GULF KEYSTONE PETROLEUM

REALISING POTENTIAL

Annual report and accounts 2015

User guide

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Navigating with tabs

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Proud to operate in the Kurdistan Region of Iraq

ABOUT US

Gulf Keystone Petroleum Limited is a leading independent operator and producer in the Kurdistan Region of Iraq. It is here that we operate the Shaikan oil field, which is one of the largest onshore developments in the world today.

Having successfully transitioned from explorer into producer and exporter of 40,000 barrels of oil per day, we remain cautiously optimistic about the future, with safe and reliable operations, multi-million barrel Reserves, and the significant development potential of our asset.

About this report

Gulf Keystone Petroleum aims to produce a clear, open and transparent Annual report which gives an accurate portrayal of our strategy and performance. We strive to improve our reporting year-on-year and welcome stakeholder feedback on how we are doing.

Please give us your feedback: **ir@gulfkeystone.co.uk**

For further information about Gulf Keystone, please visit our website at **www.gulfkeystone.com**

2015 IN SUMMARY

Despite a challenging backdrop, we made good progress following a year of steady production and the establishment of a regular payment cycle for our crude oil exports.

The focus on the Shaikan field has evolved from oil-in-place to recoverable Reserves and the updated Competent Person's Report ("CPR") highlights the enhanced understanding of the field.

SHAIKAN

- 1P Reserves increased by 55% from 198 to 306 million barrels gross
- 2P Reserves increased by 114% from 299 to 639 million barrels gross
- New information about the field's recovery mechanism results in greater predictability of field performance, increased reserves per well and lower capex per barrel
- All production is black oil with no formation water
- Shaikan updated Field Development Plan submitted for review and approval in December 2015

PRODUCTION

- 30,500 barrels of oil per day ("bopd") average production for 2015 in line with guidance
- 71% increase in gross production for the year totalling 11.1 million barrels of oil
- Maximum sustained production 39,773 bopd achieved in September 2015
- Record rates of over 45,000 bopd achieved at times during the year
- Over 21 million barrels produced to date from Shaikan
- 100% of our crude oil export is via the Kirkuk-Ceyhan export pipeline

Produced as at 16 March 2016

21 million barrels

Group	2015	2014
Revenue ($m)	**86.2**	38.6
Loss after tax ($m)	**135.0**	248.2
Placing of 85.9 million shares ($m)	**40.7**	n/a

FINANCIALS

- Cash conservation with only essential operational capex
- Consecutive payments for Shaikan crude oil export sales since September 2015
- Announcement from the MNR, in February 2016, committing to payments in accordance with PSCs
- Reviewing options to secure new funding and restructure the balance sheet
- Focus on core asset Shaikan where immediate value can be realised

PEOPLE

We are fully focused on our commitment to the people and environment of the Kurdistan Region of Iraq, working together for a sustainable future.

- 80% of staff in Kurdistan are local
- 25 promotions achieved in 2015 under our Compentency Based Framework ("CBF")
- One million man-hours without an LTI Company wide
- Twelve months and 400,000 man-hours without an LTI at PF-2
- Improving environmental practices

Man-hours without an lost time incident ("LTI")

1 million

CHAIRMAN'S STATEMENT

Andrew Simon
Non-Executive Chairman

Over the past year, your Company has continued to make substantial progress across many areas of the business that are within its control. However, as with the rest of the oil and gas sector, we have been subjected to the considerable headwinds resulting from the collapse of the oil price.

In addition, those of us operating in the Kurdistan Region of Iraq all continue to feel the adverse effects of the geopolitics of this area as the military activity against Daesh in Iraq and the broader conflicts within the region continue.

Encouraging progress was made with two of the Group's key priorities, which were to maintain stable production and establish a regular payment cycle for Shaikan crude oil sales. Throughout 2015, stable production was maintained at Shaikan and we met our production guidance of 30,500 bopd. Payments for current production, which have continued on a regular basis since September 2015, continue to be our top priority to ensure the survival of your business, and we welcome the Kurdistan Regional Government ("KRG") and the Ministry of Natural Resources ("MNR") commitment to regular and predictable payments to international oil companies in respect of current production and historic arrears.

Whilst we operate one of the finest oilfields in the Kurdistan Region which is currently producing very effectively, the future of your Company is inextricably tied up with three interlinked issues. Firstly, resolution of some of the difficult geopolitical issues facing the region in general and the KRG in particular. Secondly, the strengthening and restructuring of the Group's balance sheet to enable us to confidently invest in order to maintain and increase production, and deliver value. And thirdly, the support of all of our stakeholders.

Corporate governance
pages 55 to 59

There have been a number of changes in the top management of the Company. In 2015 we welcomed Jón Ferrier and Sami Zouari as our new CEO and CFO. Jón brings a lifetime of experience in the sector as well as considerable experience in the region where we operate. In a short period of time he has already made a considerable mark on the business; operationally, in our relations with our host government and with our institutional and private shareholder base. Sami brought a wealth of experience following a career in both oil industry operations and investment banking. His track record in the debt markets and in the Middle East has already proven to be an extremely positive attribute.

The executive team was also strengthened by the appointment of Nadhim Zahawi as Chief Strategy Officer, whose knowledge and understanding of the Kurdistan Region is extremely important to us, particularly at this time.

I was asked to take over as interim Chairman in March 2015. Subsequently, the Board asked me to stay on to provide a period of stability and continuity whilst we planned for orderly succession. I am pleased to report a substantial rebuilding of the Board which is now both fit for purpose and in keeping with the overall focus on cost reduction. I was delighted to welcome two new Non-Executive Directors, Cuth McDowell and Keith Lough. Both bring career long experience in the energy and petrol sector with large and small companies, and we are very pleased to have secured their services.

The commitment of all of our colleagues, both on the ground in the Kurdistan Region and in our small office in London, has been considerable. This has been all the more appreciated given the current challenges of operating in the region, as well as against the macroeconomic backdrop that has seen such steep falls in the price of oil. It is my pleasure to thank all of our colleagues on behalf of the Board and the shareholders.

We remain grateful to all of our stakeholders for their ongoing support, in particular our partners within the KRG's Ministry of Natural Resources. We will continue to strengthen our relationships with our shareholders and bondholders as we strive to ensure the future financial stability of the Group. For the current financial year, we will continue to work closely with our host government, ensuring the trend of payments for past and future Shaikan crude oil sales. This will provide financial strength to enable us to prudently invest in increasing production, an essential requisite for the many people who stand to benefit from further realising the significant potential of Shaikan.

Andrew Simon
Non-Executive Chairman

16 March 2016

CHIEF EXECUTIVE OFFICER'S STATEMENT

Jón Ferrier
CEO

The reasons behind my initial attraction to Gulf Keystone remain my motivation today. We have a superb subsurface asset and a motivated workforce dedicated to realising its full potential.

The strategic priorities I outlined on joining the Company in June 2015 remain relevant: safe, secure and reliable operations, the commercial health of the business and effective stakeholder engagement. Although good progress has been made in 2015, this can be easy to forget when we consider our share price alone and it has undoubtedly been a challenging year for Gulf Keystone.

We have shouldered the weight of rapidly falling global oil prices along with our peers in the region and the wider industry. Meanwhile the Kurdistan Region has continued to fight and protect its borders in a war against the terrorist group Daesh, while supporting nearly two million refugees and internally displaced persons, meaning resources have been stretched far and wide. Geopolitics and the depressed commodity and capital markets are issues over which we have no direct influence but we continue to work very closely with the Ministry of Natural Resources of the Kurdistan Regional Government and our other stakeholders to navigate these challenges in a particularly difficult sector of the industry.

Our strategy
pages 16 and 17

Our operations
page 38 and 39

I first want to touch on the issues within our control and what I consider to be our licence to operate: delivering health, safety, security and environment ("HSSE") performance. Working in a business that has the potential to be hazardous by its very nature, the welfare of our employees, contractors, partners and communities neighbouring our operations is at the very top of my agenda. I am satisfied with our performance in this area, with continuous improvements evident over the past year as a result of engagement with the workforce, open and honest incident reporting, and indeed training and development, but there is always room for improvement. I visit the Kurdistan capital of Erbil and take trips to the field regularly and I am always impressed with what I see; the working environment is safe, secure and exactly what I would expect to see at an oilfield anywhere else in the world. The team on the ground run the operation efficiently and to exacting safety standards – the high plant availability and performance reflecting a safe and well-run operation. But as I said, there is always room for improvement and the bar has been raised for improved HSSE performance in 2016.

The reasons behind my initial attraction to Gulf Keystone remain my motivation today. We have a superb subsurface asset and a motivated workforce dedicated to realising its full potential. We started the year with a functioning installed capacity to produce 40,000 bopd and achieved our guidance for 2015 with a 30,500 bopd average rate and record levels of over 45,000 bopd reached during the year. The annual average was driven to the low end of guidance by sporadic availability of offtake and export infrastructure and a period of depressed pricing in early 2015. As at March 2016, we have produced over 21 million barrels of oil from Shaikan or 4% of the developed reservoir 2P Reserve total. In other words, we have just scratched the surface of this giant field and considerable development potential remains.

In October 2015, we were pleased to announce the findings of an updated independent third-party audit of the Group's Reserves, Contingent Resources and Prospective Resources. 2P Reserves at Shaikan increased by 114% from 299 to 639 million barrels gross, significantly de-risking the field's commerciality and thereby reaffirming its place as one of the largest and most important onshore fields in the region. Shaikan has evolved from an oil-in-place to a reserves story. We have updated our Field Development Plan ("FDP") to reflect this in order to develop the asset with fewer wells, lower capex per barrel and greater reserves per well.

Another major milestone was achieved in July when we gained access to the export pipeline. 100% of our crude oil is now trucked a distance of some 120 km to Fishkhabour on the Turkish border for injection into the international export pipeline, which runs to the port of Ceyhan on the Turkish coast. This means improved netbacks and reduced operational risk; a particularly welcome development in a depressed oil price environment.

In a capital-restricted business it is important to focus on core assets in order to reduce costs. Having analysed potential capital demands and performance risk of the development of the Sheikh Adi Block, we have decided to relinquish this licence, which has been agreed with the MNR. It has not been an easy decision but it is paramount to focus our resources on Shaikan where immediate value can be realised with greater certainty. In agreement with the operator MOL Hungarian Oil & Gas plc, we took the decision to relinquish the Akri-Bijeel Block. Together with the operator Genel Energy, we are in the process of relinquishment of the Ber Bahr Block.

CHIEF EXECUTIVE OFFICER'S STATEMENT continued

Strenuous efforts are underway to strengthen the balance sheet, provide new capital for investment to deliver production and value growth, and ultimately restructure the balance sheet as a foundation for the long-term future of the Group.

At Shaikan, where we finished the year with stable average daily production rates of above 36,000 bopd in December, I am eager to move forward with the further development of the field and increase production from 40,000 bopd to deliver further value. To get to the next stage requires additional investment, so our priority is to strengthen the balance sheet to allow this forward move. While the updated Shaikan FDP has been completed and submitted in draft to the MNR, we have also identified opportunities to bridge to the FDP through developing an interim and complementary project to the FDP to maintain Shaikan production at 40,000 bopd and potentially increase production up to 55,000 bopd. This project will require additional capex of between $71 million and $88 million and is subject to a period of regular payments, available finances and all required approvals.

A welcome step towards further development is the new payment structure we have in place with the MNR. In a statement released on 1 February 2016, plans were outlined to pay producing international oil companies in accordance with the terms of the Production Sharing Contracts and within a specific time frame. Prior to this, under a temporary arrangement, the Group received four consecutive monthly payments totalling $60 million starting in September 2015. Under the new arrangement, a payment made for January 2016 exports also included contributions towards arrears. We understand the importance of predictability and regularity of payments, so we welcome the KRG's public commitment, which we expect to provide reassurance to the market in 2016.

The KRG's statement on 1 February also catalysed our discussions with the MNR relating to the application of the Shaikan PSC terms and such issues as the Third Party Interest, the Government Participation Option and the associated past costs, as well as revenue arrears, the capacity building charge and the assignment of the 5% Texas Keystone Inc interest in the Shaikan PSC to Gulf Keystone. We have now been able to achieve a broad agreement and clarity on these issues through completing a bilateral Agreement with the MNR.

This Agreement addresses the proposed exercise of the 20% Government Participation Option and the settlement of the associated past costs together with the reduction of the capacity building charge from 40% to 30%, which is a particularly important development that contributes additional material value to us and brings Shaikan PSC more in line with contracts of our peers in the Kurdistan Region.

The Group and the MNR have also re-affirmed their intention to implement the First Amendment to the Shaikan PSC dated 1 August 2010, in particular the provision regarding the assignment of the 15% Third Party Interest, and also the assignment of the 5% Texas Keystone Inc interest in the Shaikan PSC to Gulf Keystone.

On 25 February 2015, the Group announced a Strategic Review of its financing options, which included discussions with a number of interested parties in relation to possible asset transactions or a corporate sale. Over the course of 2015 and to date, interest has been expressed by various parties. While there are ongoing discussions with certain parties, we believe given the current sector dynamics (low and volatile oil prices and geopolitical issues in the region), a transaction is unlikely in the near term.

The financial situation facing Gulf Keystone is clear: payment arrears for past costs and revenue arrears coupled with reduced near-term income because of low oil prices have resulted in a weak balance sheet to service the existing debt obligations of the Guaranteed Notes and convertible bonds in terms of coupon payments due in April and October 2016, as well as bond maturities in 2017. The management is committed to addressing these issues in the interest of all stakeholders. Strenuous efforts are underway to strengthen the balance sheet, provide new capital for investment to deliver production and value growth, and ultimately restructure the balance sheet as a foundation for the long-term future of the Group.

One of my objectives for the year was to bring stability to Gulf Keystone by establishing a solid leadership team who would be aligned and co-ordinated and I believe this has been achieved. Since the beginning of 2015 the management has undergone significant changes with three new executives, including myself, and two new Non-Executive Directors brought into the Company. We now have a revitalised management team and Board in place that I am happy to be working with and I would like to take this opportunity thank them for bringing their expertise and energy to the table.

I extend my thanks to all Gulf Keystone employees and contractors for their dedication and hard work throughout the year and to all stakeholders for your continued support of the Group. Finally, my thanks go to the KRG, the MNR, and the Kurdistan Region, as the home of our operations and many of our employees, our thoughts are with the people of a nation facing many challenges.

In closing I would like to reiterate our focus on maintaining safe, secure and reliable operations and exports from our world-class Shaikan field. Having agreed a forward programme of monthly payments with the MNR with whom we have always enjoyed a constructive relationship and whose support is important for the Group's financial health, I look forward to delivering a stronger business in 2016 with stable production, commercial discipline, value realisation and growth.

Jón Ferrier
Chief Executive Officer

16 March 2016

Q&A WITH JÓN FERRIER, CEO

We are not prepared to sit around and hope that the situation will improve, or that someone will "ride to the rescue". We are trying to be ahead of events as far as possible and we must never lose sight of the outstanding calibre of the Shaikan field – and its ability to generate value for all stakeholders for decades to come.

Jón Ferrier
CEO

I have received many questions in my time at Gulf Keystone, particularly from private shareholders. Many of these questions follow common themes. I have taken the opportunity here to paraphrase those questions and give you my answers.

Q **What options are being considered to deal with the difficult circumstances you are facing and ensure the financial health and commercial sustainability of the business in 2016?**

A When we issued our 2015 results on 17 March, we provided a comprehensive assessment of where the Company is today. The reality is that we have a prize asset which will be producing for generations to come. We have managed to bring Shaikan into production, increased and stabilised its production, found the route to the international market and made plans for the next phase of the field's development. We have done all this in a safe and reliable manner, working hand-in-hand with our host government and navigating the choppy waters to the best of our abilities. We recognise the reality of our near-term challenges. First and foremost, we need to continue getting paid for our production and exports on a regular basis, including unpaid past oil sales and other arrears. Secondly, we need to restructure the weak balance sheet in order to continue developing the business and secure its longer-term future, as well as to meet our existing debt obligations consisting of the significant interest payments in 2016 and the full debt repayment of $575 million in 2017. A considerable amount of work is currently underway to achieve a solution in the interest of all our stakeholders.

Q **Are you concerned about the share price?**

A Of course. We look at the share price and it is highly frustrating for all of us; and there is little comfort in saying that the decline in our share price has to be viewed in a wider context which has seen market valuations dramatically drop for all E&P players in 2015. Gulf Keystone and our peers in the Kurdistan Region have been particularly affected. My duty as the CEO is to steer this business towards a longer-term sustainable future. We can't do anything about the oil price, so we focus on areas we can influence – be it above or below the ground.

Q Are you confident that you will be paid every month by the KRG?

A It is important to recognise the unprecedented set of circumstances facing both the business and the Kurdistan Region of Iraq in the last 18 months, from a macroeconomic oil industry perspective, but also the very specific regional issues affecting us and all international operators in the region. The KRG have been fighting the war against the terrorist group Daesh since August 2014, not only within its own borders but also in order to protect people in the neighbouring areas in Iraq. The KRG's finances are under severe strain. Despite that, since September 2015, we have been receiving regular payments for our production and exports. It is extremely important that the arrears are now being addressed. The support of the KRG is clear. It is not in the KRG's interest to see any of the Kurdistan producers and exporters fail and for the development of the region's oil and gas sector further delayed. I strongly believe that our strategy of co-operation with our host government, seeking to reach agreement in the interests of all parties involved, including our shareholders, is working.

Q You have not yet been successful with finding a partner or buyer of the business through the Strategic Review. Have all the options been explored?

A We announced the Strategic Review in February 2015 in order to assess all financing options, which included discussions with a number of interested parties in relation to possible asset transactions or a corporate sale. Interest has been expressed by various parties. In fact, there are discussions ongoing with certain parties at the time of writing. However, given the oil price volatility and the regional geopolitics, we have concluded that a transaction is unlikely in the near term. My message to our stakeholders regarding the Strategic Review is that this Board and the management team have been proactive. We are not prepared to sit around and hope that the situation will improve, or that someone will "ride to the rescue". We are trying to be ahead of events as far as possible and we must never lose sight of the outstanding calibre of the Shaikan field – and its ability to generate value for all stakeholders for decades to come.

Q When are the Directors going to purchase shares to show confidence in the Company?

A It is a fact that the Company has been in a close period for a very long time; in fact we remain in a close period at the time of writing. Consequently, the Directors have been unable to buy or sell shares in the Company. This restriction is in place because of the level of corporate activity and amount of inside information in possession of the Directors. We review the status of the close period with our legal advisers on a regular basis and this is their current advice.

Q What are you doing to control the costs?

A We are being extremely prudent and disciplined in the areas we can control and expenditures have been reduced across the organisation. The difficult decision to relinquish our non-core assets and focus on Shaikan was driven by commercial considerations. My decision to invest in two additional Board appointments was motivated by my belief that this is the exactly the time when the Company needs a strong and fit for purpose Board with the level of experience and knowledge to support me and my management team to take the business through a period of unprecedented challenge and change.

Q Will the production decline in 2016?

A Our October 2015 Competent Person's Report highlighted that, without additional capital expenditure, Shaikan wells will begin to exhibit natural declines. This is true of any field and is why we have prepared an interim project to maintain production at 40,000 bopd and potentially increase production up to 55,000 bopd. This "bridge solution" to the FDP can be implemented subject to available finances and final partner and MNR approval. Delivering a stronger business in 2016 with stable production and commercial discipline, in order to progress to the full field development of Shaikan remains my key focus as the CEO.

OUR BUSINESS MODEL

Our business model shows the elements of the business that work together to create value.

HOW WE CREATE VALUE

We have transitioned from explorer to producer and exporter with a combined nameplate capacity from our two Shaikan production facilities of 40,000 bopd. Our goal is to maintain a regular and predictable payment cycle for our Shaikan crude oil while increasing production levels, further development of the asset in line with our Field Development Plan targets will allow the Company to unlock the significant upside potential and value of the asset, ultimately funding further growth of the business.

VALUE CREATION

PRODUCTION AND FIELD DEVELOPMENT PLAN

Our Shaikan Field Development Plan is our pathway to unlocking the value of the asset. The plan has been updated to reflect our 2015 CPR findings, and submitted for review and approval by the Kurdistan Regional Government's Ministry of Natural Resources. Having now produced in excess of 21 million barrels of oil, our increased data set gives us much greater clarity for the next phase of field development.

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ASSETS AND FINANCIAL MANAGEMENT

By focusing on core assets we are able to concentrate our resources to Shaikan where immediate value can be realised with greater certainty. Following the updated CPR issued in October 2015 the outlook for the development of Shaikan is one of reduced operational expenditure; individual wells will produce more, fewer wells will be required, facilities will be smaller and therefore costs will be lower than previously anticipated.

pages 26 and 27

PRODUCTION AND FIELD DEVELOPMENT PLAN

ASSETS AND FINANCIAL MANAGEMENT

HOW WE RUN OUR BUSINESS

The relationships we maintain with our stakeholders at every level of the organisation and our shared values of mutual support, growth and prosperity are crucial to our success.

We work closely with our partners the MNR, engage with communities and nurture our team to ensure the optimum running of our business maintaining safe, secure and reliable operations.

BUSINESS OPERATIONS

RESPONSIBLE OPERATIONS

Our first priority has to be safety; for our employees, contractors, and those in the areas surrounding our operations. We consider HSSE delivery to be our licence to operate and actively seek to employ and progress Kurdistan nationals. We have worked to improve facilities in villages near our operations via our CSR plan, in the interest of growth and sustainability and in order to contribute to a positive future for the Kurdistan Region of Iraq.

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STAKEHOLDER ENGAGEMENT

Stakeholder engagement is paramount to the effective running of the business and we actively encourage open channels of communication with our peers, partners, suppliers, and communities as well as both our shareholders and bondholders, in order to maintain transparency across the board. This is an area in which we are constantly working to improve as part of our strategy to achieve the full potential of the Company.

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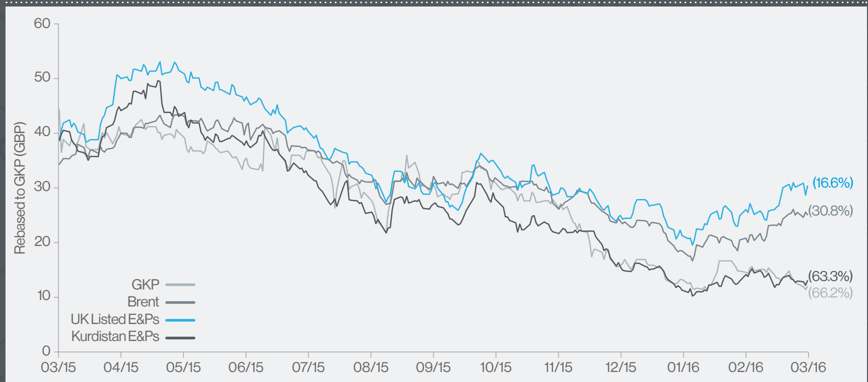
MARKET OVERVIEW

We have achieved record production levels in a year of geopolitical challenges, and depressed commodity and capital markets.

Share price performance for Gulf Keystone and peers



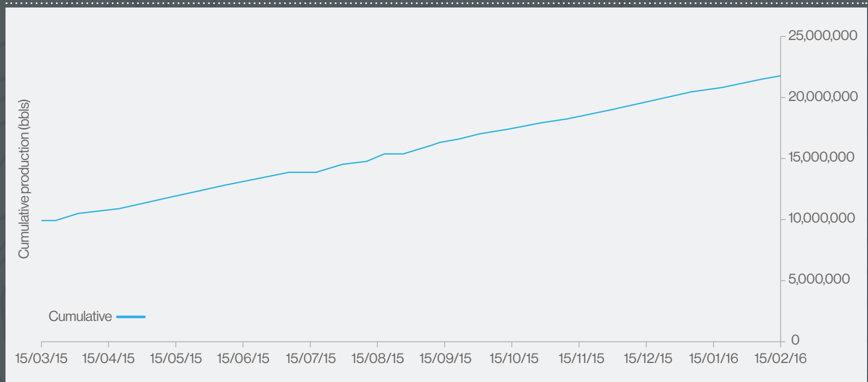
Source: Factset as at March 2016.

(1) UK Listed E&Ps is a market cap weighted index of Cairn, EnQuest, Ophir, Premier Oil, Soco and Tullow Oil.

(2) Kurdistan E&Ps is a market cap weighted index of DNO and Genel.

65%
Fall in oil price

Shaikan cumulative production



Source: GKP

21 million
Cumulative production now totals

Market overview

Listed oil and gas companies have experienced a dramatic decrease in value due to the recent rapid decline in the global oil price of around 65% since its peak in the summer of 2014.

Slow global economic growth and production increases in 2014 caused a drop in prices, and oil price weakness continued throughout 2015. Global oversupply, particularly increased production from the United States which has nearly doubled in the last couple of years, combined with weak demand in Europe and Asia have kept prices low. Saudi, Nigerian and Algerian oil, previously sold to the United States and now competing for Asian markets, caused producers to lower prices. Increased production from Canada, Iraq and Russia has also contributed to worldwide oversupply.

Despite Iran's increase in output after international sanctions were lifted, 2016 has seen stabilisation of the price of oil, amid signs that some countries are reducing production. There has been a substantial decrease in exploration investments and numerous production projects have been cancelled or delayed. Oil prices have recovered by 50% from the twelve year lows reached in January 2016.

Kurdistan players have been affected by regional geopolitics and uncertainty around revenue payments due to pressures on the region's finances.

The sharp decline in global oil prices during 2015 affected economic growth in the region. The war imposed by Daesh in neighbouring countries, compounded by the subsequent influx of nearly two million refugees and internally displaced persons, has greatly exacerbated the financial strain.

Gulf Keystone has been present in the Kurdistan region since 2007 and we work closely with the MNR to achieve our joint goal of aiding the expansion of the region for benefits today and for future generations. The Company is a key contributor in meeting the KRG's oil production targets and, in turn, to the development of the region as a whole. In a statement released 1 February 2016 the KRG said it acknowledges and appreciates the economic contribution made by the producing IOCs and their success in raising the volume of oil export from the Kurdistan region.

Geopolitics and the depressed commodity and capital markets are issues over which we have no direct influence but we continue to work very closely with the Ministry of Natural Resources of the Kurdistan Regional Government and our other stakeholders to navigate these challenges in a particularly difficult sector of the industry.

STRATEGY AND PERFORMANCE

Vision to build major independent exploration and production company.

Strategy	Objective	Measure
Become a cash-generating business and attain financial flexibility	• Maintain the regular and predictable payment cycle for past and future Shaikan crude oil export sales • Focus on Shaikan	• Regular and predictable payments and recovery of outstanding entitlements
Grow commercial oil production from Shaikan	• Maintain the regular and predictable payment cycle for past and future Shaikan crude oil export sales • Maintain stable production and sales of 40,000 bopd • Increase production in line with Shaikan FDP targets • Maximise production to realise full asset potential • Efficient development and production operations • Achieve positive operating cash flow as we progressively develop our assets	• Steady average gross production • Increase in average gross production • Reduce gross operating cost per barrel • Increase cash inflow from operating activities
Increase reserves and resource base	• Increase value of assets	• Reserve and resource additions • Conversion of 2C contingent resources to 2P Reserves • Lower costs
Maintain highest levels of corporate governance	• Increase shareholder confidence • Ensure appropriate independent challenge of executive management	• Compliance with the UK Corporate Governance Code • Results of the shareholders' vote at the AGM • Results of the shareholders' vote at the SGM
Effective HSSE and CSR programmes	• Ensure safe and secure operations • Carry out all operations with openness, integrity and accountability • Creating opportunities to acquire and develop talent • Maintain exceptional relationships with KRG/MNR and people of Kurdistan in an environment of mutual respect and co-operation	• Delivery against the Company's CSR plan • Competency Based Framework ("CBF") promotions • HSSE improvements

Progress made in 2015/16	Associated risk (see pages 41 to 44)
• Receipt of four monthly payments of US$15 million (gross) for September to December 2015 liftings • Public statement from the MNR on 1 February 2016 stating commitment to regular and predictable payments of IOCs in accordance with PSCs plus contributions towards outstanding entitlements • Receipt of payments in 2016 in accordance with PSCs plus contributions towards arrears • Relinquishment of Akri-Bijeel • Relinquishment of Ber Bahr in progress • Relinquishment of Sheikh Adi in progress	• Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding • Risks associated with infrastructure and export market • Political and regional risk • Global oil price fluctuations • Political and regional risk, including risks relating to disputes regarding title and exploration and production rights
• Reached production levels in excess of 40,000 bopd • Achieved average yearly gross production of 30,500 bopd • Receipt of four monthly payments of US$15 million (gross) for September to December 2015 liftings • Receipt of payment in 2016 in accordance with PSC's plus contributions towards arrears • Attained access to the Kirkuk-Ceyhan pipeline and as of September 2015 100% of Shaikan crude is being exported this way	• Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding • Risks associated with infrastructure and export market • Liquidity and solvency risk • Capital availability and expenditure control • Field delivery risk • Political and regional risk, including risks relating to disputes regarding title and exploration and production rights • Gas flaring restrictions
• Publication of updated Competent Person's Report ("CPR"), October 2015 • Shaikan 2P Reserves increase 114% to 639 million barrels gross • Increased reserves per well and lower capex per barrel	• Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding • Risks associated with infrastructure and export market • Capital availability and expenditure control • Field delivery risk • Political and regional risk, including risks relating to disputes regarding title and exploration and production rights • Low oil price environment
• Voluntary adoption of the UK Corporate Governance Code • Two new Non-Executive Directors appointed	• Organisational capability • Business conduct and non-compliance with the UK Bribery Act 2010
• CBF training programmes continued and developed with 25 promotions achieved in 2015 • Improving HSSE procedures • One million man-hours without a lost time incident ("LTI") • 400,000 man-hours without an LTI at PF-2 • Increased number of Kurdistan National employees to 80%	• Political and regional risk, including risks relating to disputes regarding title and exploration and production rights • Health, safety, security and environment ("HSSE") • Security

VALUE CREATION

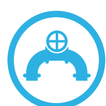
PRODUCTION & FIELD DEVELOPMENT PLAN

Stable production

2015 saw 11.1 million barrels of oil produced, a 71% increase from the previous year. Stable production continues from our two Shaikan facilities with a combined nameplate capacity of 40,000 bopd

Shaikan Production Facility -1 (PF-1)

VALUE CREATION continued



PRODUCTION & FIELD DEVELOPMENT PLAN continued

The focus on the Shaikan field has evolved from oil-in-place to recoverable reserves and the updated CPR highlights an enhanced predictability of the field. The substantial production and reservoir data acquired since the previous CPR has given a much improved understanding of the field's recovery mechanism and we now have a greater certainty in our ability to develop the increased 2P Reserves with fewer wells and reduced capex per barrel.

