

# Gulf Keystone Petroleum

Annual report and accounts 2017





## User guide

Welcome to the Gulf Keystone Petroleum annual report 2017.

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Throughout this report there are links to pages, other sections and web addresses for additional information.

### Navigating with tabs



Use the tabs to quickly go to the start of a different section.

## ABOUT US

**Gulf Keystone Petroleum Limited is a leading independent operator and producer in the Kurdistan Region of Iraq and the operator of the Shaikan oil field, which is one of the largest onshore developments in the region.**

The Company has successfully transitioned from an explorer into a producer and exporter. We currently operate production facilities with a nameplate capacity of 40,000 barrels of oil per day (“bopd”), with plans to increase to 55,000 bopd in the near term. Further expansion of these facilities to 75,000 bopd will follow, and then to 100,000 bopd in the longer term as we integrate the Triassic production with the Jurassic that is already onstream.

With safe and reliable operations, over 600 million barrels of 2P reserves, a strong balance sheet and significant development potential in our asset, we are primed for future growth.



**Proud to operate in the Kurdistan Region of Iraq**

### About this report

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

Please give us your feedback: [ir@gulfkeystone.co.uk](mailto:ir@gulfkeystone.co.uk)

For further information about Gulf Keystone, please visit our website at [www.gulfkeystone.com](http://www.gulfkeystone.com).



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Cover photograph shows an active natural oil seep at an Eocene aged outcrop located on the Shaikan block, north of Production Facility 1.

## INVESTMENT CASE

We have the people, capability and resources to invest in production growth in Shaikan, one of the largest fields in Kurdistan.

A compelling story

### 1 Focused on Shaikan's significant upside potential

An independent evaluation of Shaikan's resources by ERC Equipose verified gross 2P reserves of 615 million stock tank barrels ("MMstb") of oil as at 31 December 2016. Shaikan possesses significant development potential, with cumulative production to date (10 April 2018) sitting at 48 MMstb or just over 8% of the 2P reserves.

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### 2 Fully financed for the next stage of Shaikan's development towards 100,000 bopd

As a result of the financial restructuring in 2016, strong operations and sustained payments, the Company is now cash flow positive and has a strong balance sheet, with a robust cash position of \$203 million as at 10 April 2018.

Gulf Keystone is fully financed to invest in the next stage of Shaikan's development, which will increase daily production to 55,000 bopd with an estimated gross capex range of between \$175 million and \$215 million (including 25% contingency), before moving towards 75,000 bopd, and then to 100,000 bopd in the longer term, as we integrate the Triassic production with the Jurassic that is already onstream, once the ongoing discussions with the MNR and MOL regarding the commercial framework of Shaikan have concluded.

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### 3 Crude Oil Sales Agreement

In January 2018, the Company signed the Crude Oil Sales Agreement, which provides increased clarity on the marketing of the Shaikan crude. The Crude Oil Sales Agreement also moves Gulf Keystone to an invoicing mechanism where monthly payments will be linked to the international oil price and output from the field. The Crude Oil Sales Agreement, which is valid until 31 December 2018, will place a discount for export sales of c.\$22 per barrel for quality and transportation, in line with other oil sales agreements in the region. During the 2017 financial year, Gulf Keystone received eleven payments from the Kurdistan Regional Government totalling \$165 million gross (\$132 million net to the Group). This payment cycle has enabled the Company to continue to be cash flow positive and become profitable by generating a profit of \$14.1 million for 2017.

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## 4

### Consistent operational delivery

The Company has a track record of meeting its production guidance, reducing its operating costs on a gross field basis consistently year on year, from \$7/bbl in 2014 to \$2.8/bbl in 2017. The Company achieved average gross production of 35,298 bopd for 2017, in the middle of the 32,000-38,000 bopd guidance range, and has set a gross production target for 2018 of 27,000-32,000 bopd. The lower range compared to 2017 is due to the uncertainty related mainly to the exact performance of the wells at lower reservoir pressures ahead of the installation of downhole pumps.

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## 5

### Access to export pipeline

In November 2017, the MNR resumed exports of the majority of Shaikan's crude via the export pipeline to Turkey, demonstrating the suitability of the field's crude within the Kurdish blend, whilst the remainder is sold into the domestic market. A landmark development in late 2017 was initiated, of the pipeline tie-in project, which will take oil from the field to the Turkish coast by mid-2018.

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## 6

### Track record of safe and reliable operations

Gulf Keystone is pleased to report a strong HSSE performance for 2017, with no LTIs occurring in the period and its facilities remaining secure throughout the year. The Company attained plant uptime of 99% at Shaikan in 2017, which could only have occurred if safe and reliable operations were achieved. This is of the utmost importance to the Company and remains a crucial priority for the business going forward.

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## 7

### Positive geopolitical trajectory

The well-publicised war against Daesh was fought comparatively close to our operations, which fortunately were never directly affected. Whilst the Kurdish independence referendum, held in September 2017, created some uncertainty in the region, the regular and consistent payments made to oil companies demonstrates the importance and the resilience of the oil and gas industry to the Kurdistan Region of Iraq.

