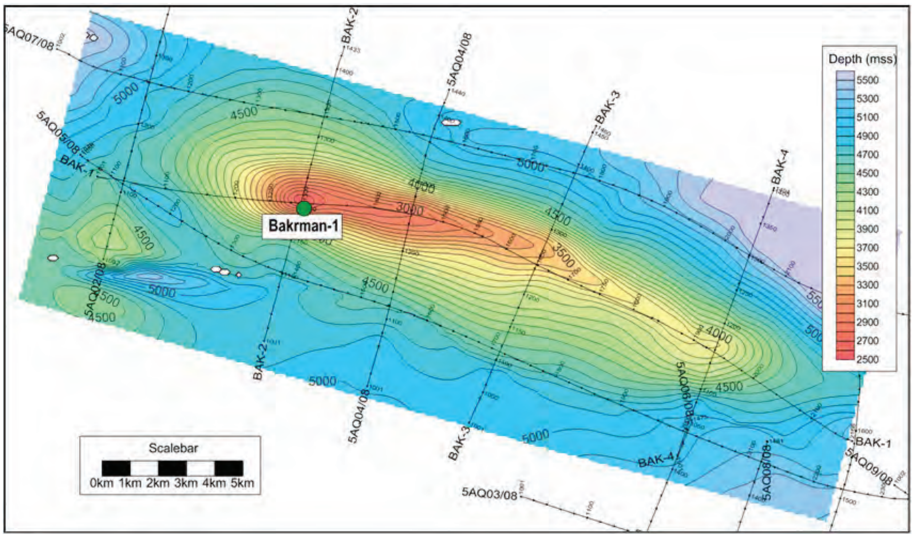

Figure 8.2: Top Triassic depth structure map (m ss), Bakrman structure).

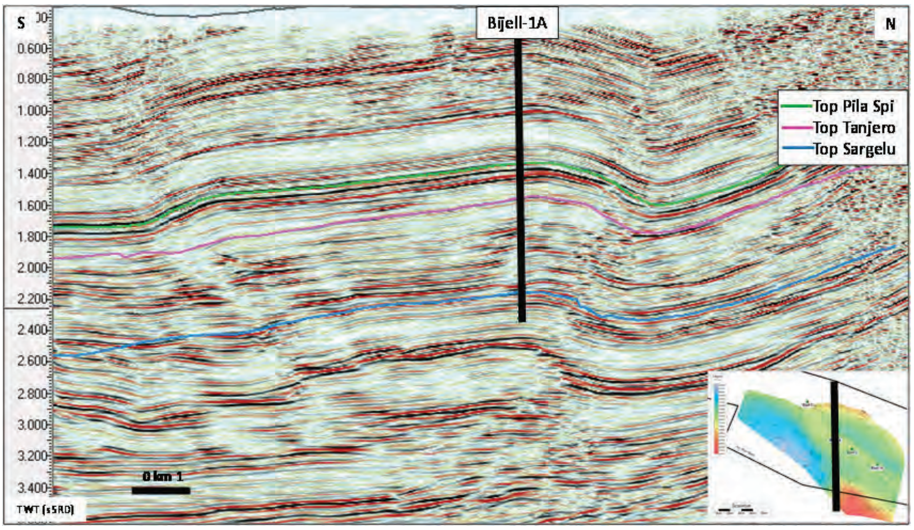

Figure 8.3: Seismic Line through the Bijell Structure

Seismic data quality is good over the core of the Bijell structure (Figure 8.1). GKP's mapping of the Bijell structure is currently ongoing. However, we have reviewed the current seismic time picks, and have been able to adopt these as defining the structural form of the Bijell structure. The structure is mapped as a three-way dip close inversion anticline, bound by thrust faults to the west and north.

8.2. Depth Conversion

ERCE has adopted MOL's depth structure map for the Top Triassic of the Bakrman structure, and has thus undertaken no depth conversion for this discovery.

ERCE uses a multi-layer approach to depth convert the key mapped markers for the Bijell structure, in a similar manner to the Shaikan, Sheikh Adi and Ber Bahr structures. The Bijell structure is relatively low relief in time, particularly to the south and east of Well Bijell-7A. ERCE has explored the uncertainty in depth conversion, and it is possible to reconcile mapped spill points for the Bijell structure with hydrocarbon tests in the wells.

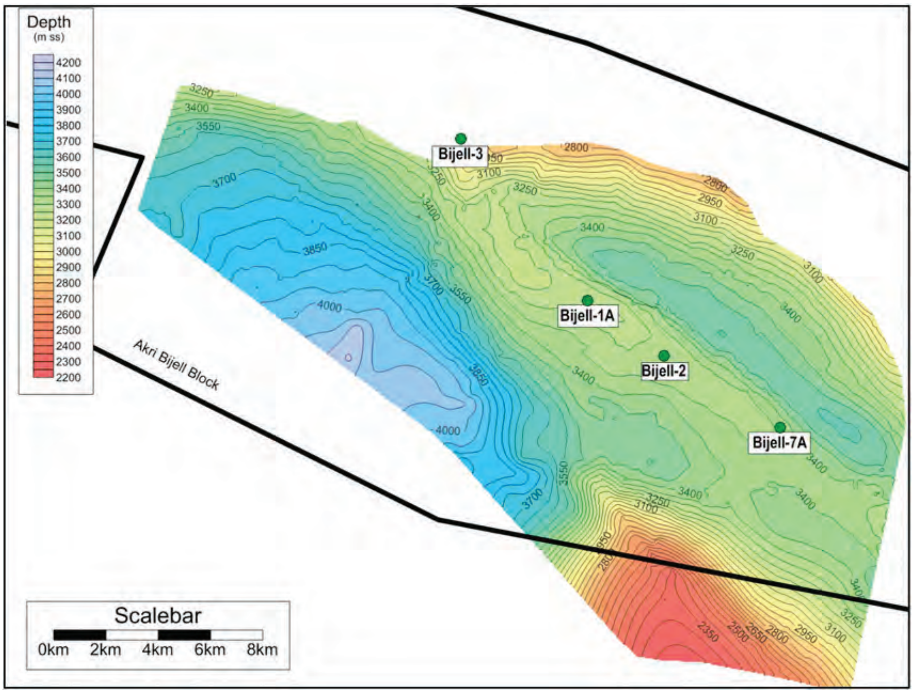

Figure 8.4: Bijell Discovery Top Jurassic Depth Map

8.3. Geological Description

8.3.1. Reservoir Description

The Cretaceous interval comprises largely limestone and marl with frequent dolomite and shale with porosity ranging between 0 and 15%. Occasional sand beds occur in the Chia Gara. The Jurassic and Triassic intervals comprise a typical mix of dolomite and anhydrite with occasional limestone and shale. Porosity ranges between 0 and 12%.

The operator of the Akri Bijell Licence, MOL, used a different stratigraphic/reservoir subdivision and nomenclature for the uppermost Jurassic interval compared to that used by GKP in Shaikan (Figure 8.5). The Barsarin/Sargelu/Alan/Mus interval defined in the Shaikan field is the equivalent to the

Gotnia/Naolelekan/Sargelu/Sekhaniyan subdivision used by MOL. The Adaiyah is common to both nomenclatures and the Butmah is termed the Sarki by MOL.

8.3.2. Fracture Description

No data were available to estimate ranges of fracture porosity in the Bijell and Bakrman structures. ERCE has considered Shaikan as an analogue for Bakrman and has used 0.1%, 0.3% and 0.7% for low, best and high estimates of fracture porosity for the Triassic. Shaikan is not a good analogue for Bijell, as the Bijell structure is more open with lower relief and is likely to be less fractured than the Shaikan structure. Therefore, ERCE has adjusted the Shaikan fracture porosity downwards to 0.05%, 0.25% and 0.6% for low, best and high estimates for the Jurassic in Bijell.