This is a summary of the updated Competent Person's Report ("CPR") an independent third-party audit of the Company's Reserves, Contingent Resources and Prospective Resources for its oil and gas interests in the Kurdistan Region of Iraq. The updated report was again prepared by ERC Equipoise ("ERCE") and follows the first report published in March 2014.

COMPETENT PERSON'S REPORT

The table below represents the updated CPR's conclusions on Shaikan Reserves, Contingent Resources and Technically Recoverable Volumes[1] in comparison with the March 2014 CPR:

CPR (mmstb)[2]	1P	% increase	1C	1P+1C	TRV[1]	1P+1C+ TRV	Net diluted WI to GKP – 1P
March 2014	198		244	442	–	442	108
September 2015	306	55%	85	391	90	481	166

CPR (mmstb)	2P	% increase	2C	2P+2C	TRV	2P+2C+ TRV[1]	Net diluted WI to GKP – 2P
March 2014	299		702	1,001		1,001	163
September 2015	639	114%	239	878	142	1,020	348

CPR (mmstb)	3P	% increase	3C	3P+3C	TRV	3P+3C+ TRV	Net diluted WI to GKP – 3P
March 2014	389		1,626	2,015	–	2,015	212
September 2015	982	152%	862	1,844	232	2,076	534

(1) Technically Recoverable Volumes ("TRV") are reserves recognised in the production profile beyond the term of the Production Sharing Contract. Work is ongoing to accelerate these reserves to within the licence period.

(2) mmstb: million stock tank barrels.

Source: September 2015 ERCE CPR.

CPR AT A GLANCE

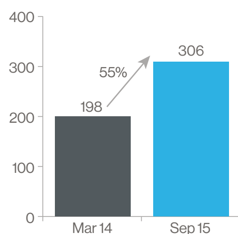
Shaikan

- Gross 2P Reserves increased by 114% to 639 mmstb
- Gross 2C resources 239 mmstb, as a result of reallocation of 2C to 2P
- 142 mmstb recognised beyond the term of the PSC
- 1P Reserves have increased by 55% 306 million barrels gross
- Greatly improved reservoir understanding and confidence in future behaviour
- Fewer wells and facilities now required for development
- Reserves per well are higher than previous estimate
- Project substantially de-risked

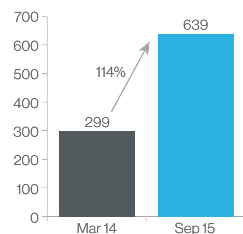
Total Shaikan profile March 2014 1,001 mmstb

Total Shaikan profile June 2015 1,020 mmstb

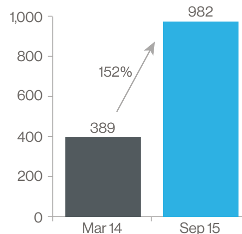
Gross 1P Reserves (mmboe)



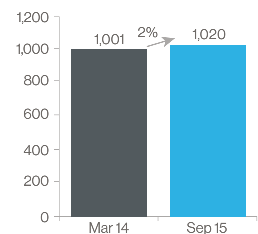
Gross 2P Reserves (mmboe)



Gross 3P Reserves (mmboe)



Gross 2P+2C (mmboe)



Note: 142 mmstb recognised beyond the term of the PSC.

UPSIDE

Shaikan Field future development – huge potential with reduced uncertainty

The field's recovery mechanism, now recognised as being by solution gas rather than a water drive, results in greater predictability of field performance, increased reserves per well and lower capex per barrel. As a result, fewer wells and reduced water handling facilities are now required for development and the project is substantially de-risked with a significant improvement in average reserves per well with the 2015 estimate standing at 20 mmstb/well compared with the 2014 estimate of 12 mmstb/well.

Cretaceous

There is huge upside potential through increases in reservoir fracture. The CPR recognises 2.5 billion barrels of discovered and undiscovered Cretaceous oil.

Triassic

The CPR is modelled on basis of Triassic dry gas cap with thin oil rim. New data acquired since publication of the CPR suggests a much larger liquid component with fluid type in the Kurre Chine B reservoir determined as gas condensate as opposed to dry gas.

Deep Triassic and Permian

Undrilled but highly prospective drilling targets have been identified beneath the current deepest well in Shaikan. Substantial oil-in-place has been calculated in these structures.

VALUE CREATION continued

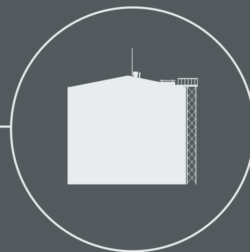
PRODUCTION & FIELD DEVELOPMENT PLAN continued

Field Development Plan ("FDP") considerations

The updated Shaikan FDP in line with the October 2015 CPR was submitted to the Kurdistan Regional Government's Ministry of Natural Resources for review in late 2015 and envisages a substantially de-risked development with fewer wells, lower capex per barrel and greater reserves per well to reach production targets.

Additional wells

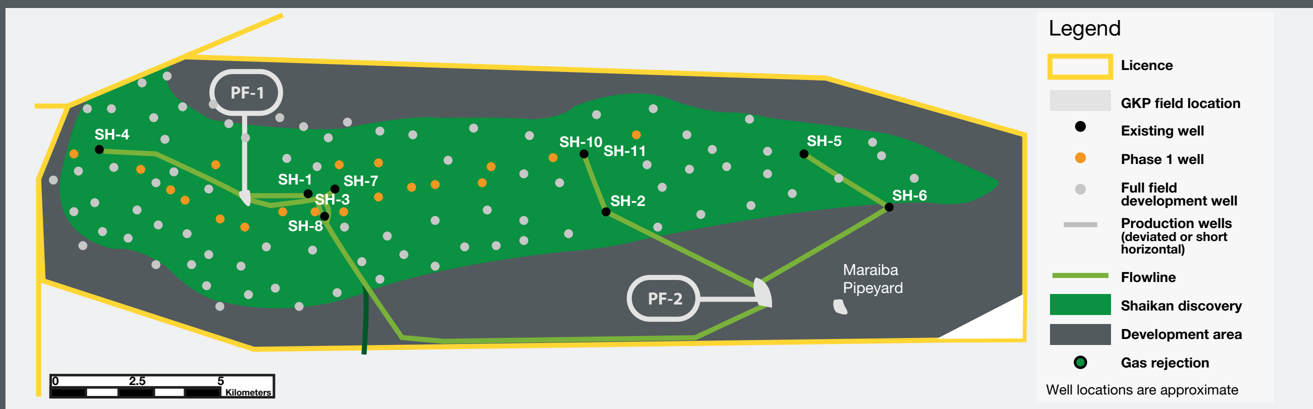
Crude oil export deliveries by truck



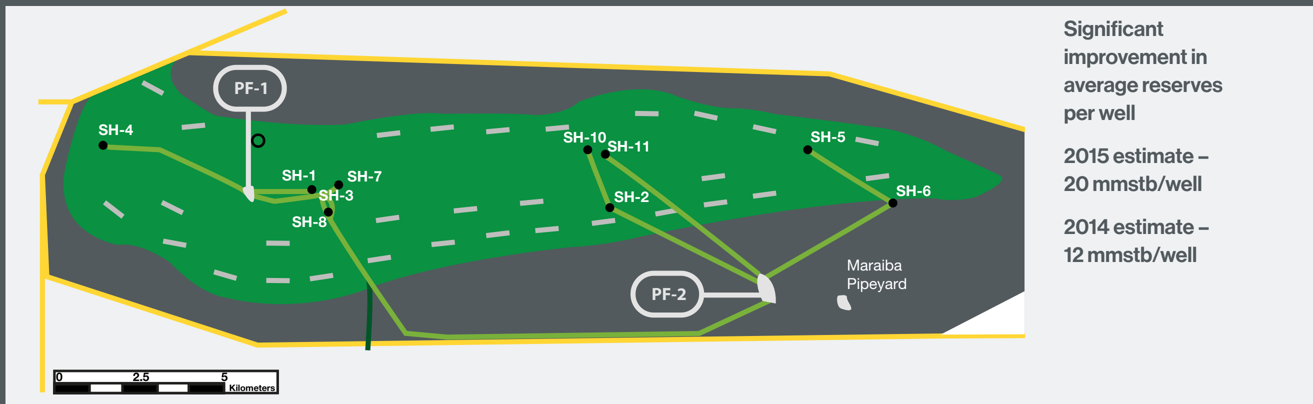
Additional production facilities

Crude oil deliveries via pipeline

2013 Field Development Plan



2015 Field Development considerations



We have also identified opportunities to bridge to the FDP through developing an interim, and complementary to the FDP, project to maintain and potentially increase Shaikan production.

Current production

40,000 bopd

An observed pressure reduction in Shaikan, in line with predicted field performance and consistent with the CPR, does not affect the 2P reserve estimate but will require intervention to maintain current production levels. Subject to available financing, plans are in place for an interim project to stabilise Shaikan production at 40,000 bopd.

Bridge

55,000 bopd

In addition to stabilising our production and subject to available financing, plans are in place to potentially increase production up to 55,000 bopd. This project can be executed within a year of committing to the capex programme outlined below and is considered a bridge to the FDP.

FDP target

110,000 bopd

Our Shaikan mid-term FDP target increased from 100,000 bopd to 110,000 bopd following the October 2015 CPR findings. An updated draft of the FDP with the 110,000 bopd target was submitted to the MNR for approval in December 2015.

Capex required ($m)	Maintain 40,000 bopd	Increase to 55,000 bopd
Electrical submersible pump ("ESP") x 3	21	21
New wells x 1	21	21
Additional production facility	—	13
Trunk line tie-in	10	10
Other	3	3
30% contingency	16	20
Total	**71**	**88**

Figures include 30% contingency

VALUE CREATION

ASSETS & FINANCIAL MANAGEMENT

Regular payments

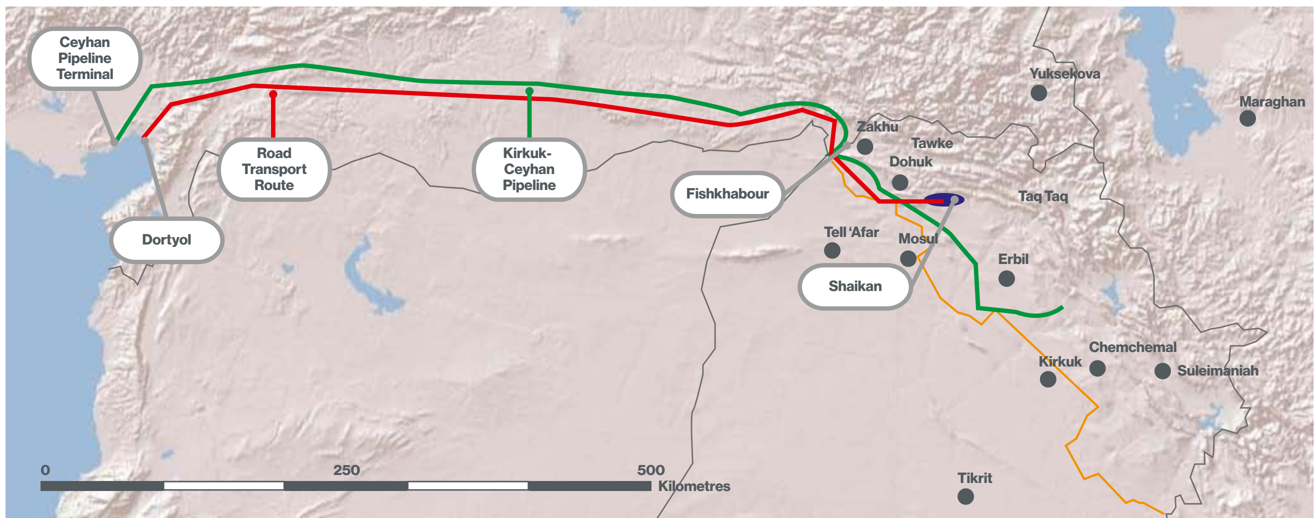
A regular payment cycle has been achieved for our crude oil exports, having received consecutive payments since September 2015

Shaikan Production Facility -1 (PF-1)

VALUE CREATION continued

ASSETS & FINANCIAL MANAGEMENT continued

Shaikan exports



Shaikan exports

First access to the Kirkuk-Ceyhan pipeline was gained in July, and since mid-September 2015 we have been trucking 100% of Shaikan crude oil a distance of 120 km to Fishkhabour on the Turkish border where it is injected into the Kirkuk-Ceyhan export pipeline for sale from the port of Ceyhan, providing a much more efficient and cost effective transportation route for our crude. This marketing route continues and is expected to prevail in the future as it generates better returns to the Group, attracts regular payments from the KRG and is consistent with the MNR's stated export strategy.

The Ministry of Natural Resources currently control all marketing and crude exports from Kurdistan. All Shaikan production is sold under our oil export arrangements with the KRG at a field-specific quality discount to the price of Brent crude oil and after transportation costs. Sales of production to a domestic offtaker were made under a separate contract and attracted a further discounted price. A continuation of Brent price decline in 2015 affected our reduced prices. The realised price for the sales to a domestic offtaker was $18/bbl. We have been involved in discussions with the MNR to review the Shaikan quality discount and transportation costs on our export sales to date and based on these discussions, the realised price for 2015 export sales is estimated at $22/bbl. The realised prices on export sales remain subject to audit and the establishment of a retroactive quality bank for Kurdistan crude exports delivered through the Kirkuk-Ceyhan pipeline.

Shaikan realised price in brief

- Realised price for sales to domestic offtaker was $18/bbl in 2015
- Realised price for export sales is estimated at $22/bbl for 2015
- Pricing terms are subject to audit and for January's production, KRG set the Shaikan quality discount for pipeline exports at $14.7/bbl plus transport deductions of approximately $5.7/bbl
- MNR is committed to the establishment of a retroactive quality bank for Kurdistan crude exports
- Local markets offer unattractive alternative to export at current low Brent price

Andrew Simon, Chairman and John Stafford, VP Operations on site visit.

Evolution of Shaikan PSC terms

Bilateral agreement with the MNR[1]

In a statement released by the KRG on 1 February 2016, plans were outlined to pay producing international oil companies in accordance with the terms of their respective Production Sharing Contracts and within a specific time frame. Under the new arrangement, payments made for January and February 2016 exports also included contributions towards arrears.

The statement catalysed the Company's discussions with the MNR relating to the application of the Shaikan PSC terms including such issues as the Third Party Interest, the Government Participation Option and the associated past costs, as well as revenue arrears, the capacity building charge and the assignment of the 5% Texas Keystone Inc interest in the Shaikan PSC to Gulf Keystone. We have now been able to achieve a broad understanding and obtain additional clarity on these issues through a bilateral Agreement with the MNR.

The Agreement provides clarity on the past costs and revenue arrears and constitutes the MNR's commitment to a forward programme of monthly payments, including contractual entitlement and additional payments towards the amounts in arrears.

As a result of the 16 March 2016 Agreement, Gulf Keystone's fully diluted working interest in Shaikan and its share of reserves will increase from 54.4% to 58%.

(1) Certain terms of the bilateral agreement between Gulf Keystone and the MNR of 16 March 2016 are subject to the approval of a formal Amendment to the Shaikan PSC by the MNR, Gulf Keystone and MOL Hungarian Oil & Gas plc.

16 March 2016 bilateral agreement in brief[1]

Subject to the approval of a formal Amendment to the Shaikan PSC, Gulf Keystone and the MNR agreed to:

- change Gulf Keystone's capacity building charge from 40% to 30%;
- recognise the MNR's Shaikan Government Participation Option of 20% as a paying party;
- implement the provisions of the First Amendment to Shaikan PSC dated 1 August 2010;
- address the issue of the 15% Third Party Interest;
- 5% Texas Keystone interest to be formally assigned to Gulf Keystone;
- a schedule for near-term repayment of the past costs associated with the Government Participation Option of 20%.

Shaikan arrears

As at 31 December 2015, the Company estimated an unrecognised receivable of $44 million net to Gulf Keystone with regards to the unpaid export sales and $75 million net to Gulf Keystone for the past costs associated with the Shaikan Government Participation Option of 20%.

BUSINESS OPERATIONS

RESPONSIBLE OPERATIONS

Shared values

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

Community relations

BUSINESS OPERATIONS continued

RESPONSIBLE OPERATIONS

We are sensitive to the diverse cultures with whom we interact

INTRODUCTION

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

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

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

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

This Corporate Responsibility Plan fulfils three needs:

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

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

COMMUNITY

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

COMMUNITY RELATIONS

Our past community projects have included renovating schools, building event halls, water pumps and access roads and supplying computers and uniforms to youth centres and schools respectively. In 2013 we were awarded a 'Certificate of Thanks and Appreciation' from the Mayor of Shaikan, Ismail Mustafa, in recognition of these projects. We have also offered support where possible towards the relief effort for the large number of internally displaced persons ("IDPs") in the region; supplying families with bedding, clothes, heaters and fuel during winter months.

PEOPLE

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

We have a Competency Based Framework ("CBF") in place designed and tailored for Surface Operations at both our Shaikan production facilities PF-1 and PF-2. Developed and launched in 2013 by Gulf Keystone, it is now promoted as 'standard' for the industry in country by The Kurdistan Oil & Gas Workforce Capability Development, an initiative started by the MNR. The programme encourages the development of our highly motivated production operations staff in order to deliver sustainable levels of competency for safe and efficient operations through training and assessment. We feel the programme is an invaluable tool enabling us to raise performance, achieve consistency, communicate effectively, ensure a system for promotion and provide career paths for our employees. English teaching is incorporated into the CBF with the primary aim of ensuring that all staff understand safety instructions in English and are able to follow English operational guidance, furthermore it is a skill that has the potential to be utilised throughout a lifetime.

It has been another excellent year for the CBF with further promotions of our staff members to senior positions. As of December 2015 the total stands at 62, representing an increase of 25 during the year. We also have a sponsorship scheme in place which allows annually for three Kurdistan employees to study for master's degrees at top-tier universities within the United Kingdom and for one high-potential employee to continue their studies at postgraduate level. This scheme ensures we achieve our commitment of contributing to Kurdistan workforce development, and have highly educated national employees.

A locally derived, skilled and engaged workforce is a key criterion for sustainability of the business. In the past year the proportion of Kurdistan national employees in the country has grown by 5% to currently exceed 80% of the total number. Our long-term plan is to increase that to 90%, specifically in senior and management positions.

BUSINESS OPERATIONS continued

RESPONSIBLE OPERATIONS

Delivering safe and secure operations

PF-2

HEALTH, SAFETY, SECURITY

We conduct our business safely and in a socially responsible and ethical manner. We respect the law and endeavour to protect the environment and communities in which we work. As a leading oilfield operator in the Kurdistan Region of Iraq, safety is of the highest importance and we consider it our licence to operate. We use our "smarter-safer-together" approach in all operations while adhering to the highest standards of business conduct. We have put in place comprehensive HSSE and operations management procedures including emergency and incident response plans. The Group actively engages with local communities and governments using specialist consultants to create clear policies and procedures which are supported by strong leadership, accountability and commitment throughout the organisation.

We have a simple premise: to integrate HSSE into the everyday working environment; providing advice, tools and systems which enable our workforce to manage risks. Continuous engagement with the workforce to enhance the HSSE culture by encouraging open and honest incident reporting and investigation; training and development, via our Competency Based Framework ("CBF"); and having a young, enthusiastic, educated national workforce who are keen to learn all contribute towards achieving high standards in this area.

From March 2015 to March 2016, a period which includes final construction and handover of the facilities from the construction to operations team, PF-2 achieved twelve months and 400,000 man-hours worked without a lost time incident ("LTI"). In addition, the Company passed the milestone of one million man-hours worked without an LTI over a rolling year, a further mark of the dedication to safety and HSSE performance by all involved with the Shaikan operations. The establishment of an effective HSSE team has its challenges, particularly in a multi-national, multi-lingual environment with a variety of skill standards, and the development of an oil production plant is a difficult journey to navigate. However, our safety performance is continuously improving, and we continue to adapt and monitor, which is why during 2015 we developed a new HSSE policy to be rolled out in 2016. The policy includes Board level assurance and senior management visibility within the HSSE framework, which requires regular meetings held in the field as well as our offices in London and Erbil while challenging safety targets across the organisation.

An excellent year for HSSE

Category	Measure	Year-on-year comparison 2014	2015 YTD
Lost time incidents ("LTI")	Total incidents	7	**2**
Lost time incident frequency ("LTIF")	Million man-hours	3.4	**1.99**
Recordable incidents	Total incidents	22	**7**
Total recordable incident frequency ("TRIF")	Million man-hours	10.67	**8.94**
Motor vehicle accidents	Total incidents	7	**3**
Driving violations ("IVMS data")	Total incidents	146	**36**
First aid cases	Total incidents	12	**8**
Solid waste recycling	Percentage	5	**66**
Liquid hazardous waste recycling	Percentage	–	**100**

Number of promotions achieved via our Competency Based Framework during 2015

Department	Promotions
Surface operations	19
Security and transport	2
Subsurface development	2
Supply chain	1
Finance	1
Total	**25**

CEO participating in safety briefing

ENVIRONMENT

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

To ensure that health, safety and environmental considerations remain core values, we see it as our obligation to identify and reduce risks, safeguard people and protect the environment, assets and the communities where we operate. With this intention engineers have been in the field on a twenty-four hour a day basis throughout 2015 re-shaping our environmental management.

We have an Ambient Air Quality monitoring programme in place to record SO_2 levels, using fixed and mobile units as well as SO_2 diffusion tubes installed at a 2 km perimeter surrounding our production facilities taking frequent readings to ensure air quality.

Waste management has been transformed with 66% of our solid waste now being recycled and 34% (organic material) incinerated. Hazardous liquid waste is now 100% recycled by an MNR-approved vendor in Koya.

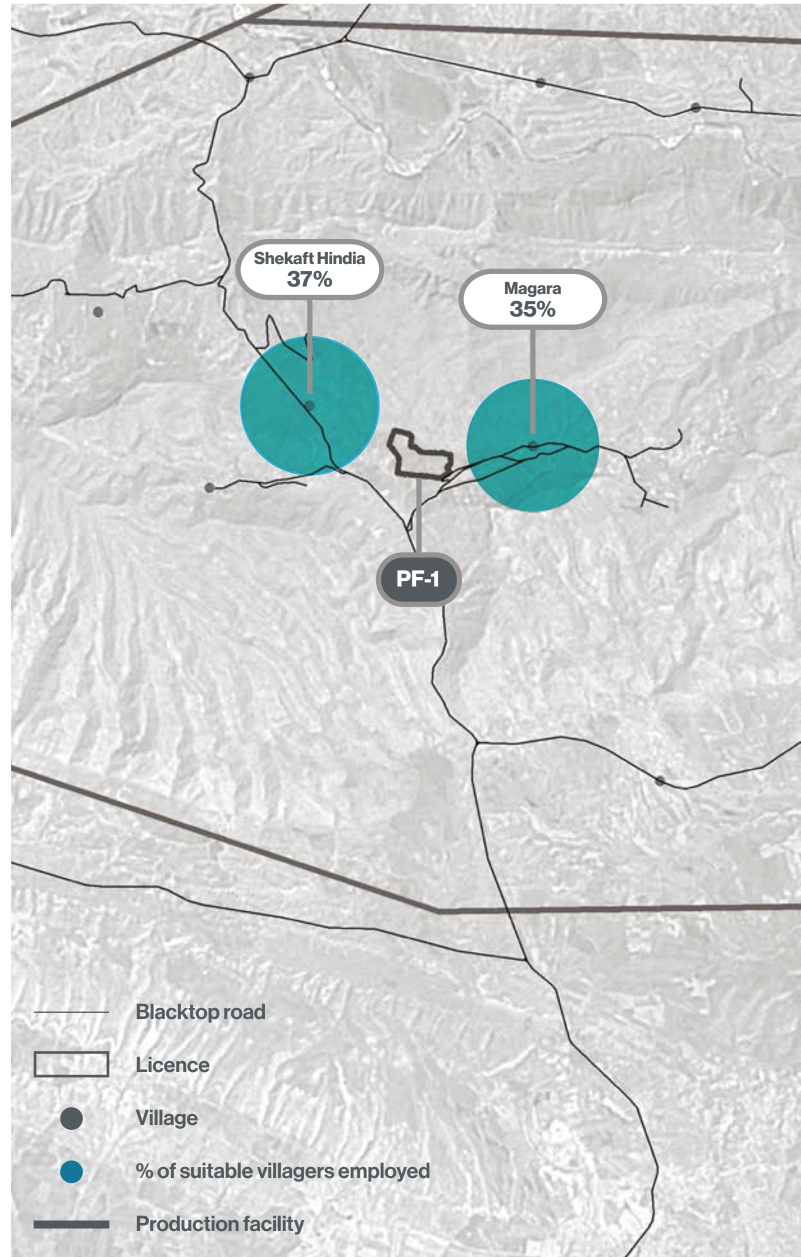
Our industrial incinerator meets all EU established criteria for air emissions and is positioned to handle all the solid waste generated and efficiently serve Shaikan allowing us to monitor and control waste disposal. As part of the Company's continuing community relations programme we have set up a "Green Team" made up of Kurdistan nationals to operate the incinerator, collecting rubbish from our operational sites and neighbouring villages. We are one of only a few oil companies that handle waste in this way.

BUSINESS OPERATIONS continued

RESPONSIBLE OPERATIONS

A locally derived, skilled and engaged workforce is a key criterion for sustainability of the business

LOCAL WORKFORCE

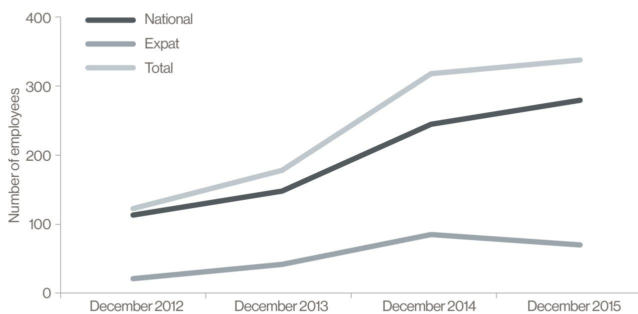


Outreach

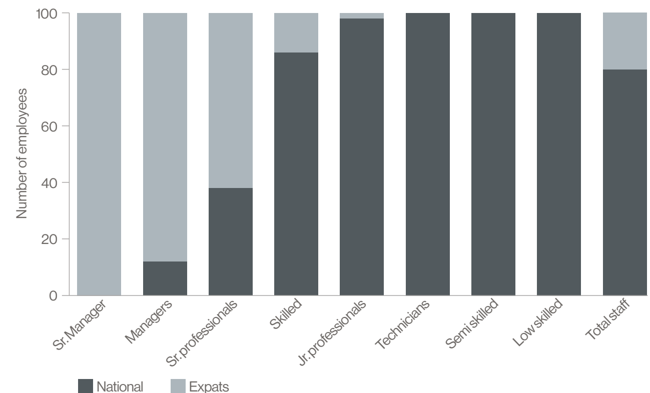
As part of the 'Summer Student and Internship Programme' during 2015 Gulf Keystone provided summer training and internship opportunities for 18 students from Kurdistan and Duhok Universities, as well as organising day trips to the field for more than 50 students from the University of Soran.

During the third Annual Job Fair organised by the Career Development Centre in Duhok, Gulf Keystone presented a seminar about the Company's operations, encouraging students to consider the Company as a potential career target following graduation.

Our employees in the Kurdistan Region of Iraq



Our employees in the Kurdistan Region of Iraq



Kokhi
6.4%
Shekhka
23.7%
Bur Gir
7.6%
Besata Khari
54.8%
Barkichic
14.9%
PF-2
Besata Khari
54.8%
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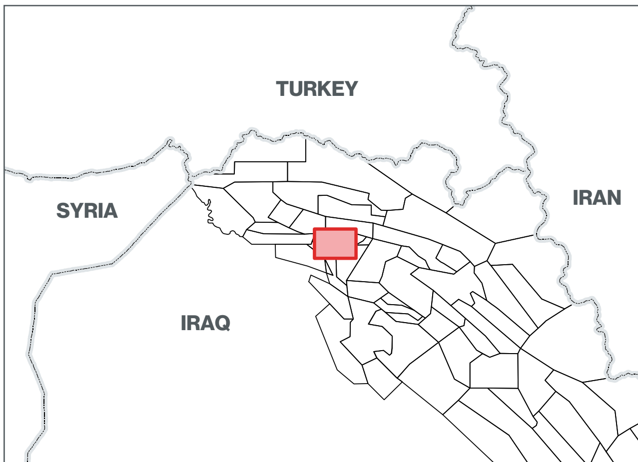
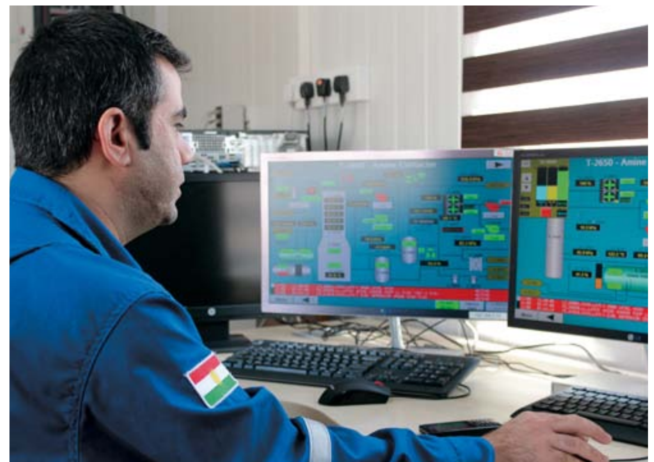




BUSINESS OPERATIONS continued

STAKEHOLDER ENGAGEMENT

Effective stakeholder engagement is a strategic priority

Jón Ferrier, CEO, and Nadhim Zahawi, Chief Strategy Officer, hosting a stakeholder reception in Erbil

JÓN FERRIER – CEO

High on my priority list during the past year has been improving stakeholder engagement, with increased efforts principally focused on the Kurdistan Region – including the MNR, our industry partners and peers, and our shareholders.

We hosted two 'Meet the Team' lunches in 2015, one on 22 October and the other on 15 December. The initiative launched during the last quarter of the year gives private investors the opportunity to come to our London offices and sit with the management team for a question-and-answer session about the business, the challenges we face and what we're doing about them. For some people that works very well, a smaller, informal setting, so we plan to do more of these lunches going forward, but we are also aware that some people prefer a larger event, so a large-scale investor meeting is something we would like to do in 2016.

During October we also hosted a reception in Erbil, for me it was an occasion to introduce myself and some new members of the team, in our respective capacities at Gulf Keystone, to the oil and gas community within Kurdistan. It was a chance to connect on a face-to-face level with those involved in our business, in the industry, and in the region.