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## 8

### The team to deliver

Since 2015, the Board and senior management team at Gulf Keystone have consistently delivered on the Company's corporate objectives, including safe and reliable operations at Shaikan, a reduction in costs (at a corporate and operational level), commercial progress with the MNR and MOL and strict financial discipline, enabling the business to achieve a profit for the first time since its entry to Kurdistan. The Board and senior management team are fully aligned with shareholders and will continue to focus on delivering value for all stakeholders for the foreseeable future.

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## CHAIRMAN'S STATEMENT



The successful implementation of the Crude Oil Sales Agreement is an important commercial event for the Company.

**Keith Lough**  
Chairman



Throughout 2017 and into 2018, Gulf Keystone has, with continuing support from the Kurdistan Regional Government ("KRG") and the Ministry of Natural Resources of the KRG ("MNR"), made considerable progress, reflecting the strong alignment of economic interests between operators and Kurdistan. Everyone stands to benefit from the responsible development of the region's natural resources, including Shaikan, one of its most-prized oil fields.

During much of 2017, Kurdistan was buffeted by the political complexities of the region, including the war against Daesh, which for Kurdistan has come at a considerable human and economic cost. In the broader region there were the well-publicised issues impacting both Syria and Turkey. The Kurdish independence referendum that was held in September 2017 contributed to yet more uncertainty for the area where we operate.

The significance of these macro factors, which are clearly out of our control, were profound for our business and our efforts to both create a climate for investment and build deeper liquidity in our shares. This year has seen considerable political and economic uncertainty, leading to a significant drain on the region's financial and other resources.



From an operational perspective, Shaikan continued to perform well throughout 2017. From a commercial perspective, as we have highlighted in recent communications, Gulf Keystone has been seeking clarity around the contractual framework in which it operates. Whilst work remains to be done, the very important Shaikan crude oil export sales agreement (“Crude Oil Sales Agreement”), which was worked on during 2017 and announced in January 2018, represented a major milestone for the Company. The successful implementation of the Crude Oil Sales Agreement is an important commercial event for the Company and moves the business closer to finalising its commercial negotiations and restarting investment into Shaikan. We remain optimistic about shortly arriving at a satisfactory outcome with our partners: the MNR and MOL.

Concurrent to the ongoing negotiations with the MNR, the team has been readying the Company for the future, with substantial technical and commercial work completed. Having closed the year with a cash balance of \$160 million, and the plans put in place to deliver the target of increasing production to 55,000 bopd, the Company has the means to move swiftly towards delivering more value from the field for all stakeholders.

We strive to keep our shareholders abreast of progress and take our responsibilities in this regard extremely seriously. Whilst the Company has been busy working on both the updated Field Development Plan (“FDP”) and advancing discussions with its partners, it is only appropriate to provide updates to the market once items are concluded and can be described clearly. We appreciate the absence of news flow may feel frustrating for investors.

An updated and comprehensive suite of Key Performance Indicators (“KPIs”) were introduced for the Company in 2017 as part of our continued efforts to achieve high standards of corporate governance, and to support both our commitment to transparency and, of course, alignment between our staff and our shareholders. We are also committed to ensuring a greater focus on diversity across all our teams, improving the development of all employees and promotion of women and local employees into positions of seniority.

The KPIs for 2017 are described in the Remuneration Committee Report, which is in the Annual Report.

I would like to thank our shareholders for their ongoing support through what the Board recognises has not been an easy period. We would also like to thank our hosts, the government and people of Kurdistan who have helped enable continuous operations throughout this challenging year. It has been an unsettling time for our staff in London, and particularly for those in Erbil and in the field. There has been uncertainty for many, both at work and at home, and, on behalf of the Board, I thank all our staff for their deep professionalism, stoicism and good grace throughout. It has been said before, but my belief is that Gulf Keystone has a strong future ahead of it.

As I finish my tenure as Chairman, which has been a privilege, I would like to wish good fortune to all those connected with Gulf Keystone. I am delighted to be handing over the role of Chairman to Jaap Huijskes. Jaap has already demonstrated his enormous value to the Board and the Company as a whole, as a Non-Executive Director, and I know his experience and skills will serve him well in his new role.

### **Keith Lough**

Chairman

10 April 2018



## EXECUTIVE REVIEW



We face the future with confidence and look forward to further developing the Shaikan field for the benefit of all.

**Jón Ferrier**

Chief Executive Officer

**Sami Zouari**

Chief Financial Officer



In January 2018, the Company was very pleased to announce the signing of the Crude Oil Sales Agreement. This marked a key milestone for Gulf Keystone, breaking the pattern of receiving a gross fixed amount of US\$15 million per month. We have now moved to a transparent invoicing mechanism where monthly payments are linked to both the international oil price and actual production from the Shaikan field. The Crude Oil Sales Agreement confirms a discount for export sales of approximately \$22 per barrel for quality and transportation, which is in line with other crude oil sales agreements in the Kurdistan Region of Iraq. As a result of this, we have seen a significant improvement in monthly receipts, which have averaged approximately US\$21 million (gross) per month for recent payments, covering the three months from October to December 2017.