Fracture porosity estimates described in this section are applicable to net reservoir only. Net-to-gross ratios for fractures were estimated by identifying poorly fractured rock such as shale and anhydrite and defining any interval of rock containing more than 50 % shale or 50% anhydrite as non-net.

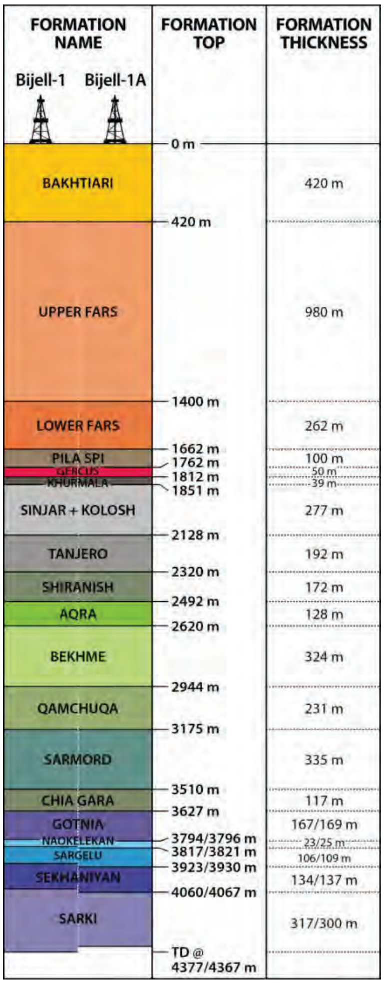

Figure 8.5: Bijell-1 and -1A Stratigraphy

8.4. Log Analysis

ERCE did not carry out an independent analysis of the wireline logs. We reviewed the petrophysical interpretations provided by GKP and found them to be consistent with interpretations carried out for the other fields.

8.5. Fluid Contacts

The deepest clean oil test occurred in Well Bijell-2 down to 3,325 mTVDSS while Well Bijell-1A DST-11 produced a mixture of oil and water, but a gradient survey run six hours after the well was shut in indicated an oil column to the base of the perforations at 3,348 mTVDSS. In Well Bijell-7A, oil and water were produced using nitrogen lift from an open hole DST conducted between 3,378 and 3,498 mTVDSS with an oil content of between 20% and 30% over the latter stages of the test. Based on these observations and the limiting seismic closure of 3,450 mTVDSS that we have assessed from mapping, we have used 3,350, 3,400 and 3,450 mTVDSS for the low, best and high case estimates respectively.

In Bakrman, the information available for assessing the OWC was limited to a single pressure point interpreted from testing the oil zone. No water was produced during testing. ERCE used this pressure point and a range of uncertainty in the density of oil to define a range of oil gradients, which in turn were used to identify a range of OWCs by extrapolation to a regional water line. We have used 3,010, 3,145 and 3,290 mTVDSS for the low, best and high case estimates of OWC.

8.6. Gross Rock Volume Estimation

We use a range of Top Sargelu depth maps created as described in Section 8.2 with the fluid level range described in Section 8.5 to determine a range of GRVs for our volumetric calculations.

ERCE has used the Top Triassic depth map provided by MOL with the range of fluid levels observed in Well Bakrman-1 to determine the range of gross-rock volume for the Bakrman discovery (Section 8.2).

8.7. Reservoir Fluid Properties

GKP provided ERCE with laboratory reports of PVT analyses carried out on separator samples collected from Bijell. For Bakrman, only field analyses of tested oil were available. PVT data are shown in Table 8.1.

Table 8.1: Bijell Oil PVT Summary

Measurement/entity	Units	Bijell-1	Bijell-1A	Bakrman-1
		Jurassic	Jurassic	Triassic Kurre Chine B
DST Test		3	9	2
Sample type		Separator	Separator	Live well site analysis
Top tested interval	mMDRKB	3,646	3,729	3,930
Base tested interval	mMDRKB	3,831	3,968	4,100
Reservoir pressure	psia	5,526	5,526	4,818
Reservoir temperature	°F	225	225	188
Saturation pressure	psia	1,871	1,030	

Density at reservoir conditions	g/cc	0.787	0.877	
Density at standard conditions	g/cc	0.91	0.969	
Density at standard conditions	° API	23.2	14.5	31 -38
GOR	scf/stb	373	230	2,050
FVF at reservoir conditions	rb/stb	1.25	1.15	2.14(1)
Viscosity at reservoir conditions	cp	3.0	4.9	
Separator Gas H_2S	mole%	11.9%	13.4%	
Separator Gas CO_2	mole%	7.7%	7.8%	
Separator Gas N_2	mole%	1.5%	1.4%	

Notes

1) FVF for Bakrman is calculated.

8.8. Volumetric Input Parameters

Details of the ranges of parameters used by ERCE for estimating STOIIP and GIIP for the Jurassic in Bijell and the Triassic in Bakrman are shown in Table 8.2. These parameters were used as input into the probability distribution functions for estimating Contingent Resources as described in Section 8.10. For fractures, we applied the fracture porosity ranges described in Section 8.3.2.

Table 8.2: Volumetric Input Parameters for Bijell Jurassic and Bakrman Triassic

Property	Bijell Jurassic			Bakrman Triassic		
	Low	Best	High	Low	Best	High
Matrix						
GRV (10^6 m^3)	1,680	3,769	8,293	506	1,251	2,511
N/G (fraction)	0.180	0.300	0.420	0.010	0.032	0.100
Phi (fraction)	0.060	0.080	0.120	0.088	0.078	0.068
So (fraction)	0.650	0.750	0.850	0.650	0.700	0.750
Bo (rb/stb)	1.30	1.20	1.10	2.15	1.95	1.75
Fractures						
GRV (10^6 m^3)	518	1,053	4,360	506	1,251	2,511
N/G (fraction)	0.978	0.978	0.978	0.154	0.154	0.154
Phi (fraction)	0.0005	0.0016	0.0050	0.0010	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.00	1.00	1.00
Bo (rb/stb)	1.30	1.20	1.10	2.15	1.95	1.75

8.9. Dynamic Evaluation

8.9.1. Well Tests

Table 8.3 shows the results of DSTs carried out in wells in the Bijell structure and Table 8.4 shows the results of DSTs carried out in Well Bakrman-1 in the Bakrman structure.

8.9.2. Recovery factors

ERCE used Shaikan as an analogue for Bijell and Bakrman with respect to recovery factors.

