

**Gulf Keystone Petroleum**  
Annual report and accounts 2016



**User guide**

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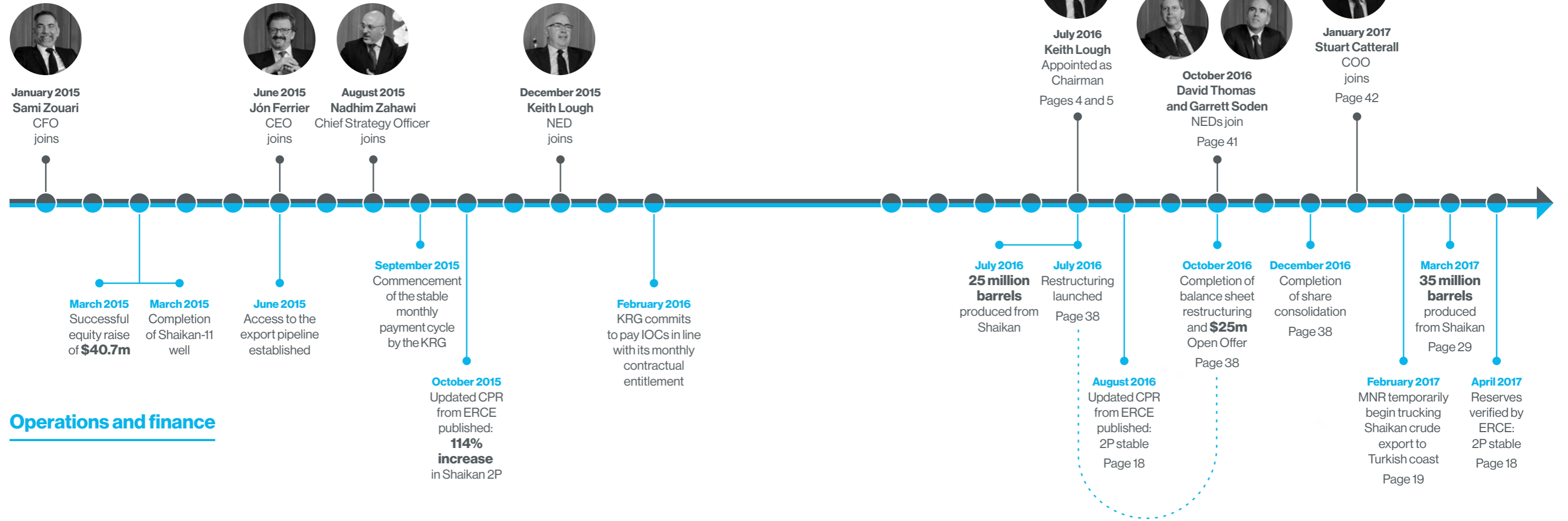
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# KEY MILESTONES

## Governance and management



## Operations and finance



## CHAIRMAN'S STATEMENT



**It is my strongly held view that Gulf Keystone is not only in a stable condition but is also in the best position the Company has been in for a number of years.**

**Keith Lough**  
Chairman

2016 threw a wide array of very serious challenges at your Company, the majority of which were symptomatic of both the regional geopolitics and the continued slump in the international oil and gas market. These factors combined to form an incredibly taxing operating environment and saw Gulf Keystone Petroleum Ltd ("Gulf Keystone" or "GKP") facing potential insolvency.

However, now in 2017 it is my strongly held view that Gulf Keystone is not only in a stable condition but is also in the best position the Company has been in for a number of years. I must also acknowledge that in getting to this position, significant costs have been borne by shareholders and bondholders alike and, on behalf of the Board, I thank you for your support through difficult times and for enabling the recovery of your Company.

The reporting period began with a weak and unpredictable crude oil price, 70% below the highs that the industry had enjoyed previously, and Daesh was continuing to threaten the integrity of the Kurdistan Region of Iraq. The region's response, which remains both brave and resolute, was a huge drain on its limited resources. The support of the Peshmerga security forces, who were defending Kurdistan's border, was the absolute priority for the Kurdistan Regional Government ("KRG"). The security situation put further pressure on the region's financial position and, in turn, affected its ability to pay Gulf Keystone and all of the other international producing and exporting oil companies operating in the region.

We entered 2016 with a disproportionate amount of debt, but GKP was not alone in being an independent exploration and production company with a high level of gearing. Our debt instruments were added to the balance sheet at a different time when the market was buoyant and oil prices were at record highs. As we relayed to the market multiple times throughout the period, the Company needed to address its own liquidity crisis or face almost certain failure. Therefore, the single most important event in 2016 was undoubtedly the successful completion of the balance sheet restructuring in October.

The balance sheet restructuring (the "Restructuring") was essential in safeguarding the future of the Company. It was not a process that was entered into lightly, but the dearth of global merger and acquisition activity and general market uncertainty left us with no better option than to proceed with a full capital restructuring. Overall, whilst recognising that any restructuring of this nature is painful for shareholders and bondholders due to value-dilution and uncertain recoveries, the alternative was insolvency and as such we were pleased that the Restructuring was supported. Aligning all of the varying interests was a significant challenge and I would like to thank the team for their hard work and tenacity in ultimately securing a successful result. I would also like to sincerely thank all of our investors for their support through the Restructuring.

What we achieved was the opportunity to reset the Gulf Keystone story. As I said at the outset, Gulf Keystone is now in a positive and stable position. We finished 2016 with \$93 million of cash and gross debt reduced to approximately \$100 million. Importantly, as we have received regular payments from the KRG's Ministry of Natural Resources ("MNR"), we became cash flow positive in 2016 and our cash balance as at 5 April 2017 stands at \$113 million. This was of course achievable due to the fact that the Gulf Keystone story is underpinned by the Shaikan Field, which has continued to perform well during the period, as you will read throughout this report. Whilst we entered 2016 with concerns regarding consistent payments for Shaikan crude, it was reassuring that we were paid regularly throughout the reporting period, and that this trend has continued into 2017.

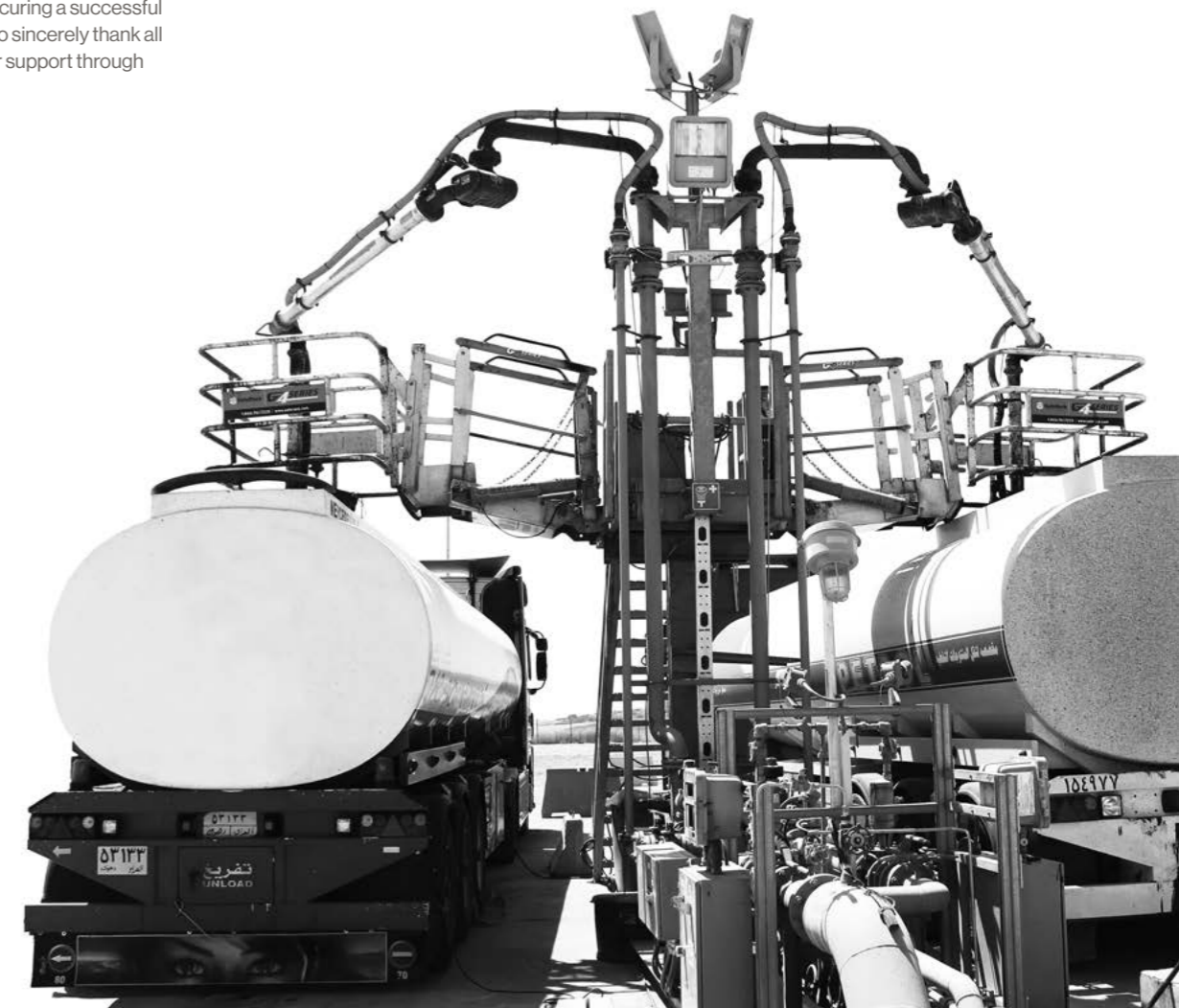
2016 saw a number of changes to the Board and I thank again Andrew Simon and Cuth McDowell, who retired from the Board as Non-Executive Chairman and Non-Executive Director, respectively. We also welcomed David Thomas and Garrett Soden onto the Board as Non-Executive Directors in October. Both have already made a positive contribution and I am pleased to report that the Board is functioning well.

In keeping with our desire to ensure good corporate governance, during the reporting period we developed a more sophisticated suite of Key Performance Indicators ("KPIs") for the Company for 2017. I am pleased to say that the new set of KPIs will ensure GKP is in line with its peers in the sector and is further proof of our desire to align the Board's interests with shareholders.

Finally, I would like to reiterate my thanks not only to our shareholders and staff, but to all of our stakeholders including, in particular, our partners within the KRG's MNR. We remain firmly aligned with the interests of the KRG and look forward to a continuing positive outlook for Gulf Keystone.

**Keith Lough**  
Chairman  
5 April 2017

Our governance principles  
**Corporate governance report** page 43



## CHIEF EXECUTIVE OFFICER'S STATEMENT



**We have entered 2017 with a revitalised company and a confident future outlook.**

**Jón Ferrier**  
Chief Executive Officer

Following a challenging 2016, we have entered 2017 with a revitalised company and a confident future outlook.

Shareholder support of the Restructuring completed in October 2016 was not only an endorsement of the Group, but also of the confidence in Kurdistan as an investable region. Its completion means we have been able to bring the focus back to the core of our business, the Shaikan Field, having rebuilt the foundations of a strong future equity story to develop the field and unlock its potential as one of the most significant assets in Kurdistan.

We are strongly encouraged by the stable performance of Shaikan in line with expectations and I am pleased to report achieving average gross production for 2016 at 34,794 barrels of oil per day ("bopd") at the upper end of our 31,000-35,000 bopd guidance, while over the first quarter of 2017 we averaged 36,293 bopd. While our guidance is not affected, I am happy to report that we re-opened the Shaikan-8 ("SH-8") well on 11 March 2017 which has been adding 1,800 bopd of production with no formation fluid. In April 2017, ERC Equipoise ("ERCE") verified gross Shaikan 2P reserves of 615 million barrels of oil ("MMstb") (as at 31 December 2016), as expected, following our latest Competent Person's Report ("CPR") (as at 30 June 2016). The CPR was highly positive in reiterating our assumptions of the previous CPR regarding the quality of the Shaikan Field, reporting substantial gross 2C resources of 239 MMstb and reinforcing its prominent position in the Kurdistan region. Production data from Shaikan continues to support these interpretations today and as we continue to produce we build on our understanding of the field's characteristics. We have now produced over 35 MMstb but believe we have only scratched the surface, having produced just over 5% of total Shaikan reserves and with considerable development upside remaining.

At the end of February 2017, the MNR began exporting all Shaikan crude production via trucks to Turkey, an arrangement that still stands, meaning that no Shaikan crude is currently being injected into the Kirkuk-Ceyhan export pipeline at Fishkhabour. We expect this to be a temporary arrangement and the long-term future of Shaikan production will be based on pipeline export. While this temporary route is in place, the MNR has confirmed that the economic benefit to the Group will be the same as that of the previous framework and that we will continue to receive a fixed payment of \$15 million gross per month for sales of our crude, while they also intend to take full responsibility for any additional transportation costs. The economic neutrality of this arrangement is of course welcome. However, making progress on the planning of longer-term pipeline export arrangements, the main benefit of which would be reduced costs, and health, safety, security and environment ("HSSE") exposure, is a priority for 2017.

My focus on HSSE performance never wavers. How we protect the welfare of our employees, contractors, partners and communities neighbouring our operations remains at the forefront of how GKP is run. I am pleased to report that it has been another strong year in this regard and that all sites have remained safe and secure.

Stakeholder engagement remains a high priority for the GKP executive team and our aim is to facilitate effective communication through regular dialogue in order to promote transparency, and we intend to ensure this culture is maintained throughout the business. A vital aspect of this engagement is how we maintain relationships of mutual benefit and respect with our hosts and partners in the Kurdistan Region of Iraq. We understand the challenges, geopolitical and otherwise, that the Kurdistan region has faced in recent times, including changes in political and commercial arrangements as the region navigates budgetary independence, which have put financial pressure on the KRG and the MNR, only worsened by a low oil price environment. Likewise our needs as a public company and significant contributor to the region's oil production are understood, as demonstrated

**We have a field which continues to perform in line with expectations, a revitalised team, and a healthy balance sheet, with which we stand ready to further invest in the Shaikan Field and grow shareholder value.**

by the track record of payments we have received since September 2015, which made the Restructuring possible. Good relations through constant communication to ensure alignment are helping us to continually grow and strengthen our longstanding social and economic relationship with the region.

The Group is progressing in its ongoing discussions with the MNR regarding commercial and contractual conditions, in particular those around regular payments conforming to the Production Sharing Contract ("PSC") and line of sight to our own crude marketing arrangements. Subject to satisfactory clarity on these points, which we anticipate securing around mid-year 2017, and partner approvals, we look forward to making further investments to achieve another 2017 priority of bringing our production levels back to full nameplate capacity of 40,000 bopd as soon as possible. Shaikan's mid-term production potential is 110,000 bopd based on our published CPRs, and work continues to optimise the full Field Development Plan ("FDP"), but 55,000 bopd, established with additional electric submersible pumps ("ESP") and a new drill well remains the near-term target. Accordingly, gross production guidance for 2017 is set at 32,000 to 38,000 bopd, with this broad range reflecting the uncertainty of finalising commercial terms on the PSC in 2017. Without additional investment in the field beyond maintenance capital, we would expect to achieve the lower end of our guidance range.

With that said we are cash flow positive with a healthy current cash balance of \$113 million as at 5 April 2017, so we are primed for future development. Since September 2015 we have received 16 payments from the MNR for Shaikan exports and revenues have increased 126% year on year.

I am confident that the leadership team we have in place is the right one. During 2016, we undertook a comprehensive review of the organisation supported by Ernst & Young LLP, with the aim of enhancing performance and cost efficiency in order to optimise future value for our shareholders. We appointed new Senior Managers and a Commercial Director, while the addition of Chief Operating Officer, Stuart Catterall, strengthens the operational structure and signals a commitment to our future investments and dedication to realising the full potential of our asset. Moreover we appointed a new Chairman, and two new Non-Executive Directors and I would like to take this opportunity to thank them, along with the rest of the Board, for their valued contributions and for adding a wealth of expertise and experience.

I extend my thanks to all Gulf Keystone employees and contractors for their commitment and hard work throughout the year and to all stakeholders and shareholders for your continued support of the Company. Finally, my thanks go out to the KRG, the MNR, and the Kurdistan region, as our hosts, and our partners MOL Hungarian Oil & Gas Plc ("MOL"). We look forward to maintaining our enduring partnership as we work together to attain joint values of sustainability and prosperity.

To close I would like to reiterate the Group's position as it stands; we have a field which continues to perform in line with expectations, a revitalised team, and a healthy balance sheet, with which we stand ready to further invest in the Shaikan Field and grow shareholder value.

**Jón Ferrier**  
Chief Executive Officer  
5 April 2017

## Q&A WITH JÓN FERRIER, CEO AND SAMI ZOUARI, CFO



**Underpinning the Gulf Keystone story is a phenomenal asset which has continued to perform in a strong and predictable way.**

### Q How has the Shaikan Field been performing?

**A** **JF:** Underpinning the Gulf Keystone story is a phenomenal asset which has continued to perform in a strong and predictable way. Our average gross production for 2016 was at the upper end of guidance and performance through Q1 2017 has also been pleasing at c.38,000 bopd. ERC Equipoise were able to recently verify our 2P reserves of 615 MMstb, and that all of the data that has been gathered from production supports the interpretations made in the 2016 CPR. We were very pleased to appoint Stuart Catterall as COO, ensuring we not only have a performing field, but also the team and leadership to develop it.

### Q When will you invest further in Shaikan so that the production rises you have set out can be achieved?

**A** **JF:** As we have announced, we are currently progressing the constructive discussions with the MNR regarding commercial and contractual conditions. Further details are in the Financial review, but in essence, these discussions revolve around MNR participation in the licence. We expect these discussions to conclude around mid-year 2017, after which we look forward to making further investments to achieve full nameplate capacity of 40,000 bopd. Work continues to optimise the full FDP, but 55,000 bopd remains the near-term target.

### Q How much will it cost to increase production levels at Shaikan?

**A** **SZ:** The Company is funded for the estimated capex of \$58 million to \$68 million for the 40,000 bopd stabilisation case and a further \$25 million to \$45 million for the increase to 55,000 bopd (including a 25% contingency) and work continues on the optimisation of these programmes. We are also currently working on optimising our FDP, which could potentially see the associated costs for the next phase of Shaikan's development come down.

### Q What were the other options open to the Board at the time of the Restructuring?

**A** **JF:** We considered a number of options, including bringing in a strategic partner or even a sale of the Company, but a lack of global merger and acquisition activity, as well as the overall market uncertainty meant that the route we took was the best option. Whilst fully recognising the impact any such restructuring has on shareholders, we managed to align all of the varying interests. The alternative was insolvency and we are pleased to have reset the Gulf Keystone story.

### Q What do you envisage the future marketing strategy will be for Shaikan crude?

**A** **JF:** As we announced, at the end of February 2017, the MNR began exporting all Shaikan crude production via trucks to Turkey, an arrangement that still stands, meaning that no Shaikan crude is currently being injected into the Kirkuk-Ceyhan export pipeline at Fishkhabour. However, we expect this to be a temporary arrangement and the long-term future of Shaikan production will be based on pipeline export. While this temporary route is in place, the MNR has confirmed that the economic benefit to the Group will be the same as that of the previous framework and that we will continue to receive a fixed payment of \$15 million gross per month for sales of our crude, while they also intend to take full responsibility for any additional transportation costs. The economic neutrality of this arrangement is of course welcome, however, making progress on the planning of longer-term pipeline export arrangements, the main benefit of which would be reduced costs and HSSE exposure, is a priority for 2017.

### Q How strong is GKP's financial position now?

**A** **SZ:** We are in the strongest financial position that we have been in for several years. Following the Restructuring and after a prolonged period of regular payments, as well as having significantly cut our cost base, we are cash flow positive for the first time, and poised to re-invest in Shaikan in 2017. Our cash balance at 5 April 2017 was \$112.7 million, against \$100 million of debt. We received cash receipts from the MNR of \$114 million net to GKP during 2016, and we are funded for the estimated capital expenditure of \$58 million to \$68 million for the 40,000 bopd stabilisation case and a further \$25 million to \$45 million for the increase to 55,000 bopd (including a 25% contingency), while work continues on optimisation of these programmes.

### Q Are you still looking for a merger or an acquisition of the Company?

**A** **JF:** After the Restructuring the Company has a strong balance sheet and is focused on operational delivery on a standalone basis. We do not need a deal today, but clearly, we will pursue all opportunities to create shareholder value.

### Q What is the security situation on the ground?

**A** **JF:** As you would expect, we watch the security situation closely and take all the necessary precautions whilst working closely with our hosts, the KRG. I am pleased to say that we have not had any interruptions to operations due to the security situation.

### Q Are you confident about future payments from the MNR?

**A** **JF:** Yes we are fully confident in future payments from the MNR. We are very encouraged that the MNR are continuing regular payments of \$15 million gross per month, and have now received 16 consecutive payments from the MNR. Despite the financial pressures the region faces, our interests are aligned in the future success of Shaikan. It is also worth saying that we are the only operator solely focused on the Kurdistan Region of Iraq.

### Q Do you have a final message for GKP's shareholders?

**A** **JF:** I would like to thank all of our shareholders for their support. It has not been an easy year but we are in a strong position with a field that continues to perform predictably, a revitalised team and a healthy balance sheet. We are looking forward to investing in Shaikan and to continue creating value from this exceptional asset.

**SZ:** From a finance perspective I would simply reiterate that we now have a strong balance sheet, are cash flow positive and are ready to invest.



## BUSINESS MODEL

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

### VALUE CREATION

#### PRODUCTION AND FIELD DEVELOPMENT PLAN

The Shaikan Field Development Plan is our pathway to unlocking the value of our asset. Ongoing production provides a growing data set that in turn provides greater confidence in the planning for further development of the field. The current FDP envisages a mid to long-term target of 110,000 bopd and has been submitted to the Kurdistan Region of Iraq's MNR for review and approval, while we have identified interim projects to maintain production at 40,000 bopd and, as a bridge to the FDP, an increase to 55,000 bopd. Work continues to optimise the full FDP.

pages 20 and 21

#### ASSETS AND FINANCIAL MANAGEMENT

By focusing our core asset we are able to concentrate our resources in Shaikan where value can be realised with immediacy and greater certainty. Receiving regular payments for Shaikan crude oil exports ensures a healthy balance sheet, while further investments in the field, beyond maintenance capital, will be made subject to commercial and contractual certainty.

pages 19 and 20



### BUSINESS OPERATIONS

#### RESPONSIBLE OPERATIONS

Our licence to operate comes from delivery of strong HSSE performance; for our employees, contractors, and those in the areas surrounding our operations. HSSE delivery is vital to the business as we actively engage with communities and seek to employ and develop Kurdistan nationals in the interest of growth and sustainability and in order to contribute to a positive future for the Kurdistan Region of Iraq.

pages 22 to 27

#### STAKEHOLDER ENGAGEMENT

Stakeholder engagement is paramount to the effective running of the business, and we actively encourage open channels of communication with all who have an interest in our business; from the communities surrounding our operations to shareholders and our host government. Transparency is something we continually strive to maintain, to ensure awareness and alignment in order to efficiently move the business forward and achieve mutual targets and goals.

pages 22 to 27

### HOW WE CREATE VALUE

We have transitioned from explorer to producer and exporter with a combined nameplate capacity from two 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 FDP targets will allow the Company to unlock the significant upside potential and value of the asset, ultimately funding further growth of the business.

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

# MARKET OVERVIEW

Some of the key factors affecting our business are highlighted here. Despite these challenges, our long-term outlook is positive.



### Geopolitical stability

The war imposed by Daesh in countries neighbouring Kurdistan, compounded by the subsequent influx of nearly two million refugees and internally displaced persons, has greatly exacerbated financial strain on the KRG, as have changes in political and commercial arrangements as the region navigates budgetary independence. Kurdistan borders have resisted Daesh penetration, and with continued efforts of the KRG's military force, the Peshmerga, and support from the international community, that secure environment seems likely to be maintained.



### Oil export growth

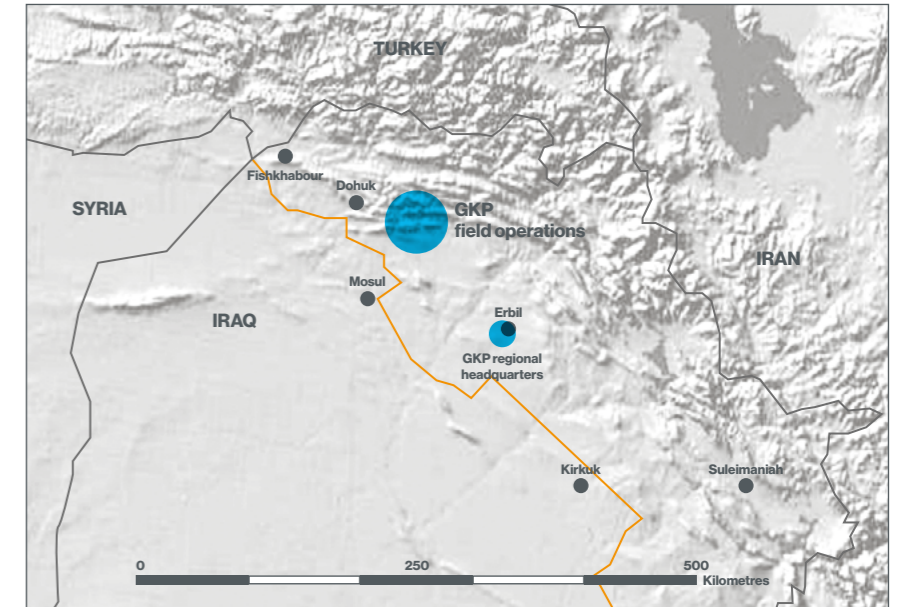
The Kurdistan Region of Iraq's success is closely connected to the oil industry as a source of revenues, employment and training opportunities for the people of Kurdistan.

The KRG has affirmed its appreciation for the economic contribution made by the producing IOCs and their success in raising the volume of oil export from the Kurdistan region. Gulf Keystone is a key contributor in meeting the Kurdistan Regional Government's oil export targets.



### Oil price

The oil market has been experiencing significant volatility over the last two years following a persistent oversupply which has put pressure on the oil price. The reporting period began with a weak and unpredictable crude oil price, 70% below the highs that the industry had previously enjoyed, however, during 2016 the oil demand and supply has started to move into balance.



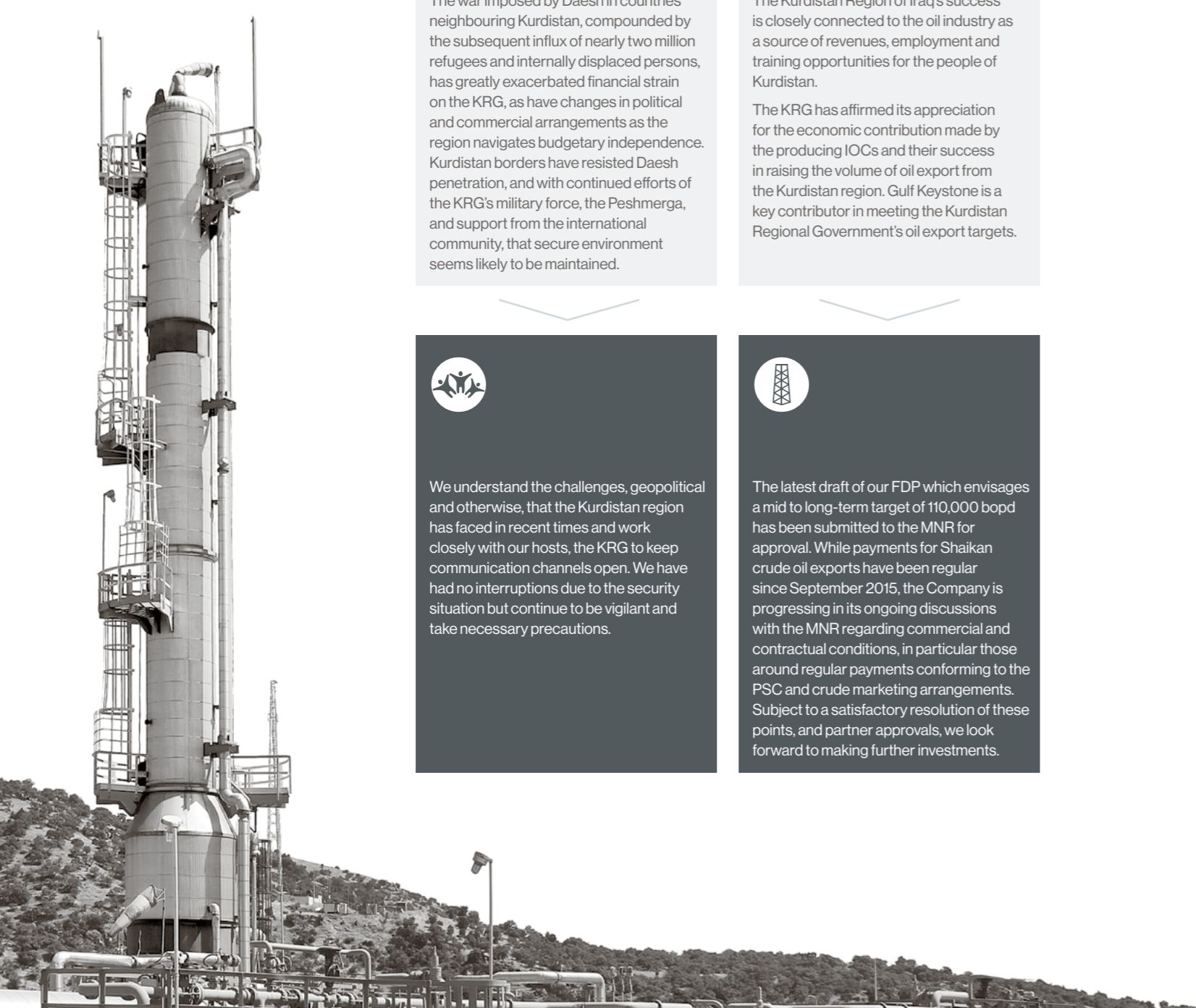

We understand the challenges, geopolitical and otherwise, that the Kurdistan region has faced in recent times and work closely with our hosts, the KRG to keep communication channels open. We have had no interruptions due to the security situation but continue to be vigilant and take necessary precautions.



The latest draft of our FDP which envisages a mid to long-term target of 110,000 bopd has been submitted to the MNR for approval. While payments for Shaikan crude oil exports have been regular since September 2015, the Company is progressing in its ongoing discussions with the MNR regarding commercial and contractual conditions, in particular those around regular payments conforming to the PSC and crude marketing arrangements. Subject to a satisfactory resolution of these points, and partner approvals, we look forward to making further investments.



Lower global oil prices affected the industry as a whole and put pressure on KRG finances more specifically. However our needs as a public company and significant contributor to the region's oil production are understood, as demonstrated by the track record of payments we have received since September 2015. Depressed commodity and capital markets are issues over which we have no direct influence however financial prudence and focusing on our core asset help to steer the business towards a longer-term sustainable future.







# STRATEGY AND PERFORMANCE

## Vision to build a major independent production company.

### Key performance indicators ("KPIs")

KPIs for 2016 included comparative TSR, performance (including production, commercial, portfolio, and organisational goals), and safety record. Further considerations included meeting shareholder

expectations, stakeholder engagement, and the achievement of a successful balance sheet restructuring.

In keeping with good corporate governance, we have developed a more sophisticated suite of KPIs for 2017.