Throughout 2017, the Company achieved average gross production of 35,298 bopd, around the midpoint of our 32,000-38,000 bopd guidance for the year. This result is testament to the reliable nature of the field and the professionalism and commitment of the team, who maintained plant uptime of 99% with zero Lost Time Incidents ("LTIs") in 2017.



In February 2017, the Company was informed that the MNR would begin exporting all Shaikan crude production via trucks to Turkey. This was a temporary measure and did not have a direct commercial bearing on the Company. By November 2017, the MNR had resumed exporting the majority of Shaikan's crude via the export pipeline to Turkey, clear evidence of the suitability and quality of the Shaikan crude within the Kurdish blend, with the remainder being sold domestically.

Due to the regular payment cycle, now long established and in line with our peers, payments under the Crude Oil Sales Agreement, and a tight control on costs, the Company has a strong balance sheet with a cash position of \$160 million as at 31 December 2017. Moreover, the Company is posting a net profit of \$14.1 million against a net loss of \$17.4 million in 2016.

We continue to have constructive dialogue with the MNR on contractual and commercial matters. Subject to finalising these matters, and the subsequent budgetary approvals with our partners, the MNR and MOL, we are looking forward to resuming investment in Shaikan in 2018. This should enable us to meet our stated near to medium-term target of achieving an uplift in gross production to 55,000 bopd, then moving towards the longer-term target of gross production of 100,000 bopd.

Our 2018 plans envisage hooking-up Production Facility 2 ("PF-2") via a 400 metre spur pipeline to the Atrush export pipeline which ultimately connects to the main oil line to Turkey. This pipeline link will improve netbacks by reducing the Company's trucking requirements, as well as lowering the health, safety, security and environment ("HSSE") risks associated with road movements.

Gross production guidance for 2018 has been set at 27,000-32,000 bopd. This guidance takes into account plant and export availability and the potential to install new downhole pumps in certain wells, as part of the investment programme required to increase production to 55,000 bopd.

As we finalise the investment plans to move into the next phase of development of the Shaikan field, the Company will continue to evaluate options to optimise its capital structure for the benefit of the Company and its shareholders.

The safety of our staff, and those close to our operations, remains our number one priority and the Company is pleased to report that we had no LTIs reported in 2017 and our facilities remained secure throughout the reporting period.

We would like to take this opportunity to thank Keith Lough, who is stepping down from the role of Chairman, for his service to the Company. Keith has made a considerable contribution to Gulf Keystone, steering the business through its financial restructuring in 2016 and overseeing the strengthening of the Company's balance sheet since then. We wish him every success in the future.

We would also sincerely like to thank our hosts, the Kurdistan Region of Iraq, and all Gulf Keystone employees, whose professionalism and commitment to Gulf Keystone has been of the highest order.

We face the future with confidence and look forward to further developing the Shaikan field for the benefit of all.

**Jón Ferrier**

Chief Executive Officer

**Sami Zouari**

Chief Financial Officer

10 April 2018

## OPERATIONAL REVIEW



The Company continued throughout 2017 to improve efficiency and reduce gross production costs per barrel.

**Stuart Catterall**  
Chief Operating Officer



Operating performance from the Shaikan field in 2017 was strong, following a similarly good year in 2016.

Safety performance remained excellent and the Company has recently achieved three million working hours without a Lost Time Incident ("LTI"). Production volumes increased slightly compared to last year, mainly due to excellent plant availability, which stood at over 99%. The field continues to perform in line with expectations and there has been no gas or water breakthrough to date.

There has been no new Competent Person's Report ("CPR") during 2017, so the 31 August 2016 report by ERC Equipoise ("ERCE"), along with the letter update received in April 2017, remain the last official reserves position. ERCE confirmed remaining 2P reserves as at 31 December 2016 of 615 MMstb and production in 2017 was 12.9 MMstb. We anticipate a review to the CPR once an update to the Field Development Plan is ready.

The Company continued throughout 2017 to improve efficiency and reduce gross production costs per barrel. In 2017, production costs were \$2.8/bbl, down from \$3.5/bbl in 2016 (figures exclude capacity building charges).

We are discussing a comprehensive investment programme for 2018 with the MNR and MOL, that is designed to ensure that we return production to nameplate capacity of 40,000 bopd and then increase it to 55,000 bopd in the near term. The proposed work programme also includes a pipeline tie-in from PF-2 into the export pipeline, a Front End Engineering Design ("FEED") study for gas reinjection and a FEED study for development of the deeper Triassic reservoir, from which we have yet to produce.



## HSSE

HSSE performance was once again strong with no LTIs in 2017 and only two recordable incidents, which was the same as our performance in 2016.