Table 8.3: Bijeel DST Summary

Reservoir Age	Zone	Well	DST	Cased/Open/ Barefoot	Test Interval (mMDRKB)	Test Interval (mTVDSS)	Result
Cretaceous	Aqra	Bijell-1	1	Open	2,485 – 2526	1,961 – 2,001	no natural flow
Cretaceous	Tanjero/Shiranish /Aqra/Bekhme	Bijell-1	2	Open	2,107 – 2807	1,583 – 2,283	0.3 bbl in rig pit after reverse circulation
Jurassic	Gotnia / Naokelekan /Sargelu	Bijell-1	3	Open	3,646 – 3831	3,122 – 3,307	flowed oil between 2,667 and 3,233 stb/d, gas rates of 687 to 933 Mscf/d, no water
Jurassic	Sarki	Bijell-1	4	Cased/Open	4,220 – 4275 4,345 – 4377	3,694 – 3,749 3,822 – 3,854	no natural flow
Jurassic	Sarki	Bijell-1	5	Open	4,048 – 4177	3,523 – 3,651	mechanical failure
Jurassic	Sekhaniyan / Sarki	Bijell-1	5A	Case	4,048 – 4177	3,523 – 3,651	no natural flow
Jurassic	Sarki	Bijell-1A	6	Open	4,275 – 4350	3,749 – 3,822	no natural flow on N_2 lift
Jurassic	Sarki	Bijell-1A	7	Case/Open	4,097 – 4249 4,275 – 4350	3,572 – 3,723 3,749 – 3,827	flowed formation water at 950 bbl/d.
Jurassic	Sarki	Bijell-1A	7A	Cased	4,117 – 4127 4,139 – 4147 4,162 – 4170	3,592 – 3602 3,614 – 3,622 3,636 – 3,644	< 1 bbl tar to surface after acidising and N_2 lift
Jurassic	Naokelekan / Sargelu Sekhaniyan	Bijell-1A	8	Cased	3,804 – 3967	3,280 – 3,442	flowed oil between 1,088 and 2,670 stb/d, no gas, water between 905 and 1,096 bbl/d (drilling fluid)
Jurassic	Gotnia/ Naokelekan / Sargelu/ Sekhaniyan	Bijell-1A	9	Cased	3,729 – 3751 3,804 – 3967	3,205 – 3,227 3,280 – 3,442	flowed oil between 2,800 and 3,488 stb/d, gas between 323 and 574 Mscf/d, no water.
Jurassic	Gotnia	Bijell-1A	10	Cased	3,729 – 3751	3,205 – 3,227	no significant flow to surface, recovered some heavy oil
Jurassic	Gotnia	Bijell-1A	10A	Cased	3,729 – 3751	3,205 – 3,227	no natural flow, recovered some heavy oil
Jurassic	Gotnia/ Naokelekan / Sargelu	Bijell-1A	11	Cased	3,729 – 3873	3,205 – 3,348	
Jurassic	Barsarin	Bijell-7	1	Open	3,686 – 3741	3,685 – 3,740	small amounts of gas to surface.
Jurassic	Barsarin/Naokelekan/ Sargelu/Sekhaniyan	Bijell-7	2	Open	3,686 – 3931	3,685 – 3,929	trace oil to surface
Triassic	Kurre Chine A & B	Bijell-7	3	Open	4,697 – 5050	4,242 – 4,597	no oil, 550 bbl of water.
Jurassic		Bijell-7A	1		4,001 – 4,300	3,378 – 3,499	94 stb of oil recovered with brine and spent acid on N_2 lift after acidising
Jurassic		Bijell-2	2		3,764 – 3,903	3,186 – 3,325	flowed up to 1,900 stb/d oil with no water

Table 8.4: Bakrman DST Summary

Reservoir Age	Zone	Well	DST	Cased/Open/ Barefoot	Test Interval (mMDRKB)	Test Interval (mTVDSS)	Result
Triassic	Kurre Chine A	Bakrman-1	1	Open	3,812 – 3,932	2,572 – 26,92	1,464 bbl/d of formation water
Triassic	Kurre Chine B	Bakrman-1	2	Open	3,930 – 4,100	2,690 – 4,096	2,616 stb/d of oil on N_2 lift, no water, gas rate of 5,860 Mscf/d Apparent evidence of depletion
Jurassic	Baluti	Bakrman-1	3	Cased	3,368 – 3,406	2,128 – 2,166	no natural flow after acidisation
Jurassic	Butmah	Bakrman-1	4	Cased	3,160 – 3,185	1,920 – 1,945	formation water at a rate of 22 bbl/d
Jurassic	Butmah	Bakrman-1	5	Cased	2,960 – 2,980	1,720 – 1,740	formation water at a rate of 18 bbl/d
Jurassic	Butmah	Bakrman-1	6	Cased	2,720 – 2,750	1,480 – 1,510	no natural flow
Jurassic	Butmah	Bakrman-1	7	Cased	2,708 – 2,750	1468 – 1510	formation water at a rate of 19 bbl/d
Jurassic	Butmah	Bakrman-1	8	Cased	2,328 – 2,334 2,370 – 2,400	1,088 – 1,094 1,130 – 1,160	formation water at a rate of 1,864 bbl/d
Jurassic	Butmah	Bakrman-1	9	Cased	2,370 – 2,400	1,045 – 1,070	1,807 bbl formation water recovered
Jurassic	Butmah	Bakrman-1	10	Cased	2,328 – 2,334	950 – 980	2,756 bbl formation water recovered
Jurassic	Shekaniyan	Bakrman-1	11	Cased	2,285 – 2,310	750 – 780	1,405 bbl formation water recovered
Jurassic	Sargelu / Naokelekan	Bakrman-1	12	Cased	2,190 – 2,220	650 – 686	26 bbl of formation water recovered
Cretaceous	Garagu	Bakrman-1	13	Cased	1,990 – 2,020	80 – 110	no natural flow

8.10. Akri Bijeel Contingent Resources Estimates

ERCE has attributed Contingent Resources to the Jurassic reservoirs in Bijell and Triassic in Bakrman. Resource estimates have been made probabilistically, following the same methodology described for Shaikan in Section 5.10. Results are presented in Table 8.5 to Table 8.7. Gas Contingent Resources are solution gas volumes from which non-hydrocarbon volumes (H_2S and CO_2) have been subtracted.

Table 8.5: Summary of Discovered Oil and Gas Initially in Place for Akri Bijeel

Field	Formation	Gross Field STOIIP (MMstb)			Gross Field GIIP (Bscf)		
		Low	Best	High	Low	Best	High
Bijell	Jurassic	131	371	980	0	0	0
Bakrman	Triassic	2	8	30	0	0	0

Table 8.6: Summary of Oil Contingent Resources for Akri Bijeel

Field	Formation	Gross Field Oil Contingent Resources (MMstb)			GKP WI (%)	GKP WI Oil Contingent Resources (MMstb)		
		1C	2C	3C		1C	2C	3C
Bijell	Jurassic	10	41	155	12.8	1	5	20
Bakrman	Triassic	0	2	6	12.8	0	0	1

Table 8.7: Summary of Gas Contingent Resources for Akri Bijeel

Field	Formation	Gross Field Gas Contingent Resources (Bscf)			GKP WI (%)	GKP WI Gas Contingent Resources (Bscf)		
		1C	2C	3C		1C	2C	3C
Bijell	Jurassic	2	10	36	12.8	0	1	5
Bakrman	Triassic	1	3	9	12.8	0	0	1

9. Review of Economic Parameters

9.1. Shaikan Fiscal Terms

The sections below describe the terms of the Shaikan PSC and other related commercial and legal documents from an economic perspective, and itemise assumptions that have been made when incorporating them into the cash flow model. The PSC for each of the four concessions are different, although a number of the terms and fiscal algorithms within them are similar. However, ERCE has only undertaken commercial modelling for Shaikan and hence only the fiscal terms for Shaikan are described here. The key commercial and legal documents for the Shaikan Concession are:

- The Production Sharing Contract (6 November 2007)
- The First Amendment to the Production Sharing Contract (1 August 2010)
- The Joint Operating Agreement (21 December 2007)
- The Texas Keystone Inc. Indemnity Agreement (30 October 2007)

9.1.1. Introduction

The Shaikan PSC is governed by the following laws:

- Constitution of Iraq
- Oil & Gas Law of Kurdistan Region – Iraq (Law No 22 of 2007)

The Parties to the agreement now are:

- Kurdistan Regional Government of Iraq (KRG)
- Gulf Keystone Petroleum International Ltd (GKPI): 75%
- Texas Keystone Inc. (TKI): 5%
- Kalegran Ltd: 20%

The Operator is Gulf Keystone Petroleum International Ltd and the Contractor Parties are bound by the Joint Operating Agreement (JOA).

The PSC was subject to a First Amendment on 1 August 2010.

The PSC Management Committee comprises four members (two from each of the KRG and the Contractor). It was established to discuss and agree budgets, petroleum costs, decommissioning plans and costs, insurance issues and other relevant matters. All of the Contractor costs of the Committee and Technical Sub-Committees are cost recoverable.

Legal title to the Exploration Assets remains the property of the Contractor. Legal title to the Development Assets becomes the property of the KRG after cost recovery or at the end of the Contract Term.

The Reference Currency for the PSC is the US Dollar.

9.1.2. Contract Term

The Exploration phase comprised five Contract Years from the Effective Date. This five year period comprised two Sub-Periods of three and two years with a break clause after the first Sub-Period.