I am open and listening to ideas and concerns from all shareholders and stakeholders. My aim is to facilitate effective communication through a regular dialogue in order to promote transparency, and I intend to ensure this culture is maintained on our part throughout the business and via our internal and outward communications.

Strong relationships

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

Shaikan

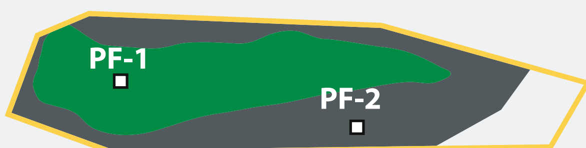
The Shaikan block is situated about 85 km north-west of Erbil covering an area of 283 km², it is one of the largest onshore developments in the world today

OPERATIONAL REVIEW

John Stafford
Vice President Operations

Operationally 2015 was a year of stabilisation and consolidation marked by achieving production guidance and maintaining safe and reliable operations. Despite another challenging set of external factors, Gulf Keystone's major operational targets have all been achieved.

Location of Shaikan production facilities



The focus of 2014 was largely on the operational challenges of bringing both production facilities online and the subsequent ramping up of production. In 2015 an updated Competent Person's Report ("CPR"), including updated Reserves numbers, meant the principal operational challenge was sustaining the production and validating the increased 2P Reserves.

Health, Safety, Security, and Environment ("HSSE")

We have achieved continuous improvements across all HSSE measures in 2015. Total recordable incidents reduced from 22 in 2014 to nine in 2015, lost time incidents ("LTIs") reduced from seven to two, motor vehicle accidents reduced from seven to three and there was a 50% reduction in minor oil spills. The only reported increase was in reports of High Potential Incidents ("HiPos") which rose from five to nine, a sign of the enhanced safety culture that is being embedded across the organisation. With the safety of our operations being of paramount importance, we designed, fabricated and installed loading bay canopies to improve safety and working conditions for loading arm operators at the production facilities.

From March 2015 to March 2016, a period which includes final construction and handover of the facilities from the construction to operations team, PF-2 achieved twelve months and 400,000 man-hours worked without an LTI. In addition, the Group passed the milestone of one million man-hours worked without an LTI over a rolling year, a further mark of the dedication to safety and HSSE performance by all involved with the Shaikan operations. Nevertheless, we can never be fully satisfied with safety performance so during 2015 we developed a new HSSE policy to be rolled out in 2016. The policy includes Board level assurance and senior management visibility within the HSSE framework, which requires regular meetings held in the field as well as our offices in London and Erbil while challenging safety targets across the organisation.

Our Competency Based Framework ("CBF") continues to grow with localisation of the Group's workforce increasing from 72% in 2014 to 80% in 2015 including recruitment and promotions to senior and management positions.

Production

Our two Shaikan facilities are both fully operational and have been throughout the course of 2015, each with a nameplate capacity of 20,000 bopd, PF-1 and PF-2 availability stands at 98.8% and 98.5% for the year respectively. All production has been black oil with no formation water.

We achieved a production average for the year of 30,500 bopd in line with our market guidance of between 30,000 to 34,000 bopd. The figure is at the lower end of the guidance largely due to factors outside the Group's control. Of total deferment, 84% was owing to external factors, mainly offtake and export pipeline infrastructure availability. Only 16% of total deferment related to operational issues, the most significant of these being a blocked fired heater coil at PF-2 which began in November and is currently being remedied. Our production average for 1 January to 16 February 2016 was 37,080 bopd but due to the unprecedented interruption of the export pipeline operations from 16 February 2016 to 11 March 2016 our guidance for this year sits at 31,000 to 35,000 bopd.

Surface operations delivered some exceptional performance in 2015 with combined production levels reaching maximum daily production of 45,063 bopd; maximum oil loading in any one day reaching 52,308 barrels equating to almost 8,000 tonnes; and maximum average sustained production over a month of 39,773 bopd achieved in September. The number of Shaikan truck deliveries for the twelve month period totals 63,061 and total oil loaded 11.1 million barrels or 1.7 million tonnes. Our total production for 2015 increased 71% compared with 2014 to 11.1 million barrels, with the cumulative production figure to date a little over 21 million barrels or just over 4% of the developed reservoir 2P Reserve total.

Providing reduced HSSE exposure and a much more efficient and cost effective transportation route for our crude, from mid-September 2015 we have been trucking 100% of Shaikan crude a distance of 120 km to Fishkhabour on the Turkish border where it is injected into the Kirkuk-Ceyhan export pipeline.

Reserves

Our data gathering and knowledge of field behaviour continues to increase with further production from Shaikan and this knowledge is constantly fed back into our models in order to achieve full value of the asset. We released an updated CPR on 1 October 2015 prepared by independent auditor ERC Equipoise, which followed their initial report in March 2014. The information available in the preparation of this updated report was far greater than that of the previous version owing to a cumulative production level standing at around 15 million barrels at the time of publication. The focus on the Shaikan field has evolved from oil-in-place to recoverable reserves with increased 1P Reserves to 306 mmstb and a more than doubling of 2P Reserves to 639 mmstb. We are pleased to confirm that the management's view today remains fully aligned with the October 2015 CPR.

As predicted, much of our 2C resources have been converted into 2P Reserves which largely accounts for this increase. The CPR also includes 142 mmstb of 'technically recoverable reserves' outside of the licence period bringing the total combined 2P+2C reserves to 1,020 mmstb.

We now recognise a positive change from the time of the original FDP and CPR regarding the drive mechanism. Data demonstrate a lack of aquifer influx which envisages water rising up maintaining pressure and displacing oil, while some of that oil inevitably remains in the matrix. We see no such response from the aquifer. The major recovery process is now gas expansion drive – so as we pull oil out of the structure, pressure in the reservoir falls allowing us to drop pressure in the fractures which, sat against a high pressure matrix, maximises our potential recovery.

Shaikan is producing dry oil and the observed pressure reduction is in line with predicted field performance and consistent with the CPR reserves and resources. This decline does not affect the 2P reserve estimate but will require intervention to maintain current production levels. Subject to available financing, plans are in place for an interim project to stabilise Shaikan production at 40,000 bopd and potentially increase up to 55,000 bopd, which we consider a bridge to the FDP. This project can be executed within a year of committing to a capex programme of $71 million for the stabilisation case or $88 million for bridge to 55,000 bopd (both including 30% contingency). No further investment will result in losing wells in the next two years either by gassing out, thus requiring a new drill, or by ceasing to flow naturally and requiring an electric submersible pump ("ESP"). In either circumstance, early investment will prevent this and allow all facilities to operate at full capacity.

As a consequence of continued production and pressure data gathering, our confidence in field performance and predictions has markedly improved. This means reduced risk and allows for a proposed full field development plan appreciating the optimum recovery drive mechanism and reducing well count. An updated draft of the Shaikan FDP based on our findings, which includes the next FDP production target of 110,000 bopd and the development of the Jurassic reservoirs, was submitted to the MNR for approval in December 2015. In parallel, the bridge to the FDP, which is subject to review by our partners and final approval by the MNR, has been produced.

John Stafford

Vice President Operations

16 March 2016

MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

Risk management is central to achieving the Group's strategy and delivering long-term value to shareholders. The Board, its Committees and the senior management team are actively engaged in monitoring and limiting, where possible, the risks to which the Company and its subsidiaries (together "the Group") are exposed. Our governance structure and processes ensure that the Group is able to establish, monitor and review appropriate risk management and internal control systems to identify and mitigate the risks the Group faces.

BOARD
Responsibility for the effectiveness of risk management and internal control systems

AUDIT AND RISK COMMITTEE
Responsible for monitoring the effectiveness of the Group's risk management framework and internal controls

HSSE AND CSR COMMITTEE
Ensures appropriate systems are in place to manage safety, environmental and community risks

SENIOR MANAGEMENT
Responsible for implementation of internal control and risk management systems

INTERNAL AUDIT FUNCTION
Assists the Audit and Risk Committee and management in executing their responsibilities

The Board evaluates the Group's principal risks at each Board meeting and reviews reports from the Audit and Risk Committee and the HSSE and CSR Committee.

The Group maintains a risk register that encompasses all risks that have been identified, the impact of those risks, and the mitigating controls the Group has in place to reduce those risks to an acceptable level. The risk register is included on the agenda of every Board and Committee meeting, and is updated based on the latest developments in the business.

The Audit and Risk Committee engages in an evaluation of the Group's principal risks at each Committee meeting. It is also responsible for considering and recommending to the Board the Group's risk appetite and reviewing the Group's risk profile. The Audit and Risk Committee also performs an annual review of effectiveness of the internal control and risk management systems to ensure risks are appropriately identified, monitored and reported to the Board and are aligned with the Group's strategy.

The HSSE and CSR Committee is primarily responsible for ensuring that appropriate systems are in place to manage health, safety, security and environmental risks and corporate social responsibility. Its findings are reported to and reviewed by the Board.

The following table indicates the principal risks the Group faces. The list is not exhaustive or in priority order, and may change over time.

Principal risks

We confirm that we have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Key risk factor	Potential impact	Mitigation
Strategic		
Stakeholder expectations The Group may not meet stakeholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding.	Ineffective or poorly executed strategy may lead to loss of investor confidence and reduction in the Company's share price, which reduces the Group's ability to access finance and increases vulnerability to a hostile takeover.	The Group maintains a regular dialogue with the Company's stakeholder base and the general public. During 2015, this included communication with stakeholders via "Meet the Team" lunches, webcasts and investor analyst presentations. Gulf Keystone employs an investor relations team. All key developments are released to the market through the Regulatory Information Service, also available on the Group's website.
Disputes regarding title or exploration and production rights The Iraqi Government has historically disputed the validity of the PSCs granted by the KRG.	If the validity of the PSCs was successfully challenged, the Group could be required by the KRG to accept contractor entitlements that are materially less favourable than the current PSCs.	This is an industry-wide risk faced by all IOCs operating in the KRI. The Group has confidence in the legality of PSCs and believes that the PSC regime is legal under the terms of the Iraqi Constitution. However, the Group cannot control or completely mitigate disputes between the KRG and other parties, it maintains continuous dialogue with appropriate government departments and closely monitors the local situation.
Political, social and economic instability Kurdistan and Iraq as a whole have a history of political and social instability which continue to represent a risk to the Group, its operations and its personnel.	Since August 2015, there has been an unresolved stalemate between the political parties in the KRI. This may cause a material adverse impact to the Group. Further territorial advances by Daesh in Iraq would put the Group's operations at risk and may result in personnel evacuations and production suspensions. This could also increase the cost of doing business due to increased security and reduced staff retention. 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. Consequences may include limits on production or cost recovery, import and export restrictions, price controls, uncertainty over payment mechanisms for the export sales, tax increases and other retroactive tax claims, expropriation of property, cancellation of contract rights and increase in regulatory burden.	The Group engages in continuous dialogue with the KRI and the Group's rights and obligations are governed by PSCs. Legal advice has been obtained regarding the terms of PSCs. Gulf Keystone strives to be a good corporate citizen globally, and fosters reputation by strong and positive relationships with the governments and communities where we do business. The Group has a number of ongoing corporate social responsibility initiatives. Our wells and facilities are protected by external security consultants who work closely with the Group's internal security team. Our security advisers prepare detailed risk assessments, security procedures and contingency plans which can be activated when threats arise.

MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

Key risk factor	Potential impact	Mitigation
Business conduct and anti-bribery Due to the nature of the industry sector and the regions in which the Group operates, it is exposed to the risk that the Group, or parties acting on its behalf, breach the rules of the UK Bribery Act 2010.	Violation of the Act, by the Group or those acting on its behalf, may result in a criminal case against Gulf Keystone and/or our employees leading to reputational damage, possible imprisonment or fines.	A detailed bribery risk assessment has been performed by Management and reviewed by the Board. This included a review by PwC, the Group's internal auditor, in 2013. The Audit and Risk Committee has designated a senior executive as the Anti-Bribery Officer for the Group. His role is to ensure that the Group has appropriate procedures in place to mitigate the risk of bribery and that all employees, agents and other associated persons are made fully aware of the Group's policies and procedures with regard to ethical behaviour, business conduct and transparency. The Group has an anti-bribery policy and a training programme that educates all personnel about the requirements of this policy. The Group also has robust controls around payment approvals.
Export routes Risks associated with infrastructure and export market.	The Group relies on the international pipeline between Fishkhabour and Ceyhan which has been subject to periodic interruption due to damage by military operations, theft and smuggling. The construction of a pipeline connecting the Group's blocks to the export market is critical to the future development of the Group's assets as transportation by truck has limited capacity, is costly and carries inherent safety and environmental risk.	The pipeline is protected by the Kurdish and Turkish military. The Group continues to have a regular dialogue with the KRG. The use of DNO's pipeline facility at Fishkhabour since August 2015 has reduced the risks associated with trucking as driving distances were reduced from 800 km to 120 km. Trucking operations are contracted and managed by the MNR; therefore the risk to the Group is largely reputational.

Key risk factor	Potential impact	Mitigation
Operational		
Security The Group is exposed, by virtue of the location of its operations, to a number of security risks. These include the threat of terrorist attack and local protests and unrest at Gulf Keystone sites.	Terrorist attacks or local protests may lead to death or injury to personnel, disruption to operations, costs to repair facilities and reputational damage to the Group.	The history of political and social instability in the Iraq region, particularly in relation to Daesh, including the Kurdistan Region of Iraq where the majority of the Group's operations are concentrated, is noted by the Board who mitigate the political risk as far as possible. Our wells and facilities are protected by external security consultants who work closely with the Group's internal security team. Our security advisers prepare detailed risk assessments, security procedures and contingency plans which can be activated when threats arise. Local communities are considered to be essential as they provide intelligence about the nature, severity and likelihood of any threat. The Group ensures it maintains good relations with the local population and considers the impact of all decisions on them.
Field delivery risk Field delivery risk applies to all phases of the exploration and production ("E&P") cycle from seismic acquisition through to production operations.	Failure to control E&P risks will manifest itself as project delays, cost overruns, high production costs, early field decommissioning and, ultimately, lower than expected reserves.	Technical, financial and Board approvals are required for all material projects, and for all dedicated project teams. All projects are closely monitored to ensure the project delivers against plan and enable actions to be taken to maintain progress. Project finances are monitored against budget to minimise overruns. The Group's reserves estimates are audited by an independent third party.
HSSE risks The Group may be exposed to specific risks in relation to health, safety, security and environment ("HSSE") matters.	Identified risk areas include H_2S leaks at the production facilities, road traffic accidents and other accidents at production facilities and well sites. Consequences may include accidents resulting in loss of life, injury and/or significant pollution of the local environment, destruction of facilities, disruption to business activities, risk of litigation and reputational damage, with an associated financial loss.	The Group has a Health, Safety, Security and Environment and Corporate Responsibility ("HSSE and CSR") Committee, ensuring that HSSE strategy is directed from the Board level, in order to warrant accountability and commitment throughout the organisation. The Group has put in place comprehensive HSSE and operations management procedures including the emergency and incident response plans. The Group actively engages with local communities and governments using specialist consultants.
Gas flaring Under the terms of the Kurdistan PSCs, prior authorisation is required for the prolonged flaring of natural gas.	Expiration of flaring permit may result in the suspension of production.	The Group maintains active dialogue with the regional authorities to ensure that it complies with the existing regulations. Harmful gas emissions are closely monitored by the HSSE department with any variances outside normal levels investigated and reported to the executive management. The Group is constructing a clean flare stack to improve the combustion of flared gas.

MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

Key risk factor	Potential impact	Mitigation
Financial risk		
Liquidity and solvency The Group may lack sufficient funds for operational requirements and debt financial obligations. The Group may breach its debt covenants or may not be able to meet its liabilities when they fall due.	The Directors believe that a material uncertainty exists around the Group's ability to continue as a going concern. As a result of a shortfall in working capital, the Group may not be able to continue to fund operations. Failure to meet the Group's liabilities as they fall due or a breach of bond covenants could lead to insolvency.	The Group continues its efforts to maintain regular payments from the KRG and establish a mechanism for the payment of arrears. Please refer to the going concern section on page 85.
Export payment mechanism There is uncertainty relating to the payment mechanism for export oil in Kurdistan.	There can be no assurance that PSC operators will be paid their entire historical or future entitlement. Further delays in receipt of export payments may result in delays to the Group's development plans over the long term.	The Group continues to monitor the political situation and maintain good dialogue and relations with the relevant national and regional authorities. The Group maintains accurate records of liftings and applies robust assumptions when estimating revenue arrears. The Group's position is regularly communicated to the MNR. The MNR announced in August 2015 that payments to international oil companies would be made regularly. The MNR later announced in February 2016 that payments would be made in line with PSC entitlements. A regular payment cycle was established from September 2015 for oil exports and, to date, the Group has received its fifth consecutive monthly payment which included a top up payment towards the recovery of arrears.
Commodity prices A material decline in oil prices globally may adversely affect the Group's business	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. Low commodity prices may also lead to a reduction in the Group's commercial reserves and an impairment of its assets.	The Group monitors and where possible reduces costs while maintaining safe operations. The Group's cash position is constantly monitored.

Longer-term viability statement

The Group's strategy is developed, and capital investment and other commercial decisions are based, on an assessment of long-term cash flows arising from the multi-decade life assets and governing PSC. In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed Gulf Keystone Petroleum's viability over the three-year period to December 2018 in line with the Group's detailed annual budget and strategic plan.

In making their assessment, the Directors took account of their conclusion that there is a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. Further details regarding this material uncertainty, which arises due to the need to restructure the Group's debt facilities and/or raise additional source of financing in the next twelve months, can be found on page 85. The Directors also considered the Group's current financial and operational position, its contracted capital expenditure, the terms of its debt funding arrangements, obligations under the PSC and its future plans. They also assessed the potential financial and operational impacts, in severe but plausible scenarios, of the principal risks and uncertainties set out on pages 40 to 44 and the likely degree of effectiveness of current and available mitigating actions.

The most relevant potential risks were considered to be:

- the level of international crude prices;
- the uncertainty relating to the payment mechanism for export oil in Kurdistan; and
- the Group may lack sufficient funds for operational requirements and debt coupon payments. The Group may breach its debt covenants or may not be able to meet its liabilities when they fall due including Loan Notes and convertible bonds maturing in April 2017 and October 2017 respectively.

Based on their assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to December 2018.

In making this statement, the Directors have made the following key assumptions:

- regular monthly receipts from the Kurdistan Regional Government are in line with the 16 March Agreement;
- the Group is able to restructure its current debt facilities;
- if required, the Group is able to secure additional funding; and
- the Shaikan operations are not shut in for a prolonged period.

FINANCIAL REVIEW

Sami Zouari
Chief Financial Officer

The Group has continued to progress the application of the terms of the Shaikan PSC... The reduction of 10% in the capacity building bonus is an important change that will bring the Shaikan PSC closer in line with the PSCs of our peers in Kurdistan and will improve the economic value of the Shaikan project to the Group.

RESULTS FOR THE YEAR

Operating results

2015 has been a period of significant progress in many areas for Gulf Keystone. The Group has maintained strong production rates despite a difficult operating environment. The Group also continued its efforts to achieve a regular payment cycle for its oil sales. Further to the KRG's statement in August 2015 regarding expected regular payments from September 2015 for oil exports to the international oil companies ("IOCs"), Gulf Keystone received five consecutive monthly payments for Shaikan crude oil export sales, with the payment for January liftings being included in the amount received in March 2016. In February 2016, the Ministry of Natural Resources ("MNR") announced its intention to make payments to IOCs in accordance with the terms of the Production Sharing Contract ("PSC") and to address the arrears. The Group has since engaged in constructive discussions with the MNR on the amounts due and payment mechanisms and has continued to progress the application of the terms of the Shaikan PSC by signing, on 16 March 2016, an Agreement with the MNR addressing the Group's position regarding the MNR's proposed exercise of the 20% Government Participation Option and the settlement of the associated past costs together with the reduction of the capacity building charge from 40% to 30% of the Group's profit oil, all to be subject of an amendment agreement to the Shaikan PSC. Further details are provided in the financial strategy and outlook for 2016 section of this review.

The Group had another operationally successful year. Gross production for the year totalled 11.1 million barrels of oil (2014: 6.5 million barrels of oil). Gross daily production rates averaged 30,500 barrels of oil per day, and we achieved record rates of over 45,000 bopd at times during the year. Gross liftings were 11.1 million barrels of oil (2014: 6.5 million barrels of oil), of which 8.6 million barrels (2014: 6.0 million barrels) were lifted for the export market and 2.5 million barrels (2014: 0.5 million barrels) delivered to a domestic offtaker.

During 2015, the Group delivered oil via three different marketing arrangements. Between January and June 2015, the Group sold oil via trucking to the port of Dortyol in Turkey. In early 2015, this marketing arrangement attracted a high transportation cost and as a result, in February 2015, the Group suspended production and trucking from the Shaikan block pending renegotiation of the trucking costs and Shaikan quality differential. Production and exports under this arrangement were resumed on 18 March 2015 following the receipt of a $26 million gross ($20.8 million net to Gulf Keystone) prepayment from the KRG. The deliveries under this arrangement continued until the end of June 2015. In mid-May 2015, the Group entered into a contract with a domestic offtaker under which Shaikan crude oil was delivered by truck to the Turkish coast generating revenue of $21.7 million gross ($17.4 million net to Gulf Keystone). This fixed term contract expired in September 2015. In July 2015, in addition to the sales to a domestic offtaker, the Group commenced trucking Shaikan crude oil a distance of 120 km to Fishkhabour on the Turkish border for injection into the export pipeline to Ceyhan in Turkey. This marketing route continues and is expected to prevail in the future as it generates better returns to the Group, attracts regular payments from the KRG and is consistent with the MNR's stated export strategy.

Revenue recognised for the period was $86.2 million (2014: $38.6 million), of which $68.8 million arose from export sales (2014: $28.2 million) and $17.4 million from sales to a domestic offtaker (2014: $10.4 million). As there continued to be uncertainty regarding the payment mechanism for sales to the export market in 2015, the Group considered that revenue could only be measured reliably, and therefore recognised, when the cash receipt was assured. This represents an amendment to the approach adopted in previous years, when revenue for export deliveries was only recorded at the point of cash receipt, and reflects a partial improvement in the pattern and reliability of receipts that has occurred during the year. Entitlement sales to a domestic offtaker are recognised based on cash receipts, being 50% of the gross sales proceeds. Both export and domestic sales for the period have been recognised net of royalty, with the KRG deemed to have taken the royalty "in-kind". The revenue recognition policy for export sales will be re-evaluated going forward following the new arrangements with the KRG. Further details on revenue, and the related judgements and assumptions, can be found in the summary of significant accounting policies, critical accounting estimates and judgements and note 2 to the financial statements.

The Group's production is sold under its oil export arrangements with the KRG at a field-specific quality discount to the price of Brent crude oil and after transportation costs. Sales of production to a domestic offtaker were made under a separate contract and attracted a further discounted price. 2015 saw continuation of the decline in Brent prices. The realised price for the sales to a domestic offtaker was $18/bbl. The Group has been involved in discussions with the MNR to review the Shaikan quality discount and transportation costs on the Group's export sales to date. Based on these discussions, the realised price for 2015 export sales is estimated at $22/bbl. The realised prices on export sales remain subject to audit and the establishment of a retroactive quality bank for Kurdistan crude exports delivered through the international pipeline to Turkey.

In August 2015, the KRG acknowledged the impact that the lack of payment for crude oil production was having on oil companies in the region and announced that from September 2015 onwards, it would allocate, on a monthly basis, a portion of the revenue from direct crude oil sales to the producing oil companies, to cover their ongoing expenses. Furthermore, in early 2016, the KRG announced its intention to apply the PSC terms and make additional revenue available to enable oil companies to begin to catch up on the past receivables due under their PSCs. Prior to 2016, cash payments received for exports have not followed the strict terms of the PSC. As part of its dialogue with the MNR, the Group made a significant effort to reconcile the outstanding revenue receivables due from the MNR under the terms of the Shaikan

FINANCIAL REVIEW continued

PSC as well as payables due to the MNR in relation to the Shaikan block. Following this review, the Group has estimated unrecognised revenue arrears of $93 million net to Gulf Keystone as at 31 December 2015 on a diluted basis (based on Government back-in which will be subject of an amendment agreement to the Shaikan PSC). The 31 December 2015 unrecognised revenue arrears estimate is lower than the 30 June 2015 estimate of $117 million due to a higher than anticipated Shaikan crude quality discount and the deduction of the MNR share of profit oil due for past revenues resulting from the MNR's back-in. The Group also estimates its payables to the MNR in respect of the Shaikan block at $49 million, subject to reconciliation. This amount includes Shaikan capacity building payments, security invoices, PSC charges, Shaikan production bonuses and MNR royalty and profit oil due on pre-2015 sales to domestic offtakers and has remained unpaid due to the lack of revenue receipts from the MNR. In addition, the Group has a contingent liability of $27 million (net to GKP) in relation to the sale of test production in the period prior to the approval of the Shaikan Field Development Plan, as described in note 26 to the financial statements. The Group intends to offset the payables against the revenue arrears, as permitted by the Shaikan PSC. As per the MNR announcement on 1 Feb 2016, the settlement of the net revenue arrears is expected to be received in increments on a monthly basis alongside future monthly entitlement revenues and will equate to 5% of the gross netback revenues for each month.

Operating costs, excluding royalty, inventory movements, and depreciation, depletion and amortisation costs were $5 per barrel on gross field basis (2014: $7 per barrel). Operating costs per barrel were higher than Group guidance for 2015 of $5 per barrel in the first half of the year due to the facility shut-in in February and March. We continued to improve efficiency and reduce costs throughout the year and achieved lower than budgeted costs in the second half, achieving our overall target on average for the year. Royalty costs were $nil in 2015 (2014: $1.7 million) as all sales were made net of royalties in 2015. In 2014, the sales to a domestic offtaker were made gross.

The unit of production method, based on entitlement production, reserves and costs for the Shaikan development, has been used to calculate the depreciation, depletion and amortisation ("DD&A") charge for the year. Production associated with unrecognised export sales revenue has been included in the DD&A calculation. The depreciation charge for 2015 was $74.1 million (2014: $38.4 million), and is recorded in cost of sales; see notes 3 and 11 to the financial statements for further details.

The gross loss for the year was $50.7 million (2014: $43.3 million). The increased loss was mainly due to higher production rates as operating costs and DD&A are recognised on a production basis while export revenue is recognised only when the cash receipt is assured.

Non-operating results

In January 2016, the Group announced its intention to relinquish the Akri-Bijeel block, effective 31 December 2015 and has signed a PSC Relinquishment Agreement to that effect. An impairment of $3.6 million (2014: $144.1 million) has been recognised during the year to write off the asset held for sale balance and the associated liabilities as at 31 December 2014 together with the additions to the decommissioning asset during 2015. The Contractor parties (MOL and the Group) have agreed that, following the execution of the PSC Relinquishment Agreement, they will negotiate a JOA Termination Agreement which will allow for the final settlement of any costs between the parties. It is expected that this agreement will be concluded by 1 July 2016. Current liabilities at 31 December 2015 include a decommissioning provision of $3.7 million for Akri-Bijeel. Further details of the asset, including details of a contingent liability of $39.9 million for 2014 and 2015 billed expenditure, are given in note 12 to the financial statements.

General and administrative expenses for 2015 were $31.0 million (2014: $39.0 million), a decrease of $8.0 million. The reduction in costs was due to lower listing and advisers fees as 2014 included the cost of raising additional debt finance, and costs related to the move from an AIM to a Main Market listing. 2014 also included costs of a community relations initiative whereby Gulf Keystone pledged $1 for each barrel of oil produced in the year from September 2013 to assist the KRG in the humanitarian relief effort. Costs associated with the share bonus awards and the options awarded under the Group Share Options Plan and Long Term Incentive Plan decreased from $4.0 million in 2014 to $2.5 million in 2015, reflecting the fact that a number of options became fully vested in 2014 and early 2015. Of these costs, $0.2 million has been capitalised in intangible assets and property plant and equipment (2014: $0.9 million), as these employment costs are directly attributable to technical staff working on capital oil and gas projects.

Other gains of $3.1 million (2014: $0.1 million) comprise foreign exchange gains, primarily realised gains generated on the translation of Sterling funds to US Dollar following the share capital issue, and unrealised gains on the re-translation of Sterling denominated monetary assets and liabilities.

Finance costs of $52.1 million (2014: $19.8 million) include interest payable in respect of the Convertible Bonds of $27.5 million (2014: $26.9 million); interest payable on the 2014 Bonds of $42.6 million (2014: $29.1 million) and the accretion charge on the decommissioning provision of $0.8 million (2014: $0.5 million). Interest expense of $18.8 million (2014: $36.7 million) was capitalised within tangible and intangible assets.

The tax charge for the year was $0.7 million (2014: $2.1 million) resulting in a loss after tax of $135.0 million (2014: $248.2 million). The tax charge comprises corporate income tax and deferred tax charge, see note 8. All corporate income tax arises on UK activities. The Group has obtained a tax exemption in Bermuda until 2035. No tax charge has been recognised for operations in Kurdistan as, under the terms of the PSC, the KRG will settle Iraq tax obligations out of its share of profit oil.

Review of impairment

In line with the Group's accounting policy on impairment, management carried out an impairment review of the Group's oil and gas assets as at 31 December 2015 in view of the reduction in the short- to medium-term oil price assumption and the Group's decision to relinquish the Ber Bahr exploration block. The future cash flows were estimated using an oil price assumption equal to the dated Brent forward curve in 2016 and 2017, $65/bbl in 2018 to 2020 and $80/bbl in "real" terms thereafter and were discounted using a pre-tax discount rate of 15%. The outcome of the review was that under the Group's current modified full cost accounting policy under which exploration assets are assessed for impairment based on one Kurdistan cost pool, no impairment was required for any of the Group's oil and gas assets.

In accordance with our accounting policies as described in the statement of significant accounting policies, any unsuccessful exploration and evaluation costs are retained within intangible non-current assets and are depreciated by reference to the commercial reserves of the wider geographic cost pool. As a result, the exploration and evaluation costs of $79 million relating to the Ber Bahr block will be depleted prospectively on a unit-of-production basis based on the wider Kurdistan pool of commercial reserves and production.

Cash flow

Net cash inflow from oil and gas operations after operational and administrative expenses was $20.1 million (2014: outflow $0.8 million). The loss from operations of $85.3 million (2014: $226.4 million) was adjusted for non-cash charges of $80.9 million (2014: $190.2 million), that includes share-based payments, impairment charges and DD&A costs. See note 21 to the financial statements for further details. Working capital adjustments result in a $24.5 million cash inflow (2014: $35.4 million) increasing operational cash inflow relative to accounting loss from operations.

Bond coupon payments of $52.9 million were made during 2015 (2014: $36.6 million) and are included within cash used in operating activities.