To ensure that our HSSE performance remains strong in the future, we have put considerable effort into initiatives designed to make sure that we have a proactive approach to safety. To that end, we completed 99% of the planned HSSE work programme for 2017, which included activities such as a revised HSSE management system, process safety monitoring, workforce training and emergency response.

We are very proud of the fact that we are considered by many in Kurdistan to be at the forefront of HSSE performance and practices.

Our commitment to maintaining a high local proportion of the Company's workforce was continued with 82% of positions being local. Furthermore, as training and experience has been gained, we were able to promote local personnel into more senior positions via Gulf Keystone's Competency Based Framework ("CBF"). In 2017, a total of 25 promotions for local personnel took place.

## Production

Gross Shaikan production guidance for 2017 was 32,000 to 38,000 bopd, so we were pleased to be in the middle of that range with an average daily production of 35,298 bopd, slightly up on 2016. Gross total production for 2017 increased by 1.4% compared with 2016 (12.9 MMstb from 12.7 MMstb in 2016).

This achievement was greatly helped by stable production rates and constantly high export availability, averaging 99%. The export route was changed by the MNR in February 2017 to road

tanker transportation all the way to the Mediterranean coast in Turkey, rather than the previous arrangement of injecting the crude into the export pipeline at Fishkhabour. Despite the change, the operation proved to be very reliable and worked well and safely for all involved. In November 2017, we were directed to return to the original arrangement of using the export pipeline for the majority of the Shaikan production, with the remainder being sold domestically.

The field's observed natural pressure decline is in line with predicted performance and consistent with the reserves stated in the CPR, however we will require further investment in wells and facilities to maintain production at nameplate capacity of 40,000 bopd. The production average for Q1 2018 was 31,588 bopd with only minor export disruptions. Due to the deferral of the investment programme sought for 2017, the gross Shaikan production guidance for 2018 is being set at 27,000 to 32,000 bopd, and the uncertainty relates mainly to the exact performance of the wells at lower reservoir pressures ahead of the installation of downhole pumps.

In 2017, considerable work was done to optimise the existing Field Development Plan. This plan has the same key elements of expansion but makes more use of the potential to debottleneck and grow production at the existing production facilities as well as the installation of new facilities in the future. The proposed investment programme is designed to return daily production to 40,000 bopd as quickly as possible and begin modifications to the plant to increase nameplate capacity to 55,000 bopd during 2019, with an estimated gross capex range over the period of \$175 million to \$215 million,

including a 25% contingency. The increase in the guidance compared to last year is primarily due to the addition of three Jurassic wells in the expansion to 55,000 bopd. These have been brought forward from the full field development to gain more reservoir understanding, assure a sustained increased plateau production and benefit from drilling efficiencies and cost savings from a single campaign.

The eventual target of the FDP will now be 100,000 bopd (rather than the 110,000 bopd previously envisaged), but this no longer involves the need for significant new facilities to develop the Jurassic production capacity, as there is more potential to expand the existing facilities than previously thought. The existing production facilities can be further debottlenecked to reach 75,000 bopd and this will be quicker and more cost effective than construction of a new site for Jurassic production. The Company will provide further budgetary guidance as appropriate in due course. Cumulative production to date is 48 MMstb or approximately 8% of the 2P reserves.

## Reserves

Shaikan is performing in line with expectations; measured pressure decline and the absence of water or gas breakthrough support the geological interpretations of the field, providing the Company with increasing confidence in its understanding. This means reduced uncertainty and allows us to more easily optimise the recovery and required well numbers. As mentioned above, an update to the CPR is expected in due course.

## Stuart Catterall

Chief Operating Officer

10 April 2018

## BUSINESS MODEL

With increasing commercial confidence, additional capacity can be deployed.



## VALUE CREATION



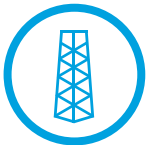
### REALISING SHAIKAN'S POTENTIAL

Increasing production at Shaikan remains key to unlocking the full value of the asset for shareholders. Following further investment in the field, the current plan is to initially increase production to 55,000 bopd in the near term. Additional expansion of these facilities to 75,000 bopd will follow, and then to 100,000 bopd in the longer term, as we integrate the Triassic production with the Jurassic that is

already onstream. The Company would pave the way for this by connecting PF2 during the first half of 2018 to the Atrush export line with a 400 metre spur pipeline, creating a link to the main export oil line to Turkey and improving netbacks for Gulf Keystone by reducing trucking requirements.



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### SOLELY FOCUSED ON SHAIKAN

We are able to create value for our shareholders by focusing on Shaikan and ensuring the asset is operated with maximum efficiency. Following the signing of the Crude Oil Sales Agreement in January 2018, the Company and its partners have continued to advance the investment plan to increase

production at Shaikan to 55,000 bopd. With increasing commercial confidence, the necessary capital will be deployed to release further value from the Shaikan asset.