Each Sub-Period had the option to be extended by one-year periods if more work was required prior to Appraisal or Commerciality decisions. The Development phase for both Crude Oil & Associated Gas and Non-Associated Gas Discoveries is twenty years from the Date of Commercial Declaration, with an automatic right to a five-year extension and an optional additional five-year extension. The Term will be extended if the KRG imposes production rates lower than the Maximum Efficient Rate (MER) for a period of time.

9.1.3. Government Participation

The terms make provision for the KRG to take an optional Contractor interest (via a Public Company) of 5% to 20%, to be exercised between the Effective Date and one hundred and eighty days after the First Commercial Declaration Date (FCDD). All the KRG share of costs prior to the FCDD are met by the Contractor companies and cost recovered. All the KRG share of costs after the FCDD are for the account of KRG (reimbursing if necessary), except Production Bonuses. We have been informed by GKP that the FCDD occurred on 1 August 2012 and therefore the KRG's option to take a Contractor interest has expired.

In the First Amendment to the PSC the Government Participation terms were changed. If the KRG has not nominated a Third Party Company to participate by 1 July 2011 or the nominated company is not a Contractor Entity by 1 January 2012 then:

- 50% of the Third Party Interest is assigned to the Non-Government Contractor Entities in proportion to their equity, and
- 50% of the Third Party Interest is assigned to a Public Company nominated by the KRG, comprising the Government Carried Interest.
- The Petroleum Costs of the Government Carried Interest are paid by the Non-Government Contractor Entities and are cost recoverable.
- The Government Carried Interest is not subject to reduction if the KRG takes the Government Participating Interest.

9.1.4. Third Party Participation

The terms make provision for a Third Party Company nominated by the KRG to take up an optional Contractor interest of 5% to 15%, to be exercised up to twelve months after the Effective Date. The interest applies from the Effective Date so all past costs would be reimbursed to the Contractor. The Third Party share of costs going forward is for the account of the Third Party, except Bonuses.

In the First Amendment to the PSC, the option for a 5% to 15% Contractor interest to be taken by a Third Party Company nominated by the KRG was extended until 30th June 2011.

9.1.5. Government Royalty

The Contractor will pay a Royalty on all production from the Contract Area (excluding Extended Well Test production) to the KRG in cash or, if the KRG nominates, in kind. Royalty rates applicable on the Export Petroleum are:

- Export Crude Oil: 10%
- Non-Associated Gas (NAG): 10%

No Royalty is payable on Associated Gas or other Petroleum used in Operations. When paid in cash the payments are made quarterly in arrears within 30 days of each quarter end.

9.1.6. Cost Recovery

Petroleum Costs are recoverable from proportions of Export Petroleum after the deduction of Royalties (Available Petroleum), as follows:

- Export Crude Oil and Associated Natural Gas (AG): 40%
- Export Non-Associated Gas (NAG): 50%

For cost recovery, Crude Oil is valued at the International Market Price at the delivery point. AG & NAG are to be valued at the contract price at the delivery point. The PSC specifies that costs are to be recovered in the following sequence:

- Production
- Exploration
- Gas Marketing
- Development
- Decommissioning

Un-recovered costs are carried forward for recovery in the following period but not beyond the termination of the Contract. All Available Petroleum not used for cost recovery shall be deemed Profit Petroleum. Petroleum Costs in each Production Area are recoverable from Available Petroleum from the Contract Area. Petroleum Costs in this Contract Area are not recoverable from another Contract Area. Interest paid and financing costs of loans are not cost recoverable.

9.1.7. Profit Sharing

Profit Petroleum (Profit Crude Oil and Profit Natural Gas) is the amount of Available Petroleum available after the deduction of Royalty and Cost Recovery. From First Production the Contractor is entitled to a share of the Profit Petroleum during production, determined by the R-Factor, as follows:

- $R = X / Y$, where
- X = Cumulative Revenues received by the Contractor (Cost Recovery and Profit Share),
- Y = Cumulative Petroleum Costs incurred by the Contractor, from the date of the Contract.

For the part of the Calendar Year of first production the R-Factor is set at less than one.

The Contractor Share of Profit Crude Oil is determined as follows, namely at an upper level of 30% prior to breakeven reducing linearly to 15% for R above two:

Profit Crude Oil:

- $R < 1$: Profit Share = 30%
- $1 < R < 2$: Profit Share = $30 - (30 - 15) * (R - 1) / (2 - 1)$%
- $R > 2$: Profit Share = 15%

The Contractor Share of Profit Natural Gas is determined as follows, namely at an upper level of 35% prior to breakeven reducing linearly to 18% for R above three:

Profit Natural Gas:

- R < 1: Profit Share = 35%
- 1 < R < 3: Profit Share = 35 – (35 - 18) * (R – 1) / (3 – 1)%
- R > 3: Profit Share = 18%

The PSC states that the Profit share calculation is undertaken on a half yearly basis (by "Semester"). The R-Factor applied in a Semester is that determined for the previous Semester.

9.1.8. Valuation

For the purpose of the Contract the Crude Oil is valued quarterly as the International Market Price at the delivery point (the metering point) taking into account the net-back of costs to the sales point if different. The Natural Gas is valued by the actual price received at the delivery point (the metering point) taking into account the net-back of costs to the sales point if different.

9.1.9. Bonuses

The following bonuses are payable under the PSC:

- **Signature:** $10 million payable by the Contractor to the KRG within 30 days of the Effective Date.
- **Capacity Building:** $15 million payable by the Contractor to the KRG within 30 days of the Effective Date.
- **Production:** Crude Oil Discovery, payable by the Contractor to the KRG within 30 days and based on the Contract Area:
  - $2.5 million at First Production
  - $5.0 million when Crude Oil cumulative production reaches 10 MMstb
  - $10.0 million when Crude Oil cumulative production reaches 25 MMstb
  - $20.0 million when Crude Oil cumulative production reaches 50 MMstb
- **Production:** Non-Associated Gas Discovery, payable by the Contractor to the KRG within 30 days, based on the Contract Area cumulative oil equivalent production:
  - $2.5 million at First Production
  - $5.0 million when Gas cumulative production reaches 10 MMboe
  - $10.0 million when Gas cumulative production reaches 25 MMboe
  - $20.0 million when Crude Oil cumulative production reaches 50 MMboe

A discovery is either Crude Oil or Natural Gas and only one set of bonuses are payable accordingly. The bonuses are not a Petroleum Cost and consequently are not cost recoverable.

9.1.10. Fees & Duties

The following fees and duties are levied:

- **Customs & Import:** All imported items for Petroleum Operations by the Contractor are free of Import Duties and Taxes. All petroleum exported by the Contractor is free of duties and taxes.
- **Personnel:** The Contractor will pay the KRG $150,000 in advance for recruitment of personnel to the Ministry of Natural Resources, for the first three Contract Years. The costs are recoverable.

- **Training:** The Contractor will arrange training for local employed staff and Government personnel. Training fees of $150,000 per annum in the Exploration Period and $300,000 per annum in the Development Period will apply. The costs are recoverable.
- **Environment Fund:** The Contractor will pay $100,000 per annum during the Exploration Period and $200,000 per annum during the Development Period to the KRG Environment Fund. The costs are recoverable.
- **Technology:** The Contractor will provide and fund $1 million of technology assistance to the KRG in the first Contract Year for geological computing facilities. The costs are recoverable.

9.1.11. Capacity Building Payments

A major change in the PSC First Amendment is the introduction of Capacity Building Payments. As of the Effective Date, GKPI and TKI are Charged Interest Holders with the liability to pay Capacity Building Payments. These payments comprise 40% of the respective parties' share of Profit Petroleum, payable monthly to the KRG and reduced proportionately if the KRG take the Government Participating Interest. Capacity Building Payments are not cost recoverable.

9.1.12. Taxation

Each Contractor entity is free of all tax on the income, assets and activity arising from the Contract (including Withholding Tax, Additional Profits Tax, Surface Tax and Windfall Profits Tax) and the KRG indemnifies each entity against any assessment of tax.