Tax refunded in 2015 was $0.6 million (2014: $0.2 million tax paid) and interest received was $0.04 million (2014: $0.1 million). Net cash outflow from operating activities after tax and interest was $32.2 million (2014: $37.4 million).

Cash used in investing activities totalled $52.1 million (2014: $197.4 million), which comprises $5.6 million spent on intangible assets (2014: $86.8 million) and $46.5 million (2014: $110.6 million) spent on property, plant and equipment. Expenditure on the Shaikan asset included costs for drilling the SH-11 development well, automation of three additional flowlines, the Shaikan FDP update, the design of the central processing facility, and workover and de-bottlenecking activity. The majority of the cash spent on intangible assets relates to the Group's exploration activities on the Sheikh Adi and Ber Bahr block. Overall, cash spend on intangible assets and property, plant and equipment was lower than 2014 (2015: $52.1 million; 2014: $197.4 million) reflecting the Group's strategic decision to limit its spend on capital activities until a regular and predictable payment cycle is established and outstanding entitlements from the KRG are addressed.

Cash generated by financing activities amounted to $39.4 million (2014: $240.1 million). In March 2015, the Group raised gross proceeds of $40.7 million through a placing of 85,900,000 new common shares of $ 0.01 each in the Group, at a placing price of 32 pence per share. Issue costs were $1.3 million. The placing became unconditional in April 2015 following the successful guaranteed bonds consent solicitation to remove the book equity ratio covenant from the Trust Deed constituting the guaranteed bonds and from the conditions contained therein.
In April 2014, the Group raised funds from the placing of $250 million 13.0% Guaranteed Notes.

FINANCIAL REVIEW continued

We recognise that, given the Group's debt burden, the current oil price environment, the geopolitical challenges in Iraq and, as a result, the low likelihood of an asset transaction in the near future, obtaining alternative funding and restructuring the Group's balance sheet is essential to the Group's ability to continue as a going concern.

The net overall decrease in cash and cash equivalents during the period was $45.0 million (2014: $5.2 million increase). Foreign exchange gains on cash balances were $0.8 million (2014: $0.6 million). Cash and cash equivalents totalled $43.6 million at 31 December 2015 (31 December 2014: $87.8 million).

Corporate activities

In March 2015, the Group raised gross proceeds of US$40,693,235 through a placing of 85,900,000 new common shares of $0.01 each in the Group at a placing price of 32 pence per share. The placing became unconditional on 8 April 2015 following the successful guaranteed bonds consent solicitation (see note 17). The placing shares represent 8.78% of the enlarged issued share capital of the Group. The placing shares were fully paid and rank pari passu in all respects with the existing common shares including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

Following the share placing in March 2015 and the successful guaranteed bonds consent solicitation to remove the book equity ratio covenant from the Trust Deed constituting the guaranteed bonds and from the conditions contained therein, the Group agreed to the following terms: (i) retaining the Group's debt service reserve account at one year of scheduled interest payments for the Guaranteed Notes (instead of stepping down to six months of interest payments in October 2015); (ii) granting a security interest in favour of the holders of the Guaranteed Notes and the convertible bonds over the shares of Gulf Keystone Petroleum International Limited, which holds all of the Group's Kurdistan assets; (iii) reducing certain of the Group's grace periods under the trust deed for certain events of default and including additional notifications to the trustee; and (iv) beginning a dialogue with a committee of holders of the guaranteed bonds if and when the Group's cash balance drops below $50 million (including amounts in the debt service reserve account) for a period of five consecutive business days.

Financial strategy and outlook for 2016

Given the current oil price environment and the geopolitical challenges affecting Gulf Keystone and the Kurdistan Region, our immediate focus is on ensuring safe and reliable operations and achieving the production guidance of 31,000 to 35,000 bopd for 2016, while postponing any additional investment until the Group has secured more stable funding arrangements. The Group's budgeted Shaikan capital expenditure for 2016 is $6 million. Subject to available finance, regular revenue payments and receipt of all required approvals, the Group has identified an interim project to maintain Shaikan production at 40,000 bopd or potentially increase up to 55,000 bopd at a cost of between $71 million and $88 million (including 30% contingency).

Building on our operational success in 2015, we have carried out an extensive cost review and further reduced our guidance for 2016 operating costs from $5/bbl to $4.5/bbl. The management team will continue to seek opportunities to improve efficiency and reduce costs.

The KRG's 1 February 2016 announcement on reverting to the PSC terms for revenue payments and addressing the arrears will generate some stability and additional finance for the Group. The Group used this announcement as an opportunity to progress the dialogue with the MNR regarding the uncertainties around the implementation of the Shaikan PSC. In line with these discussions the Group assumed a $14.7 per barrel quality discount and $5.7 per barrel transportation cost for January 2016 oil sales. This remains subject to audit and the establishment of a retroactive quality bank for Kurdistan crude exports delivered through the international pipeline to Turkey.

Agreement with the MNR

The Group has continued to progress the application of the terms of the Shaikan PSC by signing, on 16 March 2016, an Agreement with the MNR addressing the Group's position regarding the MNR's proposed exercise of the 20% Government Participation Option and the settlement of the associated past costs together with the reduction of the capacity building charge from 40% to 30% of the Group's profit, all to be the subject of an amendment agreement to the Shaikan PSC.

The reduction of 10% in the capacity building bonus is an important change that will bring the Shaikan PSC closer in line with the PSCs of our peers in Kurdistan and will improve the economic value of the Shaikan project to the Group.

Under the agreement, the Group and the MNR agree, subject to an amendment agreement to the Shaikan PSC, to treat the Shaikan Government Participation Option of 20% as if validly exercised with effect from 1 August 2012 in favour of the MNR. As at 31 December 2015, the Group estimates unrecognised receivables from the MNR of $85 million net to GKP (30 June 2015: $76 million) for past costs associated with this option. To address the past costs, the MNR committed to continue to include top up amounts in the monthly payments of $15 million starting from the date of the Agreement until the full amount of the past costs is repaid in full. The receipt of these amounts is a significant element in unlocking further investment and realising the potential of our asset.

The Group previously disclosed a potential cash inflow of $90 million as at 30 June 2015 from the exercise of the Shaikan Third Party Interest ("TPI") Option. As part of the Agreement, the Group and the MNR have confirmed their intention to implement the First Amendment to Shaikan PSC dated 1 August 2010, in particular the provision regarding the assignment of the TPI, whereby the 15% TPI interest is split equally between the government and contractor (GKP and MOL on a pro-rata basis) with the government's 7.5% interest being fully carried by the contractor. As a result of this arrangement, which will be the subject of an amendment agreement to the Shaikan PSC, the Group will increase its fully diluted Shaikan interest from 54.4% to 58% for working interest and to 64% for paying interest, however, the cash inflow from the TPI option will no longer be receivable.

As part of the Group's strategy to focus on its core assets, after careful consideration, management decided to relinquish the Sheikh Adi block and terminate the Sheikh Adi PSC. Further details are provided in the Chief Executive Officer's statement and Operational review. To address the outstanding contractual obligation of $20 million related to the PSC bonuses due on the declaration of commerciality, the Group negotiated a 50% reduction to the amount with the remaining $10 million to be offset against the past costs associated with the Shaikan Government Participation Option. No further liabilities in relation to the Sheikh Adi relinquishment are payable by the Group to the MNR.

Capital structure

Looking forward, the Company faces material uncertainties relating to its ability to meet the significant coupon payments in April and October 2016, as well as the debt repayment of $250 million in April 2017 and $325 million in October 2017, as discussed further in the going concern section of the summary of significant accounting policies. Continuing the wide-ranging Strategic Review which began in February 2015, we are actively considering our options to strengthen our balance sheet and secure new funding, including balance sheet restructuring, capital raise, and acceleration of MNR arrears payments. Separately, and in accordance with our commitment under the terms of the Guaranteed Notes, from 23 October 2015, the Company entered and is continuing discussions with the representatives for the noteholders.

We recognise that, given the Group's debt burden, the current oil price environment, the geopolitical challenges in Iraq and, as a result, the low likelihood of an asset transaction in the near future, obtaining alternative funding and restructuring the Group's balance sheet is essential to the Group's ability to continue as a going concern.

Sami Zouari

Chief Financial Officer

16 March 2016

BOARD OF DIRECTORS

Keith Lough | Andrew Simon | Jón Ferrier | Sami Zouari | Philip Dimmock | Cuth McDowell

Andrew Simon

Non-Executive Chairman

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

He has been a Non-Executive Director at Travis Perkins plc. since 2006 and is also a Non-Executive Director at Management Consulting Group plc, Exova Group plc and Icon Infrastructure Management Limited (Guernsey).

Andrew was previously Deputy Chairman of Dalkia plc, Chairman and/or Chief Executive of Evode Group plc and has held non-executive directorships with Finning International Inc. (Canada), Management Consulting Group plc, SGL Carbon SE (Germany), British Car Auctions, Severn Trent Plc, Ibstock PLC, Laporte Plc, Associated British Ports Holdings PLC, Brake Bros Holdings Ltd and Travis Perkins where he is Chairman of the Remuneration and Health and Safety Committees.

Jón Ferrier

Chief Executive Officer

Jón Ferrier joined Gulf Keystone in June 2015 as Chief Executive Officer following three decades spent in exploration, commercial, strategic and leadership positions in the oil and gas and mining industries. A geologist by training, he was most recently Senior Vice President Business Development, Strategy and Commercial at Maersk Oil in Copenhagen where he served on the executive team.

Jón has considerable international experience, including in the Kurdistan Region of Iraq and has successfully led the delivery of complex projects on time and within budget in the Middle East. His most recent roles have had a strong external orientation and have seen him working effectively with all stakeholders, including host governments.

Prior to Maersk Oil, Jón's oil and gas experience was gained with ConocoPhillips, Paladin Resources , Petro-Canada/Suncor and the Anglo American Corporation in a number of regions.

Sami Zouari

Chief Financial Officer

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

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

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

Philip Dimmock

Non-Executive Director

Philip Dimmock was appointed as a Non-Executive Director of Gulf Keystone Petroleum in September 2013. He has over 40 years' experience in upstream oil and gas, both in the UK and internationally, and is currently a consultant to various oil and gas companies, including Equator Exploration Ltd where he was Chief Operating Officer.

Philip spent a significant part of his career at BP in a wide variety of senior positions including manager of the Forties oil field, and at Ranger Oil where he also held the post of Vice President of the international division, and served as Chairman. He has also been an Executive Officer of the UK Offshore Operators Association. Philip was a Non-Executive Director of Nautical Petroleum plc until its acquisition by Cairn Energy in 2012. Between 2005 and 2012 he served as Chairman of the Remuneration, Nomination and Strategy Committees and was a member of the Audit Committee.

Cuth McDowell

Non-Executive Director

Cuth McDowell was appointed as a Non-Executive Director of Gulf Keystone Petroleum Limited in December 2015.

He began his career in 1979 at BP where he spent eight years in a variety of economic and commercial roles. In 1987 he moved to Clyde Petroleum as Senior Economist, before being promoted to Group Commercial Manager ahead of the eventual sale of the business to Gulf Canada. In 1997 Cuth joined Paladin Resources and in his commercial and finance director roles, played a key part in building Paladin into an E&P company which was ultimately acquired by Talisman Energy in 2006. He currently sits on the Board of IGas, the UK onshore oil and gas company. Until earlier in 2015 Cuth was a Non-Executive Director of Pitkin Petroleum, where he had also served as Finance Director.

Keith Lough

Non-Executive Director

Keith Lough was appointed as a Non-Executive Director of Gulf Keystone Petroleum Limited in December 2015.

He is a chartered certified accountant. In 1988 Keith joined LASMO PLC where over the course of the next eleven years he held a range of senior financial and operational roles, including MD of the North Sea, and then Europe and North Africa before LASMO was sold to ENI. Keith was CFO of PetroKazakhstan for two years before being headhunted for the CFO role of British Energy, the nuclear power company. At British Energy he oversaw the complex restructuring of the business and the interaction with the UK Government and its creditors. In 2004 Keith founded coal bed methane focused Composite Energy Ltd, which was acquired by Dart in 2011. The team from Composite spent a year at Hutton Energy, during which time Keith was CEO. Keith is currently a Non-Executive Director of Rockhopper Exploration PLC, Cairn Energy PLC, Papua Mining PLC and the UK Gas and Electricity Markets Authority (Ofgem).

SENIOR MANAGEMENT

Tony Peart

John Stafford

Nadhim Zahawi

Umur Eminkahyagil

Tony Peart

Legal and Commercial Director

Tony Peart joined the Company in 2008 and has 35 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.

From 2000 to 2005 he was Senior Vice President, General Counsel and Corporate Secretary of Petrokazakhstan Inc.

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.

John Stafford

Vice President Operations

John Stafford joined the Company in early 2009 as Manager, Geology & Geophysics and in May 2014 was appointed Vice President Operations.

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

From 1982 John gained experience with several companies including ECL, Schlumberger and PGS running projects in integrated field management and all aspect of reserves certification and reporting including Competent Person's Reports. He gained experience of fractured reservoir development in the Zagros trend prior to acting as a Risk Board adviser to PGS.

Nadhim Zahawi

Chief Strategy Officer

Nadhim Zahawi joined Gulf Keystone as Chief Strategy Officer in August 2015.

Nadhim read Chemical Engineering at University College London before going on to have a successful career in business. His early career includes the roles European Marketing Director for Smith & Brooks Ltd, and co-founder and former CEO of YouGov, the international market research firm. Nadhim has held a number of advisory roles in the oil and gas sector. He has been a Conservative Member of Parliament for Stratford-on-Avon since 2010.

Nadhim is of Kurdish origin, and moved from Iraq to the UK in his childhood. He has maintained contact with the Kurdistan Region of Iraq throughout his extensive career.

Umur Eminkahyagil

Country Manager – Kurdistan Region of Iraq

Umur Eminkahyagil was appointed as Country Manager for Kurdistan in September 2012 from his previous position as Gulf Keystone's Development and Production Manager.

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

He spent the first eleven years of his career holding various reservoir engineering positions with Shell. 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 before joining Gulf Keystone in March 2012.

CORPORATE GOVERNANCE REPORT

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

Andrew Simon
Non-Executive Chairman

Chairman's introduction

Dear Shareholder

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

As a Bermuda incorporated company with a standard listing on the UK Stock Exchange, the Company is not subject to the UK Corporate Governance Code (the "Code"), as amended in September 2014. However, the Board recognises the importance of good governance and has considered the principles and provisions set out in the Code.

In December 2015, following the changes to the Company's Byelaws to remove the restrictions on non-UK domiciled directors, the Board was strengthened with the appointment of CEO Jón Ferrier as an Executive Director, and the appointment of two new independent Non-Executive Directors, Keith Lough and Cuth McDowell.

Following these appointments, the Board has also taken the opportunity to review and enhance the terms of reference and the composition of all of the Board Committees.

Another important addition to corporate governance is the creation of a Finance Committee whose role is to steer the strategy of the Group with respect to its liquidity.

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

Statement of Compliance with the UK Corporate Governance Code

Gulf Keystone is a Bermuda incorporated Company with a standard listing on the London Stock Exchange and therefore is not required to comply with the UK Corporate Governance Code. However, in the interest of good governance, the Board has resolved to voluntarily adopt these provisions for the Group.

The version of the Corporate Governance Code applicable to the current reporting period is the September 2014 UK Corporate Governance Code (the "Code"). As at the date of this report, the Board considers that it and the Company have complied with the provisions of the Code, except for the following matters:

- A.4.1 – requirement for a Senior Independent Director to be appointed – not met for part of the year;
- C.3.1 – requirement to have at least two Independent Non-Executive Directors comprising the Audit Committee – not met for part of the year; and
- D.2.1 – requirements for Chairman of the Board not to act as Chairman of the Remuneration Committee and to have at least two Independent Non-Executive Directors comprising the Remuneration Committee – not met for part of the year.

The Code is issued by the Financial Reporting Council and is available for review on the Financial Reporting Council's (FRC) website https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx

CORPORATE GOVERNANCE REPORT continued

BOARD			
AUDIT AND RISK COMMITTEE	Philip Dimmock (Chairman)[(1)] Keith Lough Cuth McDowell	HSSE AND CSR COMMITTEE	Philip Dimmock (Chairman) Andrew Simon Jón Ferrier John Stafford
REMUNERATION COMMITTEE	Andrew Simon (Chairman)[(2)] Philip Dimmock Keith Lough Cuth McDowell	FINANCE COMMITTEE[(3)]	Keith Lough (Chairman) Cuth McDowell Jón Ferrier Sami Zouari
NOMINATION COMMITTEE	Andrew Simon (Chairman)[(2)] Philip Dimmock Keith Lough Cuth McDowell		

(1) Cuth McDowell to assume the Chairman's role following the conclusion of the Company's next AGM.
(2) Keith Lough to assume the Chairman's role following the conclusion of the Company's next AGM.
(3) Committee established in December 2015

Matters reserved for the Board

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

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

The Board is responsible to shareholders for the proper management of the Group. In 2015, the Board has continued to focus its efforts on strategic objectives that will create shareholder value and ensuring that these are properly pursued.

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

Currently, the Board has five standing Committees: Audit and Risk Committee, Remuneration Committee, Nomination Committee, Health, Safety, Security and Environment and Corporate Social Responsibility ("HSSE and CSR") Committee and Finance Committee. Each standing Board Committee has specific written terms of reference issued by the Board and adopted by the relevant Committee, updated most recently in December 2015. All Committee Chairmen report orally on the proceedings of their Committees at the meetings of the Board. Where appropriate, the Committee Chairmen also make recommendations to the Board in accordance with their relevant terms of reference. In addition, the minutes of the Committee meetings are included in the papers distributed to all Board members in advance of Board meetings.

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

Board Committees

Audit and Risk Committee

As at 31 December 2015, the Audit and Risk Committee comprised three Non-Executive Directors. The members were: Philip Dimmock (Chairman), Keith Lough and Cuth McDowell. Keith Lough and Cuth McDowell were appointed to the Committee on 8 December 2015 following their appointment to the Board. Philip Dimmock was a member of and served as Chairman of the Committee throughout the year. VU Kumar and Joseph Stanislaw served on the Committee until their retirement as Directors in July 2015. Andrew Simon (Chairman of the Board) was a member of the Committee until 8 December 2015.

The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Board considers each Committee member's experience to be recent and relevant for the purposes of the Code. This Committee meets at least three times per year. During the year ended 31 December 2015, the Committee met four times.

It has been agreed that Cuth McDowell will take over the role of Committee Chairman with effect from the conclusion of the Company's next AGM. Philip Dimmock will remain a member of the Committee following the change of Chairman.

The terms of reference of the Audit and Risk Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com. The terms of reference are reviewed regularly and were last updated in December 2015. At that time, the name of the Committee was changed from "Audit Committee" to "Audit and Risk Committee"; to reflect the Committee's widened scope and responsibilities in relation to risk related matters. The Audit and Risk Committee report is set out in a separate section of the Corporate governance report.

Nomination Committee

As at 31 December 2015, the Nomination Committee comprised four Non-Executive Directors. The members were: Andrew Simon (Chairman), Philip Dimmock, Keith Lough and Cuth McDowell. Lord Guthrie was Chairman of and a member of the Committee until his retirement from the Board in July 2015. Simon Murray served as a member of the Committee until his retirement as a Director in March 2015. Joseph Stanislaw served on the Committee until his retirement from the Board in July 2015. John Gerstenlauer served on the Committee until his retirement as a Director in July 2015. Andrew Simon and Philip Dimmock were appointed as members of the Committee in July 2015, with Mr Simon taking on the role of Chairman. Keith Lough and Cuth McDowell were appointed as members of the Committee on 8 December 2015 following their appointment to the Board. The Nomination Committee met frequently during the year on both a formal and informal basis. The terms of reference of the Nomination Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com. The terms of reference are reviewed regularly and were last updated in December 2015. The Nomination Committee report is set out in a separate section of the Corporate governance report.

Remuneration Committee

As at 31 December 2015, the Remuneration Committee comprised four Non-Executive Directors: Andrew Simon (Chairman), Philip Dimmock, Keith Lough and Cuth McDowell. Keith Lough and Cuth McDowell were appointed to the Committee on 8 December 2015 following their appointment to the Board. Simon Murray served on the Committee until his retirement as Director in March 2015. Maria Darby-Walker and VU Kumar served on the Committee until their retirement as Directors in July 2015. Andrew Simon was appointed Chairman of the Committee in March 2015. This Committee, which meets at least twice per year, is responsible for making recommendations to the Board concerning the compensation of the Executive Directors and the Chairman, as well as the level and structure of remuneration for senior management. The Remuneration Committee met four times during the year. The Committee is also responsible for the determination of the Group's remuneration policy.

It has been agreed that Keith Lough will take over the role of Committee Chairman with effect from the conclusion of the Company's next AGM. Andrew Simon will resign as a member of the Committee following the change of Chairman.

The terms of reference for the Remuneration Committee are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com. The terms of reference are reviewed regularly and were last updated in December 2015.

HSSE and CSR Committee

As at 31 December 2015, the HSSE and CSR Committee comprised two Non-Executive Directors, one Executive Director and the Group's Vice-President Operations. As at 31 December 2015, the members of the Committee were: Philip Dimmock (Chairman), Andrew Simon, Jón Ferrier (CEO) and John Stafford (Vice-President Operations). Joseph Stanislaw, Lord Guthrie and Maria Darby-Walker served as members (and in the case of Joseph Stanislaw as Chairman) until their retirement from the Board in July 2015. John Gerstenlauer served on the Committee until his retirement as a Director in July 2015. Andrew Simon and Philip Dimmock were appointed as members of the Committee in July 2015 and Philip Dimmock also took over the chairmanship of the Committee at that time. John Stafford was appointed to the Committee in October 2015. Jón Ferrier was appointed to the Committee on his appointment as a Director on 8 December 2015.

The Committee meets at least four times a year. The primary function of the Committee is to oversee the development of the Group's policies and guidelines for the management of HSSE and social risks, evaluate the effectiveness of these policies and their ability to ensure compliance with applicable legal and regulatory requirements, evaluate and oversee the quality and integrity of reporting to external stakeholders concerning HSSE and CSR, and review the results of any independent audits of the Group's performance in regard to HSSE and CSR making recommendations, where appropriate, to the Board concerning the same. The Committee also reviews HSSE and CSR performance and examines specific safety issues as requested by the Board.

The terms of reference of the HSSE and CSR Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website www.gulfkeystone.com. The terms of reference are reviewed regularly and were last updated in December 2015.

Finance Committee

In December 2015, the Board established a Finance Committee. The overarching purpose of the Finance Committee is to evaluate and provide recommendations to the Board regarding:

- the determination of a sustainable capital structure for the Company; and
- the current Strategic Review of the Group's business and assets.

As at 31 December 2015, the Finance Committee comprised two Non-Executive Directors and two Executive Directors: Keith Lough (Chairman), Cuth McDowell, Jón Ferrier (CEO) and Sami Zouari (CFO). The Committee meets bi-monthly, or more often if considered necessary or expedient. The Committee met once in December 2015 and has met four times in 2016 as at the date of this report.

The role of the Chairman

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

In 2015, the Board evaluated the Chairman's external commitments. The Board is satisfied that the Chairman committed sufficient time to his duties in relation to the Company.

CORPORATE GOVERNANCE REPORT continued

The role of the Chief Executive Officer

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

The role of the Senior Independent Director

Andrew Simon held the role of Senior Independent Director until his appointment as Non-Executive Chairman of the Board in March 2015. During the period from March 2015 to 31 December 2015 and as at the date of this report, no Senior Independent Director has been appointed. Responsibility for assisting the Chairman with effective communications to Gulf Keystone's shareholders and stakeholders is shared by the three other Non-Executive Directors who are available to shareholders should they have any concerns which have not been resolved through the normal channels of the Chairman, Executive Directors or our Investor Relations Department, or if these channels are not appropriate.

Changes to the Board

In 2015, there were a number of changes to the composition of the Board.

Sami Zouari joined the Group as Chief Financial Officer on 22 January 2015 and was also appointed to the Board at that time. Jón Ferrier joined the Group as CEO on 5 June 2015 and was appointed as a Director of the Company on 8 December 2015. The Board also welcomed two new Non-Executive Directors, Cuth McDowell and Keith Lough, who were appointed to the Board on 8 December 2015. The search, selection and appointment process for the Non-Executive Directors is described in the section on the Nomination Committee.

Simon Murray retired as a Director on 31 March 2015. VU Kumar resigned as a Director on 2 July 2015. Lord Guthrie, Joseph Stanislaw and Maria Darby-Walker all retired from the Board immediately prior to the AGM on 9 July 2015 and John Gerstenlauer retired as a Director on 9 July 2015.

Board meetings and attendance

Board meetings are held on a regular basis, outside the UK, and no decision of any consequence is made other than by the Directors. A total of twelve Board meetings were held during the year ended 31 December 2015. The Directors' attendance record at the scheduled Board meetings and Board Committee meetings for the year ended 31 December 2015 is shown in the table below. For Board and Board Committee meetings, attendance is expressed as the number of meetings that each Director attended and the number that they were eligible to attend. In addition to those scheduled meetings, ad-hoc meetings and Board administration calls were arranged to deal with Board matters as appropriate.

	Full Board meetings	Audit and Risk Committee	Remuneration Committee	Nomination Committee	HSSE and CSR Committee	Finance Committee
Andrew Simon	12 (12)	4 (4)	4 (4)	[7]	1 (2)	
Philip Dimmock	11 (12)	4 (4)	4 (4)	[7]	2 (2)	1 (1)
Keith Lough[1]	1 (1)					1 (1)
Cuth McDowell[1]	1 (1)					1 (1)
Jon Ferrier[1]	1 (1)					1 (1)
Sami Zouari[2]	10 (11)					1 (1)
Simon Murray[3]	3 (4)		1 (1)	[7]		
V Uthaya Kumar[4]	6 (7)	1 (1)	0 (1)			
Lord Guthrie[5]	6 (7)			[7]	2 (2)	
Joseph Stanislaw[5]	7 (7)	1 (1)		[7]	2 (2)	
Maria Darby-Walker[5]	6 (7)		0 (1)		2 (2)	
John Gerstenlauer[6]	6 (7)			[7]	2 (2)	

(1) Appointed as a Director on 8 December 2015.
(2) Appointed as a Director on 22 January 2015.
(3) Retired as a Director on 31 March 2015.
(4) Resigned as a Director on 2 July 2015.
(5) Retired as a Director on 9 July 2015.
(6) Retired as a Director on 9 July 2015.
(7) The Nomination Committee met frequently during the year on both a formal and informal basis as appropriate.

Directors' independence

The independence of each of the Non-Executive Directors is considered upon appointment, annually and at any other time a Director's circumstances change in a way that warrants reconsideration. The Board considers whether the Non-Executive Director is independent of management and any business or other relationship that could materially interfere with the exercise of objective and independent judgement by the Director or the Director's ability to act in the best interests of the shareholders. In particular, the Board has considered each Non-Executive Director's interest in share compensation schemes, including the Company Share Options Plan and Executive Bonus Schemes, and any positions, which the Non-Executive Director holds, or held, in companies with which Gulf Keystone has commercial relationships. The Board has concluded that all of the Non-Executive Directors are independent.

Information and support

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

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

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

Re-election of Directors

The Company's Byelaws were amended on 17 July 2014 to provide for annual re-election of the Directors. Accordingly, all of the Directors stand for re-election by shareholders at every AGM.

Performance evaluation of the Board and its Committees

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

Risk management and internal control

The Board acknowledges its responsibility for establishing and monitoring the Group's systems of internal control. While the system of internal control cannot provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the Directors with reasonable assurance that material risks are identified on a timely basis and dealt with appropriately. The Board regularly reviews the effectiveness of the systems of internal control and considers the significant business risks and the control environment. The Board is satisfied that effective controls are in place and that risks have been identified and mitigated as appropriate.

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

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

The Board also believes that the ability to work in partnership with host governments is a critical ingredient in managing risk successfully.

The Directors have derived assurance over the control environment from the following internal and external controls during 2015:

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

The above procedures and controls have been in place in respect of the Group for the 2015 accounting period and up to the date of approval of the annual report and accounts. There were no significant weaknesses or material failings in the risk management and internal control system identified in any of the above reviews and reports.

Relations with investors

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

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

Gulf Keystone seeks to respond to all correspondence from investors as appropriate and endeavours to provide quarterly updates, as well as holding regular update meetings and calls. Each of the Non-Executive Directors is available to attend meetings with investors (without the Executive Directors present), if requested by such investors. The Group's investor relations activities encompass communications with both equity and debt stakeholders.

The Executive Directors regularly present at public conferences and investor meetings. Throughout 2015, the Group held a number of investor presentations which are available to view on the Group's website.

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

Annual General Meeting

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

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee is responsible for overseeing the financial reporting, internal risk management and control functions, the internal audit function, and for making recommendations in relation to auditors.

Philip Dimmock
Chairman of Audit and Risk Committee

Role

The Audit and Risk Committee is a committee of the Board of Directors which is primarily responsible for overseeing the financial reporting, internal risk management and control functions, the internal audit function, and for making recommendations to the Board in relation to the appointment of the Group's internal and external auditors. In October 2015, following a review of the Terms of Reference of all Board Committees, the Committee's Terms of Reference were updated to include a broader scope and responsibility for risk related matters and the name of the Committee was changed from the "Audit Committee" to the "Audit and Risk Committee" to reflect these changes.

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

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

Composition

The Committee currently comprises three Non-Executive Directors, all of whom are considered to be independent. The members of the Committee are: Philip Dimmock (Chairman), Keith Lough and Cuth McDowell. The Chairman of the Board is not a member of the Committee. The members of the Audit and Risk Committee during the year were as follows:

- Philip Dimmock (Chairman);
- V Uthaya Kumar (resigned from the Audit and Risk Committee 2 July 2015);
- Joseph A Stanislaw (retired from the Audit and Risk Committee 9 July 2015);
- Andrew Simon (retired from the Audit and Risk Committee 8 December 2015);
- Keith Lough (appointed to the Audit and Risk Committee 8 December 2015); and
- Cuth McDowell (appointed to the Audit and Risk Committee 8 December 2015).

Philip Dimmock will stand down as Chairman from the conclusion of the Company's next AGM but will remain as a member of the Committee. Cuth McDowell will assume the chairmanship of the Committee at that time.

Review of the Committee's activities

Four Audit and Risk Committee meetings were held in the financial year and one has been held to-date in 2016. Meetings are held at key times during the Group's reporting and audit calendar. The Committee considered the following matters during the period:

Month	Key issues considered and reviewed
March 2015	• 2014 full year results. • The report from the external auditor on the 2014 audit. • The principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditor. • The going concern assumption. • The internal audit progress and considerations of areas and timings for future reviews. • Management's internal audit action tracker. • The whistle blowing policy. • The anti-bribery policy.
August 2015	• The 2015 half year results. • The report from external auditor on outcome of interim review. • The principal accounting judgements and estimates. • The internal audit progress and considerations of areas and timings for future reviews. • Management's internal audit action tracker. • Tax domicile considerations. • The updated delegation of authority. • The draft supply chain strategy.