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### CREATING VALUE FOR SHAREHOLDERS

The Company aims to generate returns for shareholders by achieving stable and reliable operations at Shaikan whilst maintaining strict financial discipline across the business. The well-established and regular monthly payment cycle means the business is now cash flow positive and well-funded to invest in Shaikan to help increase production from the field, thereby unlocking the significant upside potential and full value of the asset.

The aim of the business model is to create value for all stakeholders.

## BUSINESS OPERATIONS

### SAFE AND RELIABLE OPERATIONS

Achieving a safe operating environment for all persons at the Company remains the number one priority for the business. Gulf Keystone is determined to have a positive impact on local communities in the region, which cannot be done without establishing a strong track record

of excellent HSSE delivery. During the year, the Company oversaw safe operations, with no lost-time incidents reported.



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### STAKEHOLDER ENGAGEMENT

Active and constructive stakeholder engagement is an integral part of our business and something the Company takes pride in. We aim to maintain an ongoing and constructive dialogue via multiple communications channels for all those who

have an interest in Gulf Keystone. Our core objective is to ensure that all audiences remain well informed, a priority for the business.



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### A BUSINESS MODEL THAT BENEFITS ALL INVOLVED

We believe that maintaining a positive relationship with our stakeholders is key to the success of Gulf Keystone. We work closely with our partners, the MNR and MOL, and look to ensure that Shaikan benefits Kurdistan, the Company, and all its employees, in addition to the local communities and, of course, its shareholders.








# STRATEGY AND PERFORMANCE

Key performance indicators ("KPIs")

KPIs for 2017 are described in the Remuneration Committee Report and included HSSE, financial, production, commercial, and strategic performance goals.

In keeping with good corporate governance, we have developed a sophisticated suite of KPIs for 2018. Measures include: **HSSE**: safety improvement plan and performance measures; **financial**: covering gross operating costs and budget adherence; **operational**: including production, field development planning and project milestones; and **strategic**: covering investment milestones to build capacity to 55,000 bopd.

Strategy	Objective
<p><b>Maintain a strong balance sheet</b></p> <p> <b>SOLELY FOCUSED ON SHAIKAN</b></p>	<ul style="list-style-type: none"> <li>• Focus on Shaikan</li> <li>• Regular and predictable payments for Shaikan crude oil sales</li> <li>• Optimise capital structure in the context of investment plans</li> </ul>
<p><b>Grow production</b></p> <p> <b>REALISING SHAIKAN'S POTENTIAL</b></p>	<ul style="list-style-type: none"> <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>
<p><b>Increase reserves and resource base</b></p> <p> <b>REALISING SHAIKAN'S POTENTIAL</b></p>	<ul style="list-style-type: none"> <li>• Increase value of asset</li> </ul>
<p><b>Effective HSSE and CSR programmes</b></p> <p> <b>SAFE AND RELIABLE OPERATIONS</b></p>	<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 the KRG and MNR and people of Kurdistan in an environment of mutual respect and co-operation</li> </ul>
<p><b>Maintain highest levels of governance</b></p> <p> <b>STAKEHOLDER ENGAGEMENT</b></p>	<ul style="list-style-type: none"> <li>• Increase shareholder confidence</li> <li>• Ensure appropriate independent challenge of executive management</li> </ul>



## Further considerations included meeting shareholder expectations and stakeholder engagement.

Measure	Progress made in 2017/18
<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 eleven monthly payments of \$15 million gross each during 2017</li> <li>Receipt of payments in Q1 2018 including \$77.5 million gross for sales during the four months from September to December 2017</li> <li>Progress in ongoing discussions with MNR regarding commercial and contractual conditions</li> <li>Net cash generated from operating activities increased to \$75.9 million from \$49.7 million in 2016</li> <li>Cash balance of \$203 million vs. debt of \$100 million as at 10 April 2018</li> <li>Ber Bahr was relinquished in 2017</li> </ul>
<ul style="list-style-type: none"> <li>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 35,298 bopd in 2017 – which was above the 35,000 bopd target level</li> <li>In 2017, production costs (excluding capacity building charges and production bonus) were reduced to \$2.8/bbl from \$3.5/bbl in 2016</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 gross reserves verified by ERCE in April 2017 (as at December 2016)</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>Improving HSSE procedures</li> <li>1,000 LTI-free days as at 10 April 2018</li> <li>Zero LTIs in 2017</li> <li>Plant uptime 99%</li> <li>CBF training programmes continued and developed with 25 promotions for local personnel achieved in 2017</li> <li>Percentage of Kurdistan nationals employed 82%</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 AGM</li> </ul>	<ul style="list-style-type: none"> <li>Voluntary adherence to the UK Corporate Governance Code</li> <li>New Chairman appointed – Jaap Huijskes</li> <li>Commenced search process to identify and appoint other suitable independent non-executive directors with appropriate and complementary skills</li> <li>All resolutions proposed at AGM passed, with high levels of support</li> </ul>