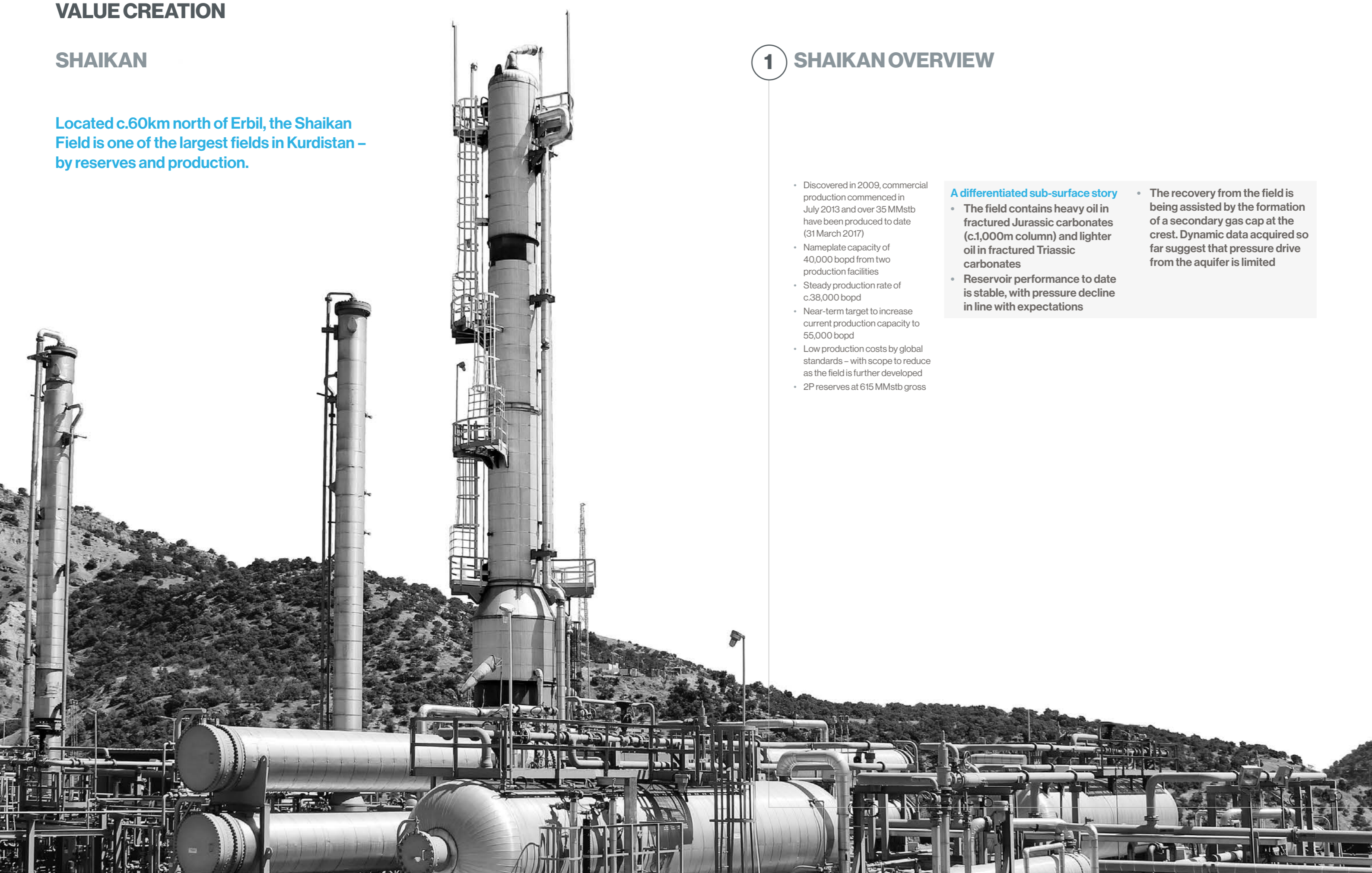
Measures include: **HSSE**: safety management, incident close-out, security risk assessment and safety performance; **financial**: MNR payments, operating costs, budget adherence; and **operational**: production, PSC compliance and planning, and project execution and planning.

Strategy	Objective	Measure	Progress made in 2016/17	Associated risk (see pages 30 to 35)
<b>Become a cash-generating business and attain financial flexibility</b> 	<ul style="list-style-type: none"> <li>Regular and predictable payments for Shaikan crude oil exports</li> <li>Focus on Shaikan</li> </ul>	<ul style="list-style-type: none"> <li>Regular and predictable payments and recovery of outstanding entitlements</li> <li>Gain commercial and contractual clarity around payments and marketing</li> <li>Appropriate cash/debt balance</li> </ul>	<ul style="list-style-type: none"> <li>Receipt of ten monthly payments in 2016. Nine payments of \$15 million gross each, and one of \$7.5 million gross, for December 2015 to September 2016 liftings</li> <li>Receipt of three monthly payments of \$15 million gross in 2017 to date for October – December 2016 liftings</li> <li>Progress in ongoing discussions with MNR regarding commercial and contractual conditions, in particular those around payments conforming to the PSC, and crude marketing arrangements</li> <li>Completed financial restructuring on 14 October 2016 with a reinstated debt balance of \$100 million and \$25 million raised via an open offer</li> <li>Cash balance of \$112.7 million as at 5 April 2017</li> <li>Relinquishment of Ber Bahr in progress</li> <li>Sheikh Adi was relinquished in 2016</li> </ul>	<ul style="list-style-type: none"> <li>Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding</li> <li>Risks associated with infrastructure and export market</li> <li>Global oil price fluctuations</li> <li>Political and regional risk, including risks relating to disputes regarding title and exploration and production rights</li> </ul>
<b>Grow commercial oil production from Shaikan</b> 	<ul style="list-style-type: none"> <li>Regular and predictable payments for Shaikan crude oil export sales</li> <li>Maintain stable production and sales at nameplate capacity of 40,000 bopd increasing to 55,000 bopd in the near term</li> <li>Increase production in line with Shaikan FDP</li> <li>Maximise potential of the Shaikan asset</li> <li>Achieve positive operating cash flow as we progressively develop our asset</li> <li>Continue work on optimising the FDP</li> </ul>	<ul style="list-style-type: none"> <li>Steady average gross production</li> <li>Increase in average gross production</li> <li>Reduce gross operating cost per barrel</li> <li>Increase cash inflow from operating activities</li> </ul>	<ul style="list-style-type: none"> <li>Achieved average yearly gross production of 34,794 bopd (in 2016) – at the high end of guidance</li> <li>Receipt of ten monthly payments in 2016. Nine payments of \$15 million gross each, and one of \$7.5 million gross, for December 2015 to September 2016 liftings</li> <li>Receipt of three monthly payments of \$15 million gross in 2017 to date for October – December 2016 liftings</li> </ul>	<ul style="list-style-type: none"> <li>Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding</li> <li>Risks associated with infrastructure and export market</li> <li>Liquidity and solvency risk</li> <li>Capital availability and expenditure control</li> <li>Field delivery risk</li> <li>Political and regional risk, including risks relating to disputes regarding title and exploration and production rights</li> <li>Gas flaring restrictions</li> </ul>
<b>Increase reserves and resource base</b> 	<ul style="list-style-type: none"> <li>Increase value of asset</li> </ul>	<ul style="list-style-type: none"> <li>Reserve and resource additions</li> <li>Conversion of 2C contingent resources to 2P reserves</li> <li>Lower costs</li> </ul>	<ul style="list-style-type: none"> <li>615 MMstb reserves verified by ERCE in April 2017 (as at December 2016)</li> <li>Publication of updated Competent Person's Report ("CPR") from ERCE in August 2016 (as at June 2016)</li> <li>2C contingent resources 239 MMstb 2C gross (as at June 2016)</li> </ul>	<ul style="list-style-type: none"> <li>Meeting shareholder expectations, particularly with regard to the Group's long-term strategy, production profile and funding</li> <li>Risks associated with infrastructure and export market</li> <li>Capital availability and expenditure control</li> <li>Field delivery risk</li> <li>Political and regional risk, including risks relating to disputes regarding title and exploration and production rights</li> <li>Low oil price environment</li> </ul>
<b>Effective HSSE and CSR programmes</b> 	<ul style="list-style-type: none"> <li>Ensure safe and secure operations</li> <li>Carry out all operations with openness, integrity and accountability</li> <li>Create opportunities to acquire and develop talent</li> <li>Maintain exceptional relationships with KRG/MNR and people of Kurdistan in an environment of mutual respect and co-operation</li> </ul>	<ul style="list-style-type: none"> <li>Delivery against the Company's CSR plan</li> <li>Competency Based Framework ("CBF") promotions</li> <li>HSSE improvements</li> <li>Plant uptime</li> </ul>	<ul style="list-style-type: none"> <li>CBF training programmes continued and developed with 15 promotions achieved in 2016</li> <li>Improving HSSE procedures</li> <li>535 LTI-free days at PF-1 and 662 at PF-2</li> <li>Zero LTIs in 2016</li> <li>Percentage of Kurdistan nationals employed 81%</li> <li>Plant uptime 98%</li> </ul>	<ul style="list-style-type: none"> <li>Political and regional risk, including risks relating to disputes regarding title and exploration and production rights</li> <li>HSSE</li> <li>Security</li> <li>Corporate social responsibility risk</li> </ul>
<b>Maintain highest levels of governance</b> 	<ul style="list-style-type: none"> <li>Increase shareholder confidence</li> <li>Ensure appropriate independent challenge of executive management</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with the UK Corporate Governance Code</li> <li>Results of the shareholders' vote at the SGM</li> <li>Results of the shareholders' vote at the AGM</li> </ul>	<ul style="list-style-type: none"> <li>Voluntary adoption of the UK Corporate Governance Code</li> <li>New Chairman appointed – Keith Lough</li> <li>Two new Non-Executive Directors appointed – Garrett Soden and David Thomas</li> <li>The resolution proposed at SGM passed, with high levels of support</li> <li>All resolutions proposed at AGM passed, with high levels of support</li> </ul>	<ul style="list-style-type: none"> <li>Organisational capability</li> <li>Business conduct and non-compliance with the UK Bribery Act 2010</li> </ul>

## VALUE CREATION

### SHAIKAN

Located c.60km north of Erbil, the Shaikan Field is one of the largest fields in Kurdistan – by reserves and production.



## 1 SHAIKAN OVERVIEW

- Discovered in 2009, commercial production commenced in July 2013 and over 35 MMstb have been produced to date (31 March 2017)
- Nameplate capacity of 40,000 bopd from two production facilities
- Steady production rate of c.38,000 bopd
- Near-term target to increase current production capacity to 55,000 bopd
- Low production costs by global standards – with scope to reduce as the field is further developed
- 2P reserves at 615 MMstb gross

#### A differentiated sub-surface story

- The field contains heavy oil in fractured Jurassic carbonates (c.1,000m column) and lighter oil in fractured Triassic carbonates
- Reservoir performance to date is stable, with pressure decline in line with expectations
- The recovery from the field is being assisted by the formation of a secondary gas cap at the crest. Dynamic data acquired so far suggest that pressure drive from the aquifer is limited

## VALUE CREATION continued

### 2 RESERVES AND RESOURCES

#### Two Competent Person's Reports ("CPR") released within a year confirmed reserves and GKP's understanding of the reservoir.

In April 2017, the Company received confirmation from independent third party ERC Equipose ("ERCE") verifying remaining 2P reserves of 615 MMstb, as at 31 December 2016. This was in line with the CPR of 2016 after allowing for production.

In addition to our 2P reserves there are significant contingent resources of 239 MMstb (2C) as identified in the 2016 CPR. The CPR published on 31 August 2016, revised and updated the previous CPR dated September 2015. In that time, we produced 12.4 MMstb, and the latest CPR reported no unexpected changes in reservoir behaviour observed, demonstrating the stable and predictable performance of the field. Measured pressure decline and the absence of water or gas breakthrough support the geological interpretations of the field and provide the Group with increasing confidence of its understanding.

- No unexpected changes in reservoir behaviour have been observed to date, demonstrating the stable and predictable performance of the field
- Substantial reserves and resources base – 615 MMstb 2P reserves (gross) and 239 MMstb 2C resources (gross)
- Cumulative production figure to date (31 March 2017) is over 35 MMstb or just over 5% of the 2P reserves

#### Reserves and resources summary

		Shaikan reserves			GKP (WI 58%) <sup>(1)</sup> reserves (MMstb)		
		Gross Field Oil reserves (MMstb)			GKP (WI 58%) <sup>(1)</sup> reserves (MMstb)		
Field	Formation	1P	2P	3P	1P	2P	3P
Shaikan	Cretaceous	1	3	4	1	2	2
Shaikan	Jurassic	212	568	877	123	329	508
Shaikan	Triassic	18	44	63	10	25	37
<b>Shaikan</b>	<b>Total</b>	<b>231</b>	<b>615</b>	<b>944</b>	<b>134</b>	<b>356</b>	<b>547</b>

		Shaikan Contingent resources			GKP (WI 58%) <sup>(1)</sup> resources (MMstb)		
		Gross Field Oil resources (MMstb)			GKP (WI 58%) <sup>(1)</sup> resources (MMstb)		
Field	Formation	1C	2C	3C	1C	2C	3C
Shaikan	Cretaceous	14	53	175	8	31	102
Shaikan	Jurassic	97	80	340	56	46	197
Shaikan	Triassic	29	106	347	17	61	201
<b>Shaikan</b>	<b>Total</b>	<b>140</b>	<b>239</b>	<b>862</b>	<b>81</b>	<b>138</b>	<b>500</b>

Source: ERC Equipose – CPR August 2016 and confirmation letter dated April 2017.  
 (1) 58% WI subject to the ratification of the agreement with MNR dated 16 March 2016.

### 3 STEADY EXPORTS AND REGULAR PAYMENTS

#### The Company has received regular payments from the MNR since September 2015.

Since September 2015, the Company has received monthly gross payments of \$15 million (with the exception of February 2016 when \$7.5 million was received due to interruption of exports). The Company has now been paid for exports up to and including

December 2016, with \$142.5 million gross received in 2016 and \$45.0 million gross in 2017 as at 5 April 2017. We continue to work with the MNR towards agreeing the final form of the invoices for May to December 2016.

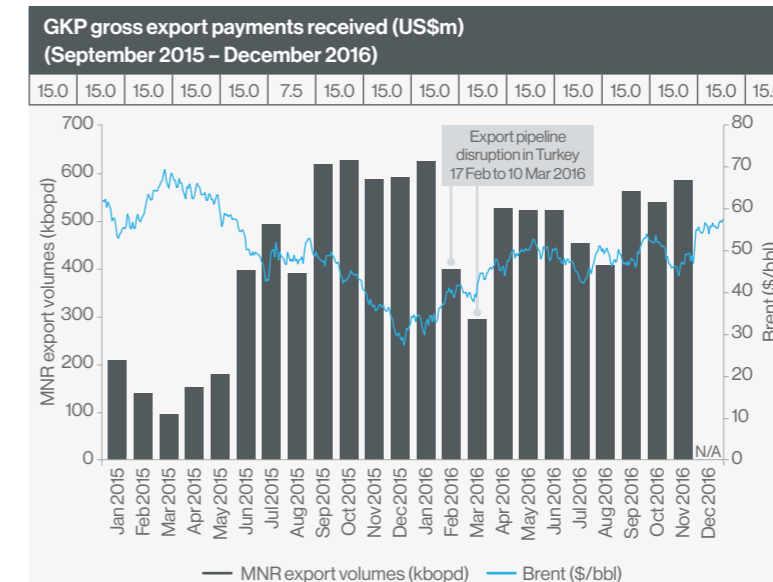
#### Shaikan crude exports

From September 2015, all Shaikan crude was being trucked 120km to Fishkhabour and injected into the Kirkuk-Ceyhan export pipeline. However in February 2017, the MNR began exporting all Shaikan crude production via trucks to the Turkish coast.

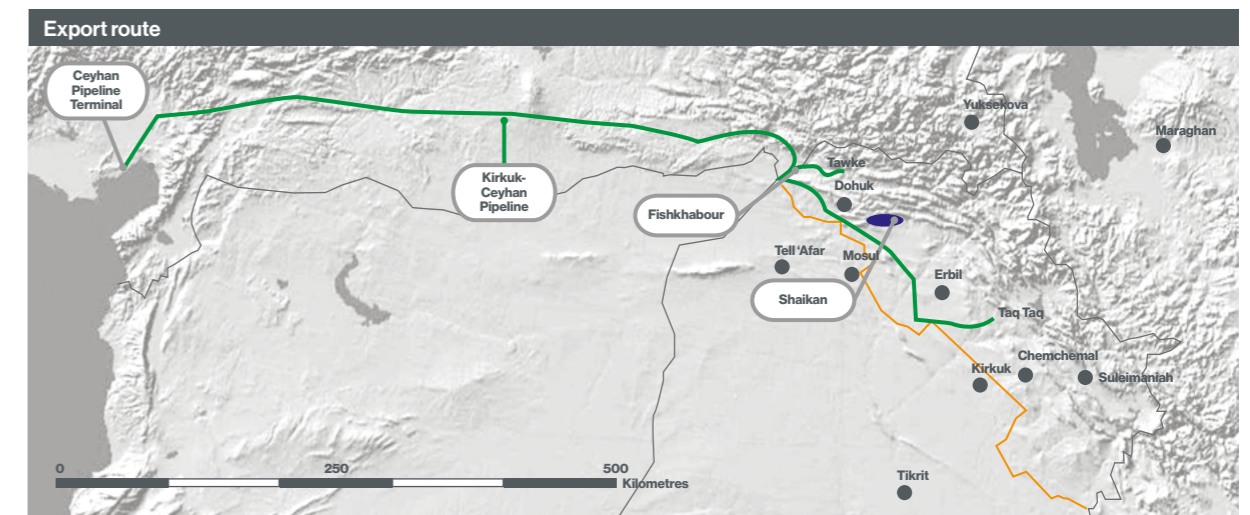
We expect this to be a temporary arrangement with the long-term future of Shaikan production being based on pipeline export. While this temporary route is in place the MNR has confirmed that the economic benefit to the Group will be the same as that of the previous framework and that we will continue to receive a fixed payment of \$15 million gross per month for sales Shaikan crude, while the MNR also intend to take full responsibility for any additional transportation costs.

Trucking has proven to be a reliable export method for us in the past and the current arrangement confirms a standalone export market for Shaikan crude.

However, making progress on the planning of longer-term pipeline export arrangements is a priority for 2017, the main benefit of which would be reduced costs, and HSSE exposure.



Source: Company information, Thomson Reuters, KRG monthly report



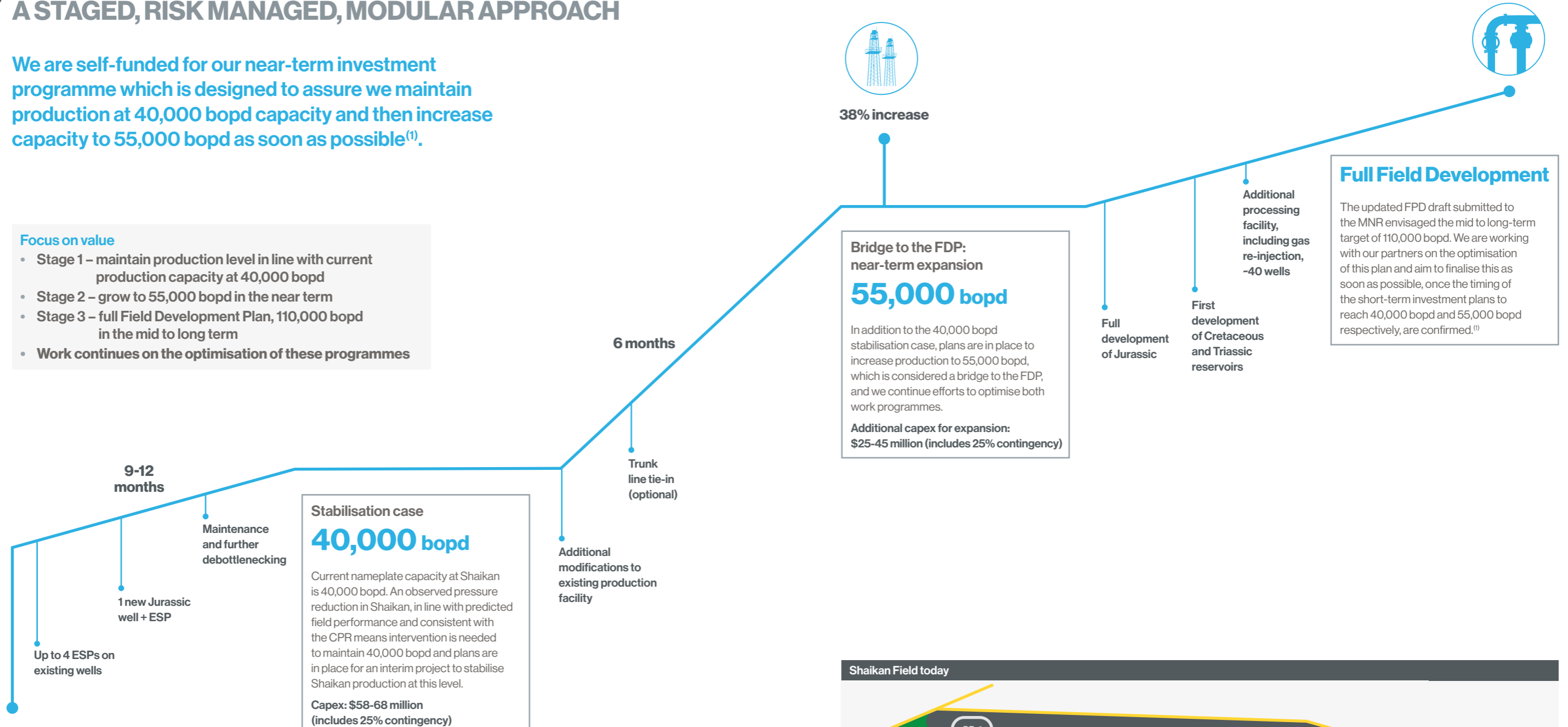
## VALUE CREATION continued

### 4 PATH TO GROWTH: A STAGED, RISK MANAGED, MODULAR APPROACH

We are self-funded for our near-term investment programme which is designed to assure we maintain production at 40,000 bopd capacity and then increase capacity to 55,000 bopd as soon as possible<sup>(1)</sup>.

#### Focus on value

- Stage 1 – maintain production level in line with current production capacity at 40,000 bopd
- Stage 2 – grow to 55,000 bopd in the near term
- Stage 3 – full Field Development Plan, 110,000 bopd in the mid to long term
- Work continues on the optimisation of these programmes



**Stabilisation case**  
**40,000 bopd**

Current nameplate capacity at Shaikan is 40,000 bopd. An observed pressure reduction in Shaikan, in line with predicted field performance and consistent with the CPR means intervention is needed to maintain 40,000 bopd and plans are in place for an interim project to stabilise Shaikan production at this level.

**Capex: \$58-68 million (includes 25% contingency)**

**Bridge to the FDP: near-term expansion**  
**55,000 bopd**

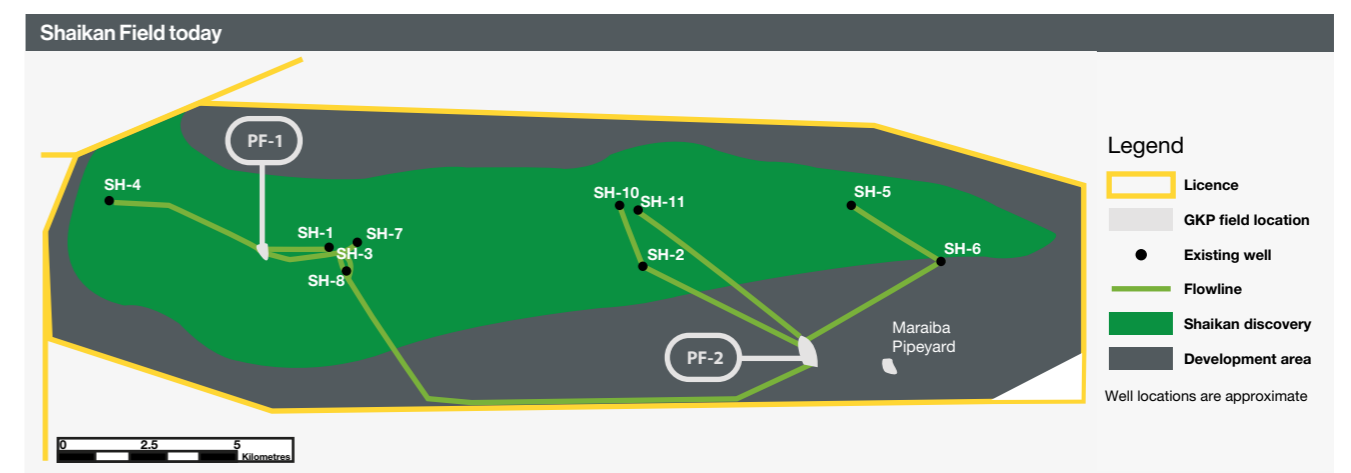
In addition to the 40,000 bopd stabilisation case, plans are in place to increase production to 55,000 bopd, which is considered a bridge to the FDP, and we continue efforts to optimise both work programmes.

**Additional capex for expansion: \$25-45 million (includes 25% contingency)**

**Full Field Development**

The updated FDP draft submitted to the MNR envisaged the mid to long-term target of 110,000 bopd. We are working with our partners on the optimisation of this plan and aim to finalise this as soon as possible, once the timing of the short-term investment plans to reach 40,000 bopd and 55,000 bopd respectively, are confirmed.<sup>(1)</sup>

**FINAL INVESTMENT DECISION**



<sup>(1)</sup> Further investment plans are subject to commercial and contractual conditions, in particular those around regular payments conforming to the PSC, and crude marketing arrangements.

## BUSINESS OPERATIONS

### RESPONSIBLE OPERATIONS AND STAKEHOLDER ENGAGEMENT

**We are sensitive to the diverse cultures with whom we interact and aim to make a positive contribution to the communities located near to our operations.**

#### Stakeholder engagement

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 government and with 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 region's overall economic growth.

In 2013 Gulf Keystone developed a Corporate Responsibility ("CR") Plan, which was approved by the KRG's MNR, outlining ways in which we are working with them and the local authorities on an ongoing basis to achieve common social responsibility aims. The CR Plan has a particular focus on local community engagement and investment, including employment, training, education and healthcare initiatives.

The CR Plan fulfils three objectives:

- 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, security and environment ("HSSE") elements of the CR Plan to reflect the management of policy responsibilities within the KRG.

We are currently reviewing our CSR policy.

We believe that a successful CR plan 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.

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 PSC. 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 community 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. In 2016 we continued our community projects which included installing a water well, two generators and a 1,000m water supply pipe for a local village. In addition, we plan to increase the level of purchases of supplies and services from the villages and towns around our facilities in order to benefit the surrounding communities.

#### People

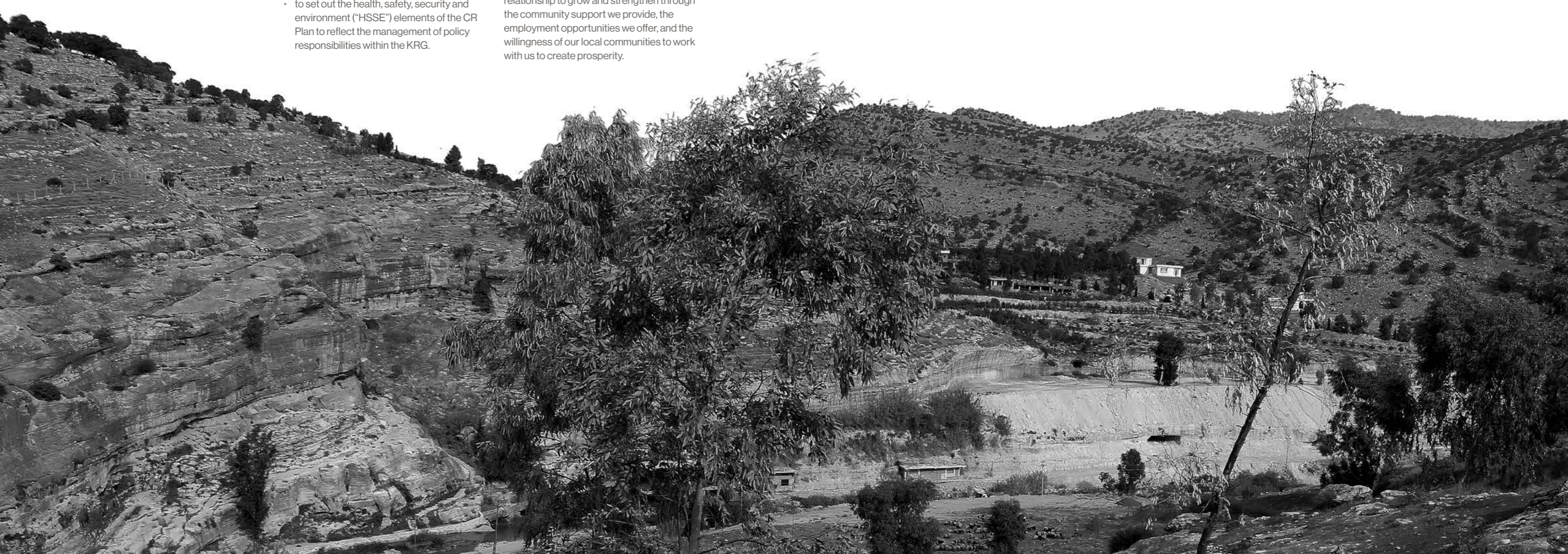
We strive to work in the interests of the people who directly contribute towards the success of Gulf Keystone's operations. This includes all our employees and contractors and we strive to ensure their safety and wellbeing while supporting individual educational and training needs. Our aim is to maintain a first class operations team in the field and throughout the broader organisation.

**We highly value our workforce and are committed to providing a workplace free from discrimination, where all employees are afforded development opportunities and are rewarded upon merit and ability.**

We have a Competency Based Framework ("CBF" or "Framework") in place to help manage and develop our workforce. The Framework was designed and tailored for surface operations at the two main Shaikan Production Facilities centres, PF-1 and PF-2. This Framework is promoted as the '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 production operations staff in order to deliver sustainable levels of competency for safe and efficient operations through training and objective assessment. We believe the programme is an invaluable tool enabling us to improve performance, achieve consistency, communicate effectively, ensure a fair system for promotion and provide career paths for our employees.

It has been another excellent year for the CBF with further promotions of our staff members to senior positions, with a total for the year of 15. We also have an annual sponsorship scheme in place which allows for three Kurdistan employees to study for masters' 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. The proportion of Kurdistan national employees in country now exceeds 80%. Our long-term plan is to increase that to 90%, specifically in senior and management positions.



## BUSINESS OPERATIONS continued

# RESPONSIBLE OPERATIONS AND STAKEHOLDER ENGAGEMENT

### Delivering safe and secure operations.

#### 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 oil field 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; and having a young, enthusiastic, educated national workforce who are keen to learn all contribute towards achieving high standards in this area.

In 2016 there were no Lost Time Incidents (“LTI”) a mark of the dedication to safety and HSSE performance by all involved with 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 2016 we developed a new HSSE policy which was rolled out in early 2017. The policy increases senior management accountability and visibility within the HSSE framework, which requires regular meetings held in the field as well as our offices in London and Erbil while setting challenging safety targets across the organisation.



#### An excellent year for HSSE

Category	Measure	Year-on-year comparison		
		2014	2015	2016
Lost time incidents (“LTI”)	Total incidents	7	2	—
Lost time incident frequency (“LTIF”)	Million man-hours	3.4	1.68	—
Recordable incidents	Total incidents	22	7	2
Total recordable incidents frequency (“TRIF”)	Million man-hours	10.67	5.88	1.81
Motor vehicle accidents	Total incidents	7	8	1
Driving violations (“IVMS data”)	Total incidents	146	50	58
First aid cases	Total incidents	12	8	4
Solid waste recycling	Percentage	5	66	67
Liquid hazardous waste recycling	Percentage	—	100	67

#### Number of promotions achieved via our Competency Based Framework during 2016

Department	Promotions
Surface operations	10
Security and transport	2
Subsurface development	1
Supply chain	1
Finance	1
<b>Total</b>	<b>15</b>

#### 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 CR Plan, to demonstrate improving levels of environmental management, with the aim of reducing the environmental impacts of our business.

To ensure that health, safety, security 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.

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

Waste management has been transformed with 67% of our solid waste now being recycled. Liquid chemical hazardous waste is now recycled by an MNR-approved vendor in Koya.

As part of the Company’s continuing community relations programme we have set up a “Green Team” made up of Kurdistan nationals, segregating waste from our operational sites and neighbouring villages. This allows the effective recycling and disposal referred to above.