November 2015	• Risk profile and mitigation.
	• Internal audit plans and reports, including:
	  • key internal audit reports;
	  • follow up of internal audit recommendations;
	  • internal financial control assessments;
	  • future areas of review; and
	  • updated corporate risk register.
	• Cyber security presentation.
	• Insurance arrangements.
	• Updated contracting and procurement policies.
	• Updated expense policy.

December 2015	• External audit planning and reports for 2015 Annual report. • Risk profile and mitigation. • External audit effectiveness, independence and reappointment. • Annual review of Committee's Terms of Reference. • Annual performance evaluation of Audit and Risk Committee.
March 2016	• 2015 full year results. • Report from external auditor on outcome of 2015 audit. • Principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditor. • The going concern assumption. • The viability statement. • Updated corporate risk register.

The meetings were also attended on a selective basis by John Gerstenlauer (CEO until 4 June 2015), Jón Ferrier (CEO from 5 June 2015), Sami Zouari (CFO from 22 January 2015), Mary Hood[(1)] (Deputy CFO), Tony Peart (Legal and Commercial Director), senior finance management, Deloitte LLP (external auditor) and PwC (internal auditor).

(1) Mary Hood stepped down as Deputy Chief Financial Officer on 15 January 2016

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

The Committee has devoted significant time to reviewing those areas that are integral to the Group's core management and financial processes, as well as engaging regularly with management, the internal audit function and the external auditor. On the instruction of the Audit and Risk Committee, the internal audit function performed a number of reviews during 2015. The Committee worked closely with the management team to ensure the recommendations of the internal audit function were actioned in an efficient and timely manner.

The Committee has been proactive in requesting information in order to fulfil its role. During the course of the year, the Committee has received sufficient information on a timely basis to enable it to discharge its duties effectively.

Significant issues considered by the Audit and Risk Committee in 2015 and early 2016

The Committee assesses whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements. The Committee reviews reports prepared by management which provide details on the main financial reporting judgements. The Committee also reviews reports by the external auditor on the full year and half year results of the Group which highlight any issues identified by the auditor and provide further insights into the judgements used by management.

The significant issues considered in the year are detailed on the next page:

AUDIT AND RISK COMMITTEE REPORT continued

Significant issue	How the issue was addressed by the Committee
The appropriateness of preparing the Group financial statements for the year on a going concern basis and the preparation of the long-term viability statement.	The Committee considered reports and analysis prepared by management, taking into account the external auditor's review of these papers and their observations. The Committee concluded that management's recommendation to prepare the accounts on a going concern basis was appropriate, notwithstanding the existence of material uncertainties in this regard as further outlined on page 85. The Committee approved the disclosure included under the long-term viability statement.
The accounting policy and measurement of depreciation, depletion and amortisation ("DD&A"). The calculation of DD&A is a judgemental area which requires consideration of several uncertain matters such as depreciable oil and gas assets, commercial reserves and an estimate of future development costs necessary to access those reserves.	The Committee reviewed the Group's accounting policy for DD&A and considered the appropriateness of the key assumptions used by management in determining the DD&A charge for 2015. The Committee also reviewed the updated independent third party report on the Group's reserves and the assumptions therein. The Committee was satisfied that the charge recognised in 2015 was appropriate.
In order to recognise revenue management must be able to measure reliably the economic benefit to be received and the costs associated with the sale, and it must be probable that the Group will receive the economic benefits. The uncertainty around the timing of cash receipts and the absence of underlying sales contracts means that significant judgement was required in the calculation of revenue for the year.	The Committee considered whether recognition of revenue in relation to both domestic and export sales was appropriate. The Committee discussed the key judgements with management and reviewed the information provided, including details of communications with the KRG. The Committee also had discussions with the external auditor in respect of the Group's revenue recognition policy. Based on these reviews and discussions, the Committee agreed with management's conclusion that the Group should recognise revenue in relation to oil sent for export when the receipt of cash was assured. They were satisfied that the revenue recognition policy for oil sales for the year ended 31 December 2015 was appropriate.
An assessment of any impairment of the Group's assets is required under International Financial Reporting Standards. Such assessment involves management making a number of judgements and assumptions including identifying indicators of impairment and estimating future oil prices and discount rates.	The Committee considered reports from management ensuring the assumptions used are within an acceptable range. They considered the assumptions for long-term oil prices particularly in view of the significant decline in prices during the period. The comments of the external auditor were also taken into account. The Committee agreed with management's conclusion on impairments of the Group's assets for the period. The Committee considered the Group's modified full cost accounting policy and the resulting treatment of Ber Bahr exploration block and concluded that it continued to be appropriate.
The Group provides for decommissioning costs of wells and facilities at the end of their useful lives. The calculation of decommissioning provisions is an inherently judgemental area as it includes assumptions about future decommissioning costs, discount rates and the life of the field.	The Committee reviewed the key assumptions and the methodology underlying the decommissioning calculation and assessed its reasonableness. They were satisfied that the provision included in the 2015 financial statements was appropriate.

Internal audit

The Audit and Risk Committee has oversight responsibilities for the internal audit function. PwC has been engaged to provide an internal audit service. The Committee reviewed the internal audit annual plan and all reports arising therefrom, and assessed and approved management's actions on findings and recommendations. Follow-up reviews are undertaken by PwC to ensure that appropriate remedial plans and controls are implemented.

PwC is invited to and attends Audit and Risk Committee meetings where appropriate and is also given the opportunity to meet privately with the Committee without any members of management present. Where PwC's attendance at the Audit and Risk Committee's meeting is not practicable, they prepare a report on the progress of the reviews and findings for the Committee's consideration.

During 2015 the internal audit function carried out follow-up reviews on the Group's IT strategy and security and travel expenses. Both these reviews noted significant improvements in the Group's processes and controls and rated the controls as satisfactory. However, in the case of the IT strategy and security review a number of further improvements to controls were identified. The findings of the internal audit reviews were communicated to management who, based on the recommendations, prepared an action plan to address the issues raised. A report on the progress on each action point is presented to the Audit and Risk Committee at every Committee meeting.

In November 2015, a follow-up review on Supply Chain Management and Contractor Management commenced. The Contractor Management review is focused on management of the Group's complex contractor base and includes reviewing approval of contracts, post-award administration, spend monitoring and variations to contract orders.

A planned review of the Company's corporate governance arrangements was deferred until the restructuring of the Board of the Company had been completed and will be undertaken in 2016.

External auditor

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

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

Audit tendering

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

Effectiveness of external auditor

To assess the effectiveness of the external audit process, the auditor is asked on an annual basis to describe the steps that it has taken to ensure objectivity and independence, including where the auditor provides non-audit services. Gulf Keystone monitors the auditor's performance, behaviour and effectiveness during the exercise of its duties, which informs the Committee's decision to recommend reappointment on an annual basis. The external auditor's fulfilment of the agreed audit plan and any variations from the plan and the robustness and perceptiveness of the auditor in its assessment of the key accounting and audit judgements are also considered when making a judgement on auditor effectiveness. The Committee also held discussions with the management team regarding the efficiency of the audit process. The Committee carried out its annual performance evaluation of Deloitte LLP at its meeting in December 2015.

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

Non-audit services

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

In 2015, Deloitte LLP provided the following non-audit services to the Group:

- interim review of the half-year results;
- high level review of the tax residency status of the Group; and
- services related to deferred corporate finance transactions.

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

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

Committee evaluation

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

Philip Dimmock

Chairman of Audit and Risk Committee

16 March 2016

NOMINATION COMMITTEE REPORT

The Board has delegated responsibility for ensuring the Board has the right balance of experience and skills to support the Group's strategy to the Nomination Committee.

Andrew Simon
Chairman of Nomination Committee

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

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

Composition

The Nomination Committee currently comprises the four Independent Non-Executive Directors: Andrew Simon (Chairman), Philip Dimmock, Keith Lough and Cuth McDowell. The members of the Nomination Committee during the year were as follows:

- Lord Guthrie (Chairman) (retired 9 July 2015);
- John Gerstenlauer (retired 9 July 2015);
- Joseph A Stanislaw (retired 9 July 2015);
- Simon Murray (retired 31 March 2015);
- Philip Dimmock (appointed 9 July 2015);
- Andrew Simon (appointed to the Committee and to the role of Chairman 9 July 2015);
- Keith Lough (appointed 8 December 2015); and
- Cuth McDowell (appointed 8 December 2015).

Diversity

The Committee recognises the benefits of having diversity across all areas of the Group. The Committee believes that diversity is a driver in business success, brings a broader, more rounded perspective to decision making, and makes the Board more effective. When considering the optimum make-up of the Board, the benefits of diversity of the Board are appropriately reviewed and balanced where possible, including in terms of differences in skills, industry experience, business model experiences, gender, race, disability, age, nationality, background and other contributions that individuals may bring. The Committee continues to focus on encouraging diversity of business skills and experience across the Board.

Process used for Board appointments

In appointing Non-Executive Directors, the Board's practice is to use external recruitment consultants where appropriate. In April 2015, Spencer Stuart was retained to assist in the recruitment of new Non-Executive Directors to strengthen and rebuild the Board and with succession planning for the role of Chairman. Other than providing recruitment consultancy services, Spencer Stuart has no other connection with the Group.

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

Review of the Committee's activities

The Nomination Committee meets at least twice per year. During 2015, the Committee met frequently to deal with matters related to the reconstruction of the Board.

The key matters considered by the Committee during the year ended 31 December 2015 were: identifying the successor for the outgoing CEO; strengthening the executive team; recruitment of new Non-Executive Directors to rebuild the Board; and succession planning for the role of Chairman.

As disclosed in last year's report, Sami Zouari was appointed as Chief Financial Officer and as a Director of the Company on 22 January 2015. Sami Zouari has a strong financial and investment banking background and has extensive knowledge of the Middle East region with a focus on the oil and gas industry. Prior to his career in investment banking, Mr Zouari worked for Total EP in a number of roles, starting as an Economist for the Middle East Division and finally as Commercial Manager for Total EP Libya in Tripoli. Further information on Sami Zouari is detailed in the section on the Board of Directors on page 53.

During the year, the Committee led the process for the recruitment of the new CEO taking into account the considerable challenges faced by the business and the skills, knowledge and experience required to deliver against these. Jón Ferrier was appointed as CEO on 5 June 2015 (and was appointed to the Board on 8 December 2015). Jón Ferrier has spent three decades in exploration, commercial, strategic and leadership positions in the oil and gas and mining industries and has extensive international operational expertise and a strong strategic track record. Further information on Jón Ferrier is detailed in the section on the Board of Directors on page 52.

In August 2015 Nadhim Zahawi was appointed as Chief Strategy Officer with responsibility for evaluating strategic options for the Group. Mr Zahawi was born in Kurdistan and has extensive knowledge of the Kurdistan region. Further information on Nadhim Zahawi is detailed in the section on Senior Management on page 54.

During the year, the Committee also considered the issue of succession planning for the role of Chairman and led the process for the recruitment of new Non-Executive Directors, taking due account of the strategic objectives and the challenges faced by the Group and the balance of skills, knowledge, and experience required for the Board to deliver against these.

Following an extensive recruitment process, supported by Spencer Stuart, Keith Lough and Cuth McDowell were appointed to the Board as Non-Executive Directors on 8 December 2015. Both Keith Lough and Cuth McDowell have a deep knowledge of the strategic, operational and financial dimensions of the oil and gas sector. Further information on Keith Lough and Cuth McDowell is detailed in the section on the Board of Directors on page 53.

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

Andrew Simon

Chairman of Nomination Committee

16 March 2016

REMUNERATION COMMITTEE REPORT

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

Andrew Simon
Chairman of Renumeration Committee

Introduction

This report is on the activities of the Remuneration Committee for the period to 31 December 2015. It sets out the remuneration policy and remuneration details for the Executive and Non-Executive Directors of the Company. The Company is incorporated in Bermuda and therefore is exempt from the required disclosures under Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations") but the Directors have decided to provide such disclosures insofar as they are still compliant with the Company's Byelaws. The report is split into three main areas:

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

Remuneration Committee Chairman's statement

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 December 2015.

Following the review undertaken by Deloitte's remuneration practice in the last quarter of 2013, a new remuneration policy was developed (the "Policy"). The Policy is available for inspection on the Group website at www.gulfkeystone.com and was approved at the 2014 AGM on 17 July 2014. PwC remains the Committee's independent remuneration adviser. The Policy was not changed in 2015 and no changes are proposed to the Policy for 2016.

As a Bermudan domiciled company we are not under an obligation to follow the Regulations. A resolution was passed at the 2014 AGM to amend the Company's Byelaws to enable a binding vote on the Policy. The advisory vote on the Policy was passed at the 2014 AGM by a majority of 94.54%. In the event that the Policy is amended before 2017, we would seek a binding vote of our shareholders as required under the Regulations. As no changes to the Policy are proposed in 2016 no resolution on the Policy will be put to shareholders at the 2016 AGM.

Following the Company's move from AIM to the Main Market, the Company implemented remuneration arrangements that are a reflection of the Policy. Whilst it is the intention to follow best of class remuneration practice, Gulf Keystone is an entrepreneurial company operating in one of the last and most challenging frontiers of the oil exploration industry. It continues to be challenging to develop short and longer-term quantifiable objectives given the turbulent geopolitical environment and the ongoing fighting between Daesh and the Allied Forces in the Region.

The best potential proxy for shareholder value creation is considered to be oil production and payments, and the target for 2015 set at average daily rates of 30,000 to 34,000 bopd, was achieved by the end of the year despite a deteriorating geopolitical environment. In assessing performance against this target, the Committee has used its discretion to adjust the calculation for the shut-in in February and March 2015 as this was due to factors outside the Group's control. Other objectives related to health and safety, cash receipts for past and present oil exports and reserve replacement. Setting qualitative and quantitative targets remains difficult; we will therefore have to adopt a flexible approach for 2016, but clearly ongoing production, cash payments, and health and safety are critical.

During the seven and eleven months that the CEO and CFO were with the Group, respectively, both have substantially met and exceeded all of the objectives that the Board expected of them including:

- further enhancing safe operation of our facilities;
- enhancing the relationship with our host Government and the MNR;
- stabilising the financial situation of the Group, both through the equity issue in April and by securing a regular payment cycle for sales;
- ongoing work in seeking strategic partners for the Group;
- improving corporate governance and re-constituting a smaller Board that is fit for purpose;
- regaining the trust of institutional and private investors; and
- achieving production rates of between 30,000-34,000 bopd despite a challenging geopolitical environment.

The CEO was awarded an on-target bonus of 120% of salary for 2015 that was pro-rated from the date of appointment. However, in recognition of the Group's difficult financial position, the bonus was scaled back by 33%. The value of the bonus was £211,385. The CFO was awarded a maximum bonus of 150% of salary for 2015 that was also pro-rated from the date of appointment and, in recognition of the Group's difficult financial position, scaled back by 33%. The value of the bonus was £330,256.

The bonus awards are payable in three monthly instalments during the first quarter of 2016 subject to a number of conditions, including the receipt of cash payments by the Group from the Ministry of Natural Resources and the Group having sufficient funds to meet its future funding requirements, including debt obligations. If these conditions are not met then a proportion of the bonus is deferred until the Group has sufficient funds to meet its bonus payment obligations

At the date of the publication of this report, £70,462, and £110,085 of the above bonus had been paid to the CEO and CFO, respectively

The Company was in a "close period" from February 2015 and therefore no LTIPs were granted to Board members or other employees during 2015. On his appointment in January 2015, Sami Zouari was granted 1,500,000 options with an exercise price of $0.55 per share, under the Company's Share Option Plan ("CSOP").

Structure of the report

This report is in two sections:

1. details of the existing Policy passed at the 2014 AGM (pages 67 to 75). There have been no changes to the Policy during the year and none are proposed for 2016; and
2. Annual report on remuneration (pages 76 to 80) that sets out how the Policy was implemented in 2015.

I will be available, together with my fellow Committee members and colleagues on the Board, at our 2016 AGM to answer any questions you may have with regard to our policy towards executive remuneration and the activities of the Committee more generally.

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

Andrew Simon

Remuneration Committee Chairman

16 March 2016

Policy

Introduction

The Directors' Remuneration Policy (the "Policy") as set out below has operated since 1 January 2013 and was approved by the shareholders at the 2014 AGM. The Policy may apply for three years from the date of the AGM.

Summary

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

Differences in policy from the wider employee population

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

Discretion

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

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

REMUNERATION COMMITTEE REPORT continued

Impact of the UK Corporate Governance Code

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

Code provision	Company renumeration policy
Executive Directors' remuneration should be designed to promote the long-term success of the Company.	The Policy contains the following relevant elements: • an LTIP under which awards will normally vest three years after the date of grant; and • a minimum shareholding requirement of 200% of salary for the CEO and 150% for the other Executive Directors. The Committee intends that both these elements should ensure that executives are focused on the long-term success of the Company.
Schemes should include provisions that would enable the Company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so.	The Annual bonus Plan and LTIP contain best practice malus and clawback provisions. The circumstances in which malus and clawback could apply are as follows: • the discovery of a material misstatement resulting in an adjustment in the audited consolidated financial statements of the Group; • the discovery that the assessment of any performance target or condition in respect of an award was based on error, or inaccurate or misleading information; • the discovery that any information used to determine the number of shares subject to an award was based on error, or inaccurate or misleading information; • action or conduct of an award holder which, in the reasonable opinion of the Board, amounts to employee misbehaviour, fraud or gross misconduct; • events or behaviour of an award holder have led to the censure of the Company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company, and the Board is satisfied that the relevant award holder was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to him. Clawback will apply for three years following the determination of a bonus under the Annual bonus Plan. Malus will apply up to the date of vesting of LTIP awards and clawback will apply for two years following vesting. The Committee is satisfied that the rules of the Plans provide sufficient powers to enforce malus and clawback if required.
For share-based remuneration, the Remuneration Committee should consider requiring Directors to hold a minimum number of shares and to hold shares for a further period after vesting or exercise, including for a period after leaving the Company, subject to the need to finance any costs of acquisition and associated tax liabilities.	The Policy contains minimum shareholding requirements for the CEO of 200% of salary and the other Executive Directors of 150% of salary. The Committee does not believe that, given the current volatile nature of the Company's business, additional holding periods are appropriate.

Exit Event Awards

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

The Company appointed a trustee (the "Exit Event Trustee") to hold and, subject to the occurrence of an Exit Event, to sell sufficient common shares to satisfy the Exit Event Awards. In total 10 million common shares were issued to the Exit Event Trustee to satisfy the initial, additional and any future Exit Event Awards to full-time employees of the Company and its subsidiary companies on the occurrence of an Exit Event. The preparation of the Exit Event Award policy involved detailed discussions with a number of the Company's leading institutional and other shareholders who held, in aggregate, in excess of 35% of the issued share capital of the Company, as well as consultation with the Company's advisers. The Company will not grant any further Exit Event Awards to the Directors of the Company or its subsidiaries.

Renumeration element	Link to strategy	Operation	Maximum potential value	Performance metrics	Remuneration Committee discrection
Base salary	Core element of total package, essential to support recruitment and retention of high calibre executives. Key element of core fixed remuneration.	Reviewed annually as at 1 January. Factors influencing decisions include: • role, experience and individual performance; • pay awards elsewhere in the Group; • external market (benchmarked against exploration and production peer group); and • general economic environment.	The policy of the Remuneration Committee is normally to consider the relevant market median as the maximum salary level awarded. In the normal course of events, the maximum salary increase for Executive Directors will be in line with the general employee increase. The Company will set out in the section headed "Statement of implementation of remuneration policy in 2016" the salaries for that year for each of the Executive Directors.	None.	The Committee retains discretion to: • award salaries of above median levels where necessary to retain or attract high calibre candidates. This discretion will only be used in exceptional circumstances and where possible shareholders will be consulted in advance; • determine and review the appropriate comparator group used for benchmarking; and • increase salaries above the general peer group increase where this is reflective of significant additional responsibilities.
Benefits	Limited basic package of benefits. In line with the Company's strategy to keep remuneration simple and consistent.	Directors are currently entitled to private medical insurance.	Benefit levels reflect those typically available to senior managers within the Group. The maximum potential value of the benefits to the Directors is the cost to the Company to provide those benefits.	None.	In the event that a Director is recruited from overseas, flexibility is retained by the Committee to provide the normal benefits provided to an executive for the market (e.g. it may be appropriate to provide benefits that are tailored to the circumstances of such an appointment).
Pension	Helps executives provide for retirement and aids retention.	Up to 15% of salary may be provided as a cash allowance. Pension allowances will not be included in the base salary to be used to calculate bonus or any other executive reward.	15% of base salary.	None.	Not applicable.

REMUNERATION COMMITTEE REPORT continued

Renumeration element	Link to strategy	Operation	Maximum potential value	Performance metrics	Remuneration Committee discrection
Annual bonus	Rewards achievement of annual key business strategy and financial objectives for the bonus year.	Targets are set annually in line with performance metrics. Bonus percentage awarded is determined after the year end based on achievement of targets.	Maximum bonus opportunity under the plan is 200% of annual salary for the CEO and 150% for all other Executive Directors. The threshold opportunity at which bonus starts to be earned is 25% of salary. The on-target opportunity for achievement of the KPIs is 120% of base salary with a sliding scale applying for achievement above and below the KPI targets.	At this stage of development of the business, the metric most likely to generate shareholder value and cash flow is production based on bopd. In addition to production, a number of qualitative objectives will be set for each of the Executive Directors. The Company will set out in the section headed "Statement of implementation of remuneration policy in 2016" the nature of the targets and their weighting for each year. Details of the performance conditions, targets and their level of satisfaction for the year being reported on will be set out in the Annual Remuneration Committee report. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial, operational and strategic targets used for the bonus plan, disclosing precise targets for the plan in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs under the bonus plan.	The Committee retains the discretion to review the weighting of measures and to set the performance targets and ranges for each metric. In determining the achievement of the targets, the Committee will take into account market conditions, improvement on prior year performance required and other relevant factors. The Committee retains discretion in exceptional circumstances to change the performance measures and targets and their respective weightings part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the Committee believes that the bonus outcome is not a fair and accurate reflection of business performance. Clawback provisions apply (see page 68).

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

Policy table (for determination of Executive Directors' pay)

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

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

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

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

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

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

REMUNERATION COMMITTEE REPORT continued

Non-Executive Directors' fees

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

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

Following a review of Non-Executive Directors' fees in October 2015, which benchmarked the Company against similarly-sized oil and gas companies, and took cognisance of the Company's difficult financial situation, it was agreed that the annual fees payable to Non-Executive Directors and to the Non-Executive Chairman should be substantially reduced.

The annual fees, effective from 1 October 2015, were set at £180,000 p.a. (previously £350,000 p.a.) for the Non-Executive Chairman and £70,000 p.a. (previously £90,000 p.a.) for Non-Executive Directors. It was also agreed that, with effect from 1 October 2015, the Non-Executive Directors should receive an additional fee of £10,000 p.a. for chairing a Board Committee, but that no additional fees should be payable for membership of a Board Committee (previously an additional fee of £10,000 p.a. was paid for chairing a Board Committee and an additional fee of £5,000 p.a. was payable for membership of each Committee). In addition, in recognition of extra-ordinary duties undertaken during the period from 1 April 2015 to 1 October 2015, and to take account of the substantial extra workload in stabilising the Company and re-constituting the Board, an ad-hoc payment of £47,500 was paid to Andrew Simon (Chairman). In recognition of extra-ordinary duties undertaken during 2015, an ad-hoc payment of £35,000 was paid to Philip Dimmock.

The fees payable to the Non-Executive Directors and the Non-Executive Chairman are summarised in the table below. Fees payable to the Non-Executive Directors and the Non-Executive Chairman are normally reviewed on an annual basis in line with inflation and general movement of pay within the Group.

Fee type	GBP[1] 2015	GBP[1] 2014
Chairman's fee	180,000[1]	350,000
Fees for other Non-Executive Directors		
Basic fee	70,000	90,000
Chair of a Board Committee	10,000	10,000
Member of a Board Committee	—	5,000

(1) The reduced annual fee was effective as of 1 October 2015. The actual annual fee paid, on a pro-rata basis (excluding the ad-hoc fee) was £350,000 between 1 January 2015 and 31 March 2015 and £180,000 between 1 April 2015 and 31 December 2015. An ad-hoc fee was paid to the Chairman.

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

The "Statement of implementation of remuneration policy in 2016" sets out the fees for that year for each of the Non-Executive Directors.

Recruitment remuneration

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

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

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

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

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

REMUNERATION COMMITTEE REPORT continued

Details of Directors' service contracts and letters of appointment

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

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

Executive Directors service contracts and Non-Executive Directors' appointment letters will be available for inspection at the 2016 AGM (for 15 minutes prior to the meeting and during the meeting). As the Company's registered office is in Bermuda, it is not practicable to make the service contracts and appointment letters available at the Company's registered office.

All Directors are required to stand for re-election every year in accordance with the Company's Byelaws.

Details of Directors' service contracts and letters of appointment in place as at 31 December 2015 are as follows:

Director	Effective date of current service contract or letter of appointment	Unexpired term at 31 December 2015
Philip Dimmock	July 2013	Six months(1)(4)
Andrew Simon	September 2013	Eight months(1)(4)
Keith Lough	December 2015	Three years (1)(4)
Cuth McDowell	December 2015	Three years(1)(4)
Jón Ferrier	June 2015	Rolling contract(2)
Sami Zouari	January 2015	Rolling contract(3)

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

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

Policy on payment for Directors leaving employment

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

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

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

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

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

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

The previous LTIP scheme, under which 2009 and 2010 LTIP awards were made, expired in August 2014. A new LTIP Scheme was approved by shareholders at the 2014 AGM and the key terms are set out in the table on page 71.

Change of control

The following table sets out the position on a change of control of the Company:

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

Relationship to employee pay

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

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

Consideration of shareholder views

We consult with shareholders on our remuneration policy and its execution. We welcome their constructive feedback and use this effectively to shape our approach.

Feedback on the Policy received by way of the advisory vote at the 2014 AGM was considered by the Remuneration Committee in relation to a review of the Policy and this remuneration report. Any feedback received by way of a binding vote in the future will be considered at the first Remuneration Committee meeting after the relevant AGM. Feedback received during the course of 2016 and subsequent AGMs, as well as any additional feedback received during any other meetings with shareholders, will be considered as part of the Company's annual review of remuneration policy.

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration

Single total figure of remuneration £'000s

	Salary 2015[8]	Salary 2014[8]	Pension 2015	Pension 2014	Benefits 2015	Benefits 2014	Cash bonus 2015	Cash bonus 2014	Other 2015[9]	Other 2014	**Total 2015**	Total 2014
Jón Ferrier[1]	264	—	40	—	15	—	211	—	—	—	**530**	—
Sami Zouari[2]	330	—	50	—	—	—	330	—	—	—	**710**	—
John Gerstenlauer[3][10][11]	381	443	48	66	62	76	—	602	676	—	**1,167**	1,187
Simon Murray[4]	88	350	—	—	—	—	—	—	175	—	**263**	350
Lord Guthrie[5]	55	106	—	—	—	—	—	—	—	—	**55**	106
Maria Darby-Walker[5]	53	—	—	—	—	—	—	—	—	—	**53**	—
Keith Lough[6]	5	—	—	—	—	—	—	—	—	—	**5**	—
Philip Dimmock	136	109	—	—	—	—	—	—	—	—	**136**	109
Cuth McDowell[6]	5	—	—	—	—	—	—	—	—	—	**5**	—
Andrew Simon	209	108	—	—	—	—	—	—	—	—	**209**	108
V Uthaya Kumar[7]	50	38	—	—	—	—	—	—	—	—	**50**	38
Joseph A Stanislaw[5]	59	42	—	—	—	—	—	—	—	—	**59**	42
Total	1,635	1,196	138	66	77	76	541	602	851	—	**3,242**	1,940

(1) Jón Ferrier was appointed as CEO on 5 June 2015 and as a Director on 8 December 2015.
(2) Sami Zouari was appointed as a Director and as CFO on 22 January 2015.
(3) John Gerstenlauer retired on 9 July 2015.
(4) Simon Murray retired on 31 March 2015.
(5) Lord Guthrie, Maria Darby-Walker and Joseph Stanislaw retired on 9 July 2015.
(6) Keith Lough and Cuth McDowell were appointed on 8 December 2015.
(7) V Uthaya Kumar resigned on 2 July 2015.
(8) Salary includes fees and one-time payments to Non-Executive Directors.
(9) Other payments relate to payments in lieu of notice and 2014 bonus for Directors who resigned or retired in the year, see 'Payments to past Directors' for further details.
(10) 2014 benefits include travel, accommodation and moving costs associated with work in a number of locations.
(11) 2014 salary includes payment for services as both CEO and COO.

Details of bonus

The CEO was awarded an on-target bonus of 120% of salary for 2015. However, in recognition of the Group's difficult financial position, the bonus was scaled back by 33%. The bonus was pro-rated from the date of appointment. The value of the bonus was £211,385. The CFO was awarded a maximum bonus of 150% of salary for 2015. However, in recognition of the Group's difficult financial position, the bonus was scaled back by 33%. The bonus was prorated from the date of appointment. The value of the bonus was £330,256.

The bonus awards are payable in three monthly installments during the first quarter of 2016 subject to a number of conditions, including the receipt of cash payments by the Group from the Ministry of Natural Resources and the Company having sufficient funds to meet the April 2016 bond coupon payment. If these conditions are not met then a proportion of the bonus is deferred until the Company has sufficient funds to meet its bonus payment obligations.

The awards were based on the achievement of the following performance targets:

- further enhancing safe operation of our facilities;
- enhancing the relationship with our host Government and the MNR;
- stabilising the financial situation of the Group, both through the equity issue in April and by securing a regular payment cycle for sales;
- ongoing work in seeking strategic partners for the Company;
- improving corporate governance and re-constituting a smaller Board that is fit for purpose;
- regaining the trust of institutional and private investors; and
- achieving production rates of between 30,000 to 34,000 bopd despite a challenging geopolitical environment.

As at the date of this report, the CEO and CFO have received one third of their total bonus.

Directors' pension entitlements

In accordance with the remuneration policy, as disclosed in the policy statement section of this report, a cash allowance in lieu of a pension provision will be payable at a rate of 15% of Executive Directors' base salary.

Benefits

The benefits provided included the following:

- car allowance – £14,679 for Jón Ferrier; and
- travel, accommodation and moving costs – £61,782 for John Gerstenlauer.

Scheme interests awarded during the financial year

Sami Zouari was granted 1,500,000 share options on his appointment as Director.