# SHAIKAN



# OVERVIEW



## THE SHAIKAN ASSET

- November 2007: Shaikan licence awarded
- April 2009: Discovery well SH-1 drilled
- June 2013: FDP approved
- Two production facilities each with 20,000 bopd nameplate capacity
- December 2014: 40,000 bopd production first achieved
- Majority of crude trucked to Fishkhabour where injected in Kurdistan export pipeline; remainder sold domestically
- Tie-in to Atrush export line underway
- One of the largest fields in the region with reserves/resources:
  - 2P 615 MMstb<sup>(1)</sup>
  - 2C 239 MMstb<sup>(1)</sup>

(1) Source: ERC Equipoise. Gross volume estimates as at 31 December 2016 (12.9 MMstb production in 2017).



PF-1

PF-2



## SUB-SURFACE STORY

- The field contains heavy oil in fractured Jurassic carbonates (c.1,000 metre oil 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

Located 60km north of Erbil, the Shaikan Field is one of the largest fields in Kurdistan – with production potential of 100,000 bopd.

### KEY STATISTICS

Discovered in 2009, commercial production commenced in July 2013 and so far

**48 MMstb**

have been produced to date (10 April 2018)

Nameplate capacity of

**40,000 bopd**

from two production facilities

Steady production rate of

**31,588 bopd**

throughout Q1 2018

Near-term target is to return daily production to 40,000 bopd as quickly as possible, followed by an increase in production capacity to

**55,000 bopd**

Production costs (excluding production bonus and capacity building payments)

of **\$2.8 per barrel**

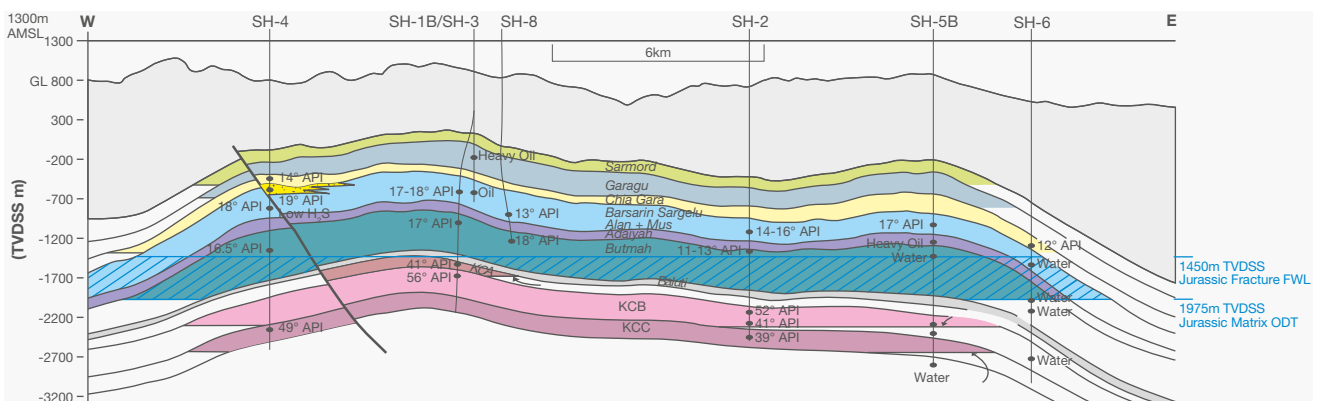
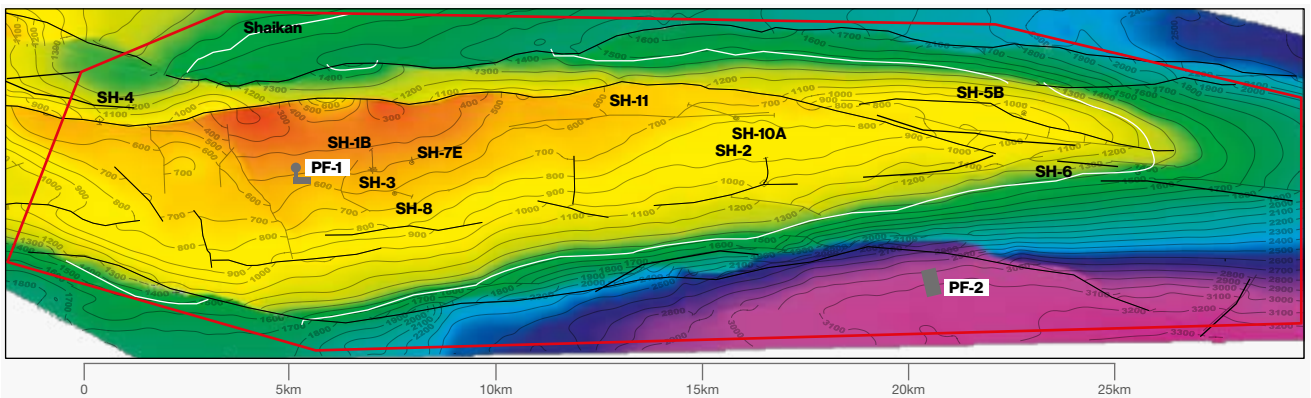
are low by global standards – with scope to reduce as the field is further developed

Gross 2P reserves of

**615 MMstb**

as at December 2016

### JURASSIC SUB-SURFACE STRUCTURE MAP



**SHAIKAN** continued

# RESERVES AND RESOURCES



Key metrics support the geological interpretations of the field and provide the Group with increasing confidence.