## BUSINESS OPERATIONS continued

### RESPONSIBLE OPERATIONS AND STAKEHOLDER ENGAGEMENT

A locally sourced, skilled and engaged workforce is a key factor for sustainability of the business

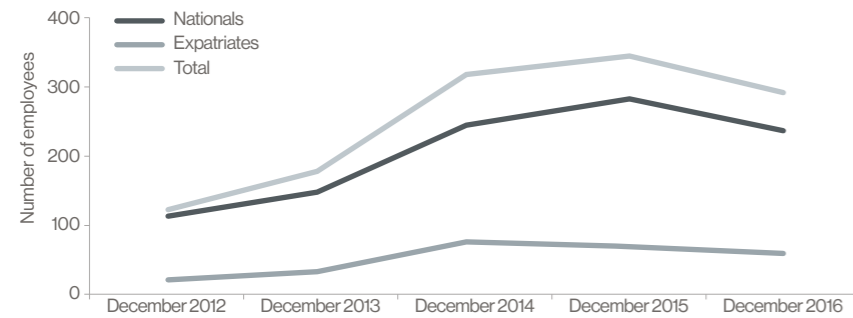
#### LOCAL WORKFORCE



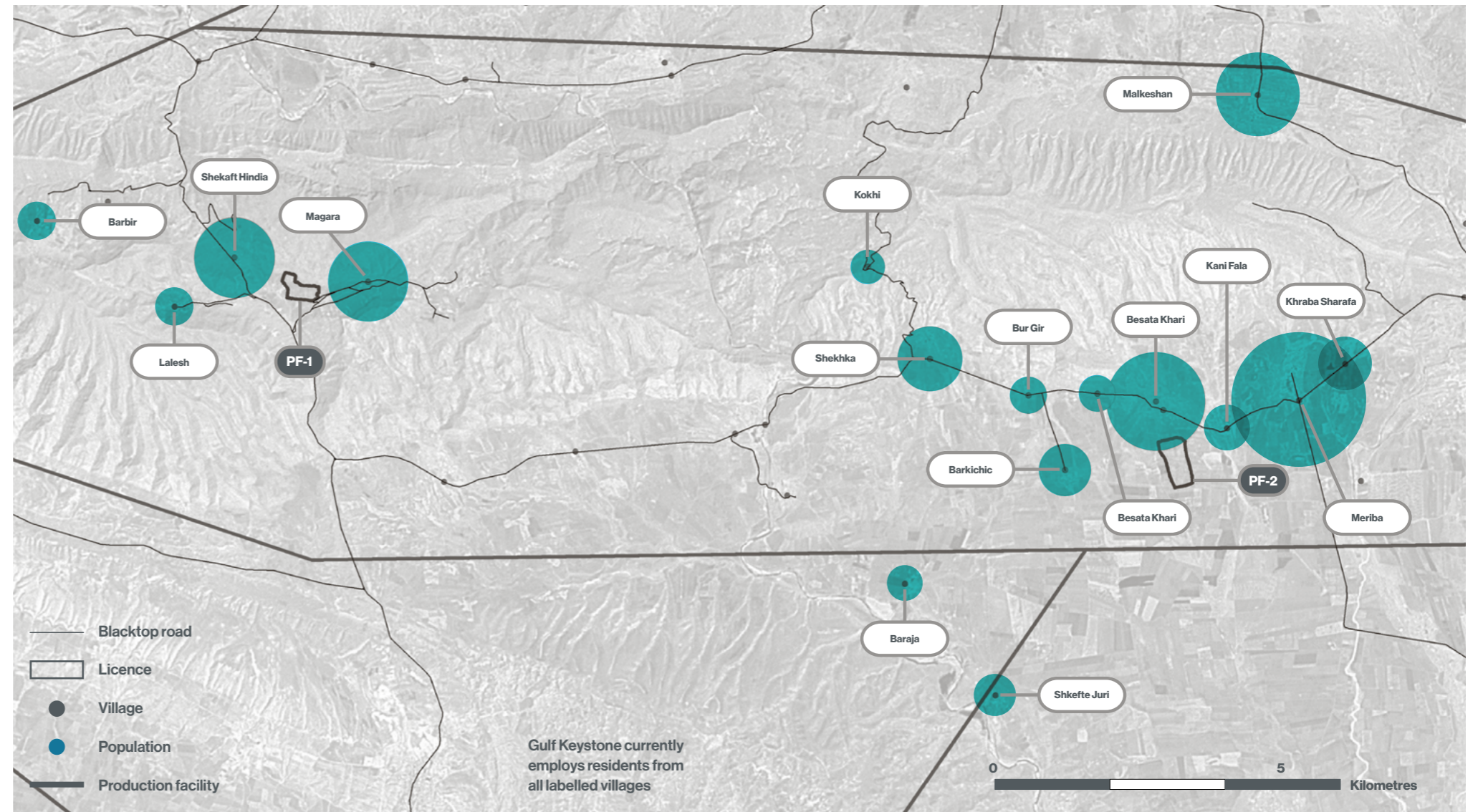
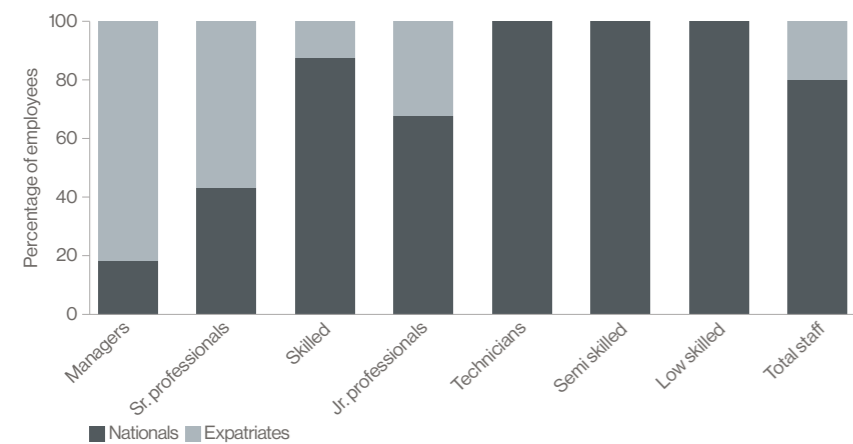
#### Outreach

As part of the Summer Student and Internship Programme during 2016, Gulf Keystone provided summer training and internship opportunities for 19 students from Kurdistan universities and technical institutes, as well as organising day trips to the field for 43 students from the University of Duhok.

#### OUR EMPLOYEES IN THE KURDISTAN REGION OF IRAQ



#### OUR EMPLOYEES IN THE KURDISTAN REGION OF IRAQ



## OPERATIONAL REVIEW



**The field continues to perform in line with expectations and there has been no gas or water break-through to date at our producing wells.**

**Stuart Catterall**  
Chief Operating Officer

Operating performance in 2016 from the Shaikan Field was strong, with improved safety performance and increased production volumes achieved despite reduced export in February and March due to pipeline export problems. The field continues to perform in line with expectations and there has been no gas or water break-through to date at our producing wells. ERCE updated their reserves number for the field in April 2017, following the CPR in June 2016 and maintained the forecast reserves largely unchanged compared to the previous report in 2015.

Our investment programme for 2017 is designed to ensure that we maintain capacity at 40,000 bopd and we are also working on plans to increase capacity to 55,000 bopd in the near term, subject to satisfactory contractual clarity. Anticipated production for 2017 is 32,000 to 38,000 bopd, with the major uncertainties being the timing of our investment programme and the level of export availability. We have been pleased however with production in the first three months of 2017 where we have produced an average of 36,293 bopd. This has been helped in part with SH-8 being brought back on-stream at a rate of about 1,800 bopd on 11 March 2017. The well had previously been shut in due to the influx of drilling fluids lost into the reservoir and being produced back from the well. So far, production of SH-8 has only shown traces of these fluids since its return to production.

### HSSE

HSSE performance was once again strong with no LTIs in 2016 and as of 31 December 2016, 535 LTI-free days at Production Facility –1 (“PF-1”) and 662 at Production Facility –2 (“PF-2”).

We achieved continuous improvements across all measurements of actual HSSE incidents in 2016. Total recordable incidents reduced from seven in 2015 to two in 2016, LTIs reduced from two to zero, and motor vehicle accidents reduced from eight to one. In early 2017 however there has been an increase in reports of High Potential Near-miss Incidents (“HiPos”), demonstrating the requirement to maintain diligence in this area.

In terms of leading indicators of safety performance, we completed 99% of our planned HSSE work programme for 2016, which included initiatives such as process safety, training and emergency response.

Our commitment to maintaining a high local proportion of the Group's workforce was continued with 81% of positions being local. Furthermore, as training and experience has been gained we were able to promote local personnel into more senior positions via our CBF. In 2016 a total of 15 promotions took place, including two expatriate positions that were localised.

### Production

Due to the interruption of export pipeline operations from 16 February 2016 to 11 March 2016 our guidance for 2016 was set at 31,000 to 35,000 bopd. Subsequently, we were pleased to have achieved an average for the year close to the top of this range at 34,794 bopd compared with 30,500 bopd in 2015.

Unplanned production deferral during the year was 12% (2015: 15%), of which, 11% was due to external factors (mainly offtake and export pipeline infrastructure availability) and only 1% related to operational issues. Plant uptime at PF-1 and PF-2 was over 98%, once adjusted for export constraints.

Our total production for 2016 increased by 14% compared with 2015 (12.7 MMstb from 11.1 MMstb in 2015). The number of Shaikan truck deliveries for the twelve-month period totalled 65,942. The maximum average sustained production over a month was 40,012 bopd achieved in May, but 2016 maximum daily production did not reach the highs of the previous year, with a peak of 43,194 bopd compared with 45,063 bopd in 2015.

Observed natural pressure decline is in line with predicted field performance and consistent with the CPR reserves. This decline does not affect the 2P reserve estimate but will require further investment in wells and facilities to maintain a production capacity of 40,000 bopd. Our production average for Q1 2017 was 36,293 bopd with only minor export disruptions. Despite this strong start to 2017 production, our gross production guidance for 2017 is being set at 32,000 to

38,000 bopd which, based on previous years, estimates a 15% deferral. Without further investment we would expect to achieve the lower end of our guidance range.

The Group is progressing in its ongoing discussions with the MNR regarding commercial and contractual conditions, in particular those around regular payments conforming to the PSC and crude marketing arrangements. Subject to further clarity on these points and partner approvals, plans are in place for an interim project to stabilise Shaikan production at 40,000 bopd and increase up to 55,000 bopd, which we consider a bridge to the FDP target of 110,000 bopd. The stabilisation case to 40,000 bopd can be executed within nine to twelve months of committing to a capex programme of \$58 million to \$68 million which we envisage consisting of up to four ESPs on the existing wells plus one new Jurassic well with an ESP, along with maintenance and further debottlenecking. We estimate the increase to 55,000 bopd will require additional facilities and an optional trunk line tie-in, requiring a further capital expenditure programme of \$25 million to \$45 million (cost estimates include a 25% contingency). For the stabilisation plus expansion to 55,000 bopd, we estimate a total execution time of 18 months. However work continues on optimising these programmes. If these investments are deferred it could result in reduced production from a combination of natural decline and the potential to lose one or two wells later in 2017 from either gas breakthrough or the inability to produce wells without artificial lift.

At the end of February 2017, a new export route for Shaikan crude was established. The MNR began exporting all Shaikan crude by trucks to Turkey and since then, no Shaikan crude has been injected into the Kirkuk-Ceyhan export pipeline at Fishkhabour. The Group was informed that the new arrangement is required by the MNR for its overall crude oil export quality management and it is expected to be temporary. The transition caused no disruption to Shaikan production and it remains the export route for Shaikan crude today.

### Reserves

Shaikan is performing in line with expectations. In April 2017, the Company received confirmation from ERCE verifying remaining 2P reserves of 615 MMstb, as at 31 December 2016. In addition to our 2P reserves there are significant contingent resources of 239 MMstb (2C) as identified in the 2016 CPR. The CPR published on 31 August 2016, revised and updated the previous CPR dated September 2015. In that time, we produced 12.4 MMstb, and the latest CPR reported no unexpected changes in reservoir behaviour observed, demonstrating the stable and predictable performance of the field. Measured pressure decline and the absence of water or gas breakthrough support the geological interpretations of the field and provide the Group with increasing confidence of its understanding. This means reduced uncertainty and allows for a proposed full FDP that will optimise the recovery and required well numbers. An updated draft of the Shaikan FDP based on our findings, which includes the next FDP production target of 110,000 bopd, was submitted to the MNR in December 2015. We are working with our partner MOL to finalise this development plan as soon as possible, once the timing of the short-term investment plan is confirmed. Cumulative production to date is over 35 MMstb or just over 5% of the 2P reserves.

### Portfolio

Due to commercial considerations and capital constraints in early 2016, the decision was taken to rationalise our portfolio and the Sheikh Adi block was relinquished while Ber Bahr is currently in the process of relinquishment.

**Stuart Catterall**  
Chief Operating Officer  
5 April 2017

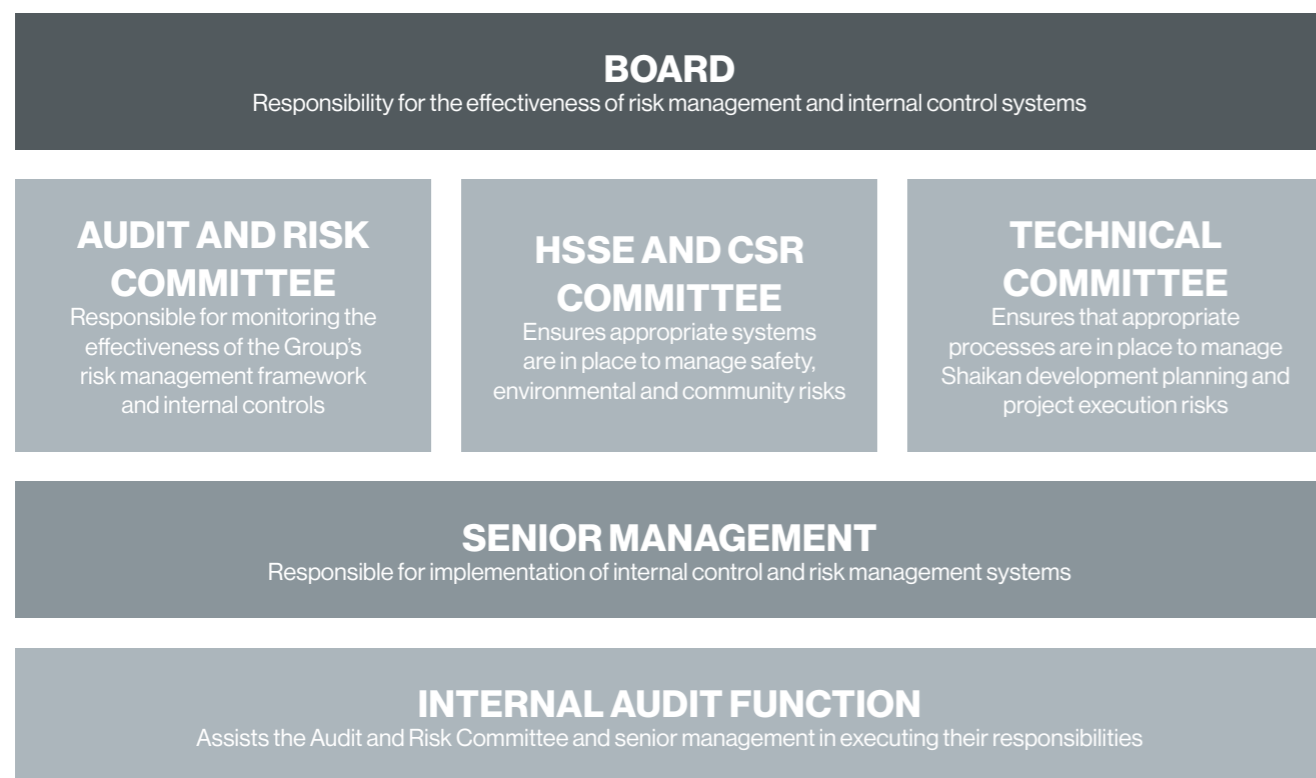






# MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

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, where possible, limiting the risks to which the Group is 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.



The Board evaluates the Group’s principal risks at each Board meeting and reviews reports from the Audit and Risk Committee, the HSSE and CSR Committee and the recently formed Technical Committee.

The Group maintains a corporate 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 regularly reviewed by both the Audit and Risk Committee and the Board and is updated based on the latest developments in the business.

An operations risk register has also been created, which identifies all risks that are specific to the continued safe and reliable operations of the Shaikan asset.

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 ongoing 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 Technical Committee supports the Company’s Shaikan development planning and project execution activities and ensures that appropriate processes are in place to manage project execution risks.

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

The Board confirms that it has 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
<p><b>Strategic</b></p> <p><b>Political, social and economic instability</b> 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. Uncertainty may arise from changes in the KRG leadership.</p>	<p>There has been a history of tension between the political parties in the Kurdistan Region of Iraq. Any possible changes in the government would generate uncertainty and may cause a material adverse impact to the Group.</p> <p>Political unrest or armed conflicts 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.</p> <p>There can be no assurance that the Group will be able to obtain or maintain effective security over any of the Group’s assets or personnel.</p> <p>Consequences may include limits on production or cost recovery, import and export restrictions, price controls, uncertainty over payment mechanisms for export sales, tax increases and other retroactive tax claims, expropriation of property, cancellation of contract rights and an increase in regulatory burden.</p> <p>The low oil price environment added fiscal pressures on the KRG as a result of reduced revenues.</p>	<p>The Group engages in continuous dialogue with the KRG and the Group’s rights and obligations are governed by PSCs. Legal advice has been obtained regarding the terms of PSCs. For the latest developments in the Kurdistan region, please see the Market overview section.</p> <p>The Group’s wells and facilities are protected by external security consultants and local government forces who work closely with the Group’s internal security team.</p> <p>The Group’s security team prepares detailed risk assessments, security procedures and contingency plans which can be activated when threats arise.</p>
<p><b>Disputes regarding title or exploration and production rights</b> The Iraqi Government has historically disputed the validity of the PSCs granted by the KRG.</p>	<p>If the validity of the PSCs was successfully challenged, the Group could be required by the KRG to accept contractor entitlements that are materially less favourable than the current PSCs.</p>	<p>This is an industry-wide risk faced by all international oil companies operating in the Kurdistan Region of Iraq.</p> <p>The Group has confidence in the legality of the 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. The Group maintains continuous dialogue with appropriate government departments and closely monitors the local situation.</p>
<p><b>Business conduct and anti-bribery</b> Due to the nature of the industry sector and the region in which the Group operates, it is exposed to the risk that the Group, or parties acting on its behalf, breaches the rules of the anti-corruption laws.</p>	<p>Violation of the anti-bribery regulations by the Group or those acting on its behalf, may result in a criminal case against Gulf Keystone and/or its employees leading to reputational damage, possible imprisonment or fines.</p>	<p>A detailed bribery risk assessment has been performed by Management and reviewed by the Board.</p> <p>The Audit and Risk Committee has designated a senior executive as the Anti-Bribery Officer for the Group. This executive ensures that the Group has appropriate procedures in place to mitigate the risk of bribery and that all employees, agents and other associated persons are made fully aware of the Group’s policies and procedures with regard to ethical behaviour, business conduct and transparency.</p> <p>The Group has an anti-bribery policy and a training programme that educates all personnel about the requirements of this policy.</p> <p>The Group also has robust controls around payment approvals.</p>



## MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

Key risk factor	Potential impact	Mitigation
<b>Strategic continued</b>		
<p><b>Export route availability</b> Risks associated with availability and accessibility of infrastructure allowing the Group to sell oil to export markets.</p>	<p>Historically, the Group has relied on the international pipeline between Fishkhabour (in Kurdistan) and Ceyhan (in Turkey) which has been subject to periodic interruption due to damage by military operations, theft and smuggling.</p> <p>From the end of February 2017, the Group's oil has been transported via trucks to Turkey. The capacity of this transportation route has limitations which depend on the number of trucks available and the capacity of the loading and unloading bays. Furthermore it is less preferred from an environmental and safety perspective.</p> <p>These factors will need to be taken into account when considering further expansion of the field production.</p>	<p>The trucking of oil to Turkey can support the current production of the Group.</p> <p>The MNR confirmed that the economic benefit to the Group will remain unaffected by the new trucking arrangement.</p> <p>The Group continues to have a regular dialogue with the KRG to clarify the timeline for this arrangement.</p> <p>Trucking operations are contracted and managed by the MNR; therefore the risk to the Group is largely reputational.</p>
<p><b>Stakeholder expectations</b> The Group may not meet the expectations of all stakeholder groups, particularly with regard to the Group's long-term strategy, production profile and funding, due to the diverse nature and desires of the stakeholders (including shareholders, bond holders, the KRG and joint venture partners).</p>	<p>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.</p>	<p>The Group maintains regular dialogue with the Group's stakeholder base and the general public.</p> <p>Gulf Keystone employs an investor relations team. All key developments are released to the market through the Regulatory Information Service, which is also available on the Group's website.</p>
<b>HSSE and CSR</b>		
<p><b>HSSE risks</b> The Group may be exposed to specific risks in relation to HSSE matters.</p> <p>Identified risk areas include H<sub>2</sub>S leaks at the production facilities, road traffic accidents and other accidents at production facilities and well sites.</p>	<p>Consequences may include accidents resulting in loss of life or injury, significant pollution of the local environment, destruction of facilities, disruption to business activities, risk of litigation and reputational damage with an associated financial loss.</p>	<p>The Group has a Health, Safety, Security and Environment and Corporate Social 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.</p> <p>The Group has put in place comprehensive HSSE and operations management procedures, including emergency and incident response plans.</p> <p>The Group actively engages with local communities and governments.</p>
<p><b>Gas flaring</b> A condition of the approval for our Field Development Plan granted in 2013 was the installation of a gas treatment and reinjection programme. Although a deadline was not specified, it was anticipated by the MNR that this would be soon after production start-up.</p>	<p>Although there is no flaring permit per se, the absence of a plan to deal with our flaring is in breach of this condition and with the Group's commitment to reduce flaring.</p> <p>The environmental impact of gas flaring may affect the local communities.</p>	<p>The Group maintains active dialogue with the regional authorities to ensure that it complies with the existing regulations.</p> <p>Harmful gas emissions are closely monitored by the HSSE department with any variances outside normal levels investigated and reported to the executive management.</p> <p>During 2016, the Group constructed a clean flare stack to improve the combustion of flared gas.</p> <p>The reduction of flaring will be an integral part of the Group's full Field Development Plan.</p>

Key risk factor	Potential impact	Mitigation
<b>HSSE and CSR continued</b>		
<p><b>Security</b> The Group is exposed, by virtue of the location of its operations, to a number of security risks. These include the threat of terrorist attack and local protests and unrest at Gulf Keystone sites.</p>	<p>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.</p>	<p>The history of political and social instability in the Iraq region, particularly in relation to Daesh, and 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.</p> <p>Our wells and facilities are protected by external security consultants and local government forces who work closely with the Group's internal security team.</p> <p>Our security advisers prepare detailed risk assessments, security procedures and contingency plans which can be activated when threats arise.</p> <p>Local communities are considered to be an essential source of intelligence about the nature, severity and likelihood of any threat.</p> <p>The Group ensures it maintains good relations with the local population and considers the impact of all decisions on them.</p>
<p><b>Corporate social responsibility risks</b> Disruptions to business may occur due to local communities influence and discontent.</p>	<p>Strong community relations are pivotal to our ability to achieve local support for new projects. Local community opposition may lead to project delays or, in extreme cases, loss of licence to operate.</p> <p>This may result in unplanned costs, inability to gain land lease extensions and significant security risk to our employees and contractors.</p>	<p>Gulf Keystone strives to be a good corporate citizen, and fosters its reputation through strong and positive relationships with the governments and communities where we do business. The Group has a number of ongoing corporate social responsibility initiatives and continuously engages with the local communities.</p> <p>The Group remains committed to its CSR programmes and plans to develop a broader medium to long-term CSR strategy to complement the existing community welfare initiatives.</p>



## MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

Key risk factor	Potential impact	Mitigation
<b>Operational</b>		
<p><b>Field delivery risk</b> Field delivery risk applies to all phases of the exploration and production ("E&amp;P") cycle from seismic acquisition through to production operations.</p> <p>Loss of a well due to water or gas breakthrough or mechanical failure.</p>	<p>Failure to control E&amp;P risks will manifest itself as project delays, cost overruns, high production costs, early field decommissioning and, ultimately, lower than expected reserves.</p> <p>Water breakthrough in advance of the appropriate water-handling facilities may result in temporary well shut-ins, failure to meet production targets and damage to the production facilities.</p> <p>Gas breakthrough in a well may create gas volumes exceeding the limit of the gas processing capacity and result in reduced oil production. To limit the impact on other producing wells, the well which sees gas breakthrough may be shut-in.</p>	<p>Technical, financial and Board approvals are required for all material projects, and for all dedicated project teams.</p> <p>All projects are closely monitored to ensure the project delivers against plan and enables actions to be taken to maintain progress.</p> <p>Project finances are monitored against budget to minimise overruns.</p> <p>All wells are monitored to ensure early detection of and reaction to any abnormalities.</p> <p>Planning for water handling facilities is underway.</p> <p>Zones within wells which are producing water may be isolated and the well brought back in to production.</p> <p>Wells are regularly tested to look for any changes in gas/oil ratio and to provide an early warning of any gas breakthrough. Reservoir modelling is carried out to improve our understanding and forecasting of this event.</p> <p>Design of future development wells takes account of the updated modelling to optimally locate the producing interval from wells at a depth to minimise the risk of early gas and water breakthrough.</p>
<p><b>Reserves</b> Recoverable reserves are below expectations which will affect the revenue and economic viability of the field.</p>	<p>Due to natural uncertainty in the volumes of hydrocarbons in place and the proportion of those hydrocarbons that might be recoverable, the actual reserves may be lower than our most likely forecast.</p>	<p>The Group bases its forecasts and investment planning on a range of possible outcomes that includes the low-side case. Investment risks are considered against a scenario of P90 recoverable reserves (meaning there is a 90% chance that the reserves are at or greater than this level).</p> <p>Phasing of the project investments are considered against the low-side scenario and the investment plans adjusted accordingly.</p> <p>Data is acquired from well production and pressure measurements and results from new wells to help model the reservoir and reduce the uncertainty with time.</p> <p>The Group's reserves estimates are audited by an independent third party.</p>
<b>Financial</b>		
<p><b>Liquidity and funding capability</b> The Group has sufficient working capital to meet short-term operational requirements, but may fail to have sufficient funds in place to pursue the full Shaikan FDP programme.</p> <p>Lack of capital discipline and unsuccessful portfolio management may result in significant unplanned cash outflows and damaged liquidity.</p>	<p>Lack of funding in the long term may result in the Group's inability to fully achieve its strategy, failure to reach the stated field plateau and inability to deliver a return to the investors.</p>	<p>The Group completed the Restructuring in 2016 which gave the Group a sound financial base, and a much reduced debt position.</p> <p>The Board and management ensure that the strategy planning process is robust and consistent.</p> <p>The Group's business plan is regularly reviewed and revisited by the Board to ensure it reflects any changes to internal or external factors.</p> <p>Business planning and corporate performance management processes are used to control spend.</p>

Key risk factor	Potential impact	Mitigation
<b>Financial continued</b>		
<p><b>Export payment mechanism</b> There is uncertainty relating to the payment mechanism for export oil in Kurdistan.</p> <p>A change in the regularity of revenue payments from the MNR will adversely impact the Group's ability to operate efficiently and develop the asset.</p> <p>There can be no assurance that PSC operators will be paid their entire historical or future entitlement.</p>	<p>Irregular receipts of export payments may damage investor confidence in the region and make any fundraising difficult. It may damage the Group's financial position and result in an inability to make the necessary investments in the field development and operations.</p> <p>In extreme cases it may put in question the Group's ability to continue as going concern.</p>	<p>The Group continues to monitor the political situation in the Kurdistan region and maintains good dialogue and relations with the relevant national and regional authorities.</p> <p>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.</p> <p>A regular payment cycle has been in place throughout 2016 for oil exports and, to date, the Group has all monthly payments for production up to December 2016.</p> <p>The Group continues its efforts to maintain regular payments from the KRG and establish a mechanism for the payment of arrears. Progress is being made in putting in place the Second Shaikan PSC amendment which will add certainty regarding the Group's PSC entitlements.</p>
<p><b>Commodity prices</b> A material decline in oil prices globally may adversely affect the Group's cash flows and asset valuations, and result in delays to the Shaikan FDP.</p> <p>Low oil prices may adversely impact the KRG's ability to meet its payment obligations towards the region's producers.</p>	<p>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.</p> <p>Low commodity prices may lead to a reduction in the Group's commercial reserves and an impairment of its assets.</p>	<p>The Group monitors and, where possible, reduces costs while maintaining safe operations.</p> <p>The Group's cash position is constantly monitored.</p>

### Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have carefully assessed the Group's viability and prospects for a period of three years.

The three-year time frame was selected as it corresponds with the Group's internal strategic planning cycle and provides a period over which there is a reasonable amount of clarity regarding cost and revenue projections. The Board concluded that it is likely that the majority of the principal risks and uncertainties identified by the Group will have an impact within this period and therefore a three-year period appropriately reflects the underlying viability and prospects of Gulf Keystone.

The Directors' viability assessment has been made with reference to the Group's strategy and business model, as detailed on pages 14 and 15, and to the risks, uncertainties and the available mitigating action plans, as detailed on pages 30 to 35. The Group conducted an annual planning process which consisted of the review of the Group's strategy and performance, preparation of a work plan and budget and review of risks, uncertainties and opportunities, over the three-year assessment period. The Directors reviewed the Group's three-year cash flow model which considered the cash flow projections relating to Group's revenues, operational costs and capital expenditure. The Directors assessed the potential financial and operational impact of severe but plausible scenarios by applying the impact of various risks and uncertainties together with the available mitigating actions in order to establish the Group's ability to meet its working capital requirements.

With the success of the Restructuring, the Group is in a strong financial position and with a significantly reduced risk of inability to meet debt and interest payments. In addition, the Group has the flexibility to raise additional debt of up to \$45 million through the use of Super Senior Debt Basket and the General Debt Basket and has an option to defer the interest payments on the Reinstated Notes for the first two years. The cash inflows from the Group's export revenues have become regular over the past year, further strengthening the cash flow projections.

Based on the assessments above, the Directors 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 until 30 April 2020.

## FINANCIAL REVIEW



**I am pleased to say that, despite all the difficulties, 2016 proved to be a year of significant progress and development for the Group.**

**Sami Zouari**  
Chief Financial Officer

As both the CEO and Chairman have outlined in their statements, 2016 has been a challenging year for the industry as a whole and for Gulf Keystone in particular. A debt burden of over \$600 million repayable in 2017 with large interest payments due in 2016, combined with the low oil price environment, meant that the Group had a number of hurdles to overcome.

My outlook and goals for 2016 were clearly set and I am pleased to say that, despite all the difficulties, 2016 proved to be a year of significant progress and development for the Group. We successfully completed a complex balance sheet restructuring and raised funds through a fully subscribed open offer ("Open Offer"), demonstrating continuous support from our shareholders for the Company and its management team, in spite of the difficult environment. As a result, the Group's debt was reduced from over \$600 million to \$100 million.

Despite geopolitical difficulties and low oil prices, the MNR was committed to supporting the producers who operate in the Kurdistan region. The Group has seen a marked improvement in cash receipts with gross payments of \$142.5 million (\$114.0 million net to the Group) received in 2016 (2015: \$74.2 million net to the Group, including domestic revenues).

Our progress on the implementation of the revised Shaikan PSC terms has not been as swift as we had expected. However, the Group is progressing in its discussions with the MNR and its partner MOL on resolving the remaining commercial and contractual uncertainties. This will allow the Group to invest with confidence in the next stage of the Shaikan development and unlock the potential of this remarkable field, which continues to deliver strong production in line with our expectations.