Type of scheme interest	Basis of award	Face value	Length of vesting period	Performance measures
Company Share Option Plan.	On appointment as Director.	£825,000	Paid in three equal instalments with the first payable on appointment and the remainder on the following two anniversaries.	None.

The grant was made on 22 January 2015 and the share price on that date was £0.55. The face value has been calculated based on the share price at the date of grant. The exercise price is £0.55.

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

Payments to past Directors

John Gerstenlauer retired from the Board of Directors of the Company on 9 July 2015. Until that date he received his base salary and benefits. His base salary was in line with that announced in the 2014 Remuneration Committee report. Pursuant to his settlement agreement he received a payment of £313,203 ($487,500) in lieu of contractual notice period and £362,737 ($564,600) in respect of 2014 bonus entitlement.

In addition to the above, it was agreed that Mr Gerstenlauer's unexercised share options would continue to vest and remain exercisable, subject to and in accordance with the rules of the Company Share Option Plan in place from time to time provided that the discretion given to the Board by the second paragraph of the letter dated 21 November 2012 signed by the Company and Rule 5.2 of the Company Share Option Plan shall only be exercised by it such that those unexercised share options shall continue to be exercisable by the Executive until 9 July 2018 and if not exercised by that date will lapse on that date.

The details of the options are:

	2008 Share Option award	2010 Share Option award	2011 Share Option award
Number	2,000,000	1,627,746	839,000
Exercise price	£0.30	£0.75	£1.75
Dates from which options may be exercised	28/9/11	31/12/12 – 9/7/18	7/08/13 – 9/7/18
Expiry dates	9/7/18	31/12/16 – 9/7/18	9/7/18
Cost of options	$0.01 each	$0.01 each	$0.01 each
Notional gain at 31 December 2015	$nil	$nil	$nil

Simon Murray retired from the Board of Directors of the Company on 31 March 2015. Until that date he received his base salary. His base salary was in line with that announced in the 2014 Remuneration Committee report. Pursuant to his settlement agreement he received a payment of £175,000 in lieu of contractual notice period.

Certain payments were made to Todd Kozel on finalisation of his settlement agreement and these are disclosed in the remuneration report in the 2014 financial statements. No other payments to past Directors were made during 2015.

REMUNERATION COMMITTEE REPORT continued

Directors' shareholding and share interests

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

Directors' shareholdings and share interests as at 31 December 2015 were as follows:

	Shareholding requirement percentage of salary (shareholding requirement met)	Beneficially owned shares[1]	Shares granted under Company's executive bonus scheme unvested with no performance measures	Options granted under LTIP unvested subject to performance conditions[2]	Options granted under CSOP unvested subject to perfomance conditions and holding period	Options granted unvested without performance conditions	Vested but unexercised options[3]	Total conditional and unconditional interest in shares
Executive Directors								
Jón Ferrier	200% (No)[4]	—	—	—	—	—	—	—
Sami Zouari	150% (No)[4]	—	—	—	—	1,000,000	500,000	1,500,000
John Gerstenlauer	200% (Yes)	—	—	839,000	—	—	3,627,746	4,466,746
Non-Executive Directors								
Lord Guthrie	—	—	—	—	250,000	—	—	250,000

(1) Includes any shares owned by connected persons.
(2) Includes all of 2010 LTIP options and the remaining 50% of the third tranche of 2009 LTIP options.
(3) Includes the vested tranches of 2009 LTIP options and CSOP options.
(4) The Company was in a "close period" from February 2015 to the end of the year as regards to the ability of the employees to trade in the Company's shares and, therefore, the Directors have been unable to acquire shares in the Company.

No options were exercised by Directors during the year.

No other Director had any interest in shares of the Company at 31 December 2015.

Historic CEO pay

	2011	2012	2013	2014	**2015**
Single figure remuneration[1] ($'000)	20,931	14,257	675	1,949[2]	**1,084[3]**
Bonus percentage of maximum payable (%)	100	100	0	69	**40%[4]**
LTIP percentage of maximum number of shares capable of vesting that vested (%)	0	35	22	0	**0%**

	Percentage change in gross salary earned (2015 compared to 2014)	Percentage change in benefits and pension (2015 compared to 2014)	**Percentage change in bonus earned (2015 compared to 2014)**
CEO[2][3]	2%	(4)%	**(42)%**
All Group employees and Directors (excluding CEO)	4%	(1)%	**(72)%**

(1) Includes benefits, excludes pension and LTIP.
(2) Includes Todd Kozel and John Gerstenlauer for 2014.
(3) Includes salaries for both Jón Ferrier and John Gerstenlauer.
(4) 2015 bonus percentage calculation relates to Jón Ferrier only.

Relative importance of spend on pay

	2015 $'000	2014 $'000	Percentage change %
Total employee pay	**23,114**	22,615	2
Loss after tax	**(134,977)**	(248,203)	(46)
Operating expenditure	**62,822**	41,784	50

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

As the Group's activities were primarily related to its producing asset during the year, operating expenditure rather than capital expenditure is included as a comparator in the relative importance of spend on pay table.

Statement of implementation of remuneration policy in 2016

The Company's remuneration practices are managed in accordance with the approved remuneration policy set out above and the Remuneration Committee is not anticipating any changes in the policy for the current year.

Comparator group

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

Salaries benefits and pension

No change from policy set out.

The following table sets out the entitlements for 2016:

Executive	Salary for 2016	Benefits	Pension allowance
Jón Ferrier	£450,000 (2015 – £450,000)	No change	15%
Sami Zouari	£350,000 (2015 – £350,000)	n/a	15%

Annual bonus

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

Executive	Maximum bonus potential (percentage of salary)
Jón Ferrier	200%
Sami Zouari	150%

Performance conditions and weighting

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

LTIP grants

It is the intention of the Remuneration Committee to make the following grants to the Executive Directors in 2016:

Executive	Maximum award (percentage of salary)
Jón Ferrier	200%
Sami Zouari	150%

In light of the uncertainty facing the Group, and as permitted under the rules of LTIP, the Committee is using its discretion to review the performance measures and targets. Appropriate measures for 2016 will be selected in due course and will continue to reflect our commitment to safe operation and value-optimisation of our core assets for stakeholders.

There were no changes to the Non-Executive Directors' fees in 2016.

REMUNERATION COMMITTEE REPORT continued

Consideration by the Directors of matters relating to Directors' remuneration

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

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

In 2015 the Remuneration Committee met four times. The Committee discussed, amongst others, the following matters:

Month	Key issues considered
February	Benchmarking 2015 base salaries for executives. 2014 Annual bonuses for executives. 2015 Annual bonus scheme KPIs. Draft report of the Remuneration Committee for the annual report.
August	Remuneration package for Nadhim Zahawi (Chief Strategy Officer).
October	2015 Annual bonus scheme KPIs. Non-Executive Directors' fees.
December	Review of Committee's Terms of Reference. Finalisation of 2015 Annual bonus scheme KPIs. 2016 base salaries. 2015 Annual bonuses. Key employee retention.

As at 31 December 2015, the Committee comprised: Andrew Simon (Chairman), Philip Dimmock, Keith Lough and Cuth McDowell. During the year Maria Darby-Walker and V Uthaya Kumar stepped down from the Committee and Simon Murray in March 2015. Keith Lough and Cuth McDowell joined following their appointment as Directors.

In addition, Jón Ferrier (CEO), Sami Zouari (Chief Financial Officer) and Tony Peart (Legal and Commercial Director) assisted the Committee in its work, but never in respect of their own remuneration.

Keith Lough will take over as Chairman of the Committee following the conclusion of the Company's next AGM.

Statement of voting at Annual General Meetings

At the Annual General Meeting of the Company held on 17 July 2014, votes cast by proxy and at the meeting in respect of the Directors' Remuneration Policy for the years ended 31 December 2013 were as follows:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
To approve the Remuneration Policy for Directors set out the Annual report for the year ended 31 December 2013	264,847,175	94.54	15,293,715	5.46	280,140,890	14,391,049

At the last Annual General Meeting of the Company held on 9 July 2015, votes cast by proxy and at the meeting in respect of the Directors' remuneration report for the year ended 31 December 2014 were as follows:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
To approve the 2014 Directors' annual report on remuneration	194,787,809	96.54	6,977,292	3.46	201,765,101	3,779,007

Andrew Simon

Chairman of the Remuneration Committee

16 March 2016

HSSE AND CSR COMMITTEE REPORT

The Group aims to operate successfully and efficiently in Kurdistan while protecting people, plant and the environment from harm as a consequence of its operations.

Philip Dimmock
Chairman of HSSE and CSR Committee

Gulf Keystone Petroleum is committed to conducting its business safely and in a socially responsible and ethical manner. The Group aims to operate successfully and efficiently in Kurdistan while protecting people, plant and the environment from harm as a consequence of its operations. The Group is committed to ensuring that all employees and contractors understand that working safely is a condition of employment and that they are responsible for their own safety and the safety of those around them.

HSSE governance process

The HSSE and CSR Committee was established in 2013 to ensure that appropriate management systems are in place to minimise the health, safety, security and environmental ("HSSE") risk of the Group. The Committee also oversees the formulation and implementation of the Group's policies towards corporate social responsibility ("CSR") of the Group.

The Committee's activities form an integral part of the Group's HSSE governance process which encompasses the following key elements: Board and Committee site visits, external audits; third party inspections; internal audits; permit to work ("PtW") audits; management site visits; regulatory inspections; safety walkabouts; and visible leadership.

In accordance with its terms of reference, and with respect to HSSE and CSR matters, the Committee, which reports its findings to the Board, is authorised to:

- oversee the development of policies and guidelines for the management of risks within the Group's operations;
- monitor the quality of management and the methods to create appropriate behaviours and decisions, against key performance indicators;
- review performance to assess the effectiveness of programmes and to make recommendations for improvement;
- evaluate the effectiveness of the Group's policies and operational risk management systems;
- assess the policies and systems within the Group for ensuring compliance with applicable legal and regulatory requirements;
- assess the performance of the Group with regard to the impact of decisions and actions upon employees, communities and other stakeholders;
- on behalf of the Board, receive reports from management concerning any serious accidents and actions taken by management as a result;
- evaluate and oversee, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning HSSE issues;
- review the results of any independent audits of the Group's performance and review any strategies and action plans developed by management in response to issues raised; and
- consider the position of the Group with respect to international best practice and emerging legal requirements including relevant corporate governance developments.

HSSE AND CSR COMMITTEE REPORT continued

In relation to HSSE and CSR matters, a key focus of the Committee is on continuous improvement and encouraging an open and honest culture, involving all staff members of the Group and its contractors.

Composition

As at 31 December 2015, the HSSE and CSR Committee comprised two of the Independent Non-Executive Directors, Philip Dimmock and Andrew Simon, the CEO Jón Ferrier and the Vice President of Operations John Stafford. The members of the HSSE and CSR Committee during the year were as follows:

- Joseph A Stanislaw (retired 9 July 2015);
- Lord Guthrie (retired 9 July 2015);
- John Gerstenlauer (retired 9 July 2015);
- Philip Dimmock (appointed to the Committee and to the role of Chairman 9 July 2015);
- Andrew Simon (appointed 9 July 2015);
- Jón Ferrier (appointed 8 December 2015); and
- John Stafford (appointed 8 October 2015).

Review of the Committee's activities

The Committee meets at least four times a year. During 2015, the Committee met four times on 13 January, 14 February, 6 October (Kurdistan) and 7 December 2015.

In October 2015, the Committee undertook a site visit of the Shaikan block (PF-1 and PF-2) as part of its work programme, in order to observe and assess the operation and effectiveness of the Group's safety and security arrangements. Operational staff members participated in the Committee meeting held on site and, with regards to visible leadership, the Committee members attended the daily toolbox talks. For the Committee meeting held in the field, national staff employees were invited to attend and present on specific HSSE and CSR related subjects. The Committee did not note any significant breaches of the Group's HSSE policy during the visit.

The Committee plans to have further meetings with the workforce and site tours to underpin the Group's ongoing health and safety management programme and to maintain awareness of the importance of health and safety issues and ensure workforce involvement. Following a review of the Committee's Terms of Reference in October 2015, it has been agreed that where practicable at least two meetings a year will be held on site in Kurdistan.

Health and safety

During the year, the Committee reviewed and updated the Group's HSSE Policy. The new HSSE Policy Statement was adopted by the Board in October 2015. The Committee also reviewed the 2015 HSSE management plan and performance against this, the Group's HSSE performance generally (benchmarked against other companies in the oil and gas sector), and the draft 2016 operational HSSE plan.

Security

An independent security review was undertaken during 2015. This did not identify any issues of concern. However, following heightened tensions in the Kurdistan region as a result of the Russian missile attacks on Syria, the Committee has renewed its focus on ensuring that the Group has robust security measures in place to safeguard employees and contractors and Group's plant and equipment.

Environment

The Committee considered a number of environmental impact reduction measures in relation to flaring during 2015. Amine units were fitted at the Shaikan block (both PF-1 and PF-2), becoming operational at the end of April 2015. Following the installation of the Amine units, total CO_2 emissions have been reduced by 4,000 tonnes per month. The Committee also reviewed a number of options for future flare reduction measures. The Committee reviewed the Group's activities in relation to environmental waste management and concluded that these were satisfactory.

Corporate social responsibility

During 2015, the Committee reviewed the Group's CSR programme and related activities, and progress made in the implementation of the Group's competency based training programme to develop and promote the Group's Kurdish operational employees.

Philip Dimmock

Chairman of HSSE and CSR Committee

16 March 2016

FINANCE COMMITTEE REPORT

The overarching purpose of the Finance Committee is to evaluate and provide recommendations to the Board on the determination of a suitable capital structure for the Company.

Keith Lough
Chairman of Finance Committee

In December 2015, the Finance Committee was established as a committee of the Board. The overarching purpose of the Finance Committee is to evaluate and provide recommendations to the Board regarding: the current Strategic Review of the Group's business and assets; and the determination of a sustainable capital structure for the Company.

In accordance with its terms of reference, the Finance Committee meets bi-monthly, or more often if considered necessary or expedient. As at 31 December 2015 and the date of this report, the members of the Committee are: Keith Lough (Chairman), Cuth McDowell (Independent Non-Executive Director), Jón Ferrier (CEO) and Sami Zouari (CFO).

Only members of the Committee have the right to attend meetings of the Committee but professional advisers, other Directors and managers are invited to attend meetings as required. The Chairman of the Board has a standing invitation to attend meetings of the Committee.

Minutes of Committee meetings are produced following each meeting of the Committee and these are circulated to the Board. The Chairman of the Committee reports verbally on the Committee's activities at meetings of the Board. The Committee has access to the Company's professional advisers as required in order to fulfil its duties.

The Finance Committee met once during December 2015 and has met five times in 2016 as at the date of this report.

DIRECTORS' REPORT

The Directors are pleased to present their report on the affairs of the Group, together with the consolidated financial statements of the Company and auditor's report, for the year ended 31 December 2015. A review of the business is set out in the preceding sections of this Annual report, including the Statement of Non-Executive Chairman and Statement of Chief Executive Officer, Operational review and Financial review, which are incorporated into this report by reference. The Corporate governance statement also forms part of this report.

Results and dividends

The Group's financial results for the year ended 31 December 2015 are set out in the consolidated financial statements. The Group made a net loss after taxation for the year of $135.0 million (2014: $248.2 million loss) and the Directors do not recommend a dividend for the year (2014: $nil). Future payments of dividends will depend on the earnings and financial condition of the Company and such factors as the Board of Directors consider are appropriate.

Capital structure

Details of the authorised and issued share capital, together with movements in the Company's issued share capital during the year, are shown in note 20 to the consolidated financial statements. The business is financed by means of debt (see note 17 to the consolidated financial statements) 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 Byelaws 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. However, following the share placing in March 2015 and the successful guaranteed bonds consent solicitation to remove the book equity ratio covenant from the Trust Deed constituting the guaranteed bonds and from the conditions contained therein, the Company agreed to the granting of a security interest in favour of the holders of the Guaranteed Notes and the convertible bonds over the shares of Gulf Keystone Petroleum International Limited.

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 Remuneration Committee report.

Voting rights and Byelaw amendments

The Company's Byelaws 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 Byelaws.

On 8 December 2015, a special general meeting of the shareholders of the Company ("SGM") was held to approve proposed amendments to certain provisions of the Company's Byelaws. The resolutions were passed at the SGM and removed the restrictions:

- on the ability of the Company to appoint Directors who are UK residents;
- on the ability for the Board of Directors of the Company to act, in meeting, in circumstances where a majority of the Directors present at such meeting are UK residents; and
- requiring the Chairman of the Board to not be resident in the UK.

The Company's Byelaws are available on the Company's website at www.gulfkeystone.com

Directors

With regard to the appointment and replacement of Directors, the Company is governed by its Byelaws, the Companies Act (Bermuda) and related legislation. In accordance with the Byelaws, all of the Directors are required to stand for re-election by the shareholders each year at the Annual General Meeting.

The following Directors have held office during the year:

Jón Ferrier	Chief Executive Officer (appointed 8 December 2015)[1][5][6]
Sami Zouari	Chief Financial Officer (appointed 22 January 2015)[6]
Philip Dimmock	Independent Non-Executive Director[2][3][4][5]
Andrew Simon	Non-Executive Chairman [3][4][5][7]
Cuth McDowell	Independent Non-Executive Director (appointed 8 December 2015)[2][3][4]
Keith Lough	Independent Non-Executive Director (appointed 8 December 2015)[2][3][4][6]
John Gerstenlauer	Chief Executive Officer (retired July 2015)
Simon Murray	Non-Executive Chairman (retired March 2015)
Lord Guthrie	Non-Executive Director (retired July 2015)
Joseph A Stanislaw	Independent Non-Executive Director (retired July 2015)
V Uthaya Kumar	Independent Non-Executive Director (resigned July 2015)
Maria Darby-Walker	Independent Non-Executive Director (retired July 2015)

(1) Appointed as Chief Executive Officer on 5 June 2015.
(2) Member of the Audit and Risk Committee as at the date of this report.
(3) Member of the Remuneration Committee as at the date of this report.
(4) Member of the Nomination Committee as at the date of this report.
(5) Member of the Health, Safety, Security and Environment Committee as at the date of this report.
(6) Member of the Finance Committee as at the date of this report.
(7) Appointed Non-Executive Chairman in March 2015.

Directors' indemnities

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

Directors' interests in shares

None of the Directors who held office at 31 December 2015 had any interest in the common shares of the Company.[1]

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

At the date of this report, the EBT held 6,363,057 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 2015 are disclosed in the Remuneration Committee report.

Significant shareholdings

On 16 March 2016, the Company has been notified of the following significant shareholdings as at 1 March 2016:

	Number of common shares	Percentage of issued share capital
TD Direct Investing	79,153,789	8.09%
Barclays Wealth	70,522,145	7.21%
Capital Research Global Investors	69,596,975	7.12%
M&G Investment Mgt	67,973,877	6.95%
Hargreaves Lansdown Asset Mgt	65,592,889	6.71%
Halifax Share Dealing	56,974,905	5.82%

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, the Chief Executive Officer's statement and the 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.

The Group's cash balances at 16 March 2016, including $32.5 million of restricted cash relating to the Debt Service Reserve Account (see note 17 to the financial statements) were $50.6 million. The Group's core asset is its participating interest in the Shaikan field and it requires working capital to continue its operations. The Group is also obliged to make significant bi-annual coupon payments on its convertible bonds and Guaranteed Notes and to finance the repayment of the Guaranteed Notes due in April 2017. The Group's budgeted capital expenditure for 2016 is focused on achieving the production guidance of 31,000 to 35,000 bopd for 2016, while postponing any additional investment until the Group has secured more stable funding arrangements.

In order to continue the Group's operations in accordance with the stated strategy for the foreseeable future, being twelve months from the date of the approval of this Annual report, it has been assumed that the Group is able to maintain a reliable pattern of cash receipts from oil sent for export and address some of the arrears due from the KRG. A regular payment cycle was established from September 2015 for oil exports and, to date, the Group has received its fifth consecutive monthly payment which included a top-up payment towards the recovery of arrears. The KRG also announced on 1 February 2016 that monthly payments to IOCs would be made on the basis of the monthly contractual revenue entitlement under the PSC. On 16 March 2016, an agreement between the Group and the MNR (the "Agreement")was signed addressing the Group's agreement to the MNR's exercise of the 20% Government Participation Option and the settlement of the associated past costs together with the reduction of the capacity building charge from 40% to 30% of the Group's profit oil, all to be the subject of an amendment agreement to the Shaikan PSC. The Agreement also provided a mechanism for gradually addressing the arrears through a series of monthly payments in addition to the monthly contractual entitlement under the PSC. The arrears include $93 million net to GKP for past Shaikan crude oil sales on a diluted basis and $85 million net to GKP for the Government 20% interest costs paid by the Shaikan PSC holders on behalf of the Government since 1 August 2012 ("Shaikan Government option past costs"), subject to execution. The Group also engaged in discussions with the MNR regarding commercial terms, including the Shaikan quality discount and transportation costs, for near term Shaikan crude oil export sales until an independent audit of these terms is conducted and an industry standard quality bank has been established.

Notwithstanding the Agreement with the MNR and the Group's efforts to reduce its ongoing costs, the Directors recognise that there is significant uncertainty as to whether cash receipts between the date of this report and 18 April 2016 will be sufficient to enable the Company to make its coupon payments of $26.4 million due on that date without being unable to top up the Debt Service Reserve Account ("DSRA") to the amount of $32.5 million within five business days, as required by the terms and conditions of the Guaranteed Notes, or being unable to do so within the further 15 business days' grace period. If the Company is unable to do this, the holders of the Guaranteed Notes would have the right to request that repayment of the outstanding Guaranteed Note debt is declared immediately due and repayable, which declaration would in turn give the holders of the convertible bonds the right to request that the convertible bonds are declared immediately due and repayable. If sufficient cash is received to avoid being unable to top up the DSRA in April 2016, based on current forecasts, the Directors expect the Group to require additional funding in order to be able to meet the subsequent coupon payments in October 2016 and the repayment of the Guaranteed Notes due in April 2017. In order to address this potential shortfall, the Group has been actively considering options including a possible restructuring of its debt facilities and further fundraising (together the "mitigating actions").

The Directors have concluded that the current low oil price environment, the political situation in Iraq, the fact that the Agreement with the MNR is subject to an amendment agreement to the Shaikan PSC, and the early stages of the mitigating actions outlined above create a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. Nevertheless, based on the forecasts and projections prepared at the time of preparation of this Annual report and after making enquiries, and considering the uncertainties and mitigating actions described above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing this Annual report. The financial statements do not include any adjustments that might be required if they were prepared on a basis other than that of a going concern.

Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Group including the PSC, employee share plans and the Convertible Bonds. The Directors are not aware of any agreements between the Group and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Auditor

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

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

On behalf of the Board

Jón Ferrier

Chief Executive Officer

16 March 2016

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

On behalf of the Board

Jón Ferrier

Chief Executive Officer

16 March 2016

INDEPENDENT AUDITOR'S REPORT

to the members of Gulf Keystone Petroleum Limited

Opinion on financial statements of Gulf Keystone Petroleum Limited

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its loss for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The financial statements comprise 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, the Summary of significant accounting policies and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Emphasis of matter – going concern

We have considered the adequacy of the disclosures made in the going concern section of the Summary of significant accounting policies, in respect of the Group's ability to continue as a going concern.

The Group's only producing asset is its interest in the Shaikan Block in Kurdistan and to date it has not been able to establish a stable and reliable long-term pattern of cash receipts from export deliveries made from this field. Furthermore, the Group is obliged to make significant bi-annual coupon payments on its convertible bonds and 2014 Guaranteed Notes, the next instalment of which falls due on 18 April 2016. If there are no further cash receipts in respect of export deliveries, at the time of the April 2016 coupon payment the Directors expect the Group's cash position to fall below the minimum that is required to be held in order to comply with the Debt Service Reserve Account ("DSRA") requirements relating to the 2014 Guaranteed Notes. If this occurs, and is not rectified within 20 business days, the holders of both the 2014 Guaranteed Notes and the convertible bonds would have the right to request that the outstanding debt is declared immediately due and repayable. If sufficient cash is received to avoid a breach of the DSRA threshold in April 2016, based on current forecasts the Directors expect the Group to require additional funding in order to be able to meet the subsequent coupon payment in October 2016 and the repayment of the 2014 Guaranteed Notes due in April 2017. In order to address this potential shortfall, the Group has been actively considering options including a possible restructuring of its debt facilities and further fundraising.

Whilst we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, these conditions together with the other matters set out in the going concern section of the Summary of significant accounting policies indicate the existence of a material uncertainty which may give rise to significant doubt over the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

We describe below how the scope of our audit has responded to this risk. Our opinion is not modified in respect of this matter.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Summary of significant accounting policies in the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Management of principal risks and uncertainties section of the Strategic report on page 45.

The Group's need for further financing may affect its ability to continue as a going concern as disclosed in the emphasis of matter above. This matter is also discussed in the viability statement on page 45.

Aside from these matters, we have nothing else material to add or draw attention to in relation to:

- the Directors' confirmation on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 41 to 44 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the Summary of significant accounting policies in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 45 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Gulf Keystone Petroleum Limited

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Going concern We considered the application of the going concern basis of accounting and the related disclosures to be a significant risk due to the lack of a stable and reliable long-term pattern of cash receipts from export deliveries in respect of the Shaikan field and the obligation to make significant bi-annual coupon payments on its convertible bonds and 2014 Guaranteed Notes and to finance the repayment of the 2014 Guaranteed Notes which is due in April 2017. In particular, we considered that it was likely that there would be a risk as to the Group's ability to comply with the DSRA requirement in the 2014 Guaranteed Notes at the time of the April 2016 coupon payment and to remain cash positive throughout the going concern assessment period. As referenced on pages 96 and 97 in the financial statements, management has highlighted the material uncertainty regarding the Group's ability to comply with the DSRA requirement and to remain cash positive throughout the going concern assessment period.	To assess the appropriateness of the going concern assumption we: • considered management's going concern paper which was approved by the Board, and the accompanying cash flow forecasts for the going concern period; • obtained supporting evidence for the key assumptions in management's cash flow forecasts which included the expected pattern of receipts from oil sent for export; • compared the cash flow forecasts used in the going concern model with those used in the asset value in use calculations for impairment purposes and obtained explanations for any significant differences; • tested the mechanical accuracy of the cash flow model; • considered the implications of any potential breaches of the terms of the Group's debt facilities during the going concern period; • considered the Group's available funding and planned activities to address the identified shortfall, which includes a possible restructuring of its debt facilities and further fundraising; and • considered whether the disclosures in the going concern section of the Summary of significant accounting policies, are balanced, proportionate and clear. As a result of these procedures, we concluded that there was a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.
Recoverability of producing assets The carrying value of the Group's only producing asset, the Shaikan Block, was $560.8 million at year end. The recoverability of this asset was considered to be a key risk due to the significant judgements and estimates that need to be made in assessing whether any impairments have arisen at year end. No impairment charge has been recorded in this regard in the 2015 financial statements. Due to the high levels of volatility experienced by commodity markets during 2015 and the extended time period over which the Group's only producing asset, the Shaikan Block, is expected to operate, the risk of impairment was considered likely to be highly sensitive to assumptions in respect of, in particular, future oil prices and the discount rate to be applied. The continuing lack of clarity around receipt of cash for production was also considered to be an indicator of impairment. Management prepared a value in use calculation which was based on key assumptions including: • the timing of commencement of regular cash receipts from the Kurdistan Regional Government (KRG); • oil prices; • reserves and production profile; • discount rate; • operating costs; and • capital costs. Further details, including management's assumptions in respect of future oil prices and discount rate, are provided in the Critical accounting estimates and judgements section of the Summary of significant accounting policies and note 11 of the financial statements.	We challenged the assumptions made by management by comparing them with publicly available information, third party information, our knowledge of the Group and industry as well as budgeted and forecast performance. This included: • comparing the oil price assumptions with third party forecasts and publicly available forward curves; • comparing future production estimates to those set out in the October 2015 Competent Person's Report ("CPR") and performing the additional procedures set out in the DD&A risk below; • using our internal valuation specialists to perform an independent recalculation of the discount rate; • testing the mechanical accuracy of the calculations; • completing a scenario analysis, through which we computed what we believed to be a reasonable range of recoverable amounts for the Shaikan Block and comparing this to the asset's carrying value at year end; and • considering whether the related disclosures in this area comply with the relevant accounting standards and are balanced, proportionate and clear.

<table>
<tr><th>Risk</th><th>How the scope of our audit responded to the risk</th></tr>
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Recoverability of intangible exploration and evaluation assets

The carrying value of the Group's exploration and evaluation ("E&E") portfolio was $314.7 million at year end, representing the Ber Bahr and Sheikh Adi Blocks. The Group adopts the "modified full cost" accounting method for its E&E assets, having regard to the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources. Under the modified full cost approach all E&E costs are initially capitalised within an overall Kurdistan wide cost pool. If an individual exploration stage licence interest within Kurdistan is subsequently no longer considered to be commercial on a standalone basis, an impairment charge is only required if the overall Kurdistan cost pool is impaired. Any remaining carrying value attributed to such licences is then depreciated based on the commercial reserves of the overall Kurdistan cost pool from the date at which the exploration asset is determined to be unsuccessful. For both impairment testing and depreciation calculations, the Kurdistan cost pool includes any related producing fields within the pool and accordingly takes into consideration both any impairment headroom relating to the Shaikan Block and also, for depreciation purposes, the production and commercial reserves attributed to Shaikan.

This was considered a key risk due to the significant judgements and estimates that are required to be assessed, these include but are not limited to the significant and prolonged fall in oil price affecting investment and capital expenditure decisions and the judgement regarding estimated reserves and resources in place. The risk is heightened in the current year as the low levels of prevailing oil prices were expected to have an adverse impact on the recoverable amount of Shaikan and hence the degree of headroom available to shelter any uncommercial exploration licences elsewhere within the wider Kurdistan cost pool.

Management has concluded that the Ber Bahr licence in Kurdistan, which had a carrying value at year end of $79 million, is not commercial on a standalone basis. However, no impairment charge has been recognised as it was concluded that, due to the level of headroom in relation to the Shaikan Block, the overall Kurdistan cost pool was not impaired.

Further details are provided in the Critical accounting estimates and judgements section of the Summary of significant accounting policies and note 10 of the financial statements.

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We have considered whether there were any indicators of impairment of the Group's individual E&E assets under IFRS 6 at year end, through:

- participating in meetings with key operational and finance staff to understand the current status and future intention for each asset;
- confirming whether all assets which remain capitalised are included in future budgets and that exploration is ongoing; and
- considering the economic viability of the underlying prospects by reference to the October 2015 CPR.