### Ongoing production data acquisition supports the geological interpretations of the field and provides the Group with increasing confidence in its reservoir understanding.

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. Between 1 January and 31 December 2017, 12.9 MMstb of this 2P reserve was produced. We anticipate a review to the CPR once an update to the Field Development Plan is ready.

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 in its understanding of the field. This means reduced uncertainty and allows us to optimise the recovery and required well numbers more easily.

- 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 (10 April 2018) is 48 MMstb or just over 8% of the 2P reserves

## RESERVES AND RESOURCES SUMMARY AS AT 31 DECEMBER 2016 (the date of the latest available CPR)

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

Shaikan contingent resources						
Formation	Gross field oil resources (MMstb)			GKP (WI 58%) <sup>(1)</sup> resources (MMstb)		
	1C	2C	3C	1C	2C	3C
Cretaceous	14	53	175	8	31	102
Jurassic	97	80	340	56	46	197
Triassic	29	106	347	17	61	201
<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% working interest ("WI") subject to the ratification of the agreement with MNR dated 16 March 2016.

# REGULAR PAYMENTS AND STEADY EXPORTS



The Company continues to receive regular payments from the MNR.

## Payments

For oil sales from September 2015 to September 2017, Gulf Keystone received monthly gross payments of \$15 million (with the exception of February 2016 when \$7.5 million was received due to interruption of exports). Following the signing of the Crude Oil Sales Agreement in January 2018, the Company started to receive monthly gross payments for oil sales from October 2017 based on the volume of oil sold. As at 10 April 2018, the Company had received payments for oil sales and reimbursement of transportation costs up to and including December 2017, with \$165 million gross (\$132 million net) received in 2017 and \$77.5 million gross (\$61.5 million net) received in 2018 so far.

## Shaikan crude exports

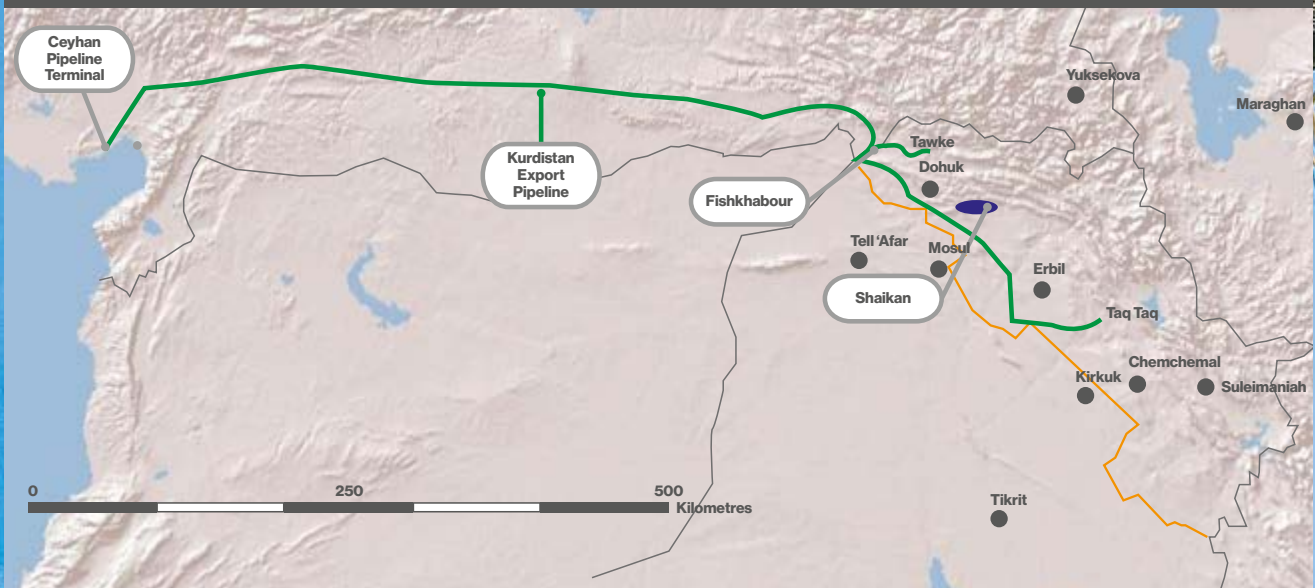
From September 2015, all Shaikan crude was being trucked 120km to Fishkhabour and injected into the Kurdistan export pipeline. However, in February 2017, the MNR began exporting all Shaikan crude production via trucks to the Mediterranean coast in Turkey.