### Summary of key financial highlights

Below are some key financial highlights derived, in part, from the Consolidated financial statements and should be read in conjunction with the Consolidated financial statements and related notes:

	2016	As restated (note 25) 2015
Sales volume (bopd)	34,794	30,500
Revenue (\$'000)	194,409	86,165
Profit/(loss) from operations before exceptional items (\$'000)	26,046	(81,697)
Impairment expense (\$'000)	(215,658)	(82,596)
Gain on debt extinguishment (\$'000)	222,455	—
Loss after tax for the year (\$'000)	(17,435)	(213,964)
Basic loss per share (cents)	(30.82)	(2,283.66)
Operating cash flow before working capital (\$'000)	109,515	(4,416)
Capital expenditures (\$'000)	9,592	82,019

### Operating results

#### Revenue production

Gross liftings for the year were 12.7 million barrels ("bbl") of oil (2015: 11.1 million bbl of oil) all of which was trucked to Fishkhabour for injection into the export pipeline (2015: 8.6 million barrels for export market and 2.5 million barrels for domestic off-take).

The Group received regular payments from the MNR for oil sales during the period. The payments amounted to \$12 million net a month, with the exception of February when the receipt was \$6.0 million net, due to pipeline export problems. As at 31 December 2016, the Group recognised three months of revenue receipts outstanding of \$36 million net (2015: \$12 million net), all of which were received in Q1 2017.

Due to continued uncertainty relating to the payment mechanism for sales to the export market, the Group recognises its revenues when the cash receipt is assured (see note 2). Based on this, revenue recognised for 2016 amounted to \$194.4 million (2015: \$86.2 million), including \$121.8 million for assured receipts in relation to the Group's revenue entitlements and \$72.6 million recognised by offsetting payables to the MNR against amounts due from previously unrecognised revenue.

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. The Group continues to assume Shaikan quality discount at \$14.7/bbl, subject to future audit with the MNR. Transportation costs amounted to \$5.7/bbl from January to October 2016 and \$5.2/bbl from October 2016 onwards. Based on these discussions, the realised price for 2016 export sales is estimated at \$24/bbl (2015: export sales \$22/bbl; domestic sales \$18/bbl). This remains subject to audit and reconciliation, and the establishment of a retroactive quality bank for Kurdistan crude oil.

Unrecognised revenue arrears at 31 December 2016 are estimated at \$25.0 million (2015: \$44.0 million) on a diluted basis (based on the implementation of the Second Shaikan Amendment in the manner envisaged by the MNR Agreement).

#### Production cost

Cost of sales for the year was \$142.8 million (2015: \$136.9 million). This includes production costs and depreciation, depletion and amortisation. The Group saw a decrease of 27% in production costs, excluding production bonus and capacity payments due to the KRG, from \$48.1 million in 2015 to \$35.2 million in 2016. On a gross field basis, production costs per gross barrel excluding production bonus and capacity payments due to the KRG were \$3.5/bbl (2015: \$5/bbl). The Group continued to improve efficiency and reduce costs throughout the year achieving operating costs per barrel well under the stated target of \$4.5/bbl.

The Group generated a gross profit for the year of \$51.6 million (2015: \$50.7 million loss) driven primarily by the recognition of the revenue arrears and improved revenue receipts in the year.





## FINANCIAL REVIEW continued

### Change in accounting policy

During the year, the Group changed its accounting policy for its oil and gas assets from modified full cost to successful efforts. As a result of the change, the Group restated its prior year financial statements by writing off the remaining balance of the Ber Bahr block of \$79.0 million as of 31 December 2015. Furthermore, all 2016 expenditures relating to the Sheikh Adi and Ber Bahr blocks were written off and included in Impairment expense and General and administrative expense, respectively, in the Consolidated income statement in 2016. The effects of the change in the Consolidated financial statements are discussed in detail in note 25.

### Non-operating results

Following the change in its accounting policy and the relinquishment of the Sheikh Adi block in March 2016, the Group recognised an impairment expense of \$215.7 million (2015: a restated expense of \$82.6 million) (see notes 10 and 25). The restatement of the 2015 balance was a result of the change in the Group's accounting policy, meaning that the Group's decision to relinquish the Ber Bahr block at the end of 2015 resulted in impairment.

A gain on debt extinguishment of \$222.5 million resulted from the successful Restructuring in October 2016 when the Group extinguished its Convertible Bonds and Guaranteed Notes in consideration for 4,585,192,303 and 15,031,035,578 common shares, respectively and the issue of \$100 million of Reinstated Notes (see note 16).

Other gains amounted to \$9.9 million (2015: \$3.1 million). The Group was successful in securing the release of \$3.2 million unpaid costs in the Excalibur litigation. The Group relinquished Akri Bijeel in December 2015 and executed the Akri Bijeel Joint Operating Agreement Termination Agreement in June 2016 with no further liabilities payable by the Group. This resulted in a release of a decommissioning provision of \$3.7 million and extinguishment of a contingent liability estimated at \$39.9 million. The remaining balance relates to foreign exchange gains (see note 6).

General and administrative expenses for 2016 were 18% down at \$25.5 million (2015: \$31.0 million). The decrease has been generated through a cost review and efforts to increase efficiencies and reduce costs, partially offset by an increase in the advisory and other costs associated with the Restructuring.

The Group generated an after tax loss of \$17.4 million (2015: \$214.0 million restated loss). The improved bottom line is a result of both higher revenues and lower costs.

### Cash flow

The Group generated cash in 2016 without any significant external funding inflows. The net overall increase in cash and cash equivalents during the year was \$49.2 million (2015: \$44.2 million decrease) with cash and cash equivalents totalling \$92.9 million at 31 December 2016 (2015: \$43.6 million).

The Group generated a positive cash flow of \$49.6 million (2015: inflow \$20.7 million) from operations due to the improved revenue payment cycle and prudent cost management. The successful completion of the Restructuring meant that the interest due on the Notes and Convertible Bonds in 2016 was converted into common shares alongside the debt principals and the Group made no interest payments (2015: \$52.9 million).

The Group spent \$9.7 million on investing activities (2015: \$52.1 million) which is a result of asset portfolio rationalisation and limited investment in the Shaikan Field 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.

The Group also raised \$9.7 million through financing activities (2015: \$39.4 million). The majority of these funds were raised through the successful completion of the Open Offer on 14 October 2016.

### Corporate activities

#### Balance sheet restructuring

The Group successfully completed the Restructuring on 14 October 2016 to address the Group's Guaranteed Notes and Convertible Bonds maturing in April 2017 and October 2017, respectively. As a result, the Group's debt was reduced from over \$600 million of Convertible Bonds and Guaranteed Notes to \$100 million of Reinstated Notes through full conversion of the Convertible Bonds and partial conversion of the Guaranteed Notes to common shares. The Reinstated Notes give the Group an option to defer the payment of the first two years of interest until the maturity in 2021 (see note 16 for further details). The Group also has the flexibility to seek and raise additional debt of up to \$45 million through the use of the Super Senior Debt Basket and the General Debt Basket. The Reinstated Notes do not contain covenants or Debt Service Reserve Account requirement, freeing \$32.5 million of cash for general use. In conjunction with the Restructuring, the Group completed a successful \$25.0 million Open Offer on 14 October 2016 (see note 16 for further details), leading to a strong cash balance at 31 December 2016.

#### Exploration blocks relinquishment

In March 2016, as part of the Group's strategy to focus on its core assets, the Group relinquished the Sheikh Adi block and terminated the Sheikh Adi PSC. Under the terms of the Sheikh Adi Relinquishment, the Group relinquished to the KRG its right to drill, explore, and export oil and gas from the Sheikh Adi block. Both the KRG and the Group relieved each other from any claims and obligations they may have against the other under the PSC, with the exception of \$10.0 million relating to reduced PSC bonuses due on the declaration of commerciality. This will be offset against the past costs associated with the Shaikan Government Participation Option.

The Group announced its intention to relinquish the Ber Bahr block as part of its 2015 results. The relinquishment is currently in the process of finalisation. Additional costs incurred on Ber Bahr during the year relate to remediation and ongoing general and administrative cost associated with the termination of the licence.

#### Completion of share consolidation

Following the completion of the Restructuring, the number of existing common shares significantly increased. The Group considered that the issued share capital was considerably higher than similar sized companies listed on the London Stock Exchange and adversely impacted investors' perception of the Company. Hence, on 16 November 2016, the Group proposed to undertake a consolidation of its shares (the "Consolidation") pursuant to which the 22,942,956,605 existing common shares would be divided in 229,429,566 new common shares of \$1 each. The Consolidation was completed on 9 December 2016. The new common shares have the same rights and are subject to the same restrictions as common shares prior to consolidation. All existing options and warrants have been consolidated on the same 100:1 basis. Fractional entitlements arising from the consolidation were aggregated and sold in the market with the net proceeds donated to a charity designated by the Board of Directors of the Company. The Group believes that the Consolidation of the existing common shares may improve the liquidity and marketability of the common shares to a wider range of investors, including institutional investors and will make them a more attractive investment proposition.

#### Second Shaikan PSC Amendment

The Group continues to work towards the execution of the Second Shaikan PSC Amendment implementing the terms of the agreement signed by the MNR and Gulf Keystone Petroleum International Limited ("GKPI") on 16 March 2016 (the "Bilateral Agreement"). For the avoidance of doubt, MOL was not a party to the Bilateral Agreement. The Bilateral Agreement, inter alia, records the MNR's approval to reduce the Group's capacity building charge from 40% to 30% of profit petroleum, and the MNR's approval of the proposed assignment and transfer to GKPI of the 5% participating interest in the Shaikan PSC currently held by Texas Keystone International Limited. It also documents the MNR and GKPI's intention to implement the Third Party Interest so that a 7.5% participating interest in the Shaikan PSC in aggregate shall be allocated in favour of GKPI and MOL pro rata to their respective participating interests and a 7.5% carried interest in the Shaikan PSC shall be allocated to the MNR. In addition, the MNR and GKPI stated their intention to recognise the allocation to the MNR of the Option of Government Participation in the Shaikan PSC with effect from 1 August 2012 (subject to the satisfaction of certain conditions, including the payment by the MNR of associated past costs attributable to the Option of Government Participation).

#### Staff Retention Plan and Value Creation Plan

In order to retain and motivate employees, the Company introduced a new Staff Retention Plan in 2016 ("SRP"). The SRP was approved by shareholders at the Annual General Meeting on 8 December 2016 and its implementation was approved by the Company's Remuneration Committee on 12 December 2016. Employees who are not participating in the Value Creation Plan ("VCP") are eligible for the SRP. The SRP is based on an allocation of nil-cost options over Gulf Keystone Petroleum shares which will vest on completion of a three-year retention period or on a change of control. Should a change of control occur during the first twelve months of the SRP, then only 50% of the shares will vest. In years two and three, 100% of the shares will vest. A total of 1% of the Company's issued share capital was reserved for the SRP.

Additionally, the Company implemented the VCP for Executive Directors. Participants in the VCP, who are selected at the discretion of the Remuneration Committee, are awarded units representing their share in a 'Performance Pot' equivalent to 8% of the increase in value of the Company in excess of a minimum annual rate of return to shareholders. Subject to the Company generating a rate of return to shareholders of not less than 8% per annum compound (the "hurdle") participants will be granted nil-cost options each year for five years, starting one year after the initial award of units. The value of shares subject to each option corresponds to the individual's share of the Performance Pot. If, by the end of the fifth plan year the Company has failed to generate the hurdle rate of returns to shareholders, all unvested nil-cost options will lapse. The aggregate value of all nil cost options granted at previous measurement dates shall not exceed \$20 million. If there is a change of control prior to 31 December 2017, the participants will receive 2% of the value of the sale consideration less the value provided to employees under the SRP.

### Financial strategy and outlook for 2017

#### Improved liquidity and capacity

In 2017, we are in a strong position with markedly improved liquidity and financial flexibility. As at 5 April 2017, the Group's cash and cash equivalents were \$112.7 million.

Several challenges still face our Group, as outlined below, but we believe we have the right partners and team to tackle them:

- we will continue to work on achieving further contractual and commercial clarity and will work towards the execution of the Second Shaikan PSC Amendment;
- we will maintain our active dialogue with the MNR and aim to shift to revenue receipts in accordance with the PSC entitlements;
- we will continue to seek clarifications on the marketing terms and market routes for our crude; and
- prudent resource management and robust operational and financial controls remain at the forefront of our operation and we are striving to deliver improvements wherever possible.

The Group continues its efforts to manage costs prudently whilst maintaining safe and secure operations. We have successfully reduced operating costs in 2016 to \$3.5/bbl from \$5/bbl in 2015. Our operating costs guidance for 2017 is \$4 per bbl as we have identified a number of facilities and infrastructure maintenance projects that will help us to ensure smooth and safe operations.

Considering the current healthy cash balance and regularity of payments from the MNR, the Group has decided to pay its upcoming Reinstated Notes coupon of \$5 million at 10% interest rate on 18 April 2017, even though it has the option to postpone it to maturity (at 13% interest rate).

In addition to our strong cash balance, we have a positive outlook on our forward liquidity, which will support our investments with a view to maintaining our gross production at 40,000 bopd and potentially increasing it to 55,000 bopd, subject to approval by the MNR and our partners MOL.

With the successful Restructuring and improved revenue flow, we now have the financial strength to focus on realising the potential of our asset.

### Sami Zouari

Chief Financial Officer

5 April 2017

## BOARD OF DIRECTORS



### Keith Lough

Non-Executive Chairman

#### Skills and experience

Keith Lough was appointed as Non-Executive Chairman of Gulf Keystone Petroleum in July 2016 having been a Non-Executive Director since December 2015.

He is a certified chartered 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 Limited, 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, and the UK Gas and Electricity Markets Authority (Ofgem). He is also a Director of Abacus Geoscience Limited.

### Jón Ferrier

Chief Executive Officer

#### Skills and experience

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, was most recently Senior Vice President Business Development, Strategy & Commercial at Maersk Oil in Copenhagen where he served on the executive team. He holds an MSc from Imperial College.

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 plc and Petro-Canada/Suncor, in a number of regions.

### Sami Zouari

Chief Financial Officer

#### Skills and experience

Sami Zouari joined Gulf Keystone as Chief Financial Officer in January 2015, following three 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. He holds a Master's from Harvard and BA from Columbia University.

Prior to his appointment, he served as the Regional Head of Corporate and Investment Banking for North Africa, Iraq and Oman at BNP Paribas in London, overseeing various financial transactions in the MENA region with a focus on the oil and gas industry. Between 2008 and 2012, he was the Head of MENA within the Energy 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, Sami 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 assets producing in excess of 300,000 barrels of oil per day.

### Philip Dimmock

Non-Executive Director

#### Skills and experience

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.

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.

Philip is currently a consultant to various oil and gas companies, including Equator Exploration Ltd where he was formerly Chief Operating Officer.

### Garrett Soden

Non-Executive Director

#### Skills and experience

Garrett Soden was appointed as a Non-Executive Director of Gulf Keystone Petroleum in October 2016.

He has worked with the Lundin Group of Companies since 2007 as a senior executive and board member. He holds a BSc honours degree from the London School of Economics and an MBA from Columbia Business School. Garrett is the former Chairman and Chief Executive Officer of RusForest AB, a Swedish forestry company with interests in Russia. He is the former Chief Financial Officer of both Etrion and PetroFalcon Corporation, a Canadian oil and gas E&P company focused on Venezuela. Garrett previously worked at Lehman Brothers in equity research and at Salomon Brothers in mergers and acquisitions. Garrett also previously served as Senior Policy Advisor to the US Secretary of Energy.

Garrett is a director of Panoro Energy ASA, a Norwegian oil and gas E&P company focused on West Africa. He is also a director of Etrion Corporation, a Canadian solar power producer focused on Japan.

### David Thomas

Non-Executive Director

#### Skills and experience

David Thomas was appointed as Non-Executive Director of Gulf Keystone Petroleum in October 2016.

He is a highly experienced oil and gas professional, having held a number of board level, senior executive and international management roles in a career spanning over 35 years. He started his career as a petroleum engineer with Conoco working in the North Sea and Dubai before moving into reservoir engineering and asset management positions. Subsequently, he joined Lasmo where he became the Group GM Operations and, following the company's acquisition, held three regional Vice President roles with ENI including managing the North Sea, Russia/Asia/Australia and West Africa asset portfolios. David's subsequent board directorships have included positions with various London and Canadian listed companies including President and COO of Centurion Energy, CEO of Melrose Resources and COO with Petroceltic International. In mid-2015 he briefly served on a caretaker Board at Afren. David has a BSc in Mining Engineering from Nottingham University and an MSc in Petroleum Engineering from Imperial College.

David is currently the CEO of PICO/Cheiron.

## SENIOR MANAGEMENT



### Stuart Catterall

Chief Operating Officer

Stuart joined Gulf Keystone as Chief Operations Officer in January 2017.

Stuart has over 30 years' experience in oil and gas undertaking a breadth of senior leadership and technical roles with Amerada Hess, BHP Billiton, Celtique Energy and, more recently, as an independent petroleum development and operations consultant for PA Resources, Enquest and Petroceltic. He has proven expertise in successfully developing oil fields and leading operations in remote, onshore international locations, including in the Middle East/North Africa region.

Stuart has a BSc in Mechanical Engineering from Southampton University and an MSc in Petroleum Engineering from Imperial College, London.

### 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 which listed on The London Stock Exchange's AIM market in 2005. Nadhim has held a number of advisory roles in the oil and gas sector.

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

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

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

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



## CORPORATE GOVERNANCE REPORT



**Keith Lough**  
Non-Executive Chairman

**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.**

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 London 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.

During 2016, a number of changes were made to the Board. I was appointed Non-Executive Chairman following Andrew Simon's retirement in July 2016. In October 2016, Cuth McDowell stepped down from the Board and Garrett Soden and David Thomas were appointed as independent Non-Executive Directors.

Following the successful completion of the Restructuring, the Finance Committee has been disbanded. An important addition to our corporate governance arrangements is the creation of a new Technical Committee. The key roles of this Committee are to optimise delivery of the Shaikan FDP and to provide appropriate risk, financial and budgetary oversight for major capital projects.

**Keith Lough**  
Non-Executive Chairman  
5 April 2017

As at 31 December 2016, the composition of the Board sub-committees was as follows:

Board					
Audit and Risk Committee	Remuneration Committee	Nomination Committee	HSSE and CSR Committee	Finance Committee <sup>(1)</sup>	Technical Committee <sup>(2)</sup>
Garrett Soden	Philip Dimmock	Philip Dimmock	David Thomas	Keith Lough	David Thomas
Philip Dimmock	Garrett Soden	Garrett Soden	Philip Dimmock	Jón Ferrier	Philip Dimmock
Keith Lough	David Thomas	David Thomas	Jón Ferrier	Sami Zouari	Jón Ferrier
		Keith Lough	John Stafford		Sami Zouari
					John Stafford
					Gabriel Papineau-Legrís <sup>(3)</sup>

(1) Committee disbanded following completion of the Restructuring in October 2016.

(2) Committee established in November 2016.

(3) Commercial Director.



## CORPORATE GOVERNANCE REPORT continued

### Introduction

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 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 – not met for part of the year.

The areas of non-compliance arose as a result of a number of changes that the Board underwent in 2016 and were rectified in late 2016/early 2017.

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

### Matters reserved for the Board

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

- the Group's strategic aims and objectives;
- changes to the 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 2016, 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). In accordance with Code provision A.3.1, the Chairman was independent on appointment. The Company regards the other Non-Executive Directors 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.

As at the date of this report, the Board has five standing Committees: Audit and Risk Committee, Remuneration Committee, Nomination Committee, HSSE & CSR Committee and Technical Committee. The Finance Committee was disbanded following the successful completion of the Restructuring on 14 October 2016. Each standing Board Committee has specific written terms of reference issued by the Board and adopted by the relevant Committee, updated most recently in January and April 2017.

All Committee Chairmen report orally on the proceedings of their Committees at the meetings of the Board. Where appropriate, the Committee Chairmen also make recommendations to the Board in accordance with their relevant terms of reference. In addition, the minutes of the Committee meetings are included in the papers distributed to all Board members in advance of Board meetings.

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

### Board Committees

#### Audit and Risk Committee

As at 31 December 2016, the Audit and Risk Committee comprised two Non-Executive Directors, who are considered to be independent, and the Non-Executive Chairman of the Board. The members were: Garrett Soden (Chairman), Philip Dimmock and Keith Lough. Garrett Soden was appointed as a member and Chairman of the Committee on 8 December 2016. Philip Dimmock served as Chairman of the Committee up to 8 December 2016. Philip Dimmock remained as a member of the Committee following the change of Chairman. Cuth McDowell served on the Committee until he stepped down from the Board in October 2016.

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 2016, the Committee met four times.

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](http://www.gulfkeystone.com).

The terms of reference are reviewed regularly and were last updated in April 2017. The Audit and Risk Committee report is set out in a separate section of the Corporate governance report.

#### Nomination Committee

As at 31 December 2016, the Nomination Committee comprised three Non-Executive Directors, who are considered to be independent, and the Chairman of the Board. The members were: Philip Dimmock (Chairman), Garrett Soden, David Thomas and Keith Lough. Andrew Simon was a member of and chaired the Committee until his retirement as a Director in July 2016. Keith Lough served as Chairman of the Committee until 8 December 2016. Philip Dimmock took over as Chairman of the Committee on 8 December 2016. Keith Lough remains a member of the Committee. Cuth McDowell served as a member of the Committee until his resignation as a Director in October 2016. Garrett Soden and David Thomas were appointed to the Committee on 8 December 2016.

The Nomination Committee met on three occasions during the year on a formal basis. A number of informal meetings also took place. 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](http://www.gulfkeystone.com). The terms of reference are reviewed regularly and were last updated in January 2017. The Nomination Committee report is set out in a separate section of the Corporate governance report.

#### Remuneration Committee

As at 31 December 2016, the Remuneration Committee comprised three Non-Executive Directors: Philip Dimmock (Chairman), Garrett Soden and David Thomas. Andrew Simon was a member of and Chairman of the Committee until his retirement as a Director in July 2016. Keith Lough was appointed Chairman of the Committee following Andrew Simon's retirement and remained as Chairman and a member of the Committee until 8 December 2016. Garrett Soden and David Thomas were appointed as members of the Committee on 8 December 2016. Philip Dimmock was also appointed Chairman of the Committee on that date. Cuth McDowell was a member of the Committee until his resignation as a Director in October 2016.

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 Committee is also responsible for the determination of the Group's Remuneration Policy. The Remuneration Committee met on seven occasions during the year on a formal basis. A number of informal meetings also took place.

The terms of reference for the Remuneration Committee are available in the Corporate Governance section of Gulf Keystone's corporate website [www.gulfkeystone.com](http://www.gulfkeystone.com). The terms of reference are reviewed regularly and were last updated in January 2017.

#### HSSE and CSR Committee

As at 31 December 2016, the HSSE and CSR Committee comprised two Non-Executive Directors, one Executive Director and the Group's Vice President – Operations. As at 31 December 2016, the members of the Committee were: David Thomas (Chairman), Philip Dimmock, Jón Ferrier (CEO) and John Stafford (Vice President – Operations). Andrew Simon served as a member of the Committee until his retirement in July 2016. David Thomas was appointed as a member of the Committee and became its Chairman on 8 December 2016. Philip Dimmock stepped down as Chairman of the Committee on 8 December 2016 but remains a member of the Committee. Stuart Catterall (Chief Operating Officer) was appointed to the Committee on 24 January 2017 at which time John Stafford stepped down.

The Committee meets at least four times a year and met four times during 2016. 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](http://www.gulfkeystone.com). The terms of reference are reviewed regularly and were last updated in January 2017.

#### Finance Committee

The Finance Committee was established in December 2015 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.

The Committee met frequently during 2016 in the period from January to October. The members of the Committee were: Keith Lough (Chairman), Cuth McDowell, Jón Ferrier (CEO) and Sami Zouari (CFO). Following the successful completion of the Restructuring on 14 October 2016, the Finance Committee was disbanded.

#### Technical Committee

The Technical Committee was established in November 2016. As at the date of this report, the Committee comprises two Non-Executive Directors, the two Executive Directors, the Chief Operating Officer (COO) and the Commercial Director. As at 31 December 2016, the members of the Committee were: David Thomas (Chairman), Philip Dimmock, Jón Ferrier (CEO), Sami Zouari (CFO), John Stafford (Vice President Operations) and Gabriel Papineau-Legrís (Commercial Director). Following his appointment as COO, Stuart Catterall was appointed to the Committee on 24 January 2017 and John Stafford stepped down from the Committee at that time.

The Committee will normally meet quarterly but will meet more frequently if required. The Committee's main remit is to support the Company's Shaikan development planning and project execution activities. The Committee also has the following specific objectives:

- provide assurance that development plans are in line with the Company's strategy and have been optimised in the context of the current and forecast funding position;
- review and approve Shaikan Field reserves and resources estimates and revisions before they are finalised;
- ensure that the Company has the appropriate resources and Project Management Systems in place to successfully execute the development projects on time and within budget;
- provide the Board with assurance that the key project execution risks have been identified and that the required Risk Management processes and mitigation measures are in place;
- provide oversight, where appropriate, for any material contract tendering exercises; and
- review and recommend for executive approval any information relating to the Shaikan Field Development Plans and reserves and resource estimates for public release.





## CORPORATE GOVERNANCE REPORT continued

### 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 challenges 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 2016 the Board evaluated the Chairman's external commitments. The Board is satisfied that the Chairman committed sufficient time to his duties in relation to the Company.

### The role of the Chief Executive Officer

Supported by the Executive Directors and the 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

During 2016 there was no Senior Independent Director. Responsibility for assisting the Chairman with effective communications to Gulf Keystone's shareholders and stakeholders was shared by the other Non-Executive Directors who were available to shareholders if they had any concerns which could not be resolved through the normal channels of the Chairman, Executive Directors or the Company's Investor Relations Department, or if these channels were not appropriate. With effect from 24 January 2017, Philip Dimmock was appointed as Senior Independent Director.

### Changes to the Board

In 2016, there were a number of changes to the composition of the Board.

Andrew Simon retired as a Director and as Chairman of the Board on 14 July 2016. Keith Lough was appointed Chairman on that date. Cuth McDowell stepped down from the Board on 13 October 2016 and Garrett Soden and David Thomas were appointed as Directors on 13 October 2016. The search, selection and appointment process for the Non-Executive Directors is described in the section on the Nomination Committee.

### 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 seventeen scheduled Board Meetings were held during the year ended 31 December 2016. In addition to those scheduled meetings, there were a number of Board review calls to deal with Board matters as appropriate.

The Directors' attendance record at the scheduled Board meetings and Board Committee meetings for the year ended 31 December 2016 is shown in the table below. For Board and Board Committee meetings, attendance is expressed as the number of meetings that each Director was eligible to attend. The number of meetings actually attended by each Director is shown in brackets.

	Full Board meetings	Audit and Risk Committee	Remuneration Committee	Nomination Committee	HSSE and CSR Committee	Finance Committee	Technical Committee
Keith Lough	17 (15)	4 (3)	6 (6)	3 (3)	—	13 (13)	—
Philip Dimmock	17 (15)	4 (4)	7 (7)	3 (3)	4 (4)	—	1 (1)
Garrett Soden <sup>1</sup>	2 (2)	0 (0)	1 (1)	0 (0)	—	—	—
David Thomas <sup>1</sup>	2 (2)	0 (0)	1 (1)	0 (0)	1 (1)	—	1 (1)
Cuth McDowell <sup>2</sup>	15 (13)	3 (3)	4 (4)	3 (3)	—	13 (8)	—
Jón Ferrier	17 (17)	—	—	—	4 (4)	13 (13)	1 (1)
Sami Zouari	17 (16)	—	—	—	—	13 (13)	1 (1)
Andrew Simon <sup>3</sup>	8 (8)	—	2 (2)	2 (2)	3 (2)	—	—

(1) Appointed as a Director on 13 October 2016.

(2) Resigned as a Director on 13 October 2016.

(3) Retired as a Director on 14 July 2016.

### 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 Chairman was independent on appointment. The Board has concluded that all of the other 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 Bye-laws 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 2016:

- 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;
- communications with the internal auditor 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 2016 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 and members of the Investor Relations team 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](http://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.

The Executive Directors regularly present at public conferences and investor meetings. Throughout 2016, 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



**Garrett Soden**  
Chairman of Audit and Risk Committee

**The main focus of the Audit and Risk Committee has been to support the Group's ongoing monitoring, review and evaluation of its risk management systems and internal controls.**

### Role

The Audit and Risk Committee is the committee of the Board of Directors that 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 auditor.

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

As at 31 December 2016 and the date of this report, the Committee comprised two Non-Executive Directors, who are considered to be independent, and the Chairman of the Board. The members of the Committee are: Garrett Soden (Chairman), Philip Dimmock and Keith Lough. The members of the Audit and Risk Committee during the year were as follows:

- Philip Dimmock (stepped down as Chairman of the Committee on 8 December 2016 but remains a member of the Committee);
- Garrett Soden (appointed as a member and to the role of Chairman on 8 December 2016);
- Cuth McDowell (retired from the Committee on 13 October 2016); and
- Keith Lough.

The meetings were also attended on a selective basis by Jón Ferrier (CEO), Sami Zouari (CFO), Nadzeya Kernoha (Financial Controller), Tony Peart (Legal and Commercial Director)<sup>(1)</sup>, Marie Ross (Legal Director & Company Secretary), representatives from finance management, representatives from operations, Deloitte LLP (external auditor) and PwC (internal auditor).

### Review of the Committee's activities

Four Audit and Risk Committee meetings were held in the financial year on 10 March, 15 June, 7 September and 6 December 2016. One meeting of the Committee has been held to date in 2017. 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
<b>March 2016</b>	<ul style="list-style-type: none"> <li>• 2015 full year results</li> <li>• Report from the external auditor on the 2015 audit</li> <li>• Principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditor</li> <li>• Going concern assumption</li> <li>• Viability statement and the process adopted in drafting it</li> <li>• Updated corporate risk register</li> <li>• Management representation letter</li> <li>• Committee's Terms of Reference</li> <li>• Private session with external auditor</li> </ul>
<b>June 2016</b>	<ul style="list-style-type: none"> <li>• Expenses report</li> <li>• Internal audit strategy and plan for 2016</li> <li>• Contract management review</li> <li>• Management's internal audit action tracker</li> <li>• Information security policy</li> <li>• Private session with internal auditor</li> </ul>
<b>September 2016</b>	<ul style="list-style-type: none"> <li>• 2016 half year results</li> <li>• Report from external auditor on outcome of interim review</li> <li>• Principal accounting judgements and estimates</li> <li>• Going concern</li> <li>• Impairment</li> <li>• Management representation letter</li> <li>• External audit planning for 2016 Annual report</li> </ul>
<b>December 2016</b>	<ul style="list-style-type: none"> <li>• External audit engagement letter and fee quotation</li> <li>• Report from Development Steering Group (subsequently reconstituted as a formal sub-committee of the Board – the Technical Committee)</li> <li>• Risk profile and mitigation</li> <li>• Review of internal audit strategy and plan</li> <li>• External audit planning for 2016 Annual report</li> <li>• Organisational structure review</li> <li>• Delegated authority</li> <li>• Group's bank accounts</li> <li>• Whistleblowing policy</li> <li>• External audit effectiveness, independence and reappointment</li> <li>• Annual review of Committee's Terms of Reference</li> <li>• Annual performance evaluation of Audit and Risk Committee</li> </ul>
<b>March 2017</b>	<ul style="list-style-type: none"> <li>• 2016 full year results</li> <li>• Report from external auditor on outcome of 2016 audit</li> <li>• Principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditor</li> <li>• Going concern assumption</li> <li>• Viability statement</li> <li>• Updated corporate risk register</li> <li>• Cost recovery report</li> <li>• Management representation letter</li> <li>• Future internal audit reviews</li> <li>• Whistleblowing policy – external whistleblowing hotline</li> <li>• Review of insurance cover</li> <li>• Treasury management</li> <li>• Private session with external auditor</li> </ul>

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 did not perform any new reviews during 2016. The Committee decided that management and internal audit focus should instead be on the closure of a significant number of internal audit recommendations across different business areas rather than on conducting new reviews.