The KRG share of Profit Petroleum is deemed to include the Corporate Income Tax (CIT) levied on and due from the Contractor entities, which is paid by the KRG on behalf of the Contractor. The applicable CIT rate is that set from time to time by Kurdistan Tax Law and will not exceed 40%. Any VAT not recoverable under VAT Law will be considered a Petroleum Cost and cost recovered.

9.1.13. Domestic Obligation

The KRG, with 6 months' notice, may request the Contractor to sell its share of Crude Oil to the KRG at the International Market Price. This obligation does not apply to NAG.

9.1.14. Pipelines

All pipeline costs incurred upstream of the Delivery Point are considered Petroleum Costs and are cost recoverable. The Contractor has the right to use any pipeline it has installed to transport Petroleum from any Production Area without charge or additional cost. All costs for operation and maintenance are also cost recoverable including those after Pipeline Cost recovery.

Any third party tariff income shall be used for cost recovery up to the point where the Pipeline Costs are fully recovered. This income is not included for CIT purposes. After the Pipeline Costs are recovered, third party tariff income accrues to the KRG although the costs of providing the facility are considered Petroleum Costs and are cost recoverable.

9.1.15. Decommissioning

The Contractor may establish a Decommissioning Reserve Fund during the final ten years of Production Operations (or longer if approved by the KRG) to offset the costs of decommissioning at the end of field life. Payments to the fund are in US dollars and are cost recoverable. An independent bank holds the fund. At the end of production the Contractor will be given the fund and accrued interest and will decommission the field, making up any shortfall in funds. Any excess passes back to the KRG. If the KRG continues production from the field after the end of the Contract period the KRG is then responsible for decommissioning and is paid the fund, including accrued interest.

9.1.16. Assignment

The Contractor entities are free to sell, transfer or assign their interests in the Contract. Such an assignment will not give rise to any tax on the consideration, income or gain.

9.1.17. Fiscal Stability

The KRG guarantees to maintain the stability of the legal, fiscal and economic conditions of the Contract. Any change to the legal, fiscal or economic framework under Kurdistan Law, which detrimentally affects the Contractor economic position, will result in Contract amendments to restore the Contractors original position.

9.1.18. Texas Keystone Inc. Holding

Texas Keystone Inc. (TKI) holds a 5% interest in the Shaikan PSC. The Shaikan JOA and the TKI Indemnity Agreement contain terms relating to this holding.

The JOA states that the Exploration and Joint Operations costs (including Bonus payments) attributable to Texas Keystone Inc. (the “Carried Party”) are paid by Gulf Keystone Petroleum International Ltd (the “Carrying Party”) and then cost recovered through the PSC.

The Indemnity Agreement states that TKI hold the interest in the licence at no charge to TKI. All costs relating to the holding are met by GKPI until and if TKI exercised the Section 2 Option, namely to pay its share of the approval for expenditure (AFE) for the initial exploration well on the license. If TKI exercised this option then it would have become a full revenue and cost participant in the PSC. If TKI did not exercise the option then GKPI would be entitled to the full rights and title of the TKI interest and TKI would hold the interest in Trust until the transfer was approved by the KRG.

9.1.19. Extended Well Test

GKP has advised that EWT operations undertaken prior to a development arising from a First Commercial Declaration Date (FCDD) are not treated as a part of the PSC fiscal mechanisms. The EWT costs and any revenues arising are carried forward for cost recovery and profit sharing if and when the PSC fiscal mechanisms are implemented. A fee of 40% of EWT domestic oil sales revenue is payable by the Contractor to the KRG. EWT production is assumed to count towards the cumulative production thresholds for production bonus payments, with payment deferral until first PSC production.

9.1.20. Overhead Costs

The PSC provides for appropriate overhead and administration charges to be included as Petroleum Costs. Allowances are prescribed for the Exploration Phase as described below. Overhead costs for the Development and Production Phases are to be agreed between the Parties.

Annual Exploration Overheads are based on a percentage of the expenditure on Exploration and Gas Marketing activities in each calendar year, subject to certain restrictions:

- Expenditure < or = $4 million: Overhead Allowance = 4% of Expenditure
- Expenditure > $4 million and < or = $8 million: Overhead Allowance = 3% of Expenditure
- Expenditure > $8 million: Overhead Allowance = 2% of Expenditure

9.1.21. Modelling Assumptions

The following assumptions have been made in the modelling of the Shaikan PSC:

- All production prior to 31 December 2013 is for domestic consumption and is sold at the lower price. All production from 1 January 2014 is deemed Export production and is sold at the international market price based on advice from GKP.
- The KRG nominated full 15% Third Party Participation comprised of a full 15% interest is in place.
- Our base case assumes that the KRG State Participation through a Public Company is in place with effect from 1 January 2014 and comprises the full 20% interest.
- As a sensitivity case, we have undertaken economic evaluation of a scenario with NO Third Party Participation and NO KRG participation, which reflects the status of the Shaikan PSC participants as at the data cut-off point, 31 December 2013.
- A Development and Production Contract area of 283 square kilometres has been assumed.
- Time periods of 1 year have been assumed in modelling the PSC, so Cost Recovery and Profit Share calculations are undertaken on an annual basis.
- The Decommissioning Reserve Fund has been assumed to start 10 years prior to the end of economic production. The fund contributions have been based upon the unit of production method.
- The TKI interest is assigned to GKPI throughout the period of the evaluation.
- GKP "Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan.
- GKP’s profit oil is net of royalty and is calculated before deductions for Capacity Building Payments.
- The evaluation of Net Entitlement Barrels includes an additional entitlement from “Tax Barrels” arising from the deemed Corporate Income Tax under the PSC paid on GKPI’s behalf from the Government’s share of Profit Petroleum.
- Overhead amounts determined prior to 31 December 2013 have been included. No Corporate, Exploration or Development overhead costs have been included from 1 January 2014.

9.2. Forecast Prices

9.2.1. Brent Oil Price Forecast

We have assumed a base case Brent oil price forecast and also evaluated a range of sensitivities (Table 9.1). The base case assumes $100 per stb in 2014, escalated thereafter with 2.5% per annum inflation. High and low Brent oil price sensitivities have also been evaluated. The High Case assumes $110 per stb in 2014, escalated thereafter with 2.5% per annum inflation. The Low Case assumes $90 per stb in 2014, escalated thereafter with 2.5% per annum inflation.

Table 9.1: Brent Oil Price Forecast

Economic Case	Brent Oil Price (Nominal US$ per stb)			
	2014	2015	2016	2017+
Base	100.0	102.5	105.1	+2.5%
High	110.0	112.8	115.6	+2.5%
Low	90.0	92.3	94.6	+2.5%

9.2.2. Other Price Assumptions

GKP instructed ERCE to apply the following assumptions:

- *Fiscal point: Shaikan production facility*
- *Domestic sales: Trucking until end-2013 at Brent less $65/bbl*
- *Export sales: Trucking through 2014 and 2015 at Brent less $43/bbl (in the 3P case we have assumed that export via trucking would cease in mid-2015)*
- *Export sales: Pipeline 2016+ at Brent less $18/bbl (in the 3P case we have assumed that export via pipeline wold commence in mid-2015)*
- *End point of sale is Ceyhan, Turkey*
- *Each step is independent and replaces the previous assumption at the time indicated for 100% of production*
- *Assumed differentials include all tariffs, fees and any quality banking discounts. These are netback prices and there are no additional associated costs assumed – hence no additional cost recovery for tariffs/fees.*

The discount arises from oil quality considerations notably the API gravity and sulphur content of the Shaikan crude relative to Brent.

9.3. Other Evaluation Parameters

A discount rate of 10% has been assumed with mid-year discounting. All cash flows have been discounted to the 1 January 2014. An inflation rate of 2.5% per annum has been assumed from 2014 and used to inflate all prices and costs unless the Shaikan PSC stipulates otherwise. The currency of the Shaikan PSC is the US Dollar. All prices and costs have been denominated in US dollars and all cash flows calculated accordingly.