Where indicators of impairment were identified for individual exploration licences, we challenged management as to whether any impairment charges were required to the Kurdistan cost pool. Our work included:

- for Ber Bahr, confirming that the operator has indicated their intention to relinquish the licence and has written it off in its 2015 results;
- for the Group's other exploration licence, Sheikh Adi:
  - comparing the oil price assumptions used in their economic assessment with third party forecasts and publicly available forward curves;
  - comparing future production estimates to those set out in the October 2015 CPR and performing the additional procedures set out in the DD&A risk below;
  - using our internal valuation specialists to perform an independent recalculation of the discount rate;
  - testing the mechanical accuracy of the calculations; and
  - completing a scenario analysis, through which we computed what we believed to be a reasonable range of recoverable amounts and comparing this to the asset's carrying value at year end;
- To the extent potential impairments arose for either of these individual licence interests, assessing:
  - whether they were mitigated by headroom available in respect of the Shaikan Block, based on the results of our work in relation to the "Recoverability of producing assets" risk above, and hence whether an impairment charge was required in respect of the overall Kurdistan cost pool; and
  - the date from which depreciation of any uncommercial fields should commence; and
- considering whether the related disclosures in this area comply with the relevant accounting standards and are balanced, proportionate and clear.

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Revenue recognition for oil sent for export

Revenue totalling $68.8 million has been recognised for oil sent for export. In the prior year, as the payment mechanism for sales to the export market is still developing within the Kurdistan Region of Iraq, revenue for export delivery was only recognised at the point of cash receipt. In 2015, as a result of a partial improvement in the pattern of cash receipts in the second half of the year, management have adjusted their revenue recognition approach such that revenue is recognised when ultimate cash receipt is considered by them to be assured, typically being the date at which the Kurdistan Regional Government ("KRG") issue a request to the Group to provide an invoice for payment.

There are significant judgements as to how to apply the criteria for revenue recognition under IAS 18 Revenue in respect of oil sent for export as:

- the only contract specifying the mechanism by which crude oil is delivered is the Production Sharing Contract ("PSC") with the KRG;
- the payment mechanism for oil sent for export is still developing within the Kurdistan Region of Iraq; and
- the Group does not receive regular payment for these export deliveries.

As referenced on page 102 of the financial statements the recognition of revenue relating to oil sent for export is considered by management as a critical accounting judgement and key source of estimate uncertainty.

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We have assessed whether the Group's decision to record revenue in respect of oil sent for export at the point that ultimate cash receipt is considered to be assured is consistent with IAS 18 through:

- confirming that management's assessment of the point of the transfer of risks and rewards is appropriate;
- confirming the existence of significant uncertainties in relation to: (a) the payment mechanism for oil sent for export; and hence (b) whether the Group is able to conclude that it is probable that economic benefits will ultimately flow to the Group in advance of a KRG request for the Group to provide an invoice;
- verifying revenue recognised in respect of oil sent for export in 2015 to invoices issued during the year and cash received either during the year or shortly after year end;
- recalculating the expected revenue based on production in the period and average oil prices to determine whether the full amount subject to an invoice request can be recognised in the period;
- obtaining supporting documentation for any cash receipts subsequent to year end, to assess whether they should have been recorded in the current year; and
- considering whether the related disclosures in this area comply with the relevant accounting standards and are balanced, proportionate and clear.

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INDEPENDENT AUDITOR'S REPORT continued

to the members of Gulf Keystone Petroleum Limited

Our assessment of risks of material misstatement continued

Risk	How the scope of our audit responded to the risk
Depreciation, depletion and amortisation ("DD&A") The calculation of the DD&A charge of $74.0 million in respect of the Shaikan Block is a judgemental area which requires consideration of several inputs such as total depreciable oil and gas assets, an appropriate estimate of commercial reserves and an estimate of future development costs necessary to access those reserves. As referenced on page 102 of the financial statements the calculation of the DD&A charge is considered by management as a critical accounting judgement and key source of estimate uncertainty.	We have obtained supporting evidence for the key assumptions underlying the 2015 DD&A charge through: • agreeing estimated commercial reserves as at 1 October 2015 to the most recent third party CPR and performing procedures to assess the competence, objectivity and independence of the third party; • confirming the key assumptions relating to the estimation of commercial reserves with operational management and their third party CPR provider; • obtaining an understanding, based on discussions with management and our understanding of operational developments on the Shaikan Block during 2015, of any material reserve revisions made by the Group during 2015; • reconciling the difference to the opening reserves at 1 January 2015 per management's calculations to production reports; • testing the production for 2015 to signed production reports and bills of lading; • confirming that, in accordance with the Group's accounting policy, any revisions to estimates of commercial reserves have been treated as applicable from the start of the year; • agreeing the depreciable base as being the sum of historic costs incurred to date together with estimated future capital expenditure to access the reserves base, as set out in the latest internal budgets; • reconciling estimated future capital expenditure and production to the amounts included in the 1 October 2015 CPR and comparison to the Shaikan impairment model, obtaining explanations for any significant differences; • testing the mechanical accuracy of management's DD&A calculation; and • considering whether the related disclosures in this area comply with the relevant accounting standards and are balanced, proportionate and clear.

The risks remain the same as those discussed in 2014, except for the addition of "Recoverability of intangible exploration and evaluation assets" and removal of "Carrying value of assets held for sale". The former has been added as there were impairment indicators for both the Sheikh Adi and Ber Bahr assets under IFRS 6 Exploration for and Evaluation of Mineral Resources, whilst the latter has been removed following the impairment and relinquishment of Akri-Bijeel during the year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 62.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

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

We determined materiality for the Company to be $4.9 million (2014: $9.7 million), based on 2% of net assets, consistent with the prior year. We considered net assets to be an appropriate metric to use in our materiality assessment as the Group was loss making during the year.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $98,000 (2014: $207,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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

Matters on which we are required to report by exception

Our duty to read other information in the Annual report

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

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

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

Respective responsibilities of Directors and auditor

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

This report is made solely to the Company's members, as a body in accordance with the provisions of the Bermuda Companies Act 1981. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

16 March 2016

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2015

	Notes	2015 $'000	2014 $'000
Continuing operations			
Revenue	2	**86,165**	38,560
Cost of sales	3	**(136,872)**	(81,845)
Gross loss		**(50,707)**	(43,285)
Other operating expenses			
Impairment expense	12	**(3,609)**	(144,119)
General and administrative expenses		**(30,990)**	(39,034)
Loss from operations	4	**(85,306)**	(226,438)
Other gains	6	**3,051**	73
Interest revenue	2	**42**	103
Finance costs	7	**(52,075)**	(19,812)
Loss before tax		**(134,288)**	(246,074)
Tax charge	8	**(689)**	(2,129)
Loss after tax for the year		**(134,977)**	(248,203)
Loss per share (cents)			
Basic	9	**(14.41)**	(28.51)
Diluted	9	**(14.41)**	(28.51)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	2015 $'000	2014 $'000
Loss for the year	**(134,977)**	(248,203)
Items that may subsequently be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(1,139)**	(987)
Total comprehensive loss for the period	**(136,116)**	(249,190)

CONSOLIDATED BALANCE SHEET

as at 31 December 2015

	Notes	2015 $'000	2014 $'000
Non-current assets			
Intangible assets	10	**314,696**	276,290
Property, plant and equipment	11	**562,178**	593,604
Deferred tax asset	19	**483**	732
		877,357	870,626
Current assets			
Assets classified as held for sale	12	**—**	8,587
Inventories	14	**18,544**	22,854
Trade and other receivables	15	**16,527**	16,380
Cash and cash equivalents		**43,641**	87,835
		78,712	135,656
Total assets		**956,069**	1,006,282
Current liabilities			
Trade and other payables	16	**(127,399)**	(103,985)
Provisions	18	**(11,151)**	(7,197)
Liabilities directly associated with assets classified as held for sale	12, 18	**—**	(8,587)
		(138,550)	(119,769)
Non-current liabilities			
Convertible bonds	17	**(310,444)**	(303,278)
Other borrowings	17	**(234,094)**	(224,071)
Provisions	18	**(27,333)**	(19,559)
		(571,871)	(546,908)
Total liabilities		**(710,421)**	(666,677)
Net assets		**245,648**	339,605
Equity			
Share capital	20	**9,781**	8,922
Share premium account	20	**834,619**	796,099
Share option reserve		**47,085**	51,017
Convertible bonds reserve		**10,179**	15,834
Exchange translation reserve		**(1,398)**	(259)
Accumulated losses		**(654,618)**	(532,008)
Total equity		**245,648**	339,605

The financial statements were approved by the Board of Directors and authorised for issue on 16 March 2016, and signed on its behalf by:

Jón Ferrier
Chief Executive Officer

Sami Zouari
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

		Attributable to equity holders of the Company						
	Notes	Share capital $'000	Share premium account $'000	Share option reserve $'000	Exchange translation reserve $'000	Accumulated losses $'000	Convertible bonds reserve $'000	Total equity $'000
Balance at 1 January 2014		7,975	796,099	33,486	728	(297,409)	21,488	562,367
Net loss for the year		—	—	—	—	(248,203)	—	(248,203)
Other comprehensive loss for the year		—	—	—	(987)	—	—	(987)
Total comprehensive loss for the year		—	—	—	(987)	(248,203)	—	(249,190)
Transfer relating to share-based payments		—	—	(8,897)	—	8,897	—	—
Share-based payment expense	23	—	—	4,885	—	—	—	4,885
Deferred tax on share-based payment transactions	19	—	—	(619)	—	—	—	(619)
Share conversion and issue	20	947	—	—	—	(914)	—	33
Own shares held by EBT		—	—	—	—	(33)	—	(33)
Issue of warrants	17	—	—	22,162	—	—	—	22,162
Convertible bond equity amortisation	17	—	—	—	—	5,654	(5,654)	—
Balance at 31 December 2014		8,922	796,099	51,017	(259)	(532,008)	15,834	339,605
Net loss for the year		—	—	—	—	(134,977)	—	(134,977)
Other comprehensive loss for the year		—	—	—	(1,139)	—	—	(1,139)
Total comprehensive loss for the year		—	—	—	(1,139)	(134,977)	—	(136,116)
Transfer relating to share-based payments		—	—	(6,712)	—	6,712	—	—
Share-based payment expense	23	—	—	2,723	—	—	—	2,723
Deferred tax on share-based payment transactions	19	—	—	57	—	—	—	57
Share issue	20	859	38,520	—	—	—	—	39,379
Convertible bond equity amortisation	17	—	—	—	—	5,655	(5,655)	—
Balance at 31 December 2015		9,781	834,619	47,085	(1,398)	(654,618)	10,179	245,648

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2015

	Notes	2015 $'000	2014 $'000
Operating activities			
Cash generated/(used) in operations	21	**20,064**	(760)
Tax refunded/(paid)		**599**	(210)
Interest received		**42**	103
Guaranteed note and convertible bond coupon payments		**(52,903)**	(36,563)
Net cash used in operating activities		**(32,198)**	(37,430)
Investing activities			
Purchase of intangible assets		**(5,607)**	(86,822)
Purchase of property, plant and equipment		**(46,542)**	(110,623)
Net cash used in investing activities		**(52,149)**	(197,445)
Financing activities			
Proceeds on issue of share capital	20	**39,379**	—
Proceeds on issue of convertible bonds		**—**	240,114
Net cash from financing activities		**39,379**	240,114
Net (decrease)/increase in cash and cash equivalents		**(44,968)**	5,239
Cash and cash equivalents at beginning of year		**87,835**	81,972
Effect of foreign exchange rate changes		**774**	624
Cash and cash equivalents at end of the year being bank balances and cash on hand[(1)]		**43,641**	87,835

(1) This amount includes $32.5 million held within a Debt Service Reserve Account as stipulated by the 2014 Notes (2014: $32.5 million).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General information

The Company is incorporated in Bermuda (registered address: Cumberland House, 9th Floor, 1 Victoria Street, Hamilton, Bermuda). On 25 March 2014, the Company's common shares were admitted, with a standard listing, to the Official List of the United Kingdom Listing Authority ("UKLA") and to trading on the London Stock Exchange's Main Market for listed securities. Previously the Company was quoted on AIM, a market operated by the London Stock Exchange. 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, no new or revised Standards and Interpretations have been adopted.

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

IFRS 9	Financial Instruments (effective date 1 January 2017)
IFRS 15	Revenue from Contracts with Customers (effective date 1 January 2018)
IFRS 16	Leases (effective date 1 January 2019)
IFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
IAS 16 and IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
Annual Improvements to IFRS: 2012-2014 Cycle	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting

With the exception of IFRS 15 and IFRS 16, the Directors do not currently 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. A detailed assessment of the effect of IFRS 15 and IFRS 16 has not yet been completed.

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, which have been measured at fair value, and on the going concern basis. Equity-settled share-based payments were initially recognised at fair value, but have not been subsequently revalued. The principal accounting policies adopted are set out below.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement, the Chief Executive Officer's statement and the 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.

The Group's cash balances at 16 March 2016, including $32.5 million of restricted cash relating to the Debt Service Reserve Account (see note 17 to the financial statements) were $50.6 million. The Group's core asset is its participating interest in the Shaikan field and it requires working capital to continue its operations. The Group is also obliged to make significant bi-annual coupon payments on its convertible bonds and Guaranteed Notes and to finance the repayment of the Guaranteed Notes due in April 2017. The Group's budgeted capital expenditure for 2016 is focused on achieving the production guidance of 31,000 to 35,000 bopd for 2016, while postponing any additional investment until the Group has secured more stable funding arrangements.

In order to continue the Group's operations in accordance with the stated strategy for the foreseeable future, being twelve months from the date of the approval of this annual report, it has been assumed that the Group is able to maintain a reliable pattern of cash receipts from oil sent for export and address some of the arrears due from the KRG. A regular payment cycle was established from September 2015 for oil exports and, to date, the Group has received its fifth consecutive monthly payment which included a top-up payment towards the recovery of arrears. The KRG also announced on 1 February 2016 that monthly payments to IOCs would be made on the basis of the monthly contractual revenue entitlement under the PSC. On 16 March 2016, an Agreement between the Group and the MNR was signed addressing the Group's agreement to the MNR's exercise of the 20% Government Participation Option and the settlement of the associated past costs together with the reduction of the capacity building charge from 40% to 30% of the Group's profit oil, all to be the subject of an amendment agreement to the Shaikan PSC. The Agreement also provided a mechanism for gradually addressing the arrears through a series of monthly payments in addition to the monthly contractual entitlement under the PSC. The arrears include $93 million net to GKP for past Shaikan crude oil sales on a diluted basis and $85 million net to GKP for the Government 20% interest costs paid by the Shaikan PSC holders on behalf of the Government since 1 August 2012 ("Shaikan Government option past costs"), subject to execution. The Group also engaged in discussions with the MNR regarding commercial terms, including the Shaikan quality discount and transportation costs, for near term Shaikan crude oil export sales until an independent audit of these terms is conducted and an industry standard quality bank has been established.

Notwithstanding the Agreement with the MNR and the Group's efforts to reduce its ongoing costs, the Directors recognise that there is significant uncertainty as to whether cash receipts between the date of this report and 18 April 2016 will be sufficient to enable the Company to make its coupon payments of $26.4 million due on that date without being unable to top up the Debt Service Reserve Account ("DSRA") to the amount of $32.5 million within five business days, as required by the terms and conditions of the Guaranteed Notes, or being unable to do so within the further 15 business days grace period. If the Company is unable to do this, the holders of the Guaranteed Notes would have the right to request that repayment of the outstanding Guaranteed Note debt is declared immediately due and repayable, which declaration would in turn give the holders of the convertible bonds the right to request that the convertible bonds are declared immediately due and repayable. If sufficient cash is received to avoid being unable to top up the DSRA in April 2016, based on current forecasts, the Directors expect the Group to require additional funding in order to be able to meet the subsequent coupon payments in October 2016 and the repayment of the Guaranteed Notes due in April 2017. In order to address this potential shortfall, the Group has been actively considering options including a possible restructuring of its debt facilities and further fundraising (together the "mitigating actions").

The Directors have concluded that the current low oil price environment, the political situation in Iraq, the fact that the Agreement with the MNR is subject to an amendment agreement to the Shaikan PSC, and the early stages of the mitigating actions outlined above create a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern. Nevertheless, based on the forecasts and projections prepared at the time of preparation of this Annual report and after making enquiries, and considering the uncertainties and mitigating actions described above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing this Annual report. The financial statements do not include any adjustments that might be required if they were prepared on a basis other than that of a going concern.

Basis of consolidation

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

Joint arrangements

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

Sales and interest revenue

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

Sales revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and when the following conditions have been 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.

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.

Under IAS 12 Income Taxes, where income tax arising from the Group's activities under production sharing contracts is settled by a third party on behalf of the Group, and where the Group would otherwise be liable for such income tax, the associated sales are required to be shown gross including the notional tax, and a corresponding income tax charge shown in the statement of comprehensive income. However, due to the uncertainty over the payment mechanism for oil sales in Kurdistan and the fact that there is no sufficiently well-established tax regime in place in the Kurdistan Region of Iraq, it has not been possible to measure reliably the taxation due that has been paid on behalf of the Group by the KRG. Therefore the notional tax amounts have not been included in revenue or in the tax charge. This is an accounting presentational issue and there is no taxation to be paid.

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 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 over its expected useful life as follows:

Fixtures and equipment — 20% straight-line

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets other than oil and gas interests

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

Computer software — 33% straight-line

Oil and gas assets

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

Pre-licence costs

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

Exploration and evaluation costs

Under the modified 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. Production associated with unrecognised export sales revenue is included in the DD&A calculation. Costs used in the calculation comprise the net book value of the field, and any further anticipated costs to develop such reserves.

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

Commercial reserves are proven and probable ("2P") Reserves together with, where considered appropriate, a risked portion of 2C Contingent Resources, which are 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.

As described in the revenue accounting policy section above, it is not possible to calculate the amount of notional tax to be shown in relation to any tax liabilities settled on behalf of the Group by the KRG.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments

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

Trade receivables

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

Cash and cash equivalents

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

Liquid investments

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

Financial assets at fair value through profit and loss

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

Derivative financial instruments

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

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

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

Impairment of financial assets

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

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

Financial liabilities and equity

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

Equity instruments

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

Convertible bonds

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

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

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

Borrowings

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

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 10.

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

Carrying value of producing assets

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Critical accounting estimates and judgements continued

Carrying value of producing assets continued

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

In line with the Group's accounting policy on impairment, management carried out an impairment review of the Group's oil and gas assets as at 31 December 2015 in view of the reduction in the short to medium-term oil price assumption and the Group's decision to relinquish the Ber Bahr exploration block. The future cash flows were estimated using an oil price assumption equal to the dated Brent forward curve in 2016 and 2017, US$65/bbl in 2018 to 2020 and US$80/bbl in 'real' terms thereafter and were discounted using a pre-tax discount rate of 15%. The outcome of the review was that under the Group's current modified full cost accounting policy, under which exploration assets are assessed for impairment based on one overall Kurdistan cost pool including the Shaikan producing asset, no impairment was required for any of the Group's oil and gas assets. See note 11 for further details of amounts capitalised at year end.

In particular, although the Group has decided to relinquish the Ber Bahr exploration licence with effect from 31 December 2015, the level of impairment headroom available in respect of the Shaikan block was in excess of the $79 million capitalised on Ber Bahr, and hence no impairment of the overall Kurdistan cost pool was required. The Ber Bahr capitalised costs will be depleted prospectively from the beginning of 2016 on a unit of production basis, based on the overall production and commercial reserves relating to the Kurdistan cost pool, including Shaikan.

The Group also assessed the likelihood of achieving a sale of its Akri-Bijeel asset. Having received limited enquiries from interested parties and taking into consideration the $144.1 million impairment recorded at 31 December 2014, a prolonged period of lower oil prices and the ongoing challenges faced by the Kurdistan Region of Iraq, an impairment was recognised to write off the remaining intangible asset. Further details are provided in note 12.

Decommissioning costs

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

Depreciation, depletion and amortisation

Amortisation and depreciation of oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of commercial reserves on an entitlement basis at the end of the period plus production in the period, on a field-by-field basis. Commercial reserve estimates are based on a number of underlying assumptions, including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references these estimates against those of joint venture partners and external consultants. Such external estimates include the Competent Person's Report prepared by ERC Equipoise, released in October 2015.

Reserves estimates

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

Revenue

The recognition of revenue, particularly the recognition of revenue from exports, is considered to be a key accounting judgement. The Group began commercial production from the Shaikan field in July 2013 and makes sales to both the domestic and export market. For all sales, the goods are considered to be delivered and the title passed at the point of loading at the Shaikan field. For sales into the local market, it is clear that, at this point of delivery, economic benefit will flow to the Group and that revenue and costs can be measured reliably and therefore revenue is recognised. However, as the payment mechanism for sales to the export market is currently developing within the Kurdistan Region of Iraq, the Group considers that revenue can be only reliably measured when the cash receipt is assured. This represents an amendment to the approach adopted in previous years, when revenue for export deliveries was only recorded at the point of cash receipt, and reflects a partial improvement in the pattern and reliability of receipts that occurred during the year. This change in accounting estimate has resulted in an additional $12 million being recognised as revenue in the year. It is not possible to quantify the effect on future periods as it will depend on the timing and amount of invoices issued around subsequent year ends.

Capitalisation of borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segment information

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

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

Each segment is described in more detail below:

- **Kurdistan Region of Iraq:** the Kurdistan segment consists of the Shaikan, Akri-Bijeel, Sheikh Adi and Ber Bahr blocks and the Erbil office which provides support to the operations in Kurdistan;
- **United Kingdom:** the UK segment provides geological, geophysical and engineering services to the Gulf Keystone Group; and
- **Algeria:** the Algerian segment consists of the Algiers office and the Group's operations in Algeria.

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

31 December 2015	Algeria $'000	Kurdistan $'000	United Kingdom $'000	Corporate $'000	Elimination $'000	Total $'000
Revenue						
Oil sales	—	86,165	—	—	—	86,165
Inter-segment sales	—	—	8,478	—	(8,478)	—
Total revenue	—	86,165	8,478		(8,478)	86,165
Cost of sales						
Production costs	—	(63,227)	—	—	406	(62,821)
Royalty costs	—	(1)	—	—	—	(1)
Oil and gas properties depreciation expense	—	(74,050)	—	—	—	(74,050)
Gross profit/(loss)	—	(51,113)	8,478	—	(8,072)	(50,707)
General and administrative expenses						
Impairment charge	—	(3,614)	—	—	4	(3,609)
Allocated general and administrative expenses	(460)	(11,092)	(8,586)	(17,297)	7,136	(30,300)
Depreciation and amortisation expense	—	(437)	(253)	—	—	(690)
Loss from operations	(460)	(66,256)	(361)	(17,297)	(932)	(85,306)
Interest revenue	—	—	7	35	—	42
Finance costs	—	(803)	—	(70,055)	18,783	(52,075)
Other gains/(losses)	238	(124)	—	2,937	—	3,051
(Loss)/profit before tax	(222)	(67,183)	(354)	(84,380)	17,851	(134,288)
Tax expense	—	—	(689)	—	—	(689)
(Loss)/profit after tax	(222)	(67,183)	(1,043)	(84,380)	17,851	(134,977)
Capital expenditure	—	81,406	613	—	—	82,019
Total assets	53	931,027	16,046	1,242,554	(1,233,611)	956,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1. Segment information continued

31 December 2014	Algeria $'000	Kurdistan $'000	United Kingdom $'000	Corporate $'000	Elimination $'000	Total $'000
Revenue						
Oil sales	—	38,560	—	—	—	38,560
Inter-segment sales	—	—	10,661	—	(10,661)	—
Total revenue	—	38,560	10,661	—	(10,661)	38,560
Cost of sales						
Production costs	—	(42,238)	—	—	454	(41,784)
Royalty costs	—	(1,672)	—	—	—	(1,672)
Oil and gas properties depreciation expense	—	(38,389)	—	—	—	(38,389)
Gross profit/(loss)	—	(43,739)	10,661	—	(10,207)	(43,285)
General and administrative expenses						
Impairment charge	—	(132,903)	—	—	(11,216)	(144,119)
Allocated general and administrative expenses	(3,924)	(11,277)	(9,613)	(22,384)	8,920	(38,278)
Depreciation and amortisation expense	—	(548)	(207)	(1)	—	(756)
(Loss)/profit from operations	(3,924)	(188,467)	841	(22,385)	(12,503)	(226,438)
Other gains/(losses)	(4)	(249)	—	326	—	73
Interest revenue	—	—	5	98	—	103
Finance costs	—	(534)	(2)	(55,933)	36,657	(19,812)
(Loss)/profit before tax	(3,928)	(189,250)	844	(77,894)	24,154	(246,074)
Tax expense	—	—	(2,129)	—	—	(2,129)
(Loss)/profit after tax	(3,928)	(189,250)	(1,285)	(77,894)	24,154	(248,203)
Capital expenditure	—	236,599	377	—	—	236,976
Total assets	52	946,313	21,074	1,271,385	(1,232,542)	1,006,282

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:

	2015 $'000	2014 $'000
Algeria	—	—
Kurdistan	876,061	869,420
Bermuda	—	1
United Kingdom	813	473
	876,874	869,894

Information about major customers

Included in revenues arising from the Kurdistan segment are revenues of approximately $68.8 million which arose from sales to the Group's largest customer (2014: $28.2 million and $10.4 million from two customers).

2. Revenue

	2015 $'000	2014 $'000
Oil sales	**86,165**	38,560
Interest revenue	**42**	103
	86,207	38,663

During 2015, the Group sold Shaikan oil domestically and on the export market. Revenue from domestic sales for the year amounted to $17.4 million (2014: $10.4 million) and revenue from export sales amounted to $68.8 million (2014: $28.2 million). Revenue for commercial sales is recognised in line with the terms of the Shaikan PSC, the applicable sales contracts and the Group's accounting policy.

The gross price achieved on domestic sales in 2015 was $18/bbl (2014: $43/bbl). In 2015, the Group received, and recognised as revenue, 50% of the cash proceeds from any domestic offtake sales agreement. The Group has been involved in discussions with the MNR to review the Shaikan quality discount and transportation costs on the Group's export sales to date. Based on these discussions, the realised price for 2015 export sales is estimated at $22/bbl.

Management has used the following assumptions in arriving at the value of sales revenue during the period:

- point of sale is the Shaikan facility;
- export revenue is recognised when payment is assured, whilst any sales to a domestic offtaker are recognised on an accruals basis;
- cash is received and revenue is recognised for all sales, net of royalty, as the royalty is taken "in-kind" by the KRG (in 2014, revenue from domestic sales was recognised gross of any royalty due in accordance with the terms of the Shaikan PSC);
- deductions for trucking and port storage costs as well as the discount to Brent, for the quality of the crude, have been estimated based on the discussions with the MNR and are subject to audit and the establishment of a retroactive quality bank for Kurdistan crude exports delivered through the international pipeline to Turkey;
- cash receipts by GKPI as the operator represent the non-governmental contractors' share of revenue; and
- the Group's current working interest in the Shaikan block is 80%.

3. Cost of sales

	2015 $'000	2014 $'000
Production costs	**62,822**	41,784
Royalty costs	**—**	1,671
Depreciation of oil and gas properties	**74,050**	38,390
	136,872	81,845

A unit-of-production method, based on full entitlement production, commercial reserves and costs for Shaikan field full development, has been used to calculate the depreciation, depletion and amortisation ("DD&A") charge for the year. Production and reserves entitlement associated with sales unrecognised in accordance with our revenue policy have been included in the full year DD&A calculation. A depreciation charge of $74.1 million has been recorded within cost of sales for the year (2014: $38.4 million).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

4. Loss from operations

	2015 $'000	2014 $'000
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	74,707	39,019
Amortisation of intangible assets	35	111
Credit in relation to Excalibur litigation	—	(2,138)
Staff costs (see note 5)	26,772	25,381
Auditor's remuneration for audit services (see below)	179	155
Operating lease rentals (see note 22)	3,765	2,051

	2015 $'000	2014 $'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	148	130
Fees payable to the Company's auditor for other services to the Group		
– audit of the Company's subsidiaries pursuant to legislation	31	25
Total audit fees	179	155
Other assurance services (half year review)	69	—
Corporate finance services	122	305
Tax services (advisory)	10	—
Total fees	380	460

5. Staff costs

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

	2015 Number	2014 Number
Office and management	89	87
Technical and operational	222	167
	311	254

Employee benefits recognised as an expense during the year comprised:

	2015 $'000	2014 $'000
Wages and salaries	23,114	22,615
Social security costs	1,119	(1,203)
Share-based payment (see note 23)	2,539	3,969
	26,772	25,381

6. Other gains

	2015 $'000	2014 $'000
Exchange gains	3,051	73
	3,051	73

7. Finance costs

	2015 $'000	2014 $'000
Interest payable in respect of convertible bonds (see note 17)	**27,479**	26,866
Interest payable in respect of other bonds (see note 17)	**42,577**	29,066
Unwinding of discount on provisions (see note 18)	**803**	534
Capitalised finance costs	**(18,784)**	(36,654)
	52,075	19,812

The amount of finance costs capitalised was determined in accordance with IAS 23 by applying the effective interest rate of 12.18% on an annual basis applicable to the borrowings under the $325 million convertible bond and the $250 million Guaranteed Notes to the expenditures on the qualifying assets (see note 17).

8. Tax

	2015 $'000	2014 $'000
Corporation tax		
Current year (charge)/credit	**—**	445
Adjustment in respect of prior years	**(433)**	(400)
Deferred UK corporation tax expense (see note 19)	**(256)**	(2,174)
Tax expense attributable to the Company and its subsidiaries	**(689)**	(2,129)

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

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

In the Kurdistan region, the Group is subject to corporate income tax on its income from petroleum operations under the Kurdistan PSCs. The rate of corporate income tax is currently 15% on total income. Under the PSC, any corporate income tax arising from petroleum operations will be paid from the KRG's share of petroleum profits. Due to the uncertainty over the payment mechanism for oil sales in Kurdistan, it has not been possible to measure reliably the taxation due that has been paid on behalf of the Group by the KRG and therefore the notional tax amounts have not been included in revenue or in the tax charge. This is an accounting presentational issue and there is no taxation to be paid.

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 20.25% (2014: 21.49%) 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 21% to 20% effective from 1 April 2015 in the Finance Bill 2013. On 8 July 2015, the UK Government announced a reduction in the rate to 19% for the financial years beginning 1 April 2018 and 2019, and a further reduction of 1% to 18% for the financial year beginning 1 April 2020.

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

In addition to the deferred tax charge to the income statement, a $0.06 million deferred tax credit (2014: $0.6 million) relating to estimated excess tax deductions related to share-based payments has been recognised directly in equity. All deferred tax arises in the UK.