The Committee worked closely with the management team and the internal auditor to ensure these recommendations were implemented 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 2016 and early 2017

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 that 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 that highlight any issues identified by the auditor and provide further insights into the judgements used by management.

(1) Tony Peart retired as Legal and Commercial Director on 6 September 2016.



# AUDIT AND RISK COMMITTEE REPORT continued

The significant issues considered in the year are detailed below:

Significant issue	How the issue was addressed by the Committee
<p><b>Revenue recognition:</b> 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.</p>	<p>The Committee considered whether recognition of revenue in relation to export sales was appropriate. The Committee discussed the key judgements with management and reviewed the information provided, including details of communications with the KRG and MNR. 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. The Committee was satisfied that the revenue recognition policy for oil sales for the year ended 31 December 2016 was appropriate. The Committee also considered the judgement for the offsets of the MNR payables against the unrecognised revenues and concluded it was appropriate.</p> <p>The Committee considered the impact of the Bilateral MNR agreement on the revenue balance and concurred with the management's accounting treatment.</p>
<p><b>Impairment:</b> An assessment of any impairment of the Group's assets is required under International Financial Reporting Standards. This assessment involves management making a number of judgements and assumptions including identifying indicators of impairment and estimating future oil prices and discount rates.</p> <p>The Group has historically adopted a modified full cost method of accounting for its oil and gas assets that is not commonly used by the Group's peers.</p>	<p>The Committee considered reports from management ensuring no indicators of the Shaikan block impairment were identified in 2016. The Committee verified that the conclusions in the above assessment were supported by the asset valuation model. The Committee agreed with management's conclusion on impairments of the Group's assets for the period.</p> <p>The Committee considered the Group's modified full cost accounting policy and concluded that the accounting policy should be changed to successful efforts in order to align the Group's reporting with its peers.</p> <p>The Committee considered the impact of the Bilateral MNR agreement on the impairment assessment and concurred with the management's accounting treatment.</p>
<p><b>Restructuring:</b> The Group completed a Balance Sheet Restructuring on 14 October 2016 that resulted in significant movements in its Consolidated balance sheet and Consolidated income statements requiring careful consideration and review of the judgements made.</p>	<p>The Committee considered these judgements around the determination of the fair value of the consideration received by the Group's lenders, accounting for the Reinstated Notes, accounting for the transaction costs and modification versus extinguishment of debt and accounting for the Open Offer.</p>
<p><b>Going concern:</b> 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.</p>	<p>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 financial statements on a going concern basis was appropriate. The Committee approved the disclosure included under the long-term viability statement.</p>

## 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 reviews the internal audit annual plan and all reports arising therefrom, and assesses and approves 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 attend 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 practical, they prepare a report on the progress of the reviews and findings for the Committee's consideration.

At its meetings in June and December 2016, the Committee reviewed both the outcome of the contract management review and the overall control environment pertaining to contract management. The Committee concluded that there had been an improvement in the controls around contract management particularly from an operational perspective. In addition, at these meetings, the Committee also reviewed management's internal audit action tracker reports and progress made in closing a number of internal audit recommendations.

At its meeting in June 2016, the Committee considered the 2016 Internal Audit Strategy and Plan. Due to the commitment of management resources to the successful implementation of the Restructuring, the Committee resolved not to carry out any new audits in 2016. The Committee further agreed that the key focus for 2016 should be on the improvement of the Company's overall control environment and the closure of outstanding actions from previous internal audit reviews.

Following the successful conclusion of the Restructuring in October 2016, the Committee agreed that internal audit reviews should recommence and requested that management work with PwC on the proposed internal audit plan for 2017 for consideration by the Committee.

## 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 three different senior statutory auditors in line with the required rotation timetable. The senior statutory auditor was last rotated during 2016. 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 auditor.

## 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 they have taken to ensure objectivity and independence, including where the auditor provides non-audit services. Gulf Keystone monitors the auditor's performance, behaviour and effectiveness during the exercise of their duties, which informs the 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 2016.

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 cost and the skills and experience required for the work. 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 2016, 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 corporate finance transactions in relation to the Open Offer.

A significant element of the fees for non-audit services related to the corporate finance work undertaken by Deloitte LLP that included fees in relation to the Open Offer. 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.

Our main goal is to maintain a strong financial control environment at Gulf Keystone.

## Garrett Soden

Chairman of Audit and Risk Committee

5 April 2017

## NOMINATION COMMITTEE REPORT



**Philip Dimmock**  
Chairman of Nomination Committee

### The Board delegates responsibility for ensuring the Board has the right balance of experience and skills to the Nomination Committee.

#### Role

The Board delegates responsibility for ensuring the Board has the right balance of experience and skills to the Nomination Committee.

In accordance with its terms of reference, the Committee is authorised to:

- review the structure, size and composition of the Board with regard to the balance of skills, knowledge, experience and diversity;
- oversee executive succession planning taking into the 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 three independent Non-Executive Directors: Philip Dimmock (Chairman), Garrett Soden and David Thomas and Keith Lough, the Chairman of the Board. The members of the Nomination Committee during the year were as follows:

- Philip Dimmock (appointed to the role of Chairman of the Committee on 8 December 2016);
- Keith Lough (appointed to the Committee and to the role of Chairman on 14 July 2016. Keith Lough stepped down as Chairman of the Committee on 8 December 2016 but remains a member);
- Garrett Soden (appointed to the Committee on 8 December 2016);
- Andrew Simon (Chairman) (retired from the Board and the Committee on 14 July 2016);
- David Thomas (appointed to the Committee on 8 December 2016); and
- Cuth McDowell (resigned from the Board and the Committee on 13 October 2016).

#### 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 experience, 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

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

In appointing Non-Executive Directors, the Board's practice is to use external recruitment consultants. In September 2016, Heidrick & Struggles was retained to carry out an independent evaluation of the experience and skills of the incumbent Directors and of the Board as a whole and to assist in the recruitment of new Non-Executive Directors to further strengthen the Board. Heidrick & Struggles has no other connection with the Group.

#### Review of the Committee's activities

The Nomination Committee meets at least twice per year. During 2016, the Committee met formally on three occasions, in July, September and October. In addition, a number of informal meetings took place to discuss matters relevant to the Committee.

The key matters considered by the Committee during the year ended 31 December 2016 were: strengthening the executive team through the recruitment of a COO; recruitment of two new Non-Executive Directors; and the succession for the role of Chairman.

The Committee supported the recruitment of a new COO taking into account the specialist technical expertise, knowledge and experience required to meet the Company's operational requirements. Following an extensive recruitment process, Stuart Catterall was appointed as COO on 10 January 2017. Stuart Catterall has over 30 years' experience in oil and gas and had undertaken a breadth of senior leadership and technical roles prior to joining the Company. Further information on Stuart Catterall is detailed in the section on Senior management on page 42.

During the year, the Committee also considered the issue of the succession for the role of Chairman which culminated in the appointment of Keith Lough as Chairman on 14 July 2016 following Andrew Simon's retirement from the Board.

In addition, the Committee led the process for the recruitment of two new Non-Executive Directors, taking due account of the strategic objectives and challenges faced by the Group, and the balance of skills, knowledge, and experience required for the Board to deliver against these.

Following a detailed review, supported by Heidrick & Struggles, of their independence, experience and skills, Garrett Soden and David Thomas were appointed to the Board as Non-Executive Directors on 13 October 2016. Both have a deep knowledge of the strategic, operational and financial dimensions of the oil and gas sector. Further information on Garrett Soden and David Thomas is detailed in the section on the Board of Directors on pages 40 and 41.

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.

#### Philip Dimmock

Chairman of Nomination Committee  
5 April 2017

## REMUNERATION COMMITTEE REPORT



**Philip Dimmock**  
Chairman of Remuneration Committee

**As the Company entered a new strategic phase, the Remuneration Committee reviewed the Company's Remuneration Policy to ensure that it remains effective and aligned with strategy and shareholders.**

Dear Shareholder,

### Introduction

I became Chairman of the Remuneration Committee on 8 December 2016 and, on behalf of your Board, I am pleased to present my first Directors' remuneration report for the year ended 31 December 2016.

### A year of change

2016 was a year of significant change for Gulf Keystone. It presented many issues for the Remuneration Committee to consider and address. The Chairman's statement earlier in this report sets out the challenges faced by the Company and the progress which the Company made across a number of fronts to put it in the positive and stable position it is in today.

The Restructuring entailed significant costs for shareholders and bondholders. However, it resulted in Gulf Keystone finishing the year in a substantially stronger financial position and well placed for future growth and value for all stakeholders. Production from Shaikan was stable and at the upper end of the Company's guidance. Payments from the MNR were received throughout the year and the Company continued to build positive relationships with its hosts and partners including the KRG, the MNR and MOL. The operating environment remained challenging with a weak and volatile crude oil price along with the region's difficult security situation.

The substantial progress in the turnaround of GKP's fortunes throughout 2016 was driven by the senior leadership team with the support of the Board and employees at all levels. Recognising this, and as the Company entered a new strategic phase, the Remuneration Committee reviewed the Company's remuneration policy to ensure that it remains effective and aligned with strategy and shareholders. Revisions to the existing policy were developed to redirect the focus of executive remuneration packages away from short-term cash and towards long-term locked-in equity. This policy, which included a new VCP, a reduction in the level of Annual bonus awards and an increase in executive shareholding requirements, was approved by shareholders at the AGM on 8 December 2016. The Remuneration Committee consulted with major shareholders during the development of the VCP and in the run up to the AGM. As a result, a number of changes to the VCP were presented at the meeting.

David Thomas and Garrett Soden joined the Remuneration Committee on 8 December 2016 when I became Chairman.

Up to the AGM in December, the Board had been following and applying the Directors' Remuneration Policy approved by shareholders at the 2014 AGM. The revised policy approved by shareholders at the 2016 AGM is set out on pages 60 to 62. It is intended that this policy will remain in force until the 2019 AGM, at which time a resolution to approve the Company's Remuneration Policy will again be put to shareholders.

### Policy objectives

Specific objectives of the Company's Remuneration Policy are to:

- motivate the Executive Directors and other key executives to achieve share price growth and return value to shareholders; and
- encourage Executive Directors and other key executives to remain with the Company.

The amended policy approved at the 2016 AGM was aimed to help the Company fulfil those goals and to fulfil the Committee's desire to:

- ensure that the overall level of remuneration for Executive Directors, whilst remaining competitive, is consistent with the performance of the Company;
- redirect the focus of executive remuneration packages away from short-term cash towards long-term locked-in equity; and
- recognise the success the Executive Directors achieve in creating value from the unique relationships they have with key stakeholders in Kurdistan.

The VCP focuses participants on the absolute returns generated by the Company at a time when it is difficult to identify long-term financial targets, provides a transparent link to the successful implementation of the Company's strategy and creates a transparent connection between management rewards and shareholder returns.

The reduction of the level of Annual bonus awards was an essential step in the process of moving away from short-term cash rewards. The increase in the minimum shareholding requirement helps to demonstrate alignment between executives and shareholders.

The overall packages for Executive Directors are competitive and deliver rewards linked to the successful implementation of the Company's business strategy.

### Implementation of policy

Details of the way in which Gulf Keystone's Directors' Remuneration Policy is to be implemented in 2017 are included on pages 60 to 62.

Salaries and benefits are kept the same as for 2016.

The determination of the level of Annual bonus to be paid for 2016 presented a challenge. The Remuneration Committee wanted to recognise the hard work, tenacity and substantial achievements of the executives during the year whilst taking into account the costs to shareholders and bondholders which this progress entailed. In the light of its assessment of performance against the targets specified at the start of the year, and taking into account the exceptional challenges faced during the year, the Remuneration Committee determined to pay Annual bonuses to the CEO and CFO at the target level of 120% of salary. Greater detail on this is set out below.

### Structure of this year's report

Gulf Keystone, as a Bermuda-registered company, is not subject to the UK's remuneration reporting regime. However, the Board's policy is to follow the principles of good corporate governance and this year's report has been prepared following the principles of the UK reporting regime.

This Directors' remuneration report is presented in three sections, as follows:

- report on the implementation of Remuneration Policy for the year ended 31 December 2016;
- future Remuneration Policy; and
- statement of the implementation of Remuneration Policy in 2017.

### Conclusion

At the AGM on 16 June 2017, a resolution will be put to shareholders to approve the annual report on remuneration, which will be subject to an advisory vote. I commend this resolution to shareholders and encourage you to vote in favour.

**Philip Dimmock**

Chairman of Remuneration Committee

5 April 2017



## REMUNERATION COMMITTEE REPORT continued

### Report on the implementation of the Remuneration Policy for the year ended 31 December 2016

This section of the Directors' remuneration report describes how the Company's Remuneration Policy has been implemented in the year to 31 December 2016.

Single total figure of remuneration £'000s

	Salary 2016 <sup>(4)</sup>	Salary 2015 <sup>(4)</sup>	Pension 2016	Pension 2015	Benefits 2016	Benefits 2015	Cash bonus 2016	Cash bonus 2015	LTIP 2016 <sup>(10)</sup>	LTIP 2015 <sup>(10)</sup>	Total 2016	Total 2015
<b>Executive Directors</b>												
Jón Ferrier <sup>(5)</sup>	450	264 <sup>(5)</sup>	68	40	43	15	540	211	—	—	1,101	530
Sami Zouari	350	330	53	50	3	2	420	330	—	—	826	712
John Gerstenlauer <sup>(6)</sup>	—	381	—	48	—	62	—	—	—	676	—	1,167
<b>Non-Executive Directors</b>												
Keith Lough <sup>(2)</sup>	127	5	—	—	—	—	—	—	—	—	127	5
Philip Dimmock	93	136	—	—	—	—	—	—	—	—	93	136
Garrett Soden <sup>(1)</sup>	15	—	—	—	—	—	—	—	—	—	15	—
David H Thomas <sup>(1)</sup>	15	—	—	—	—	—	—	—	—	—	15	—
Andrew Simon <sup>(2)</sup>	97	209	—	—	—	—	—	—	—	—	97	209
Cuth McDowell <sup>(3)</sup>	55	5	—	—	—	—	—	—	—	—	55	5
Simon Murray <sup>(7)</sup>	—	88	—	—	—	—	—	—	175	—	—	263
Lord Guthrie <sup>(8)</sup>	—	55	—	—	—	—	—	—	—	—	—	55
Maria Darby-Walker <sup>(8)</sup>	—	53	—	—	—	—	—	—	—	—	—	53
V Uthaya Kumar <sup>(9)</sup>	—	50	—	—	—	—	—	—	—	—	—	50
Joseph A Stanislaw <sup>(9)</sup>	—	59	—	—	—	—	—	—	—	—	—	59
<b>Total</b>	<b>1,202</b>	<b>1,635</b>	<b>121</b>	<b>138</b>	<b>46</b>	<b>79</b>	<b>960</b>	<b>541</b>	<b>—</b>	<b>851</b>	<b>2,329</b>	<b>3,244</b>

(1) Garrett Soden and David Thomas were appointed on 13 October 2016.

(2) Andrew Simon retired from the Board on 14 July 2016; Keith Lough was appointed Chairman on the same date.

(3) Cuth McDowell resigned from the Board on 13 October 2016.

(4) Salary includes fees and one-time payments to Non-Executive Directors.

(5) Jón Ferrier was appointed on 5 June 2015 and therefore the 2015 figure reflects a proportion of the year.

(6) John Gerstenlauer retired on 9 July 2015.

(7) Simon Murray retired on 31 March 2015.

(8) Lord Guthrie, Maria Darby-Walker and Joseph Stanislaw retired on 9 July 2015.

(9) V Uthaya Kumar resigned on 2 July 2015.

(10) Long-Term Incentive Plan ("LTIP").

Options awarded to Sami Zouari on recruitment vested during the year, but the exercise price is significantly above the current share price. There is currently no value attached to this award.

#### Annual bonus awards

In the year to 31 December 2016, the Annual bonus policy was to pay threshold, target and maximum amounts of bonus for increasing levels of performance. The amounts of bonus as a percentage of base salary payable at each level were the same as for 2015 as follows:

	CEO	CFO
Maximum	200%	150%
Target	120%	120%
Threshold	25%	25%

As noted previously, bonus levels have been revised down for 2017.

The bonus awards for the year to 31 December 2016 were paid in January 2017. KPIs proposed early in 2016 included:

- comparative TSR;
- production;
- individual performance (including commercial, financial, portfolio and organisational goals); and
- the Company's safety record.

In light of the issues facing Gulf Keystone throughout the year, however, the Committee gave careful consideration to a wide range of factors to determine a reasonable basis upon which to make bonus awards.

In reaching its final decision, the Committee took the following into account:

- an evaluation of the KPIs referred to above;
- data received from external independent consultants on market practice;
- the expectations of shareholders and executives;
- stakeholder engagement;
- the achievement of a successful balance sheet restructuring;
- the importance of maintaining a motivated top management team; and
- the enhanced future shareholding requirement for Executive Directors.

The Committee decided to award Annual bonuses at the target level (120% of base salary) to each of the Executive Directors. The amounts of bonus paid are contained in the table showing the single figure of total remuneration on page 56. The Committee's decision was arrived at as follows:

Description	Target % of total bonus	Discretionary Committee adjustment	Actual bonus award
Comparative TSR	30%	0%	0%
Production	30%	150%	45%
HSSE	10%	0%	0%
Commercial KPIs including stakeholder relationships and regular payments	30%	133%	40%
	100%		85%
One-off adjustment for successful restructuring <sup>(1)</sup>			35%
<b>Total</b>			<b>120%</b>

(1) In awarding the adjustment for successful restructuring, the Committee exercised its discretion under the Policy to recognise the exceptional nature of the circumstance of the restructuring and the skill and tenacity required to achieve it.

#### Directors' pension entitlements

Each Executive Director received a cash allowance in lieu of a pension provision equivalent to 15% of his base annual salary.

#### Benefits

The benefits received by the CEO included a car allowance, private medical insurance and temporary accommodation during the Restructuring totalling £42,660. The CFO received private medical insurance totalling £2,862.

#### Scheme interests awarded during the financial year

No scheme interests in the form of shares were awarded to Executive Directors during the year. However, Executive Directors received the following awards of units under the VCP which were approved by the Remuneration Committee and shareholders:

Executive	Position	Number of units awarded
Jón Ferrier	CEO	386,667
Sami Zouari	CFO	306,667

No payment was made for the grant of the above awards, which do not represent a number of shares and will only be converted to nil cost options, in accordance with the terms of the VCP, if Gulf Keystone generates shareholder returns of not less than 8% per annum compound above a baseline valuation of \$350 million with vesting in tranches after three, four and five years. Once shareholders have received this annual rate of return, participants share 8% of the value created in excess of the threshold. The CEO will receive 40% of this excess value. The CFO will receive 30% of this excess value. There is a cap of \$20 million on the total value of the nil cost options.

However, under the terms of a Special Provision to the VCP, in the event that the Company enters into a binding sale agreement prior to 31 December 2017 the value of all units held by participants in the VCP shall equal 2% of the aggregate acquisition price for the Company less the value provided to employees under the 2016 Gulf Keystone Petroleum Ltd Staff Retention Plan.

#### Payments to past Directors

No payments were made to past Directors during the year.

#### Payments for loss of office

No payments for loss of office were made to any Executive Director during the year.

## REMUNERATION COMMITTEE REPORT continued

### Statement of Directors' shareholdings and share interests

The Company's Remuneration Policy requires Executive Directors to maintain a shareholding in the Company. In 2016, the policy required the CEO to hold shares worth 200% of base salary and all other Executive Directors to hold shares worth 150% of base salary. The net value of vested but unexercised share awards is included for this purpose and individuals have five years in which to acquire the required levels. Participation in long-term incentive schemes may be scaled back or withheld if the requirements are not met or maintained.

Directors' shareholdings and share interests as at 31 December 2016 were as follows:

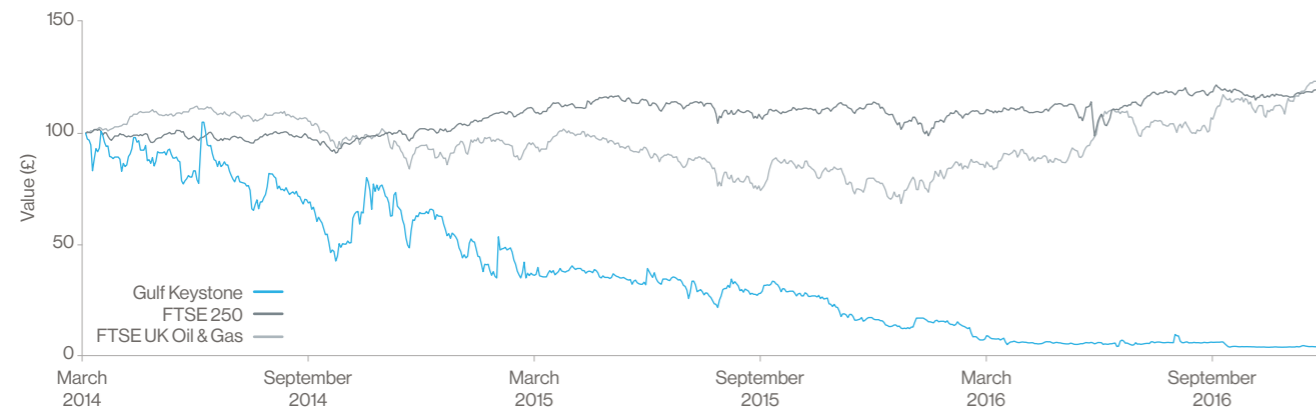
	Shareholding requirement percentage of salary (Requirement met Y/N)	Beneficially owned shares	Vested but unexercised scheme interests	Unvested scheme interests subject to performance conditions <sup>(1)</sup>	Unvested scheme interests not subject to performance conditions	Total conditional and unconditional interest in shares
<b>Executive Directors</b>						
Jón Ferrier	200% (N)	—	—	—	—	—
Sami Zouari <sup>(2)</sup>	150% (N)	—	10,000 <sup>(2)</sup>	5,000	—	15,000
<b>Non-Executive Directors</b>						
Keith Lough		—				—
Philip Dimmock		—				—
Garrett Soden		—				—
David Thomas		—				—

(1) Awards of units under the VCP are not included here because they do not represent vested shares in the Company or a vested right to acquire shares. No rights to acquire shares will be granted until after the end of the first plan year and then only if the Company has achieved minimum shareholder return targets.

(2) Sami Zouari was granted options over 1,500,000 shares on his appointment as a Director on 22 January 2015, exercisable at £0.55 per share. Pursuant to the Consolidation, share options granted to Sami Zouari on his appointment as a Director have been consolidated into 1 new common share for every 100 existing common shares held at the record date. The exercise price was adjusted to £55 per share in the Consolidation.

No share awards were made to any Executive Director during the year to 31 December 2016.

### Total Shareholder Return ("TSR")



### Historical CEO pay

	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
Single figure remuneration	£13,157	£1,877	£849 <sup>(1)</sup>	£1,021 <sup>(2),(3)</sup>	£1,101
Bonus percentage of maximum payable	100%	0%	69%	40% <sup>(4)</sup>	60%
Vested LTIP awards as percentage of maximum	35%	22%	0%	0%	0%

(1) Includes Todd Kozel and John Gerstenlauer for 2014.

(2) Includes Jón Ferrier and John Gerstenlauer for 2015.

(3) Excludes payments in lieu of notice period and 2014 bonus payments for John Gerstenlauer.

(4) 2015 bonus percentage calculation relates to Jón Ferrier only.

### Percentage change in CEO's remuneration

The following table shows the percentage change in the remuneration of the CEO between the years ended 31 December 2015 and 31 December 2016 and the average percentage change for the remuneration in the Group as a whole excluding the CEO. As Jón Ferrier was appointed as CEO on 5 June 2015, the comparison with that year is based on a proportionate combination of his and his predecessor's remuneration for that year.

	Salary	Benefits <sup>(1)</sup>	Annual bonus
CEO percentage change	(15)%	(15)%	49%
Group percentage change	(8)%	0%	19%

(1) Includes pension.

### Relative importance of spend on pay

The table below shows the change from 31 December 2015 to 31 December 2016 in aggregate employee costs, profit/ (loss) before tax and operating expenditure:

	2016 \$'000	2015 \$'000	Percentage change
Total employee pay	20,929	23,114	(9)%
Loss after tax	(17,435)	(213,964)	92%
Operating expenditure	61,191	62,822	(3)%

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 chart.

### Consideration by the Board of matters relating to Directors' remuneration

The Board has delegated powers to the Remuneration Committee, which is responsible for making recommendations to the Board on the Company's framework of executive remuneration. The Committee's terms of reference are available on the Company's website. The current members of the Committee are:

- Philip Dimmock (Chairman);
- Garrett Soden; and
- David Thomas.

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. No member of the Committee has any personal interest in matters to be decided, other than as a shareholder. At no time has any member of the Committee been an Executive Director or employee of Gulf Keystone. None of the Executive Directors is, or has been, a Director of a company (other than Gulf Keystone) any of whose Executive Directors is also a Director of Gulf Keystone or a member of its Remuneration Committee.

The CEO, CFO and other senior executives may be invited to attend Committee meetings, to discuss proposals and the implementation of policy but are not present in discussions about their own remuneration. The Committee also has access to independent professional advice from external sources.

The Committee met frequently during 2016 on both a formal and informal basis (through a number of remuneration workshops). The key issues considered were: finalisation of 2015 executive and employee bonuses, design of the VCP and the SRP, allocation of awards under the VCP and SRP, amendments to the Remuneration Policy, executive remuneration and changes to the senior management team.

The members of the Remuneration Committee during the year were as follows:

- Philip Dimmock (appointed to the role of Chairman of the Committee on 8 December 2016);
- Garrett Soden (appointed to the Committee on 8 December 2016);
- David Thomas (appointed to the Committee on 8 December 2016);
- Andrew Simon (Chairman) (retired from the Board and the Committee on 14 July 2016);
- Keith Lough (appointed to the Committee and to the role of Chairman on 14 July 2016. Keith Lough stepped down as member and Chairman of the Committee on 8 December 2016); and
- Cuth McDowell (resigned from the Board and the Committee on 13 October 2016).

### Statement of shareholder voting

At the 2016 AGM held on 8 December 2016, three resolutions relating to Directors' remuneration were put to shareholders. A summary of those resolutions and of the votes cast is shown in the table below:

Resolution	Votes for %	Votes against %	Total votes as % of ISC	Number of votes withheld
To approve the Annual remuneration report for the year to 31 December 2015	93.77%	6.23%	68.78%	386,773
To approve the Value Creation Plan, as amended	78.32%	21.68%	68.78%	300,877
To amend the Directors' Remuneration Policy	93.76%	6.24%	68.78%	352,473



# REMUNERATION COMMITTEE REPORT continued

## Future Remuneration Policy

### Introduction

Gulf Keystone's future Directors' Remuneration Policy, which includes the amendments approved by shareholders at the AGM on 8 December 2016, is described in the table below. The Committee believes that the Company's Policy, as described in the table below, applies the principles and provisions of the UK Corporate Governance Code.

Future policy table

Remuneration					
Remuneration element	Link to strategy	Operation	Maximum potential value	Performance metrics	Remuneration Committee discretion
<b>Base salary</b>	Core fixed element of total remuneration essential to support recruitment and retention of high calibre executives.	Reviewed annually as at 1 January. Factors influencing decisions include: <ul style="list-style-type: none"> <li>role, experience and individual performance;</li> <li>pay awards elsewhere in the Group;</li> <li>external market (benchmarked against exploration and production peer group); and</li> <li>general economic environment.</li> </ul>	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 average employee increase.  Executive Directors' salaries for the forthcoming financial year are disclosed in the report on the implementation of strategy for that year.	None.	The Committee retains discretion to: <ul style="list-style-type: none"> <li>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;</li> <li>determine and review the appropriate comparator group used for benchmarking; and</li> <li>increase salaries above the general peer group increase where this is reflective of significant additional responsibilities.</li> </ul>
<b>Benefits</b>	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 and the CEO to a car allowance.	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).
<b>Pension</b>	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					
Remuneration element	Link to strategy	Operation	Maximum potential value	Performance metrics	Remuneration Committee discretion
<b>Annual bonus</b>	Rewards achievement of annual key business strategy, operational HSSE 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 for out-performance against the KPIs is 125% of annual salary for the CEO and 100% for all other Executive Directors.  The on target opportunity for achievement of the KPIs is 90% of base salary for the CEO and 75% of base salary for all other Executive Directors, with a sliding scale applying for achievement above and below the KPI targets.  The threshold opportunity is 60% of salary for the CEO and 50% for all other Executive Directors.  Clawback provisions apply.	The Committee will set stretching performance targets and their weighting at the start of each year.  The Committee will select corporate objectives to focus executives on key KPIs covering HSSE, Value (Commercial/Financial) and Operations (including Production and Projects).  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 shareholders' 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.  Safety is of central importance to the business and the Committee has discretion to reduce bonus awards if there is a safety event that, in the Committee's opinion, warrants the use of such discretion.





## REMUNERATION COMMITTEE REPORT continued

Long-term incentives					
<b>A. Value Creation Plan ("VCP")</b>	<p>Provides an incentive to reward the successful implementation of the Company's strategy as measured by the Total Shareholder Return ("TSR") generated by the business.</p> <p>Helps motivate and retain high-performing executives.</p>	<p>Participants, who are selected at the discretion of the Committee, are awarded units representing their share in a "Performance Pot" equivalent to 8% of the increase in value of the Company in excess of a minimum annual rate of return to shareholders.</p> <p>Subject to the Company generating a rate of return to shareholders of not less than 8% per annum compound (the "hurdle") participants will be granted nil-cost options each year for five years, starting one year after the initial award of units.</p> <p>The value of shares subject to each option corresponds to the individual's share of the Performance Pot. Provided the Company continues to generate returns in excess of the hurdle, 50% of nil-cost options vest after the end of the third plan year and 50% vest after the end of the fourth plan year. If, by the end of the fifth plan year, the Company has failed to generate the hurdle rate of returns to shareholders, all unvested nil-cost options will lapse.</p>	<p>The value of shares subject to each option corresponds to the individual's share of the Performance Pot at the grant date. The CEO and CFO both have 66,667 units for the first measurement period ending 31 December 2017 as awarded by the Remuneration Committee and approved by shareholders.</p> <p>The aggregate value of all nil-cost options granted at the measurement dates shall not exceed \$20 million in total for the plan.</p> <p>The maximum value of shares received by an individual following the exercise of nil-cost options will depend on the rate of returns generated for shareholders and the market price of a share in the Company at the relevant time. The 2016 AGM Notice contains an illustration of the potential benefits to participants at different levels of achieved shareholder return.</p> <p>The VCP will operate within the guidance for listed companies in respect of dilution levels.</p>	<p>The performance measure linked to VCP awards is the absolute TSR generated by Gulf Keystone in excess of the hurdle, which cannot be less than 8% per annum compound.</p> <p>For full vesting, the Company must generate returns in excess of the hurdle for the whole of the five-year plan period.</p>	<p>The Committee has discretion to make the exercise of nil-cost options subject to additional conditions.</p>
<b>B. 2014 LTIP</b>	<p>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.</p> <p>Helps retain high-performing executives.</p>	<p>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.</p> <p>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.</p> <p>Awards normally vest after three years to the extent that performance targets have been met.</p>	<p>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.</p> <p>At threshold performance 25% of the award vests.</p> <p>For on target performance 50% of the award vests.</p> <p>For upper quartile performance 100% of the award vests.</p> <p>Between performance levels, there is straight-line vesting.</p>	<p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• the selection of participants;</li> <li>• the timing of awards;</li> <li>• the level of awards;</li> <li>• the selection, review and amendment of performance measures and targets; and</li> <li>• adjustments in the event of a capital variation.</li> </ul>
<b>Shareholding requirements</b>	<p>Aligns the interests of executives and shareholders.</p>	<p>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.</p>	<p>At least 300% salary holding required for the CEO and 200% salary holding required for all other Executive Directors.</p>	<p>Executive Directors are required to hold shares valued at the target level by no later than January 2019 or, if later, within five years of their appointment as Directors.</p>	<p>The Committee has discretion to change the shareholding requirements.</p>

### Long-term incentives

The 2014 LTIP was approved by shareholders at the 2014 AGM. No awards were made under the 2014 LTIP in 2016 and, at the 2016 AGM, shareholders approved the VCP. The 2014 LTIP remains in force but an Executive Director to whom a VCP award is made will not be eligible to receive an award (or any additional award) under the 2014 LTIP while also a participant in the VCP. An Executive Director to whom an award was made under either the 2014 LTIP or the VCP before he or she became an Executive Director may retain such award and will continue to be eligible to receive awards under one (but not both) of those plans after he or she becomes an Executive Director.