GKP has advised us of a full field brought forward balance of un-recovered costs paid at 31 December 2013 of $581 million. Various costs payable to the KRG over this period have not as yet been made and are excluded from the GKP schedule and our analysis. Inclusion of these additional past costs does not have a material impact on the value or return of the Shaikan asset. GKP has advised us of a total cumulative production at 31 December 2013 of 1.612 MMbbls

9.4. Valuation Results

The valuation results are presented in the following sections. These constitute point forward discounted cash flows from 1 January 2014.

9.4.1. With Fully Diluted Interest

The base case scenario for economic evaluation involves full State and third party participation, resulting in the maximum dilution of GKP's interest. Economic evaluations have been undertaken at the 1P, 2P and 3P Reserves levels for Shaikan. In addition, economic evaluations to the oil price have been undertaken at the Low Case and High Case price scenarios as sensitivities to the base case. Furthermore, net present value (NPV) sensitivities to Discount Rates ranging from 7.5% to 15% have been evaluated for the various economic price scenarios and Reserve levels stated above.

Based upon the estimated 2P Reserves level and the base case price scenario with State and third party Participation, the Shaikan base case NPV10 (nominal) is estimated to be US$ 1,004 million net to GKP's fully diluted interest of 54.4% (including TKI's fully diluted interest of 3.4%) at 1 January 2014. A summary of the results is presented in Table 9.2.

9.4.2. With Undiluted Interest

Economic sensitivities have been undertaken at the 1P, 2P and 3P Reserves levels for Shaikan with undiluted GKP interest, i.e. no State or third party participation. In addition, economic evaluations to the oil price have been undertaken at the Low Case and High Case price scenarios as sensitivities to the base case. Furthermore, NPV sensitivities for Discount Rates ranging from 7.5% to 15% have been evaluated for the various economic price scenarios and Reserve levels stated above.

Based upon the estimated 2P Reserves level and the base case price scenario with State Participation, the Shaikan base case NPV10 (nominal) is estimated to be US$ 1,317 million net to GKP's undiluted interest of 80.0% (including TKI's interest of 5%) at 1 January 2014. at 1st January 2014. A summary of the results is presented in Table 9.3.

Table 9.2: Economic Evaluation of Shaikan Reserves With Diluted GKP Interest

Reserves Category	Economic limit (Year)	GKP Net Entitlement Reserves (MMstb)	Net Present Value Net to GKP at 1 January 2014 (US$ million Nominal) At annual discount rates of:				Gross field Reserves (MMstb)
			7.5%	10.0%	12.5%	15.0%	
Economic Base Case Brent oil price: $100/stb in 2014, escalated at 2.5% pa							
1P	2031	47	859	737	633	544	198
2P	2036	58	1,156	1,004	876	768	299
3P	2038	67	1,395	1,219	1,075	953	389
Economic Low Case Brent oil price: $90/stb in 2014, escalated at 2.5% pa							
1P	2030	50	744	627	527	441	196
2P	2035	63	1,036	890	768	664	297
3P	2037	71	1,255	1,091	955	840	387
Economic High Case Brent oil price: $110/stb in 2014, escalated at 2.5% pa							
1P	2032	45	961	834	726	633	200
2P	2036	54	1,265	1,107	974	861	299
3P	2039	63	1,530	1,343	1,188	1,059	391

Table 9.3: Economic Evaluation of Shaikan Reserves with Undiluted GKP Interest

Reserves Category	Economic limit (Year)	GKP Net Entitlement Reserves (MMstb)	Net Present Value Net to GKP at 1 January 2014 (US$ million Nominal) At annual discount rates of:				Gross field Reserves (MMstb)
			7.5%	10.0%	12.5%	15.0%	
Economic Base Case Brent oil price: $100/stb in 2014, escalated at 2.5% pa							
1P	2031	66	1,117	955	816	698	198
2P	2036	82	1,521	1,317	1,145	1,000	299
3P	2038	94	1,866	1,625	1,426	1,260	389
Economic Low Case Brent oil price: $90/stb in 2014, escalated at 2.5% pa							
1P	2030	71	965	809	677	563	196
2P	2035	88	1,359	1,163	999	860	297
3P	2037	100	1,667	1,444	1,259	1,104	387
Economic High Case Brent oil price: $110/stb in 2014, escalated at 2.5% pa							
1P	2032	63	1,255	1,085	941	818	200
2P	2036	77	1,679	1,463	1,282	1,129	299
3P	2039	90	2,061	1,801	1,589	1,411	391

Notes

1) "Gross Field Reserves" are 100% of the volumes estimated to be economically recoverable from the field from 31 December 2013 onwards.
2) GKP "Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan.
3) GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments.
4) The evaluation of Net Entitlement Barrels includes an additional entitlement from "Tax Barrels" arising from the deemed Corporate Income Tax under the PSC paid on GKPI's behalf from the Government's share of Profit Petroleum.

Table 9.4: Cash Flow for Base Case Price Scenario and 2P Reserves with Diluted GKP Interest

Year	Crude oil price	Gross property share			GKP share of production and revenues (US$ million)									
		Gross oil production rate	Gross production	Gross revenue	Cost recovery revenue	Profit petroleum revenue	Operating costs	Capital expend. and abandon.	Bonuses and capacity building	Net cash flow	NPV 7.5%	NPV 10.0%	NPV 12.5%	NPV 15.0%
	($/stb)	(Mstb/d)	(MMstb/yr)											
2014	100	25	9	512	118	53	25	376	27	(256)	(247)	(245)	(242)	(239)
2015	103	36	13	768	150	68	56	354	27	(219)	(196)	(190)	(183)	(177)
2016	105	90	33	2,830	554	249	90	11	124	579	484	457	432	409
2017	108	90	33	2,901	568	256	92	-	102	630	489	451	417	386
2018	110	89	32	2,924	170	315	94	-	126	266	192	173	156	142
2019	113	77	28	2,614	95	256	95	-	102	154	103	91	80	71
2020	116	66	24	2,280	61	209	61	-	84	125	78	68	58	51
2021	119	56	20	1,989	61	168	61	-	67	101	59	49	42	35
2022	122	48	17	1,735	62	137	62	-	55	82	44	37	30	25
2023	125	41	15	1,514	62	114	62	-	45	68	34	28	22	18
2024	128	34	13	1,321	63	95	63	-	38	57	27	21	17	13
2025	131	29	11	1,152	64	80	64	-	32	48	21	16	12	10
2026	134	25	9	1,005	83	65	64	18	26	39	16	12	9	7
2027	138	21	8	877	81	55	65	16	22	33	13	9	7	5
2028	141	18	7	765	80	47	66	14	19	28	10	7	5	4
2029	145	15	6	667	80	40	68	12	16	24	8	5	4	3
2030	148	13	5	582	76	34	66	11	14	21	6	4	3	2
2031	152	11	4	508	73	29	64	9	12	18	5	3	2	2
2032	156	9	3	443	70	25	62	8	10	15	4	3	2	1
2033	160	8	3	386	66	21	59	7	8	13	3	2	1	1
2034	164	7	3	337	63	18	57	6	7	11	2	1	1	1
2035	168	6	2	294	58	15	55	5	6	7	1	1	1	0
2036	172	5	2	257	50	13	54	-	5	4	1	1	0	0
Totals			**299**	**28,663**	**2,810**	**2,363**	**1,503**	**848**	**975**	**1,847**	**1,156**	**1,004**	**876**	**768**

Table 9.5: Cash Flow for Base Case Price Scenario and 2P Reserves with Undiluted GKP Interest