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

	2015 $'000	2014 $'000
Loss before tax	**(134,288)**	(246,074)
Tax at the Bermudian tax rate of 0% (2014: 0%)	**—**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(689)**	(2,129)
Tax charge for the year	**(689)**	(2,129)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

9. Loss per share

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

	2015 $'000	2014 $'000
Loss		
Loss after tax for the purposes of basic and diluted loss per share	**(134,977)**	(248,203)

	2015 Number '000	2014 Number '000
Number of shares		
Basic weighted average number of shares	**936,934**	870,578

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 share options, convertible bonds, warrants and common shares held by the Employee Benefit Trustee ("EBT") and the Exit Event Trustee have an anti-dilutive effect on loss per share. As a result, there is no difference between basic and diluted earnings per share.

As at 31 December 2015, 36.0 million share options (2014: 35.8 million), 6.4 million common shares held by the EBT (2014: 10.3 million), 10.0 million common shares held by the Exit Event Trustee (2014: 10.0 million), 40.0 million warrants (2014: 40.0 million) and 74.9 million (2014: 74.0 million) common shares to be issued if the convertible bonds are converted at the adjusted conversion price of $4.34 (see note 17) were excluded from the loss per share calculation as they were anti-dilutive.

Reconciliation of anti-dilutive shares:

	2015 Number (million)	2014 Number (million)
Number of shares		
Share options	**36.0**	35.8
Common shares held by the EBT	**6.4**	10.3
Common shares held by the Exit Event Trustee	**10.0**	10.0
Warrants outstanding	**40.0**	40.0
Common shares to be issued on conversion of convertible bonds	**74.9**	74.0
Total potentially anti-dilutive shares	**167.3**	170.1

10. Intangible assets

	Exploration and evaluation costs $'000	Computer software $'000	Total $'000
Year ended 31 December 2014			
Opening net book value	220,756	207	220,963
Additions	55,487	(45)	55,442
Amortisation charge	—	(111)	(111)
Foreign currency translation differences	—	(4)	(4)
Closing net book value	276,243	47	276,290
At 31 December 2014			
Cost	276,243	928	277,171
Accumulated amortisation	—	(881)	(881)
Net book value	276,243	47	276,290
Year ended 31 December 2015			
Opening net book value	276,243	47	276,290
Additions	38,439	2	38,441
Amortisation charge	—	(35)	(35)
Closing net book value	**314,682**	**14**	**314,696**
At 31 December 2015			
Cost	314,682	930	315,612
Accumulated amortisation	—	(916)	(916)
Net book value	**314,682**	**14**	**314,696**

The net book value at 31 December 2015 includes intangible assets relating to: Ber Bahr $79.0 million (2014: $74.2 million), and Sheikh Adi $235.7 million (2014: $202.1 million). At year end, the Group decided to relinquish the Ber Bahr block, the accounting implications of which are outlined in the "Critical accounting estimates and judgements" section of the Summary of significant accounting policies. Subsequent to the year end, the Group decided to relinquish the Sheikh Adi block as described in note 27.

The additions to oil and gas exploration and evaluation costs in the year include the drilling, testing and workovers of wells on the of Sheikh Adi block.

The amortisation charge of $35,000 (2014: $111,000) for computer software has been included in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

11. Property, plant and equipment

	Oil and gas properties $'000	Fixtures and equipment $'000	Total $'000
Year ended 31 December 2014			
Opening net book value	514,638	1,799	516,437
Additions	115,684	547	116,231
Disposals	—	—	—
Depreciation charge	(38,390)	(629)	(39,019)
Foreign currency translation differences	—	(45)	(45)
Closing net book value	591,932	1,672	593,604
At 31 December 2014			
Cost	632,699	5,620	638,319
Accumulated depreciation	(40,767)	(3,948)	(44,715)
Net book value	591,932	1,672	593,604
Year ended 31 December 2015			
Opening net book value	591,932	1,672	593,604
Additions	42,953	625	43,578
Disposals	—	(364)	(364)
Depreciation charge	(74,050)	(657)	(74,707)
Accumulated depreciation eliminated on disposals	—	87	87
Foreign currency translation differences	—	(20)	(20)
Closing net book value	**560,835**	**1,343**	**562,178**
At 31 December 2015			
Cost	675,652	5,801	681,453
Accumulated depreciation	(114,817)	(4,458)	(119,275)
Net book value	**560,835**	**1,343**	**562,178**

The net book value of oil and gas properties at 31 December 2015 is comprised of property, plant and equipment relating to the Shaikan block and has a carrying value of $560.8 million (2014: $591.9 million).

The additions to the Shaikan asset during the year included costs for drilling the SH-11 development well, automation of three additional flowlines, the Shaikan FDP update, the design of the central processing facility and workover and de-bottlenecking activity.

The depreciation, depletion and amortisation charge of $74.1 million on oil and gas properties (2014: $38.4 million) has been included within cost of sales (note 3). The depreciation charge of $0.7 million on fixtures and equipment (2014: $0.6 million) has been included in general and administrative expenses.

For details of the key assumptions and judgements underlying the impairment assessment and the depreciation, depletion and amortisation charge, refer to the "Critical accounting estimates and judgements" section of the Summary of significant accounting policies.

12. Asset classified as held for sale

In 2011, as part of the Group's strategy to rationalise its asset portfolio, the Board resolved to sell the Group's 20% working interest in the Akri-Bijeel block in the Kurdistan Region of Iraq. The Group appointed Joint Corporate Advisers responsible for coordinating the sale and this process has been ongoing since that date with the operator, MOL Hungarian Oil and Gas Plc. ("MOL"), announcing in November 2014 that the Field Development Plan ("FDP") had been agreed with the MNR. However, the Group has received limited enquiries from interested parties during 2015 relating to the sale of Akri-Bijeel. In December 2015, the Group, in agreement with its partners MOL and the KRG MNR, decided to relinquish the Akri-Bijeel Block and signed a PSC Relinquishment Agreement to that effect.

As a result, an impairment of $3.6 million (2014: $144.1 million) has been recognised in 2015 associated with the write off of the remaining intangible asset as at 31 December 2014 and additions to the decommissioning provision during 2015.

The Contractor Parties (being MOL and the Group) also agreed that, following the execution of the PSC Relinquishment Agreement, they will negotiate a JOA Termination Agreement which will allow for the final settlement of any costs between the parties. It is expected that this agreement will be concluded by 1 July 2016. Discussions are ongoing with MOL with respect to the 2014 and 2015 work programme and budget and the Group considers that it is not obliged to pay an amount of $39.9 million, which represents part of 2014 and 2015 billed expenditure. Accordingly, this contingent liability has not been recognised in the financial statements.

The 2014 asset held for sale comprised Akri-Bijeel intangible assets of $8.5 million. Amounts of $6.3 million and $2.2 million, representing respectively, amounts due to the operator and the net present value of the decommissioning costs associated with this asset, were presented separately on the balance sheet as a liability directly associated with assets classified as held for sale. The decommissioning provision has, following signature of the PSC Relinquishment Agreement, been reclassified to short-term provisions (see note 18), pending finalisation of the JOA Termination Agreement.

Akri-Bijeel assets	**2015 $'000**	2014 $'000
Intangible assets	–	8,587
	–	8,587

Akri-Bijeel liabilities	**2015 $'000**	2014 $'000
Decommissioning provisions (see note 18)	–	2,298
Payables/(prepayments) to operator	–	6,289
	–	8,587

13. Group companies

Details of the Company's subsidiaries and joint operations at 31 December 2015, and 31 December 2014, are as follows:

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

Name of joint operation	Place of incorporation	Proportion of ownership interest	Proportion of voting power held[(2)]	Principal activity
Shaikan	Kurdistan	80%[(1)]	33.3%	Production and development activities
Sheikh-Adi	Kurdistan	100%	50%	Exploration and evaluation activities
Akri-Bijeel[(3)]	Kurdistan	20%	33.3%	Exploration and evaluation activities
Ber Bahr	Kurdistan	40%	33.3%	Exploration and evaluation activities

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

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

(3) Relinquished effective 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

14. Inventories

	2015 $'000	2014 $'000
Exploration materials	**17,697**	21,352
Crude oil	**847**	1,502
	18,544	22,854

15. Trade and other receivables

	2015 $'000	2014 $'000
Trade receivables	**12,000**	4,890
Other receivables	**3,034**	8,877
Corporation tax receivable	**189**	339
Prepayments and accrued income	**1,304**	2,274
	16,527	16,380

Trade receivables relate to amounts due from oil sales with $12.0 million outstanding as at 31 December 2015 (2014: $4.9 million).

Also included within other receivables for 2015 is an amount of $0.5 million (2014: $0.5 million) being the deposits for leased assets which are receivable after more than one year. There are no receivables from related parties as at 31 December 2015 (2014: $nil) (see note 24). No impairments of receivables have been recognised during the year (2014: $nil).

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

16. Trade and other payables

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

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

	2015 $'000	2014 $'000
Trade payables	**10,786**	13,885
Other creditors	**232**	669
Accrued expenses	**116,381**	89,431
	127,399	103,985

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

17. Long-term borrowings and warrants

The Company has in issue convertible debt securities issued in 2012 and 2013 consisting of $325 million convertible bonds due October 2017 carrying a coupon of 6.25% payable on a bi-annual basis (the "convertible bonds")

On 17 April 2014, the Company issued debt securities consisting of $250 million three-year senior Guaranteed Notes (the "Notes" or the "Guaranteed Notes"), carrying a coupon of 13% per annum payable on a bi-annual basis and freely tradeable and detachable warrants relating to 40 million common shares in the Company. The 2014 Notes are guaranteed by Gulf Keystone Petroleum International Limited and have a maturity date of 18 April 2017. Each warrant entitles the holder, subject to certain conditions, to purchase a common share in the Company on payment of the exercise price, which is currently $1.68. The warrants expire on 18 April 2017. The 2014 Notes and warrants have been listed on the Luxembourg Stock Exchange. The warrants were recorded within equity at their fair value at the date of issuance of $22.2 million and the remaining proceeds of the 2014 Notes, net of additional issue costs, were recorded as a non-current liability.

Guaranteed notes consent solicitation

At 31 December 2014, the terms and conditions of the 2014 Notes included a Book Equity Ratio ("BER") Put Option. The BER is the ratio of Group total equity to total assets. Under the terms of this Put Option if the BER was below 0.4 for 60 days following the date the Company released its annual or half year accounts, the Company was required to make an offer to purchase the 2014 Notes. At 31 December 2014 the BER was below 0.4, which led the Company to commence discussions with holders of the 2014 Notes, seeking to remove the BER Put Option.

On 8 April 2015, the Company successfully completed a consent solicitation to remove the BER Put Option from the Trust Deed constituting the Guaranteed Notes and from the conditions contained therein. In addition, the Company agreed to the following terms: (i) retaining the Company's Debt Service Reserve Account at one year of scheduled interest payments for the Guaranteed Notes (instead of stepping down to six months of interest payments in October 2015); (ii) granting a security interest in favour of the holders of the Guaranteed Notes and the convertible bonds over the shares of Gulf Keystone Petroleum International Limited which holds all of the Group's Kurdistan assets; and (iii) reducing certain of the Company's grace periods under the Guaranteed Notes Trust Deed for certain events of default and including additional notifications to the Guaranteed Notes Trustee; and (iv) beginning a dialogue with a committee of holders of the Guaranteed Notes if and when the Company's cash balance drops below US$50 million (including amounts in the Debt Service Reserve Account) for a period of five consecutive business days.

Adjustment of conversion price

Following the issue of 85.9 million new common shares of US$ 0.01 each in the Company at a placing price of 32 pence per share (see note 20), adjustments have been required to the conversion price of the convertible bonds and the warrants. The adjusted conversion price of the convertible bonds is $4.34 (initial conversion price: $4.39) and for the warrants the adjusted conversion price is $1.68 (initial conversion price: $1.70).

The liabilities associated with both the 2014 Notes and the existing convertible bonds are presented in the following tables:

	2015 $'000	2014 $'000
Liability component at 1 January	**538,221**	300,900
Liability component of the Notes at issue	**—**	217,952
Interest charged during the year		
– on convertible bonds	**27,479**	26,866
– on 2014 Notes	**42,577**	29,066
Interest paid during the year		
– on convertible bonds	**(20,313)**	(20,313)
– on 2014 Notes	**(32,590)**	(16,250)
Liability component at 31 December	**555,374**	538,221

Liability component reported in:

	2015 $'000	2014 $'000
Interest payable in current liabilities (see note 16)	**10,836**	10,872
Non-current liabilities		
– convertible bond	**310,444**	303,278
– other borrowings	**234,094**	224,071
	555,374	538,221

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

17. Long-term borrowings and warrants continued

Guaranteed notes consent solicitation

Both the 2014 Notes and the convertible bonds are actively traded on the Luxembourg Stock Exchange and the fair value at the prevailing market price as at the balance sheet date was:

	Market price	2015 $'000	2014 $'000
Convertible bonds	$0.281	**91,325**	196,489
2014 Notes	$0.536	**134,000**	193,138
		225,325	389,627

Assuming that the existing convertible bonds and the 2014 Notes are not purchased and cancelled, redeemed or converted prior to their respective maturity dates of October 2017 and April 2017, the Group's remaining contractual liability comprising principal and interest, based on undiscounted cash flows at the maturity date of the convertible bonds and 2014 Notes are as follows:

	2015 $'000	2014 $'000
Within one year	**52,813**	52,813
Within two to five years	**611,562**	664,375
	664,375	717,188

The warrants

The warrants were recognised as an equity instrument in accordance with IAS 39. The warrants were measured at fair value as at the date of issue, which was determined to be $22.2 million. The fair value of the warrants was treated as part of the Notes' issue cost.

The assumptions used in the valuation of the warrants included a share price of 99.75 pence, an exercise price of $1.70 as per the issue prospectus, a risk-free rate of 0.8%, a time to expiry of 36 months and a share price volatility of 50%.

18. Provisions

	2015 $'000	2014 $'000
Current provisions	**11,151**	7,197
Non-current provisions	**27,333**	19,559
Assets held for sale provision	**—**	2,298
	38,484	29,054

Decommissioning provision	Current provisions (Algeria and (Kurdistan) $'000	Non-current provisions (Kurdistan) $'000	Assets held for sale provision $'000	Total $'000
At 1 January 2015	7,197	19,559	2,298	29,054
New provisions and changes in estimates	—	8,627	—	8,627
Unwinding of discount	—	803	—	803
Reclassification of asset held for sale (see note 12)	2,298	—	(2,298)	—
Transfer to current provisions	1,656	(1,656)	—	—
At 31 December 2015	**11,151**	**27,333**	**—**	**38,484**

The provision for decommissioning is based on the net present value of the Group's share of expenditure which may be incurred in the removal and decommissioning of the wells and facilities currently in place and restoration of the sites to their original state. This expenditure is estimated to be incurred over the next twelve months on Algerian assets, and on the Akri-Bijeel and Ber Bahr assets in Kurdistan. The expenditure on Shaikan and Sheikh Adi assets in Kurdistan is expected to take place over the next 29 years.

19. Deferred tax asset

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

	Accelerated tax depreciation $'000	Share-based payments $'000	Tax losses carried forward	Total $'000
At 1 January 2014	14	3,666	—	3,680
(Charge)/credit to income statement	(45)	(2,127)	—	(2,172)
Charge direct to equity	—	(619)	—	(619)
Exchange differences	—	(157)	—	(157)
At 31 December 2014	(31)	763	—	732
(Charge)/credit to income statement	(79)	(630)	453	(256)
(Charge)/credit direct to equity	—	57	—	57
Exchange differences	(1)	(32)	(17)	(50)
At 31 December 2015	**(111)**	**158**	**436**	**483**

20. Share capital

	2015 $'000	2014 $'000
Authorised		
Common shares of $0.01 each	**12,500**	11,500
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
	73,000	72,000

The authorised common share capital increased by 100,000,000 shares during 2015, following a resolution passed at the 2015 AGM.

	Common shares			
	Number of shares '000	Amount $'000	Share capital $'000	Share premium $'000
Issued				
Balance 31 December 2013	888,933	804,074	7,975	796,099
Bonus scheme shares issued	3,305	33	33	—
Other	—	914	914	—
Balance 31 December 2014	892,238	805,021	8,922	796,099
Share placement	85,900	40,693	859	39,834
Issue costs of share placement	—	(1,314)	—	(1,314)
Balance 31 December 2015	**978,138**	**844,400**	**9,781**	**834,619**

On 31 March 2015, the Company raised gross proceeds of US$40,693,235 through a placing of 85,900,000 new common shares of US$0.01 each in the Company at a placing price of 32 pence per share. The placing became unconditional on 8 April 2015 following the successful Guaranteed Notes consent solicitation (see note 17).

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

The Company did not issue any shares as part of the Company's bonus share scheme during the year (2014: 3,305,004).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

20. Share capital continued

At 31 December 2015, a total of 6,363,057 common shares were held by the EBT (2014: 10,290,003) and 10,000,000 shares were held by the Exit Event Trustee (2014: 10,000,000). All 16,363,057 common shares were included within reserves (2014: 20,290,003).

Rights attached to share capital

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

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 Byelaws) on the Series A preferred shares.

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

	2015 $'000	2014 $'000
Loss from operations	**(85,306)**	(226,438)
Adjustments for:		
Depreciation, depletion and amortisation of property, plant and equipment	**74,707**	39,019
Amortisation of intangible assets	**35**	111
Increase in Algerian decommissioning provision	**—**	3,012
Share-based payment expense	**2,539**	3,971
Impairment of assets held for sale	**3,609**	144,119
Decrease/(increase) in inventories	**4,310**	(2,200)
(Increase)/decrease in receivables	**(2,554)**	21,291
Increase/(decrease) in payables	**22,724**	16,355
Net cash used in operating activities	**20,064**	(760)

22. Commitments

Operating lease commitments – the Group as a lessee

	2015 $'000	2014 $'000
Minimum lease payments under operating leases recognised as expense for the year	**3,765**	2,051

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

	2015 $'000	2014 $'000
Within one year	**2,100**	1,559
In the second to fifth years inclusive	**2,572**	2,691
	4,672	4,250

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

Exploration and development commitments

Due to the nature of the Group's operations in exploring and evaluating areas of interest and development of assets, it is difficult to accurately forecast the nature or amount of future expenditure.

Expenditure commitments on current permits for the Group could be reduced by selective relinquishment of exploration tenure, by the sale of assets or by the renegotiation of expenditure commitments. The level of current committed exploration and development expenditure expected in the year ending 31 December 2016 for the Group is approximately $6.0 million (2015: $54.5 million) of which the majority is contracted. This includes the minimum amounts required to retain the relevant licences.

23. Share-based payments

	2015 $'000	2014 $'000
Bonus shares charge	—	—
Share options charge	2,723	4,885
	2,723	4,885

During the year $0.2 million (2014: $0.9 million) of the above charge has been capitalised into the cost of the Group's exploration and development assets in accordance with the Group's accounting policy for E&E assets.

Equity-settled share option plan

The Group's share option plan provides for an exercise price at least equal to the closing market price of the Group shares on the date prior to grant. Awards made under the Group's share option plan have a vesting period of at least three years except for awards made under the Long Term Incentive Plan, which vest in equal tranches over a minimum of three years subsequent to the achievement of a number of operational and market-based performance conditions. Options expire if they remain unexercised after a period of ten years from the date of grant. The options granted in 2015 were made under the recruitment remuneration policy, vest in three equal tranches over two years, and expire if they remain unexercised after a period of seven years from the date of grant. Options are forfeited if the employee leaves the Group before the options vest.

	2015		2014	
	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	35,770	102.5	37,473	101.4
Granted during the year	1,500	55.0	250	99.8
Exercised during the year	—	—	—	—
Cancelled during the year	—	—	—	—
Forfeited during the year	(1,303)	(75.0)	(1,953)	(75.0)
Outstanding at 31 December	35,967	101.9	35,770	102.5
Exercisable at 31 December	24,158	114.15	19,435	106.0

No options were exercised during the period or during the previous period. The options outstanding at 31 December 2015 had a weighted average exercise price of £1.02, and a weighted average remaining contractual life of four years.

In January 2015, 1,500,000 options (2014: 250,000) were granted to new employees under the Group's share option plan. The inputs into the stochastic (binomial) valuation model were as follows:

	2015 $'000	2014 $'000
Weighted average closing share price on date of grant (in pence)	55.00	89.75
Weighted average exercise price of options granted in the year (in pence)	55.00	99.75

The expected volatility was calculated as 67.4 % (2014: 80.7%) and has been based on the Company's share price volatility averaged for the five years prior to grant date.

The expected weighted average term of the new options is 1.3 years (2014: three years). The risk free rate was 0.34% (2014: 1.12%) for the new options.

The weighted average fair value of the options granted in 2015 was £0.16 (2014: £0.45).

The Company has not made a dividend payment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

23. Share-based payments continued

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

		Options ('000)	
	Exercise price (pence)	**2015**	2014
13 February 2018	30.00	**1,100**	1,100
9 July 2018	30.00	**2,000**	—
9 July 2018	75.00	**1,628**	—
24 September 2018	30.00	**6**	2,006
31 December 2018	30.00	**1,344**	1,345
15 March 2019	30.00	**250**	250
30 July 2019	30.00	**1,000**	1,000
23 June 2020	75.00	**13,999**	16,928
22 September 2020	147.50	**250**	250
11 October 2020	175.00	**—**	250
6 February 2021	175.00	**9,690**	9,440
19 June 2021	146.25	**550**	550
7 July 2021	146.25	**250**	250
14 July 2021	146.25	**250**	250
21 July 2021	146.25	**500**	500
19 September 2021	152.50	**250**	250
26 October 2021	146.25	**250**	250
25 November 2021	194.50	**250**	250
23 January 2022	55.00	**1,500**	—
20 March 2022	194.50	**400**	400
8 July 2023	158.75	**250**	250
24 April 2024	99.75	**250**	250
		35,967	35,769

Bonus shares

All shares in the Company's Executive Bonus Scheme were issued by 31 December 2014.

Exit Event Awards

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

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

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

These share-based payments are measured at the fair value of the associated liability at the year end. As at 31 December 2015, the fair value of Exit Event Awards was $nil (2014: $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

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

Remuneration of key management personnel

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

John Stafford – Vice President Operations
Mary Hood – Deputy Chief Financial Officer
Tony Peart – Legal and Commercial Director
Umur Eminkahyagil – Kurdistan Country Manager
Mohamed Messaoudi – Algeria Country Manager

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

	2015 $'000	2014 $'000
Short-term employee benefits	**6,357**	6,779
Other allowances	**746**	136
Share-based payment – options	**794**	4,617
	7,897	11,532

Further information about the remuneration of individual Directors is provided in the Directors' emoluments section of the Remuneration Committee report.

25. Financial instruments

	2015 $'000	2014 $'000
Financial assets		
Cash and cash equivalents	**43,641**	87,835
Loans and receivables	**15,223**	14,106
	58,864	101,941
Financial liabilities		
Trade and other payables	**127,399**	103,985
Convertible bonds (Level 1)	**310,444**	303,278
2014 Notes (Level 1)	**234,094**	224,071
	671,937	631,334

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

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

Fair value hierarchy

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

25. Financial instruments continued

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, convertible bonds, 2014 Notes and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in note 20, the Consolidated statement of comprehensive income and the Consolidated statement of changes in equity.

Capital structure

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

Until 2012, the Group had financed its business by means of internally generated funds and external share capital. In October 2012, the Group raised $275.0 million through an issue of convertible bonds. In November 2013, the Group raised further funds through a $50.0 million "Tap Issue" of convertible bonds, which have been consolidated to form a series with the 2012 issue. The net proceeds of the issue of the convertible bonds have contributed the Group's move to the large-scale stage development of its Shaikan block and its exploration and appraisal of the Akri-Bijeel, Ber Bahr and Sheikh Adi blocks. In April 2014 the Group raised a further $250.0 million through an issue of three-year senior Guaranteed Notes. As a result, the Group carried a non-current liability of $544.5 million as at 31 December 2015 (2014: $527.3 million) (see note 17).

The Company also raised $40.7 million before issue costs from a private placement of 85.9 million shares in March 2015 at a placing price of 32 pence per share. The placing shares represent 8.78% of the enlarged issued share capital of the Company. The placing shares are fully paid and rank pari passu in all respects with the existing common shares including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

Significant accounting policies

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

Financial risk management objectives

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

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

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

Market risk

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

The Group's exposure to currency risk is low as the convertible bonds and 2014 Notes which are denominated in USD, which is the main currency for the Group's transactions, and following the utilisation of Sterling funds from previous equity raises. During the year the majority of funds raised in the GBP equity issue were converted to USD at the spot rate, with a small balance being held in GBP to meet GBP denominated expenditure. Previously, currency hedges were entered into to address foreign currency risk arising when entering into funding transactions in GBP.

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

Foreign currency risk management

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

At 31 December 2015, 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's notice to maximise returns and accessibility. The Group pays fixed coupon interest rate on the convertible bonds and 2014 Notes and has no floating rate financial liabilities.

Interest rate sensitivity analysis

Based on the exposure to the interest rates for cash and cash equivalents at the balance sheet date, a 0.5% increase or decrease in interest rates would not have had a material impact on the Group's loss for the year or the previous 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. As at 31 December 2015, the maximum exposure to credit risk from a trade receivable outstanding from one customer is $12 million.

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

Liquidity risk management

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

26. Contingent liabilities

The Group has a contingent liability of $27 million (net to GKP) in relation to the proceeds from the sale of test production in the period prior to the approval of the Shaikan Field Development Plan in July 2013. The PSC does not appear to address expressly any party's rights to this pre-Development Plan petroleum. This suggests strongly that there must have been some other agreement, understanding or arrangement between GKP and the KRG as to how this pre-Development Plan petroleum would be lifted and sold. The sales were made based on sales contracts with domestic offtakers which were approved by the KRG. The Group believes that the receipts from these sales of pre-Development Plan petroleum are for the account of the Contractor (GKP and MOL), rather than the KRG and accordingly recorded them as revenue in prior years. However, the KRG has requested a repayment of these amounts and we are currently involved in discussions with them to resolve this matter.

The Group decided to relinquish the Akri-Bijeel block with effect from 31 December 2015. Discussions are ongoing with MOL over the 2014 and 2015 work programme and budget and there is an amount of $39.9 million, which represents part of 2014 and 2015 billed expenditure, which the Group considers it is not obliged to pay. Accordingly, this amount has not been recognised in these financial statements (see note 12).

27. Events after the balance sheet date

On 16 March 2016, the Group signed an agreement with the MNR (the "Agreement"). Under the Agreement, the Company and the MNR agree, subject to an amendment agreement to the Shaikan PSC, to treat the Shaikan Government Participation Option of 20% as if validly exercised with effect from 1 August 2012 in favour of the MNR. As at 31 December 2015, the Group estimates unrecognised receivables from the MNR of $85 million net to GKP (30 June 2015: $76 million) for past costs associated with this Option. To address the past costs, the MNR committed to continue monthly top-up payments of $15 million starting from the date of the Agreement until the full amount of the past costs is repaid in full. The receipt of these amounts will be the key to unlocking further investment and realising the potential of our assets.

Effective from the date of the Agreement, the capacity building charge is reduced from 40% to 30% of the Group's profit oil, subject to an amendment agreement to the Shaikan PSC.

As part of the Agreement, the Company and the MNR have confirmed their intention to implement the First Amendment to Shaikan PSC dated 1 August 2010, in particular the provision regarding the assignment of the TPI, whereby the 15% TPI interest is split equally between the Government and Contractor (GKP and MOL on a pro rata basis) with the Government's 7.5% interest being fully carried by the Contractor. As a result of this arrangement, which will be the subject of an amendment agreement to the Shaikan PSC, the Company will increase its fully diluted Shaikan interest from 54.4% to 58% for working interest and to 64% for paying interest.

As part of the Group's strategy to focus on its core assets, after careful consideration, management decided to relinquish the Sheikh Adi block and terminate the Sheikh Adi PSC. The relinquishment and the termination of the Sheikh Adi PSC has been agreed subject to the execution by the Regional Council for Oil and Gas Affairs of the Kurdistan Region of Iraq. To address the outstanding contractual obligation of $20 million related to the PSC bonuses due on the declaration of commerciality, the Company negotiated a 50% reduction to the amount with the remaining $10 million to be offset against the past costs associated with the Shaikan Government Participation Option. No further liabilities in relation to the Sheikh Adi relinquishment are payable by the Group to the MNR.

At this stage, the Group cannot reliably estimate the financial impact of the Agreement with the MNR.

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GLOSSARY

1P	proved reserves
2C	best estimate of contingent resources
2P	proved plus probable reserves
3D seismic	three dimensional data that are acquired by reflecting sound from underground strata
3P	proved plus probable plus possible reserves
AB	Akri-Bijeel
AGM	annual general meeting
BB	Ber Bahr
bbl	barrel
bopd	barrels of oil per day
CBF	competency based framework
CPR	Competent Person's Report
CR	corporate responsibility
CSOP	company share option plan
CSR	corporate social responsibility
DD&A	depreciation, depletion and amortisation
DGA	Dynamic Global Advisers
DSRA	Debt Service Reserve Account
E&E	exploration and evaluation
E&P	exploration and production
EBT	employee benefit trust
ERCE	ERC Equipoise
EWT	extended well test
Excalibur	Excalibur Ventures LLC
FDP	field development plan
FVTPL	fair value through profit and loss
GKP	Gulf Keystone Petroleum
GKPI	Gulf Keystone Petroleum International
HSSE	health, safety, security and environment
IFRSs	International Financial Reporting Standards
IOCs	International oil companies
JOA	Joint Operations Agreement
KRG	Kurdistan Regional Government
KRI	Kurdistan Region of Iraq
LSE	London Stock Exchange
LTI	lost time incident
LTIP	long-term incentive plan
mmstb	million stock tank barrels
MNR	Ministry of Natural Resources
PF-1	Shaikan production facility-1
PF-2	Shaikan production facility-2
PSCs	production sharing contracts
SA	Sheikh Adi
SH	Shaikan
TKI	Texas Keystone Inc.
TPI	Third Party Interest
TSR	total shareholder return
UKLA	United Kingdom Listing Authority
UOP	unit of production
WI	working interest

KEY SHAREHOLDER ENGAGEMENTS 2015/16

9 July 2015
2015 AGM – Paris, France

27 August 2015
Interim results announcement

17 September 2015
Deutsche Bank Access Global Oil & Gas Conference, London, UK

1-2 December 2015
Kurdistan-Iraq Oil & Gas Conference 2015, London, UK

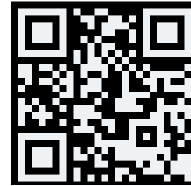
8 December 2015
Special General Meeting, Brussels, Belgium

17 March 2016
2015 results announcement

GULF KEYSTONE WEBSITE

For all up-to-date information regarding the operational and commercial activities of the Company please refer to our corporate website.

www.gulfkeystone.com



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