### Discretion

The future policy table refers to specific matters on which the Committee has discretion. The Committee may also exercise operational and administrative discretion as provided for in the rules of incentive plans that have been approved by shareholders and as described below in this section on remuneration policy.

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.

### Differences in policy from the wider employee population

The structure of remuneration packages for key executives who are not Executive Directors is similar to the Executive Directors' packages. Similar principles underpin the way 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 bonus and share incentive plans. On 8 December 2016 shareholders approved the Gulf Keystone Petroleum SRP in which substantially all employees, other than Executive Directors and other key executives who participate in the VCP, are eligible to participate.

### Policy for the remuneration of new Directors

The Company's policy is to provide remuneration packages for new Executive Directors in accordance with the policy described in the table above. Relocation packages for executives who have to relocate are assessed on their individual merits. Whilst it is not our policy ordinarily to buy-out executives from their pre-existing incentive arrangements, the Committee will consider compensating a new Executive Director for the loss of incentives awarded by a previous employer, if, in its opinion, such compensation is warranted. We seek to avoid paying more than necessary to secure the candidate and will have regard to the Company's Remuneration Policy, shareholder guidance and market practice when formulating remuneration for a new Executive Director.

Where an existing employee is promoted to the Board, the policy described above will apply from the date of promotion but there will be no retrospective application of the policy. Accordingly, existing remuneration including incentives will continue, even if inconsistent with the policy above, until such time as they expire or vest. Full disclosure will be made to shareholders in the annual remuneration report for the relevant financial year.

### Policy for Non-Executive Directors' fees

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.

Fees are set at a level required to attract and retain individuals with the necessary experience to advise and assist with establishing the Company's strategy and monitoring its progress towards the successful implementation of that strategy. Fees are reviewed regularly to ensure they keep pace with market practice and the demands of the role. Each Non-Executive Director receives a basic fee. Additional fees are paid to the Chairman and the Chairmen of the Board committees. Non-Executive Directors do not participate in any of the Company's share plans.

### Directors' service contracts and letters of appointment

The Company's policy is to engage Executive Directors on rolling service contracts, which provide for twelve months' written notice of termination from the CEO and six months' notice from other Executive Directors, with the same notice periods required from the Company. In exceptional circumstances, the Committee may agree to a longer notice period initially, reducing to twelve or six months, as appropriate, after one year.

Non-Executive Directors are engaged on the terms of a letter of appointment terminable on one month's written notice from either the individual or the Company.

Service contracts and appointment letters will be available for inspection at the 2017 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 Bye-laws.



## REMUNERATION COMMITTEE REPORT continued

### Policy on payments for loss of office

Any compensation payment made to an Executive Director for termination of employment will be determined with reference to the terms of the individual's service agreement and the rules of any incentive plan in which the individual is a participant. Those rules may differentiate between "good" and "bad" leavers. The Company's policy is summarised in the table below:

Remuneration element	Good leaver reason
<b>Salary and benefits</b>	A payment equivalent to monthly salary as if the executive had continued to be employed throughout the contractual notice period. A lump sum may be paid in lieu of notice. Provision for accrual of benefits will cease on cessation of employment. No compensation if termination is owing to misconduct or voluntary resignation. The Committee will determine such mitigation as it considers fair and reasonable in each case.
<b>Annual bonus</b>	The Committee may make such payment as it deems appropriate taking into account the period up to the date on which employment ceases and the level of performance achieved up to that date. If the individual is deemed to be a "bad" leaver (for example, if dismissed owing to misconduct) no bonus is payable for the year in which employment terminates.
<b>VCP</b>	"Good" leavers (which includes those who leave owing to ill-health, death, redundancy or other reason considered to justify treatment as a good leaver) may continue to hold options until the next date on which the Company's returns to shareholders are calculated. If the performance condition has been fulfilled, all vested options may be exercised within the periods specified in the VCP rules. Options granted to a "bad" leaver lapse on cessation of employment. If there is a change in control of the Company, shareholder returns will be calculated as at the date of the change in control and all options become exercisable provided that if Gulf Keystone enters into a binding sale agreement before 31 December 2017 the value of options exercisable will be limited to 2% of the aggregate acquisition price less the value of shares subject to options exercised under the Staff Retention Plan.

Service contracts do not contain liquidated damages clauses. There is no provision in an Executive Director's service agreement providing for compensation for loss of office or employment that occurs because of a takeover bid.

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.

In reaching its determination about the amount of any payment for loss of office, the Committee will seek to minimise the cost to the Company to the extent permitted by the circumstances of the particular case.

### Consideration of employee pay elsewhere in the Group

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

The Committee has not conducted a formal consultation process with employees in relation to the design of executive remuneration policy.

### Consideration of shareholder views

The Committee consults with major shareholders on our Remuneration Policy and its execution. We believe this is important and welcome constructive feedback for use in shaping our approach.

The Committee sought the views of some major shareholders on the design of the VCP and the policy changes approved at the AGM on 8 December 2016 and took account of the feedback provided. The Committee has also consulted with the Company's principal shareholders in connection with the preparation of this report.

### Statement of implementation of Remuneration Policy in 2017

The Committee is not anticipating any additional policy changes in 2017 and intends to implement the policy described on pages 60 to 62 above as follows:

#### Salaries, benefits and pension

Salaries, benefits and pension allowance for Executive Directors will be as described below for 2017.

Executive	Salary for 2017	Benefits	Pension allowance
Jón Ferrier	£450,000 (2016: £450,000)	Private medical insurance; car allowance	15%
Sami Zouari	£350,000 (2016: £350,000)	Private medical insurance	15%

Non-Executive Directors' fees also remain unchanged.

#### Annual bonus

In light of the changes made to the business last year and the amendments to the Company's Annual bonus policy approved by shareholders at the 2016 AGM, the Committee has given careful consideration to the selection of performance measures and targets for 2017. The Committee's view is that the performance measures used to determine any bonus awards for the year must be clearly measurable against the Company's targets for two principal reasons:

- firstly, to provide internal transparency through clear, identifiable objectives which lead to bonus awards that can be seen to be fair in relation to the performance achieved; and
- secondly, to provide transparency for shareholders.

It is also the view of the Committee that Executive Directors should focus as a team on corporate performance and the successful implementation of the Company's strategy. Accordingly, the KPIs and their relative weightings by reference to which the Committee will determine any bonus awards for the year to 31 December 2017 are as follows:

Measure		Weighting
HSSE	Safety management, incident close-out, security risk assessment and safety performance	15%
Financial	MNR payments, operating costs and budget adherence	30%
Operations	Production, PSC compliance and planning, project execution and planning	55%

The Committee reserves the right to make adjustments to reduce the bonus levels based on significant events which impact the Group. Examples could be a serious HSSE incident or material misstatement of results.

The Committee is of the opinion that for reasons of commercial sensitivity, disclosing specific targets in relation to the above in advance would not be in the Company's interests. However, in accordance with best practice guidance, the Committee will publish the following information in next year's Annual report:

- specific details of targets and what was actually achieved in relation to both financial and non-financial objectives; and
- details of the extent to which the Committee exercised its discretion to adjust bonus awards in relation to the discretionary items referred to above.

#### VCP awards

The VCP provides for participants to share in a Performance Pot equivalent to 8% of the increase in value of the Company in excess of the hurdle. The hurdle has been set at total returns to shareholders of 8% per annum compound over five years.

Each participant's share of the Performance Pot is represented by a number of units. Units were awarded to the Executive Directors on 12 December 2016. The units do not represent shares in the Company. After the end of the first plan year, the total return to shareholders generated by the Company is calculated. If it is greater than a compound annual growth rate of 8%, participants will be granted nil-cost options in respect of that number of shares which represents their share of the Performance Pot. This process continues each year for five years.

The aggregate value of all nil-cost options granted at previous measurement dates shall not exceed \$20 million.

The next step in the process which will take place 30 days after the announcement of the Company's financial results in 2018 is to calculate the total shareholder return generated by the Company and, subject to this being greater than 8%, granting nil-cost options to the Executive Directors. If there is a change of control prior to 31 December 2017, the participants will receive 2% of the value of the sale consideration less the value provided to employees under the SRP.

The VCP operates within the dilution limits prescribed by good governance guidance for listed companies and awards are subject to malus and clawback for two years after vesting.

Approved by the Committee and signed on its behalf by

#### Philip Dimmock

Chairman of Remuneration Committee

5 April 2017

## HSSE AND CSR COMMITTEE REPORT



**David Thomas**  
Chairman of HSSE and CSR Committee

**Gulf Keystone Petroleum is committed to conducting its business safely and in a socially responsible and ethical manner.**

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 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.

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 2016, the HSSE and CSR Committee comprised two of the Independent Non-Executive Directors, David Thomas and Philip Dimmock, 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:

- Andrew Simon (retired from the Board and the Committee on 14 July 2016);
- Philip Dimmock (stepped down as Chairman of the Committee on 8 December 2016);
- David Thomas (appointed as a member and to the role of Chairman on 8 December 2016);
- Jón Ferrier; and
- John Stafford.

On 24 January 2017, Stuart Catterall COO was appointed as a member of the Committee at which time John Stafford stepped down.

### Review of the Committee's activities

The Committee meets at least four times a year. During 2016, the Committee met four times on 15 March, 29 April, 11/12 July and 13 December 2016. Two of these meetings took place in Kurdistan.

During 2016, the Committee undertook two visits to the Group's facilities in Kurdistan 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 including Kurdistan national staff participated in the two Committee meetings held in Kurdistan and presented on specific HSSE and CSR related subjects. The Committee did not note any significant breaches of the Group's HSSE policy during the site visits.

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.

### Child fatality

In April 2016, tragically a young child drowned in one of the Company's disused drilling water pits. This incident was the worst in our history of operation in Kurdistan. Although the site was protected by several high fences and a locked gate, a group of children managed to enter the site and whilst playing a young boy slipped into the water pit and drowned.

We carried out a full investigation into this incident and have implemented a number of measures to prevent a recurrence. Particular learning points from this incident were the need to improve the security of our sites and to educate the people living close to our facilities as to the inherent dangers associated with unauthorised access. Hence, in addition to improving the security, fencing and pit escape equipment at the sites, we are holding educational meetings in the local villages as part of our CSR programme to alert people of potential safety risks.

The Committee continues to closely monitor the safety and security precautions at its sites and supports all further measures to prevent such unfortunate incidents from occurring in the future.

### Health and safety

During 2016, the Committee reviewed and updated the Group's HSSE Policy (which was adopted by the Board in January 2017) and initiated a programme to upgrade the Company's corporate HSSE Management System this coming year. The Committee also actively monitored and supported the implementation of the Company's 2016 HSSE Action Plan and was pleased to see that an overall achievement of 99% was obtained during the course of the year. In addition, the Committee helped guide and set priorities for the preparation of the new HSSE Action Plan for 2017.

### Security

In 2016, the Company's main security concern was the Mosul military offensive which took place relatively close to our Shaikan Field operations. In preparation for the offensive the Committee carried out a review of the Group's security measures concluding that robust arrangements were in place to safeguard employees and contractors, the Group's plant and equipment, and to address any potential impacts which could arise from the offensive or related activities in Kurdistan. The military action is still ongoing as of the date of this report, however, so far, there has been no impact on the Company's operations.

### Environment

In 2016, a key focus of the Committee was environmental protection measures, and, in particular, air quality monitoring and waste management. For both areas, concepts were developed by the HSSE Department and have been successfully implemented. The Group implemented an improved air quality monitoring system which includes volatile organic compounds measurements and was able to increase the waste recycling rate to around 80%. The Committee supports the Company's goal of achieving a leading position among the independent oil companies operating in Kurdistan with respect to environmental management and protection measures.

### Corporate social responsibility

During 2016, the Committee reviewed the Group's CSR programme and related activities. Progress was made in the implementation of the Group's competency based training programme to develop and promote the Group's Kurdish operational employees. In addition, the Group has increased the level of its purchases of goods and services from the villages and towns near the Shaikan Field to enhance the local benefits from the field operations. The Group remains committed to its CSR programmes and now plans to develop a broader medium to long-term CSR strategy to complement the existing community welfare initiatives.

### David Thomas

Chairman of HSSE and CSR Committee  
5 April 2017

## FINANCE AND TECHNICAL COMMITTEE REPORTS

### Finance Committee

In December 2015, the Finance Committee was established as a committee of the Board.

The Committee was established at a time when the Company's ability to service, refinance and/or repay the Guaranteed Notes and the Convertible Bonds which had been due to mature in April 2017 and October 2017 respectively, had been severely impaired by the low oil price environment and adverse geopolitical developments.

The overarching purpose of the Finance Committee was to evaluate and provide recommendations to the Board regarding the strategic review of the Group's business and assets and the determination of a sustainable capital structure for the Company.

During 2016, the Committee, supported by the Company's financial and legal advisers, pursued multiple options to address the financial problems faced by the Group as a result of the impending maturity of the Guaranteed Notes and the Convertible Bonds.

The Committee concluded that the only prospect for the Company to continue trading and avoid a liquidation was to effect a substantial restructuring of the Company's balance sheet and that this would be in the best interests of the Company and its shareholders. In July 2016, the Board, on the recommendation of the Committee, approved Balance Sheet Restructuring proposals which had been agreed by the majority of the Company's creditors. On 14 July 2016, the Company announced the details of this Restructuring to the market.

The original members of the Committee were: Keith Lough (Chairman), Cuth McDowell (Independent Non-Executive Director), Jón Ferrier (CEO) and Sami Zouari (CFO). Cuth McDowell stepped down from the Committee as a result of his resignation from the Board on 13 October 2016.

The Committee met frequently during 2016 in the period running up to the completion of the Restructuring, with a total of 13 meetings being held. Following the completion of the Restructuring in October 2016, the Board concluded that the role of the Committee had been fulfilled and that the Committee should be disbanded.

### Technical Committee

The successful completion of the Restructuring in October 2016 provided the Company with a stable financial platform and the ability to invest in future growth projects. In November 2016, the Development Steering Committee, subsequently renamed the "Technical Committee" was established to support Shaikan development planning and project execution activities along with the specific objectives to:

- provide assurance that development plans are in line with the Company's strategy and have been optimised in the context of the current and forecast funding position;
- review and approve Shaikan Field reserves and resources estimates and revisions before they are finalised;
- ensure that the Company has the appropriate resources and project management systems in place to successfully execute the development projects on time and within budget;
- provide the Board with assurance that the key project execution risks have been identified and that the required risk management processes and mitigation measures are in place;
- provide oversight, where appropriate, for any material contract tendering exercises; and
- review and recommend for Executive approval any information relating to the Shaikan Field Development Plans and reserves and resource estimates for public release.

The Committee was originally set up as an advisory body, reporting to the Board at key decision points within the Shaikan development project cycle, and to the Audit and Risk Committee on specific process assurance related activities. However, at its meeting on 8 December 2016, the Board decided that the Committee should be formally constituted as a sub-committee of the Board. In January 2017, the Board agreed to change the name of the Committee from the Development Steering Committee to the Technical Committee.

The original members of the Committee were: David Thomas (Independent Non-Executive Director (Chairman)), Philip Dimmock (Independent Non-Executive Director), Jón Ferrier (CEO), Sami Zouari (CFO), Gabriel Papineau-Legrís (Commercial Director) and John Stafford (Vice President Operations). However, following his appointment as COO in January 2017, Stuart Catterall was appointed as a member of the Committee in substitution for John Stafford.

The Committee is supported in its activities by key members of the London-based technical, commercial and finance teams and by the Erbil-based projects and operations teams. Members of these teams are invited to participate in Committee meetings to provide input and support in relation to the Committee's deliberations. Generally, the Committee meets on a quarterly basis with further ad hoc meetings scheduled at key decision points within the project development schedule.

The Committee held its inaugural meeting on 23 November 2016 and has met once to date in 2017 (on 23 March 2017).



## 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 2016. A review of the business is set out in the preceding sections of this Annual report, including the Chairman's statement, Chief Executive Officer's statement, Operational review and Financial review, which are incorporated into this report by reference. The Corporate governance statement also forms part of this report.

### Results and dividends

The Group's financial results for the year ended 31 December 2016 are set out in the consolidated financial statements. The Group made a net loss after taxation for the year of \$17.4 million (2015: \$214.0 million loss) and the Directors do not recommend a dividend for the year (2015: \$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.

Gulf Keystone uses a number of financial and non-financial KPIs against which it monitors its performance. Detailed KPI targets and benchmarks for each year are set by the Board and are regularly reviewed during the Board meetings for progress against actual results. Where necessary, the targets are adjusted to accommodate changes in the operating environment. Gulf Keystone's KPIs are discussed in the Strategic report on pages 14 and 15 in particular in the Strategy and performance section.

### Capital structure

Full details of the authorised and issued share capital, together with movements in the Company's issued share capital during the year, are shown in note 19 to the consolidated financial statements. The business is financed by means of debt (see note 16 to the consolidated financial statements) and external share capital.

### Capital restructuring

During 2016, the Group materially strengthened its balance sheet with a significant debt reduction from over \$600 million to \$100 million through the conversion of over \$500 million of existing debt into equity of the Company by way of a scheme of arrangement and an Open Offer.

On 5 August 2016, the Company's existing authorised share capital was increased by \$219,105,237 from \$73,000,000 by the creation of 21,910,523,665 new common shares.

On 14 October 2016, 19,616,227,881 new common shares were issued pursuant to the debt equitisation and a further 2,294,295,672 new common shares were issued pursuant to the Open Offer. Following the completion of the Restructuring the number of common shares in issue was 22,942,956,605.

### Share consolidation

Following the completion of the Restructuring in October 2016, the Company undertook a share consolidation pursuant to which its 22,942,956,605 existing common shares of \$0.01 were consolidated and divided into 229,429,566 new common shares of \$1 each. The new common shares have the same rights and are subject to the same restrictions (save as to par value) as were the existing common shares.

### Share rights and restrictions

There are no specific restrictions on the size of a holding nor on the transfer of common shares, both of which are governed by the general provisions of the Company's Bye-laws and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's common shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued common shares are fully paid. However, on 14 October 2016, as part of the Restructuring, the Company issued \$100 million in aggregate principal amount of 13% Payment-in-Kind ("PIK")/10% cash pay Guaranteed Notes due in 2021 and guaranteed by Gulf Keystone Petroleum International Limited.

Details of the employee share schemes are set out in note 22 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 Bye-laws may only be revoked or amended by the shareholders of the Company by resolution passed by a majority of not less than three-fourths of such shareholders as vote in person or, where proxies are allowed, by proxy at a general meeting. Resolutions put to the vote of any general meeting are decided on a show of hands unless a poll is demanded in accordance with the Company's Bye-laws.

The Company's Bye-laws are available on the Company's website at [www.gulfkeystone.com](http://www.gulfkeystone.com).

### Directors

With regard to the appointment and replacement of Directors, the Company is governed by its Bye-laws, the Companies Act (Bermuda) and related legislation. In accordance with the Bye-laws, 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<sup>(4,5)</sup>

**Sami Zouari**  
Chief Financial Officer<sup>(6)</sup>

**Philip Dimmock**  
Independent Non-Executive Director<sup>(1,2,3,4,5)</sup>

**Andrew Simon**  
Non-Executive Chairman  
(resigned in July 2016)

**Cuth McDowell**  
Independent Non-Executive Director  
(resigned in October 2016)

**Keith Lough**  
Non-Executive Chairman<sup>(1,3,6)</sup>

**Garrett Soden**  
Independent Non-Executive Director<sup>(1,2,3,4,5)</sup>

**David Thomas**  
Independent Non-Executive Director<sup>(2,3,4,5)</sup>

- (1) Member of the Audit and Risk Committee as at the date of this report.
- (2) Member of the Remuneration Committee as at the date of this report.
- (3) Member of the Nomination Committee as at the date of this report.
- (4) Member of the HSSE and CSR Committee as at the date of this report.
- (5) Member of the Technical Committee as at the date of this report.
- (6) Appointed Non-Executive Chairman in July 2016.



## DIRECTORS' REPORT continued

### Directors' indemnities

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

### Directors' interests in shares

None of the Directors who held office at 31 December 2016 had any interest in the common shares of the Company.<sup>(1)</sup>

At the date of this report, the EBT held 97,970 common shares of the Company. A further 100,000 common shares are held by the Exit Event Trustee in relation to the Exit Event Award (see note 22 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 2016 are disclosed in the Remuneration Committee report.

### Significant shareholdings

As at 5 April 2017, the Company has been notified of the following significant shareholdings as at 15 March 2017:

Shareholder	Number of common shares	Percentage of issued share capital
Taconic Capital Advisors	31,634,938	13.79
Sothic Capital Management	29,238,448	12.74
Lansdowne Partners	24,353,303	10.61
Capital Research and Management Company <sup>(2)</sup>	19,593,285	8.54
GLG Partners	12,821,650	5.59
Cowell & Lee Advisors	11,249,540	4.90
Cape View Capital	9,510,803	4.15

(2) Investment adviser to the New World Fund, Inc. and SMALLCAP World Fund, Inc.

### 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 successfully completed the Restructuring of its balance sheet on 14 October 2016. This addressed the difficulties of raising funds to pay for the Guaranteed Notes and Convertible Bonds maturing in April and October 2017, respectively. As a result of the Restructuring, the Group's debt was reduced from over \$600 million to \$100 million of the Reinstated Notes through the partial conversion of the Guaranteed Notes and full conversion of

the Convertible Bonds to the Company's common shares. The Reinstated Notes give the Group an option to defer the payment of interest arising in the first two years until the maturity of the Reinstated Notes (see note 16 for further details). The Group also has the flexibility to raise additional debt of up to \$45 million through the use of the Super Senior Debt Basket and the General Debt Basket. The Reinstated Notes do not contain a Debt Service Reserve Account requirement thus freeing up \$32.5 million of cash for general use. In conjunction with the Restructuring, the Group completed the Open Offer raising additional funds of \$25 million on 14 October 2016.

The Group has seen a significant improvement in the pattern of cash receipts from the MNR for the oil sent for export with total receipts of \$114 million net to the Group in 2016 and further receipts of \$36 million in the first quarter of 2017 in relation to 2016 sales.

Following the relinquishment of the Sheikh Adi block in March 2016 and the pending relinquishment of the Ber Bahr block, the Group has focused on its core asset, the Shaikan Block. The Group's improved liquidity arising from the successful Restructuring, among other factors, is expected to allow the implementation of the Group's near term investment plan to maintain production at 40,000 bopd with the potential to increase production to 55,000 bopd. This is subject to the MNR and MOL approvals, the continuation of the regular payment cycle from the MNR and a commercially acceptable investment environment.

The significant reduction of the debt burden, the option to delay the Reinstated Notes interest payments and the improvements in oil revenues receipts alongside prudent cost management gave the Group the financial flexibility and capability to meet its working capital requirements.

The Group continues to closely monitor and manage its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Shaikan Block and costs contingencies. The Group has taken appropriate action to reduce its cost base and has \$112.7 million of free cash at 5 April 2017. The Group's forecasts, taking into account the risks applicable to the Group, show that the Group will have sufficient financial headroom for the twelve months from the date of approval of the 2016 Annual report and accounts.

Based on the analysis performed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Annual financial statements.

### Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Group including the PSC and employee share plans. 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

5 April 2017

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

## 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 in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires the Directors to 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 as 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 and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; 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 position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 5 April 2017 and is signed on its behalf by:

#### Jón Ferrier

Chief Executive Officer

5 April 2017



## 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 2016 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 that we have audited 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.

### Summary of our audit approach

<b>Key risks</b>	The key risks that we identified in the current year were: <ul style="list-style-type: none"> <li>• Revenue recognition;</li> <li>• Accounting for the restructuring; and</li> <li>• Change to accounting policy for and impairment of oil and gas assets.</li> </ul>
<b>Materiality</b>	The materiality that we used in the current year was \$9.1 million which was determined on the basis of 2% of net assets of the Group.
<b>Scoping</b>	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.
<b>Significant changes in our audit approach</b>	Following the Restructuring during the year, together with the continued track record of receipts and the open offer, no emphasis of matter in respect of going concern was required and going concern is no longer considered to be a key risk of material misstatement. In addition the one-off transaction in the year relating to the restructuring and the change in accounting policy from modified full cost to successful efforts have been included in our audit opinion as key risks in the current year. Following the relinquishment of Sheikh Adi and the decision to relinquish Ber Bahr, and the resulting write-off as a consequence of the change in accounting policy, the recoverability of intangible exploration and evaluation assets is no longer a key risk. We have also downgraded the risk associated with depreciation, depletion and amortisation, as we do not consider there to be significant judgement or variability associated with the DD&A charge.

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

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 in the strategic report on page 35.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 30 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 31 to 35 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in Summary of significant accounting 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 35 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, including any related disclosures drawing attention to any necessary qualifications or assumptions.

**We confirm that we have nothing material to add or draw attention to in respect of these matters.**

**We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.**

## INDEPENDENT AUDITOR'S REPORT continued

to the members of Gulf Keystone Petroleum Limited

Independence	
We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.	<b>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.</b>
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.	

Revenue recognition	
<b>Risk description</b>	<p>Revenue totalling \$194.4 million has been recognised during the year, of which \$121.8 million relates to cash-settled amounts for oil sent for export in the year and \$72.6 million relates to offsetting payables to the MNR against amounts due for previously unrecognised revenue.</p> <p>During the year ended 31 December 2016, GKP have continued to receive regular monthly receipts and have continued to estimate revenue on a 'payment-assured' basis with revenue being recognised on the basis consistent with the MNR bilateral agreement in March 2016.</p> <p>The significant judgements as to how to apply the criteria for revenue recognition under IAS 18 Revenue in respect of oil sent for export include:</p> <ul style="list-style-type: none"> <li>the PSC contract specifying the mechanism by which crude oil is delivered with the KRG is subject to interpretation, with clarification being sought through an updated PSC currently under discussion;</li> <li>the payment mechanism for oil sent for export is still developing within the Kurdistan Region of Iraq; and</li> <li>prior to September 2015, the Group had not received regular payment for these export deliveries.</li> </ul> <p>There are also significant judgments relating to the interpretation and application of the PSC and the MNR agreement in relation to the treatment of back in receipts, cost offsets and entitlement revenue in excess of the cash received, as follows:</p> <ul style="list-style-type: none"> <li>The MNR agreement established that an element of the cash received in the year was an advance in respect of a future "back in" transaction which has been deferred as a liability in the balance sheet;</li> <li>The MNR bilateral agreement also reiterated the principle of the PSC that costs payable to the MNR can be offset with previously unrecognised revenue, with income reported on this basis for the first time in 2016; and</li> <li>In a number of months during the year, the value of the cash receipt was below the entitlement value based on the oil sent for export, with the balance representing unrecognised revenue.</li> </ul> <p>As referenced on page 84 of the financial statements the recognition of revenue relating to oil sent for export and in relation to cost offsets is considered by the Audit and Risk Committee as a significant issue and also, as referenced on page 89, by management as a critical accounting judgement.</p>
<b>How the scope of our audit responded to the risk</b>	<p>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:</p> <ul style="list-style-type: none"> <li>assessing the appropriateness of the revenue recognition policy in light of current year developments, through discussions with management and review of board minutes;</li> <li>performing a recalculation of the expected monthly entitlement revenue based on production in the period per the approved delivery reports and average Brent prices, less quality discounts, in line with the PSC and the MNR bilateral agreement;</li> <li>vouching all cash receipts in 2016;</li> <li>reviewing post period bank statements and confirming that the outstanding receivable at 31 December 2016 in respect of October, November and December revenue of \$36m was subsequently received;</li> <li>reviewing the nature of the costs being offset on a sample basis to determine whether they are appropriate in accordance with the PSC terms and the MNR bilateral Agreement;</li> <li>testing the unrecognised revenue balance available to verify there is a sufficient balance against which to recognise the payables offset; and</li> <li>considering whether the related disclosures in this area comply with the relevant accounting standards and are balanced, proportionate and clear.</li> </ul>
<b>Key observations</b>	Given the fact that cash has now been received in respect of 2016 production revenue recognised in the year and the explicit confirmation the MNR bilateral agreement gave around the ability to offset costs as revenue, we concur with management's treatment of sales for the period ending 31 December 2016 and that it is appropriate to recognise \$194.4m of revenue.

Accounting for the restructuring	
<b>Risk description</b>	<p>As referenced on page 101 of the financial statements, on 5 August 2016, the Group obtained approval from its shareholders to restructure its debt through a capital restructuring. This was sanctioned by the High Court of Justice on 29 September 2016 and was subsequently completed on 14 October 2016.</p> <p>The impact of the Restructuring was a reduction in the Group's outstanding debt from \$613 million pre-restructuring to \$96 million, with an agreement to waive all covenant tests and an option to defer interest payments for two years (the "PIK option") with full repayment due 18 October 2021. In addition, as part of the Restructuring during the period, the Group raised \$24 million of additional funds through the issue of equity under an open offer on 14 October 2016.</p> <p>The Restructuring had multiple elements requiring consideration, including whether the reinstated notes was correctly accounted for as a substantial modification of the previous debt; the fair value of the reinstated notes of \$96m and the equity issued of \$283m, the treatment of the PIK option, as well as the treatment of transaction costs.</p> <p>As referenced on page 50 of the Governance section the accounting for the Restructuring is considered by the Audit and Risk Committee as a significant issue and also, as referenced on page 89, by management as a critical accounting judgement.</p>
<b>How the scope of our audit responded to the risk</b>	<p>We have reviewed management's assessment of the Restructuring transaction and its accounting impacts. In performing this analysis we have:</p> <ul style="list-style-type: none"> <li>reperformed management's calculations in relation to the reinstated notes and considered whether it should be treated as a substantial modification;</li> <li>compared the fair value of \$96m calculated by management with market data (traded price of the bond on the Luxembourg stock exchange);</li> <li>verified a sample of the transactions costs to invoices and reviewed the cost allocation between the open offer and the restructuring;</li> <li>agreed the cancellation of the bonds to cancellation notices, and reviewed the fluctuations in share price around the date of issue to determine whether it is a reliable reflection of the fair value of the shares issued; and</li> <li>verified the open offer proceeds to bank statement, and agreed the year end share capital position to the share listing.</li> </ul>
<b>Key observations</b>	Based on the audit evidence we have gathered we are satisfied that management has accounted for these transactions appropriately.