Year	Crude oil price	Gross property share			GKP share of production and revenues (US$ million)									
		Gross oil production rate	Gross production	Gross revenue	Cost recovery revenue	Profit petroleum revenue	Operating costs	Capital expend. and abandon.	Bonuses and capacity building	Net cash flow	NPV 7.5%	NPV 10.0%	NPV 12.5%	NPV 15.0%
	($/stb)	(Mstb/d)	(MMstb/yr)											
2014	100	25	9	512	165	74	36	553	36	(385)	(371)	(367)	(363)	(359)
2015	103	36	13	768	221	99	82	520	40	(322)	(289)	(279)	(270)	(261)
2016	105	90	33	2,830	815	367	132	16	171	863	720	680	643	609
2017	108	90	33	2,901	738	419	135	-	167	854	663	612	565	524
2018	110	89	32	2,924	138	454	138	-	182	272	197	177	160	145
2019	113	77	28	2,614	139	354	139	-	142	212	143	126	111	98
2020	116	66	24	2,280	90	288	90	-	115	173	108	93	80	70
2021	119	56	20	1,989	90	230	90	-	92	138	80	68	57	48
2022	122	48	17	1,735	91	188	91	-	75	113	61	50	41	34
2023	125	41	15	1,514	91	156	91	-	62	93	47	38	31	25
2024	128	34	13	1,321	92	131	92	-	52	78	37	29	23	18
2025	131	29	11	1,152	93	110	93	-	44	66	29	22	17	13
2026	134	25	9	1,005	122	90	95	27	36	54	22	16	12	9
2027	138	21	8	877	120	77	96	23	31	46	17	13	9	7
2028	141	18	7	765	118	66	98	20	26	40	14	10	7	5
2029	145	15	6	667	117	56	100	18	23	34	11	8	5	4
2030	148	13	5	582	112	48	97	16	19	29	9	6	4	3
2031	152	11	4	508	107	41	94	14	17	25	7	5	3	2
2032	156	9	3	443	102	35	91	12	14	21	6	4	2	2
2033	160	8	3	386	98	30	87	10	12	18	4	3	2	1
2034	164	7	3	337	93	25	84	9	10	15	3	2	1	1
2035	168	6	2	294	85	22	80	8	9	10	2	1	1	0
2036	172	5	2	257	74	19	79	-	8	6	1	1	0	0
Totals			**299**	**28,663**	**3,913**	**3,380**	**2,210**	**1,247**	**1,382**	**2,454**	**1,521**	**1,317**	**1,145**	**1,000**

10. SPE PRMS Definitions

This section contains extracts from the Petroleum Resources Management System (SPE PRMS), dated 2007, sponsored by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE).

10.1. Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definitions of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE, and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in resources definitions (2005). SPE also published standards for estimating and auditing reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production, and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The PRMS consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information, and specific chapters are referenced herein.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows.

10.2. Petroleum Resources Classification Framework

Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbons, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide and sulfur. In rare cases, non-hydrocarbon content could be greater than 50%.

The term "resources" as used herein is intended to encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. Further, it includes all types of petroleum whether currently considered "conventional" or "unconventional."

Figure 10.1 is a graphical representation of the SPE/WPC/AAPG/SPEE resources classification system. The system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum.

The "Range of Uncertainty" reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the "Chance of Commerciality, that is, the chance that the project that will be developed and reach commercial producing status. The following definitions apply to the major subdivisions within the resources classification:

TOTAL PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production plus those estimated quantities in accumulations yet to be discovered (equivalent to "total resources").

DISCOVERED PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

PRODUCTION is the cumulative quantity of petroleum that has been recovered at a given date. While all recoverable resources are estimated and production is measured in terms of the sales product specifications, raw production (sales plus non-sales) quantities are also measured and required to support engineering analyses based on reservoir voidage.

Multiple development projects may be applied to each known accumulation, and each project will recover an estimated portion of the initially-in-place quantities. The projects shall be subdivided into Commercial and Sub-Commercial, with the estimated recoverable quantities being classified as Reserves and Contingent Resources respectively, as defined below.

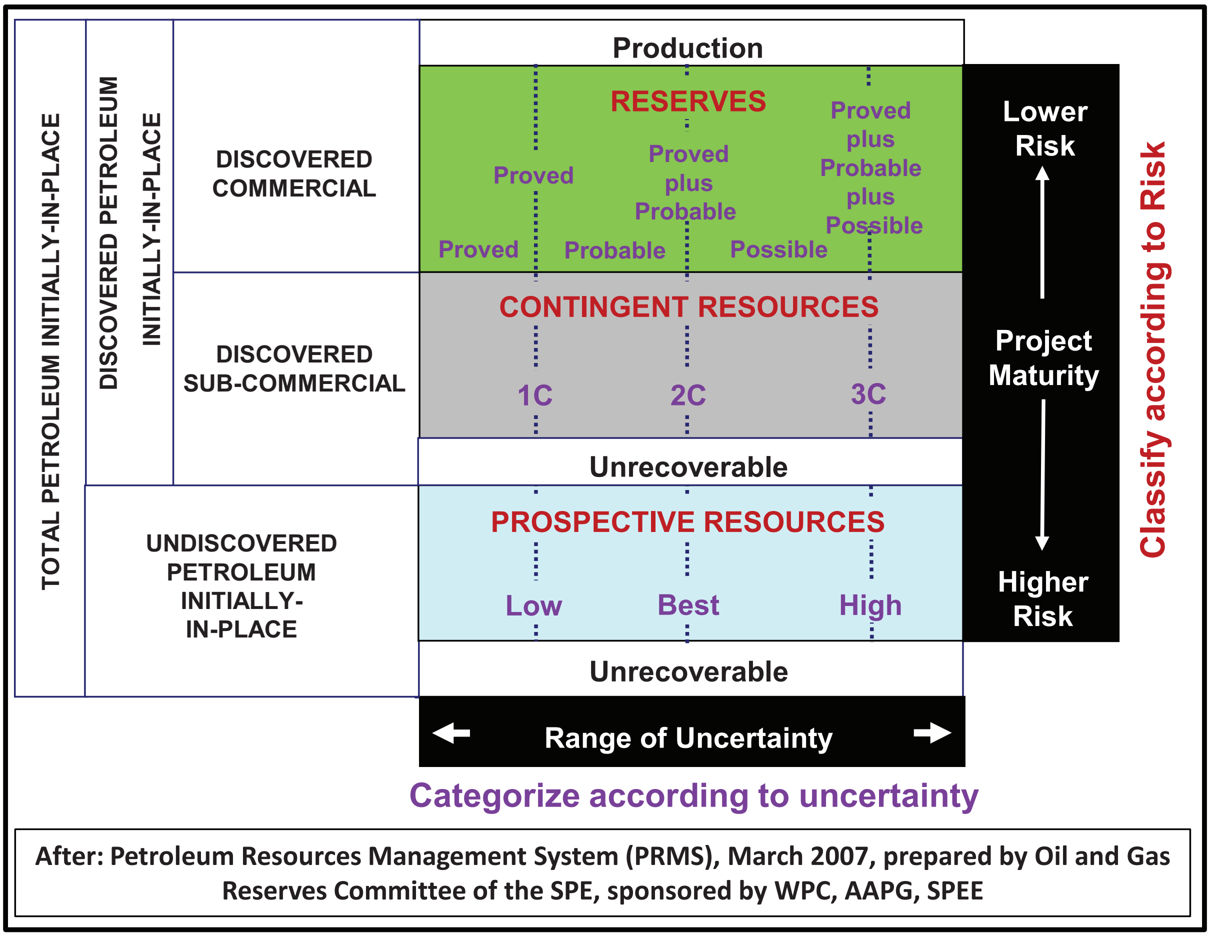

Figure 10.1: SPE PRMS Resources Classification Framework

RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

CONTINGENT RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

Note that for resources to be classified as Contingent Resources they must be discovered

UNDISCOVERED PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.

PROSPECTIVE RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity. Prospective Resources can be sub-classified as Prospects, Leads and Plays as follows:

Prospect: A potential accumulation that is sufficiently well defined to represent a viable drilling target.