Change to accounting policy for and impairment of oil and gas assets	
<b>Risk description</b>	<p>As disclosed on page 85 of the Annual Report and accounts, management has changed its accounting policy in relation to Oil and Gas assets from modified full cost to successful efforts in order to align their policies with their peers and provide more relevant information to the users. This has resulted in the write off of \$79 million in relation to Ber Bahr at 31 December 2015, following the Group's decision to relinquish the asset, and \$215 million for Sheikh Adi at 16 March 2016, being the date of relinquishment. The carrying value of the Shaikan Field as at 31 December 2016 was \$489m.</p> <p>In accordance with IAS 36 Impairment of Assets, management is required to perform a review of any producing assets (Shaikan field) for indicators of impairment at each reporting date. As described in the 'critical accounting estimates and judgements' section of the Annual Report on pages 88 and 89, the assessment of the carrying value of producing assets requires management to exercise judgement in identifying the indicators of impairment, such as a decrease in oil price or a downgrade of proved and probable reserves.</p> <p>Having considered a range of factors, including the move to successful efforts and the consequent decrease in the book value of the Group's oil and gas assets, management has concluded that there were no indicators of impairment for the Shaikan Field.</p> <p>As referenced on page 50 of the Governance section the change to the accounting policy for and impairment indicator assessment for the oil and gas assets is considered by the Audit and Risk Committee as a significant issue and also, as referenced on page 89, by management as a critical accounting judgement, and the assumptions underpinning the internal valuation model are key sources of estimation uncertainty.</p>
<b>How the scope of our audit responded to the risk</b>	<p>In relation to the change in the accounting policy, we have performed the following:</p> <ul style="list-style-type: none"> <li>reviewed the adjustments relating to the change in accounting policy and have agreed the figures to our testing of the oil and gas assets;</li> <li>enquired and challenged management as to whether there are any material unsuccessful efforts in the Shaikan Field which under the new accounting policy would require impairment and agreed this through discussions with the operational team and review of board minutes; and</li> <li>reviewed the accounting policy and related disclosures in the accounts and consider them to be compliant with IFRS.</li> </ul> <p>We have reviewed management's conclusions and carried out our own independent assessment for impairment indicators. As part of our work we have:</p> <ul style="list-style-type: none"> <li>held meetings with key operational and finance staff to understand the current status and future intention for the Shaikan Field;</li> <li>considered the Shaikan valuation model (prepared by management for internal purposes) and challenged management on the reasonableness of the following underlying assumptions: <ul style="list-style-type: none"> <li>Oil prices – comparing the oil price assumptions with third party forecasts and publicly available forward curves;</li> <li>Discount rate – using our internal valuation specialists to perform an independent recalculation of the discount rate;</li> <li>Production profile – comparing forecasted production per the valuation model with actual historical production and estimates set out in the Competent Person's Report;</li> <li>Future capital expenditure – comparing estimates to those set out in the Competent Person's Report; and</li> <li>GKP's economic interest in the Shaikan Field – consideration of appropriateness in light of the MNR bilateral agreement;</li> </ul> </li> <li>reviewed the sensitivity analysis performed on the key assumptions of valuation model to determine whether there was headroom to support Shaikan's book value.</li> </ul>



# INDEPENDENT AUDITOR'S REPORT continued

to the members of Gulf Keystone Petroleum Limited

## Change to accounting policy for and impairment of oil and gas assets continued

<b>Key observations</b>	We are satisfied with the adjustments and disclosures made by management in relation to the change in the accounting policy. We concur with management that there are no impairment indicators and hence the value of Shaikan is not materially misstated.
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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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Group materiality</b>	\$9.1 million (2015: \$4.9 million)
<b>Basis for determining materiality</b>	2% of net assets.
<b>Rationale for the benchmark applied</b>	We considered net assets to be an appropriate metric to use in our materiality assessment as the Group as the value of the Group is derived from the Shaikan Field, and also the Group was loss making during the year. This is consistent with the prior year.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of \$455,000 (2015: \$98,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk 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 direction of the UK audit team.

### Matters on which we are required to report by exception

<p>Our duty to read other information in the Annual Report</p> <p>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:</p> <ul style="list-style-type: none"> <li>materially inconsistent with the information in the audited financial statements; or</li> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul> <p>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 and Risk Committee which we consider should have been disclosed.</p>	<p><b>We confirm that we have not identified any such inconsistencies or misleading statements.</b></p>
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### 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

5 April 2017



## CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016

	Notes	2016 \$'000	As restated (note 25) 2015 \$'000
<b>Continuing operations</b>			
Revenue	2	194,409	86,165
Cost of sales	3	(142,827)	(136,872)
<b>Gross profit/ (loss)</b>		<b>51,582</b>	(50,707)
General and administrative expenses		(25,536)	(30,990)
<b>Profit/(loss) from operations before exceptional items</b>	4	<b>26,046</b>	(81,697)
Interest revenue	2	100	42
Finance costs	7	(60,182)	(52,075)
Impairment expense	10	(215,658)	(82,596)
Gain on debt extinguishment	16	222,455	—
Other gains	6	9,931	3,051
<b>Loss before tax</b>		<b>(17,308)</b>	(213,275)
Tax charge	8	(127)	(689)
<b>Loss after tax for the year</b>		<b>(17,435)</b>	(213,964)
<b>Loss per share (cents)</b>			
Basic	9	(30.82)	(2,283.66)
Diluted	9	(30.82)	(2,283.66)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

		2016 \$'000	As restated (note 25) 2015 \$'000
Loss for the year		(17,435)	(213,964)
Items that may subsequently be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(2,901)	(1,139)
<b>Total comprehensive loss for the year</b>		<b>(20,336)</b>	(215,103)

The comparatives have been restated following the change in accounting policy from modified full cost to successful efforts (see note 25 for further details) and for the effect of share consolidation (see note 19 for further details).



## CONSOLIDATED BALANCE SHEET

as at 31 December 2016

	Notes	2016 \$'000	As restated (note 25) 2015 \$'000
<b>Non-current assets</b>			
Intangible assets	10	99	235,709
Property, plant and equipment	11	489,379	562,178
Deferred tax asset	18	310	483
		<b>489,788</b>	798,370
<b>Current assets</b>			
Inventories	13	15,971	18,544
Trade and other receivables	14	41,565	16,527
Cash and cash equivalents		92,870	43,641
		<b>150,406</b>	78,712
<b>Total assets</b>		<b>640,194</b>	877,082
<b>Current liabilities</b>			
Trade and other payables	15	(56,284)	(127,399)
Provisions	17	(7,461)	(11,151)
		<b>(63,745)</b>	(138,550)
<b>Non-current liabilities</b>			
Convertible Bonds	16	—	(310,444)
Other borrowings	16	(98,886)	(234,094)
Provisions	17	(23,794)	(27,333)
		<b>(122,680)</b>	(571,871)
<b>Total liabilities</b>		<b>(186,425)</b>	(710,421)
<b>Net assets</b>		<b>453,769</b>	166,661
<b>Equity</b>			
Share capital	19	229,430	9,781
Share premium account	19	920,728	834,619
Convertible Bonds reserve		—	10,179
Exchange translation reserve		(4,299)	(1,398)
Accumulated losses		(692,090)	(686,520)
<b>Total equity</b>		<b>453,769</b>	166,661

A presentational change to combine Share option reserve and Accumulated losses was made in 2016.

The financial statements were approved by the Board of Directors and authorised for issue on 5 April 2017 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 2016

	Notes	Attributable to equity holders of the Company					As restated (note 25) Total equity \$'000
		Share capital \$'000	Share premium account \$'000	Exchange translation reserve \$'000	Accumulated losses \$'000	Convertible bonds reserve \$'000	
<b>Balance at 1 January 2015</b>		8,922	796,099	(259)	(480,991)	15,834	339,605
Net loss for the year		—	—	—	(213,964)	—	(213,964)
Other comprehensive loss for the year		—	—	(1,139)	—	—	(1,139)
<b>Total comprehensive loss for the year</b>		—	—	(1,139)	(213,964)	—	(215,103)
Share-based payment expense	22	—	—	—	2,723	—	2,723
Deferred tax on share-based payment transactions	18	—	—	—	57	—	57
Share issue	19	859	38,520	—	—	—	39,379
Convertible bond equity amortisation	16	—	—	—	5,655	(5,655)	—
<b>Balance at 31 December 2015</b>		9,781	834,619	(1,398)	(686,520)	10,179	166,661
Net loss for the year		—	—	—	(17,435)	—	(17,435)
Other comprehensive loss for the year		—	—	(2,901)	—	—	(2,901)
<b>Total comprehensive loss for the year</b>		—	—	(2,901)	(17,435)	—	(20,336)
Share-based payment expense	22	—	—	—	1,686	—	1,686
Share conversion and issue, net of issue cost	19	219,649	86,109	—	—	—	305,758
Transfer of convertible bond reserve	16	—	—	—	10,179	(10,179)	—
<b>Balance at 31 December 2016</b>		229,430	920,728	(4,299)	(692,090)	—	453,769

A presentational change to combine Share option reserve and Accumulated losses was made in 2016.



## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016

	Notes	2016 \$'000	As restated (note 25) 2015 \$'000
<b>Operating activities</b>			
Cash generated in operations	20	49,619	20,663
Interest received		100	42
Guaranteed note and convertible bond coupon payments		—	(52,903)
<b>Net cash generated from/(used in) operating activities</b>		49,719	(32,198)
<b>Investing activities</b>			
Purchase of intangible assets		(123)	(5,607)
Purchase of property, plant and equipment		(9,557)	(46,542)
<b>Net cash used in investing activities</b>		(9,680)	(52,149)
<b>Financing activities</b>			
Proceeds on issue of share capital and conversion	19	23,535	39,379
Cost incurred on the Restructuring		(13,884)	—
<b>Net cash from financing activities</b>		9,651	39,379
<b>Net increase/(decrease) in cash and cash equivalents</b>		49,690	(44,968)
Cash and cash equivalents at beginning of year		43,641	87,835
Effect of foreign exchange rate changes		(461)	774
<b>Cash and cash equivalents at end of the year being bank balances and cash on hand<sup>(1)</sup></b>		92,870	43,641

(1) In 2016, there was no Debt Service Reserve Account requirement for the Reinstated Notes (2015: \$32.5 million held as restricted cash as stipulated by the 2014 Notes). For further details, please see note 16.

## 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 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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

<p>Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception</p>	<p>The Group has adopted the amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception for the first time in the current year. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.</p> <p>As the Company is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity, the adoption of the amendments has had no impact on the Group's consolidated financial statements.</p>
<p>Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations</p>	<p>The Group has adopted the amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations for the first time in the current year. The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.</p> <p>A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.</p> <p>The adoption of these amendments has had no impact on the Group's consolidated financial statements.</p>
<p>Amendments to IAS 1 Disclosure Initiative</p>	<p>The Group has adopted the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.</p> <p>In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.</p> <p>The amendments also address the structure of the financial statements by providing examples of systematic ordering or grouping of the notes.</p> <p>The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Group.</p>

<p>Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation</p>	<p>The Group has adopted the amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:</p> <ol style="list-style-type: none"> <li>when the intangible asset is expressed as a measure of revenue; or</li> <li>when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.</li> </ol> <p>As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment and intangible assets, respectively, the adoption of these amendments has had no impact on the Group's consolidated financial statements.</p>
<p>Annual Improvements to IFRSs 2012-2014 Cycle</p>	<p>The Group has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2012-2014 Cycle for the first time in the current year.</p> <p>The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.</p> <p>The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.</p> <p>The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.</p> <p>The adoption of these amendments has had no effect on the Group's consolidated financial statements.</p>

### New and revised IFRSs in issue but not yet effective

In the current year, no new or revised Standards and Interpretations have been adopted.

At the date of the authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IAS 7 (amendments)	Disclosure Initiative
IAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

With the exception of IFRS 2 (amendments), IFRS 9, 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 2 (amendments), IFRS 9, IFRS 15 and IFRS 16 has not yet been completed.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES<sup>continued</sup>

### 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 successfully completed a Restructuring on 14 October 2016 which addressed the difficulties of raising funds to pay for the Guaranteed Notes and Convertible Bonds maturing in April and October 2017, respectively. As a result of the Restructuring, the Group's debt was reduced from over \$600 million to \$100 million of the Reinstated Notes through the partial conversion of the Guaranteed Notes and full conversion of the Convertible Bonds to the Company's common shares. The Reinstated Notes give the Group an option to defer the payment of interest arising in the first two years until the maturity of the Reinstated Notes (see note 16 for further details). The Group also has the flexibility to raise additional debt of up to \$45 million through the use of the Super Senior Debt Basket and the General Debt Basket. The Reinstated Notes do not contain a Debt Service Reserve Account requirement freeing up \$32.5 million of cash for general use. In conjunction with the Restructuring, the Group raised additional funds through successful \$25 million Open Offer on 14 October 2016.

The Group has seen a significant improvement in the pattern of cash receipts from the MNR for the oil sent for export with the total receipts of \$102 million net to the Group in 2016 and further receipts of \$36 million in the first quarter of 2017 in relation to 2016 sales.

Following the relinquishment of the Sheikh Adi block in March 2016 and the ongoing formal relinquishment of the Ber Bahr block, the Group has focused on its core asset, the Shaikan block. The Group's improved liquidity arising from the successful restructuring, among other factors, is expected to allow the implementation of the Group's near term investment plan to maintain production at 40,000 bopd with the potential to increase production to 55,000 bopd. This is subject to the MNR and MOL approvals, the continuation of the regular payment cycle from the MNR and a commercially acceptable investment environment.

The significant reduction of the debt burden, the option to delay the Reinstated Notes' interest payments and the improvements in oil revenues receipts alongside prudent cost management give the Group the financial flexibility and capability to meet its working capital requirements.

The Group continues to closely monitor and manage its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Shaikan block, costs contingencies, disruptions to revenue receipts, etc. The Group has taken appropriate action to reduce its cost base and has \$112.7 million of free cash at 5 April 2017. The Group's forecasts, taking into account the risks applicable to the Group, show that the Group will be able to have sufficient financial headroom for the twelve months from the date of approval of the 2016 Annual report and accounts.

Based on the analysis performed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Basis of consolidation

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

### 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

The recognition of revenue, particularly the recognition of revenue from export sales, is considered to be a key accounting judgement. 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. As the payment mechanism for sales to the export market is developing within the Kurdistan Region of Iraq, the Group currently considers that revenue can best be reliably measured when the cash receipt is assured. The assessment of whether cash receipt is reasonably assured is based on management's evaluation of the reliability of the MNR's payments to the international oil companies operating in the Kurdistan Region of Iraq in line with the KRG's announcement in February 2016 of its intention to apply the PSC terms.

Management makes the following assumptions in arriving at the value of sales revenue:

- point of sale is the Shaikan facility;
- cash is received and revenue is recognised for all sales, net of royalty, as the royalty is taken "in-kind" by the KRG;
- cash receipts from the MNR represent the non-governmental contractors' share of revenue; and,
- where appropriate, payables to the MNR are offset against amounts due for previously unrecognised revenue in line with the terms of the Shaikan PSC.

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
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### 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
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### Oil and gas assets

The Group has changed its accounting policy for oil and gas assets from modified full cost to successful efforts. This change resulted in the write off of the costs associated with the Sheikh Adi and Ber Bahr blocks which have been relinquished and are in the process of relinquishment, respectively, by the Group. The benefit of this voluntary change in the accounting policy is ensuring that the balance sheet reflects only the assets that will bring future economic benefits to the Group. In addition, the successful efforts method is more widely adopted by listed oil companies and therefore, the change in the policy will make the Group's financial statements more comparable to those of its peers (note 25).

#### 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

The Group follows the successful efforts method of accounting for exploration and evaluation ("E&E") costs. Expenditures directly associated with evaluation or appraisal activities are initially capitalised as intangible asset in cost pools by well, field or exploration area, as appropriate. 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.

These costs are then written off as exploration costs in the income statement unless the existence of economically recoverable reserves have been established and there are no indicators of impairment.

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.

#### Development and production assets

Development and production assets are accumulated on a field-by-field basis 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 includes the cost of acquisition and purchases of such assets, directly attributable overheads, and costs for future restoration and decommissioning. These costs are capitalised as part of the property, plant and equipment and depreciated based on the Group's depreciation of oil and gas assets policy.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES<sup>continued</sup>

### Oil and gas assets<sup>continued</sup>

#### 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.

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 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.

### 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.

### 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 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 dollar, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

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



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

### Inventories

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

### Financial instruments

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

#### Trade receivables

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

#### Cash and cash equivalents

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

#### Liquid investments

Liquid investments comprise short-term liquid investments with maturities of three to twelve months.

#### Financial assets at fair value through profit and loss

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

#### Derivative financial instruments

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

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

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 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 re-measured. 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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### Financial instruments continued

#### Convertible Bonds continued

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 ("EIR") method until maturity.

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

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the period. Details regarding the determination of the fair value of cash-settled share-based transactions are set out in note 22.

### 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.

#### Accounting estimates

##### 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.

An annual valuation of the Shaikan Field was performed providing further support in relation to the conclusion that no indicators of impairment existed for the year ended 31 December 2016.



The assumptions and estimates in the valuation model 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;
- commercial reserves and the related production and payment profiles; and
- timing of revenue receipts.

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 performs an impairment review of the Group's oil and gas assets annually with reference to indicators as set out in IAS 36 Impairment of Assets. The Group assesses its group of assets called cash-generating units ("CGU") for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where indicators are present, management calculates the recoverable amount using key assumptions such as future oil and gas prices, estimated production volume, pre-tax discount rates that reflect the current market assessment of the time value of money and risks specific to the asset, commercial reserves, inflation and transportation fees. The key assumptions are subject to change based on the current market trends and economic conditions. The CGU's recoverable amount is the higher of the fair value less cost of disposal and value in use. Where the CGU's recoverable amount is lower than the carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The Group's sole CGU at 31 December 2016 was Shaikan with a carrying value of \$488.6 million. No impairment indicator was identified as at 31 December 2016.

#### 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.

#### Significant accounting judgement

##### 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 historically made 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. The assessment of whether cash receipt is reasonably assured is based on management's evaluation of the reliability of the MNR's payments to the international oil companies operating in the Kurdistan Region of Iraq in line with the KRG's announcement in February 2016 of its intention to apply the PSC terms. The Group also recognised payables to the MNR against amounts due for previously unrecognised revenue in line with the terms of the Shaikan PSC, where applicable.

#### Accounting for the Restructuring

The Group completed the Restructuring in October 2016 (see note 16 for further details). In line with the Group's accounting policy on borrowing costs, management recorded the interest-bearing loans and overdrafts at 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 maturity.

Under IAS 39, if the present value of the revised cash flows of the new or modified debt plus any costs/fees paid differs by 10% or more from the present value of the remaining cash flows of the existing debt (using the original EIR) the new or modified debt is classed as being substantially different from the old debt. As this test is satisfied, a new financial liability has been recognised and a gain or loss from extinguishment of the original financial liability has been recognised in the income statement.

#### Change in accounting policy

The prior year's Consolidated income statement has been restated by \$79.0 million as a result of the change in the accounting policy on the Group's oil and gas asset from modified full cost to successful efforts. The \$79.0 million represents the 2016 opening balance of the intangible assets relating to Ber Bahr block which the Group decided to relinquish at 31 December 2015. The adjustment decreased the Group's intangible assets and equity (see note 25 for further details). No adjustments to the period prior to 2015 are required as there were no unsuccessful exploration expenditures prior to 2015.



## 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 and the Erbil office which provides support to the operations in Kurdistan, as well as segmental information relating to the previously held Akri-Bijeeel, Sheikh Adi and Ber Bahr blocks;
- 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 2016	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
<b>Revenue</b>						
Oil sales	—	194,409	—	—	—	194,409
Inter-segment sales	—	—	5,542	—	(5,542)	—
<b>Total revenue</b>		194,409	5,542	—	(5,542)	194,409
<b>Cost of sales</b>						
Production costs	—	(61,191)	—	—	—	(61,191)
Oil and gas properties depreciation expense	—	(81,636)	—	—	—	(81,636)
<b>Gross profit/(loss)</b>	—	51,582	5,542	—	(5,542)	51,582
<b>General and administrative expenses</b>						
Allocated general and administrative expenses	(843)	(9,222)	(6,439)	(13,447)	4,993	(24,958)
Depreciation and amortisation expense	—	(295)	(283)	—	—	(578)
<b>Profit/(loss) from operations</b>	(843)	42,065	(1,180)	(13,447)	(549)	26,046
Interest revenue	—	—	16	84	—	100
Finance income/(costs)	—	(700)	—	(59,915)	433	(60,182)
Impairment charge	—	(215,658)	—	—	—	(215,658)
Gain on debt extinguishments	—	—	—	222,455	—	222,455
Other gains	181	3,963	—	5,787	—	9,931
<b>Profit/(loss) before tax</b>	(662)	(170,330)	(1,164)	154,964	(116)	(17,308)
Tax expense	—	—	(127)	—	—	(127)
<b>(Loss)/profit after tax</b>	(662)	(170,330)	(1,291)	154,964	(116)	(17,435)
Capital expenditure	—	9,454	138	—	—	9,592
Total assets	38	546,163	12,864	75,675	5,454	640,194

31 December 2015	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	As restated (note 25) Total \$'000
<b>Revenue</b>						
Oil sales	—	86,165	—	—	—	86,165
Inter-segment sales	—	—	8,478	—	(8,478)	—
<b>Total revenue</b>	—	86,165	8,478	—	(8,478)	86,165
<b>Cost of sales</b>						
Production costs	—	(63,227)	—	—	406	(62,821)
Royalty costs	—	(1)	—	—	—	(1)
Oil and gas properties depreciation expense	—	(74,050)	—	—	—	(74,050)
<b>Gross profit/(loss)</b>	—	(51,113)	8,478	—	(8,072)	(50,707)
<b>General and administrative expenses</b>						
Allocated general and administrative expenses	(460)	(11,093)	(8,586)	(17,297)	7,136	(30,300)
Depreciation and amortisation expense	—	(437)	(253)	—	—	(690)
<b>Loss from operations</b>	(460)	(62,643)	(361)	(17,297)	(936)	(81,697)
Impairment charge	—	(82,600)	—	—	4	(82,596)
Interest revenue	—	—	7	35	—	42
Finance income/(costs)	—	(803)	—	(70,055)	18,783	(52,075)
Other gains/(losses)	238	(124)	—	2,937	—	3,051
<b>(Loss)/profit before tax</b>	(222)	(146,170)	(354)	(84,380)	17,851	(213,275)
Tax expense	—	—	(689)	—	—	(689)
<b>(Loss)/profit after tax</b>	(222)	(146,170)	(1,043)	(84,380)	17,851	(213,964)
Capital expenditure	—	76,580	613	—	—	82,019
Total assets	53	852,040	16,047	1,242,554	(1,233,611)	877,082

#### 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:

	2016 \$'000	As restated 2015 \$'000
Algeria	—	—
Kurdistan	488,893	797,074
Bermuda	—	—
United Kingdom	585	813
	489,478	797,887

#### Information about major customers

Included in revenues arising from the Kurdistan segment are revenues of approximately \$194.4 million which arose from sales to the Group's largest customer (2015: \$68.8 million from largest customer).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS<sup>continued</sup>

### 2. Revenue

	2016 \$'000	2015 \$'000
Oil sales	194,409	86,165
Interest revenue	100	42
	<b>194,509</b>	<b>86,207</b>

During 2016, the Group sold Shaikan oil to the export market generating revenue of \$121.8 million (2015: \$68.8 million). No revenue was derived from domestic sales for the year (2015: \$17.4 million). The Group also recognised \$72.6 million (2015: \$nil) by offsetting payables to the MNR against amounts due for previously unrecognised revenue. 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.

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

- point of sale is the Shaikan facility;
- cash is received and revenue is recognised for all sales, net of royalty, as the royalty is taken "in-kind" by the KRG;
- deductions for transportation costs as well as the discount to Brent, for the quality of the crude, have been estimated at c.\$20/bbl based on the discussions with the MNR and are subject to audit and reconciliation, 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

	2016 \$'000	2015 \$'000
Production costs	61,191	62,822
Depreciation of oil and gas properties	81,636	74,050
	<b>142,827</b>	<b>136,872</b>

Production costs represent the Group's share of gross production expenditure for the Shaikan Field for the year and include the Shaikan PSC production bonus of \$8.0 million (2015: \$4.0 million) and capacity building charges of \$18.0 million (2015: \$10.7 million). All costs are included with no deferral of costs associated with unrecognised sales in accordance with the Group's revenue policy. Production and depreciation, depletion and amortisation ("DD&A") costs related to revenue arrears recognised in 2016 have been charged to the income statement in prior periods when the oil was lifted.

A unit-of-production method, based on full entitlement production, commercial reserves and costs for Shaikan full field development, has been used to calculate the DD&A charge for the year. Commercial reserves are proven and probable ("2P") reserves, estimated using standard recognised evaluation techniques. Production and reserves entitlement associated with unrecognised sales in accordance with the Group's revenue policy have been included in the full year DD&A calculation.

### 4. Profit/(loss) from operations

	2016 \$'000	2015 \$'000
Profit/(loss) from operations has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment (note 11)	82,176	74,707
Amortisation of intangible assets (note 10)	38	35
Credit in relation to Excalibur litigation (note 6)	(3,188)	—
Staff costs (see note 5)	24,228	26,772
Auditor's remuneration for audit services (see below)	173	206
Operating lease rentals (note 21)	3,936	3,765
	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Fees payable to the Company's auditor for the audit of the Company's annual accounts	154	175
<b>Fees payable to the Company's auditor for other services to the Group</b>		
– audit of the Company's subsidiaries pursuant to legislation	19	31
<b>Total audit fees</b>	<b>173</b>	<b>206</b>
Other assurance services (half-year review)	73	69
Corporate finance services	454	122
Tax services (advisory)	9	10
<b>Total fees</b>	<b>709</b>	<b>407</b>

### 5. Staff costs

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

	2016 Number	2015 Number
Office and management	80	89
Technical and operational	229	222
	<b>309</b>	<b>311</b>

Employee benefits recognised as an expense during the year comprised:

	2016 \$'000	2015 \$'000
Wages and salaries	20,929	23,114
Social security costs	2,044	1,119
Share-based payment (see note 22)	1,255	2,539
	<b>24,228</b>	<b>26,772</b>





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS<sup>continued</sup>

### 6. Other gains

	2016 \$'000	2015 \$'000
Other gains	6,876	—
Exchange gains	3,055	3,051
	<b>9,931</b>	3,051

Other gains consist of the release of the decommissioning liability relating to the Akri-Bijeel block of \$3.7 million (for further detail, see note 17) and the receipt of an additional repayment of costs incurred in relation to Excalibur litigation of \$3.2 million.

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

On 13 December 2013, the Court handed down its full judgement dismissing all of the claims asserted by Excalibur and deciding all issues in favour of the Companies and Texas Keystone, Inc. Excalibur was ordered to pay the costs of the Companies and Texas Keystone on the enhanced costs basis, known as the indemnity basis ("Excalibur Costs Order").

Excalibur had no funds save for that provided by its litigation funders. The Companies and Texas Keystone sought a non-party costs order against the litigation funders to make up for the shortfall that arose between the Excalibur Costs Order and the interim payment that the Companies and Texas Keystone received ("Shortfall").

Once the litigation funders were joined to the proceedings, the Judge ordered them to pay the Companies' and Texas Keystone's costs on the indemnity basis to cover the Shortfall ("Funders Costs Order").

The litigation funders appealed the Funders Costs Order on several grounds, and their appeals were heard at a two-day hearing at which the Companies and Texas Keystone vigorously opposed the appeals. On 18 November 2016, the Court ordered that the appeals be dismissed and the sum of \$3.2 million (£2.6 million) was received by the Group in January 2017. As at 31 December 2016, this was included in Other receivables in note 14.

### 7. Finance costs

	2016 \$'000	2015 \$'000
Interest payable in respect of Convertible Bonds (see note 16)	22,203	27,479
Interest payable in respect of other bonds (see note 16)	35,232	42,577
Reinstated notes interest capitalised (see note 16)	2,481	—
Unwinding of discount on provisions (see note 17)	699	803
Capitalised finance costs	(433)	(18,784)
	<b>60,182</b>	52,075

### 8. Tax

	2016 \$'000	2015 \$'000
Corporation tax	—	—
Current year charge	—	—
Adjustment in respect of prior years	1	(433)
Deferred UK corporation tax expense (see note 18)	(128)	(256)
Tax expense attributable to the Company and its subsidiaries	<b>(127)</b>	(689)

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% (2015: 20.25%) of the estimated assessable profit for the year of the UK subsidiary.

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

All deferred tax arises in the UK.

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

	2016 \$'000	As restated 2015 \$'000
Loss before tax	(17,308)	(213,275)
Tax at the Bermudian tax rate of 0% (2015: 0%)	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	(127)	(689)
Tax charge for the year	<b>(127)</b>	(689)

### 9. Loss per share

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

	2016 \$'000	As restated 2015 \$'000
<b>Loss</b>		
Loss after tax for the purposes of basic and diluted loss per share	(17,435)	(213,964)
	2016 Number 000s	2015 Number 000s
Number of shares		
Basic weighted average number of shares	56,565	9,369

Following the Restructuring, all common shares have been consolidated on a 100:1 basis (see note 19). As a result, prior year weighted average number of shares has been restated.

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.

Reconciliation of anti-dilutive shares:

	2016 Number million	2015 Number million
Number of shares		
Share options	1.8	0.4
Common shares held by the EBT	0.1	0.1
Common shares held by the Exit Event Trustee	0.1	0.1
Warrants outstanding	0.4	0.4
Common shares to be issued on conversion of Convertible Bonds	—	0.7
Total potentially anti-dilutive shares	<b>2.4</b>	1.7

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS<sup>continued</sup>

### 10. Intangible assets

	Exploration and evaluation costs \$'000	Computer software \$'000	Total \$'000
<b>Year ended 31 December 2015</b>			
Opening net book value	276,243	47	276,290
Additions	38,439	2	38,441
Amortisation charge	—	(35)	(35)
<b>Closing net book value</b>	<b>314,682</b>	<b>14</b>	<b>314,696</b>
Effect of change in accounting policy (note 25)	(78,987)	—	(78,987)
<b>Closing net book value as restated</b>	<b>235,695</b>	<b>14</b>	<b>235,709</b>
<b>At 31 December 2015</b>			
Cost	235,695	930	236,625
Accumulated amortisation	—	(916)	(916)
<b>Net book value</b>	<b>235,695</b>	<b>14</b>	<b>235,709</b>
<b>Year ended 31 December 2016</b>			
Opening net book value as restated	235,695	14	235,709
Other movements related to the relinquishment of Sheikh Adi	(20,037)	—	(20,037)
Additions	—	138	138
Write-offs	(215,658)	—	(215,658)
Amortisation charge	—	(38)	(38)
Foreign currency translation differences	—	(15)	(15)
<b>Closing net book value</b>	<b>—</b>	<b>99</b>	<b>99</b>
<b>At 31 December 2016</b>			
Cost	—	1,053	1,053
Accumulated amortisation	—	(954)	(954)
<b>Net book value</b>	<b>—</b>	<b>99</b>	<b>99</b>

In March 2016, the Group relinquished the Sheikh Adi block. As part of the agreement for relinquishment of the Sheikh Adi block, the MNR released the Group from its obligations to pay past PSC payments due with the exception of \$10.0 million relating to reduced PSC bonuses due on the declaration of commerciality. This will be offset against the past costs associated with the Shaikan Government Participation Option. This is included in Other creditors in note 15.

During the year, the Group retrospectively changed its accounting policy from modified full cost to successful efforts. As a result, previously capitalised expenditure relating to the Ber Bahr block of \$79.0 million was written off following the decision to relinquish the block in December 2015 (see note 25 for further details). Further, the expenditure amounting to \$215.7 million relating to the Sheikh Adi block was written off in 2016 upon relinquishment and included in the Impairment expense in the Consolidated income statement. The oil and gas exploration costs of \$0.8 million incurred during the year in relation to the Sheikh Adi and Ber Bahr blocks were expensed directly to the Consolidated income statement.

The net book value at 31 December 2016 includes intangible assets relating to computer software. The amortisation charge of \$38,000 (2015: \$35,000) for computer software has been included in general and administrative expenses.

In December 2015, an impairment of \$3.6 million has been recognised associated with the write-off of the assets held for sale relating to Akri-Bijeeel.

### 11. Property, plant and equipment

	Oil and gas properties \$'000	Fixtures and equipment \$'000	Total \$'000
<b>Year ended 31 December 2015</b>			
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)
<b>Closing net book value</b>	<b>560,835</b>	<b>1,343</b>	<b>562,178</b>
<b>At 31 December 2015</b>			
Cost	675,652	5,801	681,453
Accumulated depreciation	(114,817)	(4,458)	(119,275)
<b>Net book value</b>	<b>560,835</b>	<b>1,343</b>	<b>562,178</b>
<b>Year ended 31 December 2016</b>			
Opening net book value	560,835	1,343	562,178
Additions	9,435	19	9,454
Depreciation charge	(81,636)	(540)	(82,176)
Foreign currency translation differences	—	(77)	(77)
<b>Closing net book value</b>	<b>488,634</b>	<b>745</b>	<b>489,379</b>
<b>At 31 December 2016</b>			
Cost	685,087	5,743	690,830
Accumulated depreciation	(196,453)	(4,998)	(201,451)
<b>Net book value</b>	<b>488,634</b>	<b>745</b>	<b>489,379</b>

The net book value of oil and gas properties at 31 December 2016 is comprised of property, plant and equipment relating to the Shaikan block and has a carrying value of \$488.6 million (2015: \$560.8 million).