Lead: A potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

Play: A prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

UNRECOVERABLE is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

Estimated Ultimate Recovery (EUR) is not a resources category, but a term that may be applied to any accumulation or group of accumulations (discovered or undiscovered) to define those quantities of petroleum estimated, as of a given date, to be potentially recoverable under defined technical and commercial conditions plus those quantities already produced (total of recoverable resources).

In specialized areas, such as basin potential studies, alternative terminology has been used; the total resources may be referred to as Total Resource Base or Hydrocarbon Endowment. Total recoverable or EUR may be termed Basin Potential. The sum of Reserves, Contingent Resources, and Prospective Resources may be referred to as "remaining recoverable resources." When such terms are used, it is important that each classification component of the summation also be provided. Moreover, these quantities should not be aggregated without due consideration of the varying degrees of technical and commercial risk involved with their classification

10.3. Determination of Discovery Status

A discovery is one petroleum accumulation, or several petroleum accumulations collectively, for which one or several exploratory wells have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons. In this context, "significant" implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery. Estimated recoverable quantities within such a discovered (known) accumulation(s) shall initially be classified as Contingent Resources pending definition of projects with sufficient chance of commercial development to reclassify all, or a portion, as Reserves.

Where in-place hydrocarbons are identified but are not considered currently recoverable, such quantities may be classified as Discovered Unrecoverable, if considered appropriate for resource management purposes; a portion of these quantities may become recoverable resources in the future as commercial circumstances change or technological developments occur.

10.4. Determination of Commerciality

Discovered recoverable volumes (Contingent Resources) may be considered commercially producible, and thus Reserves, if the entity claiming commerciality has demonstrated firm intention to proceed with development and such intention is based upon all of the following criteria:

- Evidence to support a reasonable timetable for development.
- A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria:
- A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.
- Evidence that the necessary production and transportation facilities are available or can be made available:
- Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.

To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.

To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

10.5. Range of Uncertainty

The range of uncertainty of the recoverable and/or potentially recoverable volumes may be represented by either deterministic scenarios or by a probability distribution.

When the range of uncertainty is represented by a probability distribution, a low, best, and high estimate shall be provided such that:

- There should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.
- There should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
- There should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

When using the deterministic scenario method, typically there should also be low, best, and high estimates, where such estimates are based on qualitative assessments of relative uncertainty using consistent interpretation guidelines. Under the deterministic incremental (risk-based) approach, quantities at each level of uncertainty are estimated discretely and separately.

These same approaches to describing uncertainty may be applied to Reserves, Contingent Resources, and Prospective Resources. While there may be significant risk that sub-commercial and undiscovered accumulations will not achieve commercial production, it useful to consider the range of potentially recoverable quantities independently of such a risk or consideration of the resource class to which the quantities will be assigned.

10.6. Category Definitions and Guidelines

Evaluators may assess recoverable quantities and categorize results by uncertainty using the deterministic incremental (risk-based) approach, the deterministic scenario (cumulative) approach, or probabilistic methods. In many cases, a combination of approaches is used.

Use of consistent terminology (Figure 10.1) promotes clarity in communication of evaluation results. For Reserves, the general cumulative terms low/best/high estimates are denoted as 1P/2P/3P, respectively. The associated incremental quantities are termed Proved, Probable and Possible. Reserves are a subset of, and must be viewed within context of, the complete resources classification system. While the categorization criteria are proposed specifically for Reserves, in most cases, they can be equally applied to Contingent and Prospective Resources conditional upon their satisfying the criteria for discovery and/or development.

For Contingent Resources, the general cumulative terms low/best/high estimates are denoted as 1C/2C/3C respectively. For Prospective Resources, the general cumulative terms low/best/high estimates still apply. No specific terms are defined for incremental quantities within Contingent and Prospective Resources.

Without new technical information, there should be no change in the distribution of technically recoverable volumes and their categorization boundaries when conditions are satisfied sufficiently to reclassify a project from Contingent Resources to Reserves. All evaluations require application of a consistent set of forecast conditions, including assumed future costs and prices, for both classification of projects and categorization of estimated quantities recovered by each project.

The following summarizes the definitions for each Reserves category in terms of both the deterministic incremental approach and scenario approach and also provides the probability criteria if probabilistic methods are applied.

Proved Reserves are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Uncertainty in resource estimates is best communicated by reporting a range of potential results. However, if it is required to report a single representative result, the “best estimate” is considered the most realistic assessment of recoverable quantities. It is generally considered to represent the sum of Proved and Probable estimates (2P) when using the deterministic scenario or the probabilistic assessment methods. It should be noted that under the deterministic incremental risk-based) approach, discrete estimates are made for each category, and they should not be aggregated without due consideration of their associated risk.

11. Nomenclature

11.1. Units and their abbreviations

°C	degrees Celsius
°F	degrees Fahrenheit
bbl	barrel
bbl/d	barrels per day
Bscf	thousands of millions of standard cubic feet
boe	barrels of oil equivalent, where 6000 scf of gas = 1 bbl of oil
cm	centimetres
cp	centipoises
ft	feet
g	gram
km	kilometres
m	metres
M MM	thousands and millions respectively
m/s	metres per second
m/s*g/cc	AI units
md	millidarcy
mMDRKB	metres measured depth below Kelly Bushing
mTVDSS	metres true vertical depth subsea
ppm	parts per million
psia	pounds per square inch absolute
psig	pounds per square inch gauge
pu	porosity unit
rcf	cubic feet at reservoir conditions
rb	reservoir barrels
scf	standard cubic feet measured at 14.7 pounds per square inch and 60 degrees Fahrenheit
scf/d	standard cubic feet per day
stb	a stock tank barrel which is 42 US gallons measured at 14.7 pounds per square inch and 60 degrees Fahrenheit
stb/d	stock tank barrels per day

11.2. Resources Categorisation

The following are SPE PRMS terms, defined in Section 10:

1P	Proved, a low estimate category of Reserves
2P	Proved + Probable, a best estimate category of Reserves
3P	Proved + Probable +Possible, a high estimate category of Reserves
1C	a low estimate category of Contingent Resources
2C	a best estimate category of Contingent Resources
3C	a high estimate category of Contingent Resources
Low	a low estimate category of Prospective Resources also used as a generic term to describe a low or conservative estimate
Best	a best estimate category of Prospective Resources also used as a generic term to describe a best, or mid estimate
High	high estimate category of Prospective Resources also used as a generic term to describe a high or optimistic estimate

11.3. Terms and their abbreviations

AVO	amplitude variation with offset
Bo	oil shrinkage factor or formation volume factor, in rb/stb
Capex	capital expenditure
CGR	condensate gas ratio
COS	geological chance of success for prospective resources
CPI	computer processed information log
DST	drill stem test
Eg	gas expansion factor
FDP	field development plan
FVF	formation volume factor
FWL	free water level
GDT	gas down to
GEF	gas expansion factor
GIIP	gas initially in place
GOC	gas oil contact
GR	gamma ray
GRV	gross rock volume
KB	kelly bushing
k	permeability
kh	permeability thickness
MD	measured depth
MDT	modular formation dynamic tester
MSL	mean sea level
N/G	net to gross ratio
NMO	normal move-out
NPV_{xx}	net present value at xx% discount rate
Opex	operating expenditure
ODT	oil down to
OWC	oil water contact
Phi	porosity
Phie	effective porosity
Phit	total porosity
PSC	production sharing contract
PVT	pressure volume temperature experiment
RFT	repeat formation tester
Rs	solution gas oil ratio
Rt	true resistivity
Rw	formation water resistivity
SCAL	special core analysis
Sg	gas saturation
So	oil saturation
s SRD	seconds below seismic reference datum
STOIIP	stock tank oil initially in place
Sw	water saturation
TD	total depth
TVD	true vertical depth
TWT	two way time
Vsh	shale volume
WGR	water gas ratio
WUT	water up to