The additions to the Shaikan asset during the year include costs for various studies and production facilities improvement projects.

The DD&A charge of \$81.6 million on oil and gas properties (2015: \$74.1 million) has been included within cost of sales (note 3). The depreciation charge of \$0.5 million on fixtures and equipment (2015: \$0.7 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS<sup>continued</sup>

### 12. Group companies

Details of the Company's subsidiaries and joint operations at 31 December 2016, and 31 December 2015, 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 6th Floor, New Fetter Place 8-10 New Fetter Lane London EC4A 1AZ, United Kingdom	United Kingdom	100%	100%	Management services including geological, geophysical and engineering services
Gulf Keystone Petroleum International Limited Cumberland House 9th Floor, 1 Victoria Street PO Box 1561, Hamilton HMFx Bermuda	Bermuda	100%	100%	Exploration and evaluation activities in Kurdistan
Gulf Keystone Petroleum Numidia Limited Cumberland House 9th Floor, 1 Victoria Street PO Box 1561, Hamilton HMFx Bermuda	Bermuda	100%	100%	Exploration and evaluation activities
Gulf Keystone Petroleum HBH Limited Cumberland House 9th Floor, 1 Victoria Street PO Box 1561, Hamilton HMFx Bermuda	Bermuda	100%	100%	Exploration and evaluation activities
Shaikan Petroleum Limited Cumberland House 9th Floor, 1 Victoria Street PO Box 1561, Hamilton HMFx Bermuda	Bermuda	100%	100%	Exploration and evaluation activities

Name of joint operation	Place of incorporation	Proportion of ownership interest	Proportion of voting power held <sup>(1)</sup>	Principal activity
Shaikan	Kurdistan	80% <sup>(2)</sup>	33.3%	Production and development activities
Sheikh Adi <sup>(3)</sup>	Kurdistan	100%	50%	Exploration and evaluation activities
Ber Bahr <sup>(4)</sup>	Kurdistan	40%	33.3%	Exploration and evaluation activities

(1) 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.

(2) 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.

(3) Relinquished effective 16 March 2016.

(4) In process of being relinquished.

### 13. Inventories

	2016 \$'000	2015 \$'000
Warehouse stocks and materials	14,814	17,697
Crude oil	1,157	847
	<b>15,971</b>	<b>18,544</b>

Inventories at 31 December 2016 include write downs to net realisable value of \$2.9 million (2015: \$nil).

### 14. Trade and other receivables

	2016 \$'000	2015 \$'000
Trade receivables	36,000	12,000
Other receivables	4,976	3,034
Corporation tax receivable	—	189
Prepayments and accrued income	589	1,304
	<b>41,565</b>	<b>16,527</b>

Trade receivables relate to amounts due from oil sales with \$36.0 million outstanding as at 31 December 2016 (2015: \$12.0 million) which have been received subsequent to the year end. This included past due trade receivables of \$24.0 million.

Included within other receivables for 2016 is an amount of \$0.4 million (2015: \$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 2016 (2015: \$nil) (see note 23). No impairments of receivables have been recognised during the year (2015: \$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.

### 15. Trade and other payables

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

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

	2016 \$'000	2015 \$'000
Trade payables	2,922	10,786
Other payables	26,917	232
Accrued expenses	26,445	116,381
	<b>56,284</b>	<b>127,399</b>

There is no interest payable included in the accrued expenses in 2016 (2015: \$4.2 million in respect of Convertible Bonds and \$6.6 million in respect of 2014 Notes) (see note 16).

In accordance with the Bilateral MNR Agreement signed between GKPI and the MNR on 16 March 2016, the Group has received payments on account for back-costs of approximately \$16.2 million in recognition of the Group's and MNR's intention, subject to the satisfaction of certain conditions, to recognise the allocation to MNR of the Shaikan Government Option with effect from 1 August 2012. The treatment of the Shaikan Government Option is subject to the execution of a revised Shaikan PSC and the amounts received have been included in Other payables until this has been finalised. The balance of outstanding back-costs as at 31 December 2016 is estimated at \$71.0 million. The amount of \$10.0 million relating to reduced Sheikh Adi PSC bonus due on commerciality was also included in Other payables (for further detail, see note 10).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 16. Long-term borrowings and warrants

On 14 October 2016, the Company successfully completed the Restructuring which reduced the Company's debt from over \$600 million to \$100 million through the partial conversion of the Guaranteed Notes and full conversion of the Convertible Bonds to common shares in the Company.

The impact of the Restructuring on the long-term borrowing is as follows:

a) The Company's convertible debt securities issued in 2012 and 2013 consisting of \$325 million Convertible Bonds due on October 2017 carrying a coupon of 6.25% payable on a bi-annual basis (the "Convertible Bonds") and the related accrued interest payable of \$20.2 million were extinguished as a result of the Restructuring in consideration for 4,585,192,303 shares with a fair value of £0.012 (\$0.0144) per share on 14 October 2016.

The Company's three-year senior guaranteed notes of \$250 million ("Guaranteed Notes"), carrying a coupon of 13% per annum payable on a bi-annual basis and freely tradeable, and the related accrued interest payable of \$32.3 million were extinguished in consideration for 15,031,035,578 common shares at a fair value price of £0.012 (\$0.0144) per share. In addition, Reinstated Notes of \$100 million were issued by the Company (see note 16b).

The extinguishment of the Convertible Bonds and the Guaranteed Notes resulted in a net gain of \$222.5 million as included in the Consolidated income statement.

b) On 14 October 2016, the Company issued \$100 million of new guaranteed notes ("Reinstated Notes"). The unsecured Reinstated Notes are guaranteed by Gulf Keystone Petroleum International Limited, the Company's subsidiary and their terms are the same as the Guaranteed Notes subject to the following amendments:

- maturity date is 18 October 2021. At any time prior to maturity, the Reinstated Notes are redeemable in part or full at par and can therefore be refinanced without any prepayment penalty;
- the Company will have the option to defer its interest payments until the maturity of the Reinstated Notes in PIK at 13% or pay in cash at 10% until 18 October 2018. From 19 October 2018, the Company is mandatorily liable to pay interest in cash at 10%;
- the aggregate principal amount of the Reinstated Notes shall be increased by the amount of such PIK interest on the date such interest is due and interest will accrue on the increased principal amount from such date;
- the Company will be permitted to raise up to \$45 million of additional indebtedness at any time on market terms to fund capital and operating expenditure;
- certain other amendments, including inter alia, the removal of security, removal of the Debt Service Reserve Account requirement and the extension of the grace periods in respect of certain events of default under the Reinstated Notes; and
- cost of \$12.0 million incurred in relation to Restructuring has been expensed.

The liabilities associated with the Reinstated Notes are presented in the following table:

	2016 \$'000	2015 \$'000
Liability component at 1 January	555,374	538,221
Liability component of the Guaranteed Notes at issue:		
Interest charged during the year	57,435	70,056
Interest paid during the year	—	(52,903)
Extinguishment of liability and related interest during the year	(612,809)	—
Issue of Reinstated Notes at fair value	96,405	—
Reinstated Notes interest capitalised during the year	2,481	—
Liability component at 31 December	98,886	555,374
Liability component reported in:		
	2016 \$'000	2015 \$'000
Current liabilities (see note 15)	—	10,836
Non-current liabilities	98,886	544,538
	98,886	555,374

As part of the Restructuring, the interest payable relating to Convertible Bonds and Guaranteed Notes was extinguished. The interest charged was computed until 13 October 2016 by applying the effective rates on an annual basis to the liability component for the period. The effective interest rates for the initial \$275 million convertible bond issue in October 2012 and the \$50 million tap issue in October 2012 is 9.26% and 7.20%, respectively. The effective interest rate for the 2014 Notes is 19.7%. The interest capitalised on the Reinstated Notes was calculated using the effective interest rate of 12.11%.

For the year ended 31 December 2016, the Company recognised \$2.5 million interest capitalised on the Reinstated Notes. This amount was capitalised as part of Other borrowings in the Consolidated balance sheet and no interest was accrued on the Reinstated Notes. The interest payment method will be reassessed prior to each interest payment date. Any difference from what was capitalised or accrued for the year ended 31 December 2016 and the actual interest payment method selected will be adjusted prospectively.

The Reinstated Notes are traded on the Luxembourg Stock Exchange and the fair value at the prevailing market price as at the balance sheet date was:

	Market price	2016 \$'000	2015 \$'000
Convertible Bonds	n/a	—	91,325
2014 Notes	n/a	—	134,000
Reinstated Notes	\$0.972	97,229	—
		97,229	225,325

As of 31 December 2016, the Group's remaining contractual liability comprising principal and interest based on undiscounted cash flows at the maturity date of the Reinstated Notes is as follows:

	2016 \$'000	2015 \$'000
Within one year	—	52,813
Within two to five years	167,241	611,562
	167,241	664,375

Following the Company's announcement on 14 October 2016 of the completion of the Restructuring, the exercise price of the 40,000,000 warrants in the Company issued pursuant to the Guaranteed Notes (the "Warrants") was adjusted from \$1.70 to \$0.81 per Warrant, with effect from 14 October 2016. Furthermore, following Share consolidation on 9 December 2016, the exercise price of the Warrants was adjusted from \$0.81 to \$81.30 and the total number of post-consolidation common shares with par value of \$1.00 each in the Company to be issued upon exercise of the rights thereunder was adjusted from 40,000,000 pre-consolidation common shares of \$ 0.01 each to 400,000 new common shares of \$1.00 each with effect from 9 December 2016. The Warrants remain exercisable at the place where the relevant Warrant is deposited) up until the close of business on 18 April 2017.

### 17. Provisions

	2016 \$'000	2015 \$'000	
Current provisions	7,461	11,151	
Non-current provisions	23,794	27,333	
	31,255	38,484	
	Current provisions (Algeria and Kurdistan) \$'000	Non-current provisions (Kurdistan) \$'000	Total \$'000
Decommissioning provision			
At 1 January 2016	11,151	27,333	38,484
New provisions and changes in estimates	—	103	103
Unwinding of discount	8	691	699
Release of provisions	(3,698)	(4,333)	(8,031)
<b>At 31 December 2016</b>	<b>7,461</b>	<b>23,794</b>	<b>31,255</b>

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 Ber Bahr block in Kurdistan which is in the process of relinquishment. The expenditure on the Shaikan block in Kurdistan is expected to take place over the next 26 years.

The Group relinquished Akri-Bijeel in December 2015 and executed the Akri-Bijeel Termination and Settlement Agreement in respect of Akri-Bijeel Joint Operating Agreement in June 2016 with no further liabilities payable by the Group. The balance of the decommissioning liability of \$3.7 million was released and recognised as a gain in the Other gains in the Consolidated income statement.

As part of the agreement for relinquishment of the Sheikh Adi block, the MNR released the Group from its obligations to pay past liabilities resulting in the reversal of the decommissioning liability of \$4.3 million against the cost of the asset (note 10).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS<sup>continued</sup>

### 18. Deferred tax asset

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

	Accelerated tax depreciation \$'000	Share-based payments \$'000	Tax losses carried forward \$'000	Total \$'000
<b>At 1 January 2015</b>	(31)	763	—	732
(Charge)/credit to income statement	(79)	(630)	453	(256)
Charge direct to equity	—	57	—	57
Exchange differences	(1)	(32)	(17)	(50)
<b>At 31 December 2015</b>	(111)	158	436	483
(Charge)/credit to income statement	15	(132)	(11)	(128)
Exchange differences	14	10	(69)	(45)
<b>At 31 December 2016</b>	<b>(82)</b>	<b>36</b>	<b>356</b>	<b>310</b>

### 19. Share capital

On 5 August 2016, the authorised share capital of the Company increased by \$219.1 million from \$73 million following a resolution passed at the Special General Meeting as shown in the table below:

	2016 \$'000	2015 \$'000
<b>Authorised</b>		
Common shares of \$1.00 each (2015: \$0.01 each)	231,605	12,500
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
	<b>292,105</b>	73,000

On 20 July 2016, the Company's then largest shareholder, Capital Research and Management Company, as investment adviser to New World Fund, Inc. and SMALLCAP World Fund, Inc. ("Capital") subscribed for 54,294,991 common shares at the Open Offer price of \$0.0109 per share.

The Company successfully completed the Restructuring in October 2016. This reduced the Company's debt from over \$600 million to \$100 million through full conversion of the Convertible Bonds to 4,585,192,303 common shares and partial conversion of the Guaranteed Notes to 15,031,035,578 common shares (see note 16 for further details). In conjunction with the Restructuring, the Company also issued 2,294,295,672 common shares to the qualifying shareholders at a price of £0.01 per share through the Open Offer.

On 9 December 2016, the Company completed the share consolidation following a resolution duly passed at the Company's Annual General Meeting on 8 December 2016. The Share consolidation was effected to bring the number of common shares in issue in line with comparable London listed companies. The 22,942,956,605 common shares of \$0.01 per share were consolidated and divided into 229,429,566 new common shares of \$1.00 each. The new common shares have the same rights and are subject to the same restrictions (save as to par value) as common shares in issue prior to consolidation. All existing options and warrants have been consolidated on the same 100:1 basis.

Fractional entitlements of new common shares arising from the Share consolidation were aggregated and sold in the market. The net proceeds were donated to a charity designated by the Directors of the Company.

	Common shares			
	Number of shares '000	Amount \$'000	Share capital \$'000	Share premium \$'000
<b>Balance 31 December 2014</b>	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)
<b>Balance 31 December 2015</b>	978,138	844,400	9,781	834,619
Share placement	21,964,819	306,116	219,649	86,467
Share consolidation	(22,713,527)	—	—	—
Issue cost of share placement	—	(358)	—	(358)
<b>Balance 31 December 2016</b>	<b>229,430</b>	<b>1,150,158</b>	<b>229,430</b>	<b>920,728</b>

At 31 December 2016, a total of 0.1 million common shares at \$1.00 each were held by the EBT (2015: 6.4 million at \$0.01 each) and 0.1 million shares at \$1.00 each were held by the Exit Event Trustee (2015: 10.0 million at \$0.01 each). All 0.2 million common shares were included within reserves (2015: 16.4 million).

#### Rights attached to share capital

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

- entitled to one vote per common share;
- entitled to receive notice of, and attend and vote at, general meetings of the Company;
- entitled to dividends or other distributions; and
- in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for a reorganisation or otherwise or upon a distribution of capital, entitled to receive the amount of capital paid up on their common shares and to participate further in the surplus assets of the Company only after payment of the Series A Liquidation Value (as defined in the Bye-laws) on the Series A Preferred Shares.

### 20. Reconciliation of loss from operations to net cash generated from operating activities

	2016 \$'000	As restated 2015 \$'000
Profit/(loss) from operations	26,046	(81,697)
Adjustments for:		
Depreciation, depletion and amortisation of property, plant and equipment	82,176	74,707
Amortisation of intangible assets	38	35
Share-based payment expense	1,255	2,539
Decrease in inventories	2,573	4,310
Increase in receivables	(22,129)	(2,554)
(Decrease)/increase in payables	(40,522)	22,724
<b>Net cash generated by operations</b>	<b>49,437</b>	20,064
Income tax received	182	599
<b>Net cash generated from operating activities</b>	<b>49,619</b>	20,663



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 21. Commitments

Operating lease commitments – the Group as a lessee

	2016 \$'000	2015 \$'000
Minimum lease payments under operating leases recognised as expense for the year	3,936	3,765

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

	2016 \$'000	2015 \$'000
Within one year	1,805	2,100
In the second to fifth years inclusive	1,617	2,572
	<b>3,422</b>	4,672

Operating lease payments represent rentals payable by the Group for certain of its office and residence properties and facilities and vehicle rentals in the United Kingdom and the Kurdistan Region of Iraq. 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. There is no significant capital commitment expected in the year ending 31 December 2017 for the Group (2016: \$6.0 million, including the minimum amounts required to retain the relevant licences).

### 22. Share-based payments

	2016 \$'000	2015 \$'000
Share options charge	1,686	2,723
	<b>1,686</b>	2,723

Value Creation Plan

On 12 December 2016 the Company awarded performance units under the 2016 Gulf Keystone Petroleum Value Creation Plan ("VCP") to the Directors and persons discharging managerial responsibilities of the Company listed below:

Executive	Position	Number of units awarded
Jón Ferrier	CEO	386,667
Sami Zouari	CFO	306,667
Nadhim Zahawi	CSO	226,667

The award of performance units is based on a distribution of one-third of the total awards each during the first year and, thereafter, 40% for the CEO; 30% for the CFO and 20% for the CSO for the remainder of the plan, with the remaining 10% available for future distribution subject to Board decision.

Participants in the VCP are selected at the discretion of the Remuneration Committee. Awards under the VCP are granted in the form of performance units of which there are a maximum of 1,000,000 available.

The key terms and conditions of the VCP are set out below:

- subject to the achievement of performance conditions, the VCP award may be converted into a number of nil cost options over a number of shares on five measurement dates over the five-year life of the plan;
- the value of the award is dependent on the extent to which the actual Total Shareholder Return exceeds the Threshold Total Shareholder Return at each measurement date;
- the Threshold Total Shareholder Return (the "Hurdle") will be equal to 8% per annum compound growth on each measurement date or the highest Total Shareholder Return if this is higher than the 8% compound rate;
- the VCP limits the value on grant of nil-cost options to \$20 million for the whole plan. Once this limit has been reached no further nil-cost options may be granted on that or any subsequent measurement date;
- vesting of the nil-cost options occurs following the third, fourth and fifth measurement dates should the performance parameters be achieved. At the third and fourth measurement date, 50% of earned nil-cost options will vest subject to achievement of the Hurdle;
- at the fifth measurement date, providing the Hurdle has been achieved i.e. 8% per annum increase in total shareholder return on a compound basis, 100% of the outstanding nil-cost options will vest. If the Hurdle has not been achieved, then the outstanding nil-cost options will lapse; and
- where there is a change of control of the Company before 31 December 2017, the terms of the VCP will not apply but the participants will share awards based on 2% of the value of the sale consideration less the value provided to employees under the SRP (described above).

A charge of \$0.06 million (2015: \$nil) in relation to the VCP is included in the total share options charge.

Staff Retention Plan

At the 2016 Annual General Meeting, shareholders approved the adoption of the Gulf Keystone Petroleum 2016 Staff Retention Plan ("SRP"), which is designed to reward members of staff through the grant of share options at a zero exercise price. On 12 December 2016, the Company awarded 1,401,500 share options to employees (2015: nil).

The exercise of the awarded options is not subject to any performance conditions and can be exercised at any time after the three-year vesting period but within ten years after the date of grant. If options are not exercised within ten years, the options will lapse and will not be exercisable. If an employee leaves the Company during the three years from the date of grant, the options will lapse on the date notice to leave is given to the Company. Should an employee be regarded as a good leaver, the options may be exercised at any time within a period of six months from departure date.

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

	2016	2015
Weighted average opening share price on date of grant (in pence)	120.00	—

The expected volatility was calculated as 34.2% and has been based on the Company's share price volatility averaged for the three years prior to grant date.

The expected weighted average term of the new options is three years. The risk-free rate was 0.32% for the new options.

The weighted average fair value of the options granted in 2016 was £1.20.

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.

A charge of \$0.04 million (2015: \$nil) in relation to the SRP is included in the total share options charge.

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. The Company has not made any awards during 2016 under this scheme.

	2016		2015	
	Number of share options '000	Weighted average exercise price (pence)	Number of share options '000	Weighted average exercise price (pence)
Outstanding at 1 January	35,967	101.9	35,770	102.5
Share consolidation (note 19)	(35,607)	10,088.1	—	—
Outstanding at 1 January	360	10,190.0	35,770	102.5
Granted during the year	—	—	1,500	55.0
Forfeited during the year	—	—	(1,303)	(75.0)
Outstanding at 31 December	360	10,190.0	35,967	101.9
Exercisable at 31 December	309	10,599.0	24,158	114.15

No options were exercised, granted or cancelled in 2016 (2015: 1.5 million options granted).

The options outstanding at 31 December 2016 had a weighted average exercise price of £102 (adjusted for consolidation, 2015: £102) and a weighted average remaining contractual life of four years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS<sup>continued</sup>

### 22. Share-based payments<sup>continued</sup>

Equity-settled share option plan<sup>continued</sup>

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

Expiry date	Exercise price (pence)		Options ('000)	
	2016	2015	2016	2015
13 February 2018	3,000	30.00	11.0	1,100
9 July 2018	3,000	30.00	20.0	2,000
9 July 2018	7,500	75.00	16.3	1,628
24 September 2018	3,000	30.00	0.1	6
31 December 2018	3,000	30.00	13.4	1,344
15 March 2019	3,000	30.00	2.5	250
30 July 2019	3,000	30.00	10.0	1,000
23 June 2020	7,500	75.00	140.0	13,999
22 September 2020	14,750	147.50	2.5	250
6 February 2021	17,500	175.00	96.9	9,690
19 June 2021	14,625	146.25	5.5	550
7 July 2021	14,625	146.25	2.5	250
14 July 2021	14,625	146.25	2.5	250
21 July 2021	14,625	146.25	5.0	500
19 September 2021	15,250	152.50	2.5	250
26 October 2021	14,625	146.25	2.5	250
25 November 2021	19,450	194.50	2.5	250
23 January 2022	5,500	55.00	15.0	1,500
20 March 2022	19,450	194.50	4.0	400
8 July 2023	15,875	158.75	2.5	250
24 April 2024	9,975	99.75	2.5	250
			<b>359.7</b>	<b>35,967</b>

Following the Restructuring, all options and warrants granted prior to 9 December 2016, have been consolidated on 100:1 basis (see note 19).

#### 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 0.1 million common shares (adjusted for consolidation on 100:1 basis) 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 0.02 million common shares (adjusted for consolidation on 100:1 basis). The Exit Event Trustee will hold the remaining 0.08 million common shares (adjusted for consolidation on 100:1 basis) 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 0.01 million common shares (adjusted for consolidation on 100:1 basis) was made to staff in December 2013, with no additional Exit Event Awards made to Directors. The first tranche of Exit Event Awards expired 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 2016, the fair value of Exit Event Awards was \$nil (2015: \$nil) based on the market value of the shares and the probability of the Exit Event occurring assessed as of that date.

### 23. 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;
- Tony Peart – Legal and Commercial Director;
- Umur Eminkahyagil – Kurdistan Country Manager;
- Mohamed Messaoudi – Algeria Country Manager;
- Nadhim Zahawi – Chief Strategy Officer;
- Nadzeya Kernoha – Financial Controller;
- Gabriel Papineau-Legriss – Commercial Director; and
- Marie Ross – Legal Director and Company Secretary.

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

	2016 \$'000	2015 \$'000
Short-term employee benefits	5,136	6,357
Other allowances	—	746
Share-based payment – options	302	794
	<b>5,438</b>	<b>7,897</b>

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

### 24. Financial instruments

	2016 \$'000	2015 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	92,870	43,641
Loans and receivables	40,976	15,223
	<b>133,846</b>	<b>58,864</b>
<b>Financial liabilities</b>		
Trade and other payables	41,844	127,399
Reinstated Note	98,886	—
Convertible Bonds (Level 1)	—	310,444
2014 Notes (Level 1)	—	234,094
	<b>140,730</b>	<b>671,937</b>

All loans and payables, except for the Reinstated Notes and the prior year 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 Reinstated Notes and the prior year Convertible Bonds and 2014 Notes are disclosed in note 16. The maturity profile of all other financial liabilities is indicated by their classification in the balance sheet as "current" or "non-current". Further information relevant to the Group's liquidity position is disclosed in the Directors' report under "Going concern".



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 24. Financial instruments continued

#### Fair value hierarchy

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

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

#### Capital risk management

The Group manages its capital to ensure that the entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group is not subject to externally imposed capital requirements. The capital structure of the Group consists of cash, cash equivalents, Reinstated Notes and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in note 19, the Consolidated statement of comprehensive income and the Consolidated statement of changes in equity.

#### Capital structure

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

On 14 October 2016, the Group successfully completed the Restructuring reducing the Group's debt from over \$600 million to \$100 million of the Reinstated Notes through the partial conversion of the Guaranteed Notes and full conversion of the Convertible Bonds to the Company's common shares. The Reinstated Notes give the Group an option to defer the payment of the first two years of interest until the maturity of the Reinstated Notes (see note 16 for further details). The Group also has the flexibility to raise additional debt of up to \$45 million through the use of the Super Senior Debt Basket and the General Debt Basket. The Reinstated Notes do not contain a Debt Service Reserve Account requirement freeing up \$32.5 million of cash for general use. In conjunction with the Restructuring, the Group completed a successful \$25.0 million Open Offer on 14 October 2016.

The Group has seen a significant improvement in the pattern of cash receipts from the MNR for the oil sent for export with the total receipts of \$114 million net to the Group in 2016 and further receipts of \$36 million in the first quarter of 2017 in relation to 2016 sales.

#### 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 British pounds ("GBP"), US dollars ("USD"), Algerian dinars ("DZD") and Iraqi dinars ("IQD").

The Group's exposure to currency risk is low as the Reinstated Notes 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 2016, 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. Under the terms of the Reinstated Notes, the Group has the option to pay interest in PIK at 13% or in cash at 10% until 18 October 2018. From 19 October 2018, the Group is mandatorily liable to pay interest in cash at 10%.

#### 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 2016, the maximum exposure to credit risk from a trade receivable outstanding from one customer is \$36 million (2015: \$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.

### 25. Change in accounting policy

The Group changed its accounting for its oil and gas assets from modified full cost to successful efforts during the year. The latter method allows the Group to capitalise only those expenditures associated with successfully locating new oil and natural gas reserves. All costs that are related to unsuccessful efforts are expensed. Prior to this change in policy, unsuccessful exploration and evaluations costs were retained within the intangible non-current assets and depreciated on a UOP basis by reference to the commercial reserves of the wider geographic pool.

The Group believes that the adoption of the successful efforts method will make the Group's financial statements more comparable to those of its peers as it is a more widely used method and will better reflect the economic substance of the Group's financial performance.

In line with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, this change in accounting policy is accounted for retrospectively. As a result, the Group has restated its 2015 Consolidated financial statements. No adjustments to the period prior to 2015 are required as there were no unsuccessful exploration expenditures prior to 2015.

The effect of the change in accounting policy has been adjusted by restating each of the affected financial statement line items for the prior period, as follows:

	31 December 2015 \$'000
<b>Consolidated balance sheet</b>	
Intangible assets (decrease)	(78,987)
<b>Consolidated income statement</b>	
Impairment expense (increase)	(78,987)
<b>Loss per share (increase)</b>	
Basic (cents)	(8.43)
Diluted (cents)	(8.43)

### 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 test 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.

### 27. Events after the balance sheet date

In March 2017, considering the current healthy cash balance and regularity of payments from the MNR, the Group has decided to pay its upcoming Reinstated Notes coupon of \$5.0 million at 10% interest rate on 18 April 2017, even though it has the option to postpone it to maturity (at 13% interest rate).



## DIRECTORS AND ADVISERS

### Registered office

Cumberland House  
9th Floor, 1 Victoria Street  
Hamilton HM11  
Bermuda

### Directors

Keith Lough  
Non-Executive Chairman  
Jón Ferrier  
Chief Executive Officer  
Sami Zouari  
Chief Financial Officer  
Philip Dimmock  
Non-Executive Director  
Garrett Soden  
Non-Executive Director  
David Thomas  
Non-Executive Director

### Bermudan Company Secretary

Coson Corporate Services Ltd  
Cumberland House  
9th Floor, 1 Victoria Street  
Hamilton HM11  
Bermuda

### Bermudan Legal Adviser

Cox Hallett Wilkinson  
Cumberland House  
9th Floor, 1 Victoria Street  
PO Box HM 1561  
Hamilton HM FX  
Bermuda

### Algerian Legal Adviser

Thompson & Knight  
Cabinet Yassine  
Parc Paradou  
Rue No 3  
Villa 4.5, Hydra  
Algiers  
Algeria

### UK Solicitor

Memery Crystal LLP  
44 Southampton Buildings  
London WC2A 1AP  
United Kingdom

### Auditor

Deloitte LLP  
2 New Street Square  
London EC4A 3BZ  
United Kingdom

### Registrars

Computershare Investor Services (Jersey) Ltd  
Queensway House  
Hilgrove Street  
St Helier  
Jersey JE1 1ES  
Channel Islands

### Joint Corporate Brokers

Canaccord Genuity Limited  
88 Wood Street  
London EC2V 7QR  
United Kingdom

Peel Hunt LLP  
Moor House  
120 London Wall  
London EC2Y 5ET  
United Kingdom

### Financial Advisers

Citigroup Global Markets Limited  
33 Canada Square  
London E14 5LB  
United Kingdom

### Bankers

Bank of N.T. Butterfield & Son Ltd  
65 Front Street  
PO Box HM 195  
Hamilton HM AX  
Bermuda

Barclays Bank PLC  
Level 27  
One Churchill Place  
London E14 5HP  
United Kingdom

Byblos Bank S.A.L – Iraq  
Street 60 – Near Sports Stadium  
PO Box 34-0383  
Erbil  
Kurdistan Region of Iraq

Byblos Bank S.A.L – UK  
Berkeley Square House  
Suite 5, Berkeley Square  
London W1J 6BS  
United Kingdom

The Royal Bank of Scotland Group plc  
43 Curzon Street  
London W1J 7UF  
United Kingdom



## GLOSSARY

1P	proved reserves	IFRSs	International Financial Reporting Standards
2C	best estimate of contingent resources	IOCs	international oil companies
2P	proved plus probable reserves	KPI	key performance indicator
3P	proved plus probable plus possible reserves	KRG	Kurdistan Regional Government
AGM	Annual General Meeting	LTI	lost time incident
bbl	barrel	LTIP	Long-Term Incentive Plan
bopd	barrels of oil per day	MMstb	million stock tank barrels
CBF	competency based framework	MNR	Ministry of Natural Resources
CPR	Competent Person's Report	MOL	MOL Hungarian Oil & Gas Plc
CSR	corporate social responsibility	NED	Non-Executive Director
DD&A	depreciation, depletion and amortisation	PF-1	Shaikan production facility-1
E&E	exploration and evaluation	PF-2	Shaikan production facility-2
E&P	exploration and production	PIK	Payment-in-Kind
EBT	employee benefit trust	PSCs	production sharing contracts
EIR	effective interest rate	PtW	Permit to Work
ERCE	ERC Equipoise	SGM	Special General Meeting
Excalibur	Excalibur Ventures LLC	SH	Shaikan
FDP	Field Development Plan	SRP	Staff Retention Plan
FVTPL	fair value through profit and loss	TKI	Texas Keystone, Inc
GKP	Gulf Keystone Petroleum	TSR	total shareholder return
GKPI	Gulf Keystone Petroleum International	UOP	unit of production
HSSE	health, safety, security and environment	VCP	Value Creation Plan
HiPos	high potential near-miss incident	WI	working interest



## KEY SHAREHOLDER ENGAGEMENTS 2016/17

5 August 2016  
Special General Meeting, Geneva, Switzerland

8 December 2016  
2016 AGM – Dublin, Ireland

22 September 2016  
Interim results announcement

6 April 2017  
2016 results announcement

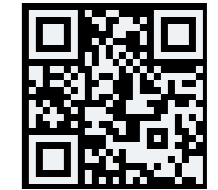
5-6 December 2016  
Kurdistan-Iraq Oil & Gas conference 2016, London, UK

16 June 2017  
2017 AGM – Brussels, Belgium

## 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](http://www.gulfkeystone.com)



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**Iraq**

Gulf Keystone Petroleum  
International Ltd.  
3rd Floor  
UB Centre  
Bakhtyari  
Erbil  
Kurdistan Region of Iraq

**Bermuda**

Gulf Keystone Petroleum Ltd.  
Cumberland House  
9th Floor, 1 Victoria Street  
PO Box 1561  
Hamilton HMFx  
Bermuda

**UK**

Gulf Keystone Petroleum (UK) Ltd.  
6th Floor  
New Fetter Place  
8-10 New Fetter Lane  
London EC4A 1AZ  
United Kingdom

**Algeria**

Gulf Keystone Petroleum Ltd.  
122 Lotissement Aissat Idir  
Chéraga  
Alger  
Algeria