This operation proved very reliable and continued until mid-November 2017, when the MNR returned to the original arrangement of trucking the crude oil to the Kurdistan export pipeline at Fishkhabour. The unloading station at Fishkhabour has finite/fixed capacity and, with increases in production from other operators since February 2017, some crude is sold for domestic use in refineries in the region. These domestic sales have a similar netback to the Shaikan joint venture compared to

export sales and, therefore, there is little commercial impact of this arrangement and it has the advantage of being able to continue production without constraint.

Going forward, we expect this arrangement of trucking the crude oil to the Kurdistan export pipeline at Fishkhabour to continue, but we are working with the MNR to try to accelerate the direct tie-in of our production to the pipeline. The first opportunity would be at PF-2, where the export pipeline from the Atrush field passes within a few hundred metres of our production facility.

## EXPORT ROUTE



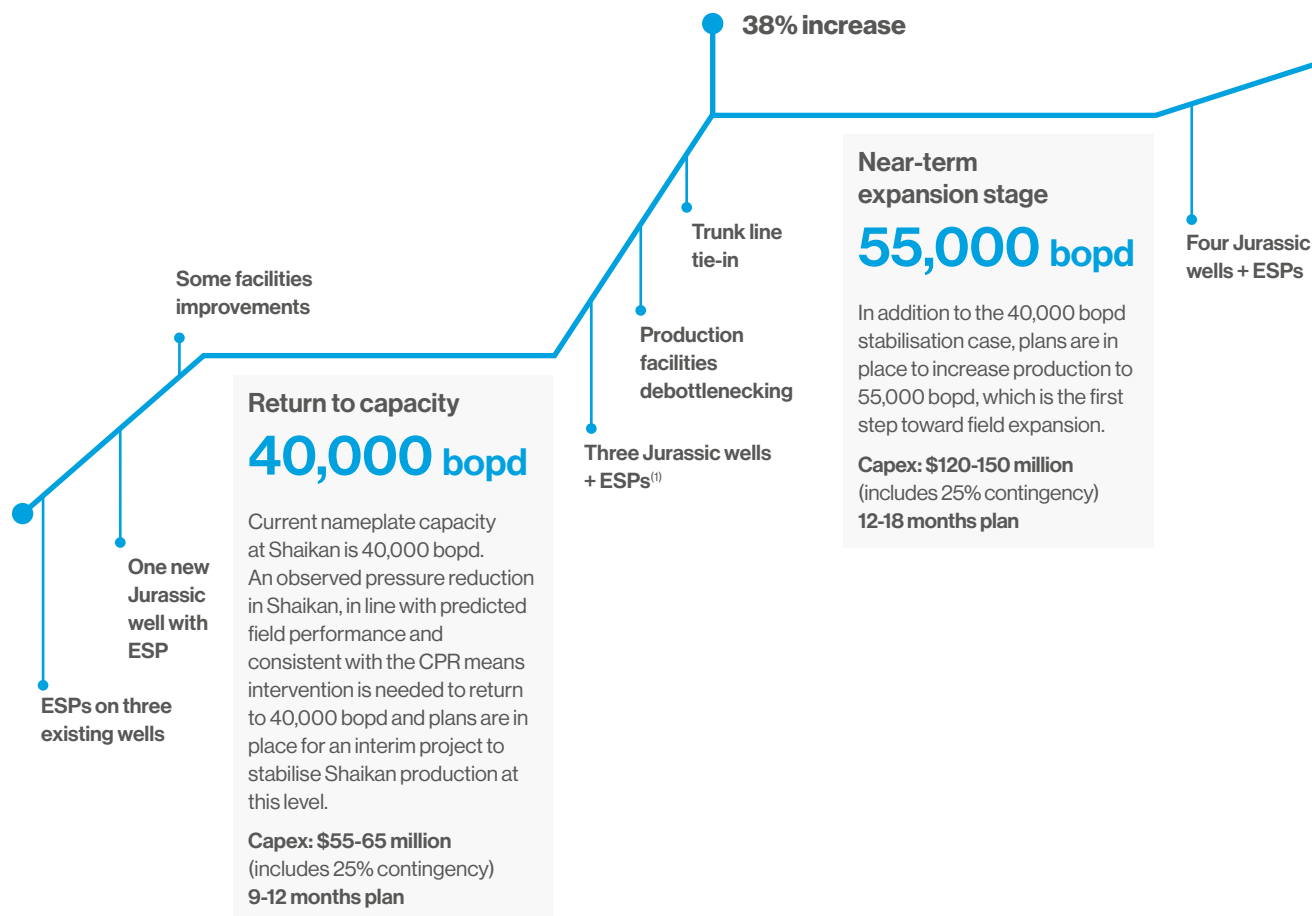
SHAIKAN continued

## FIELD DEVELOPMENT PLAN



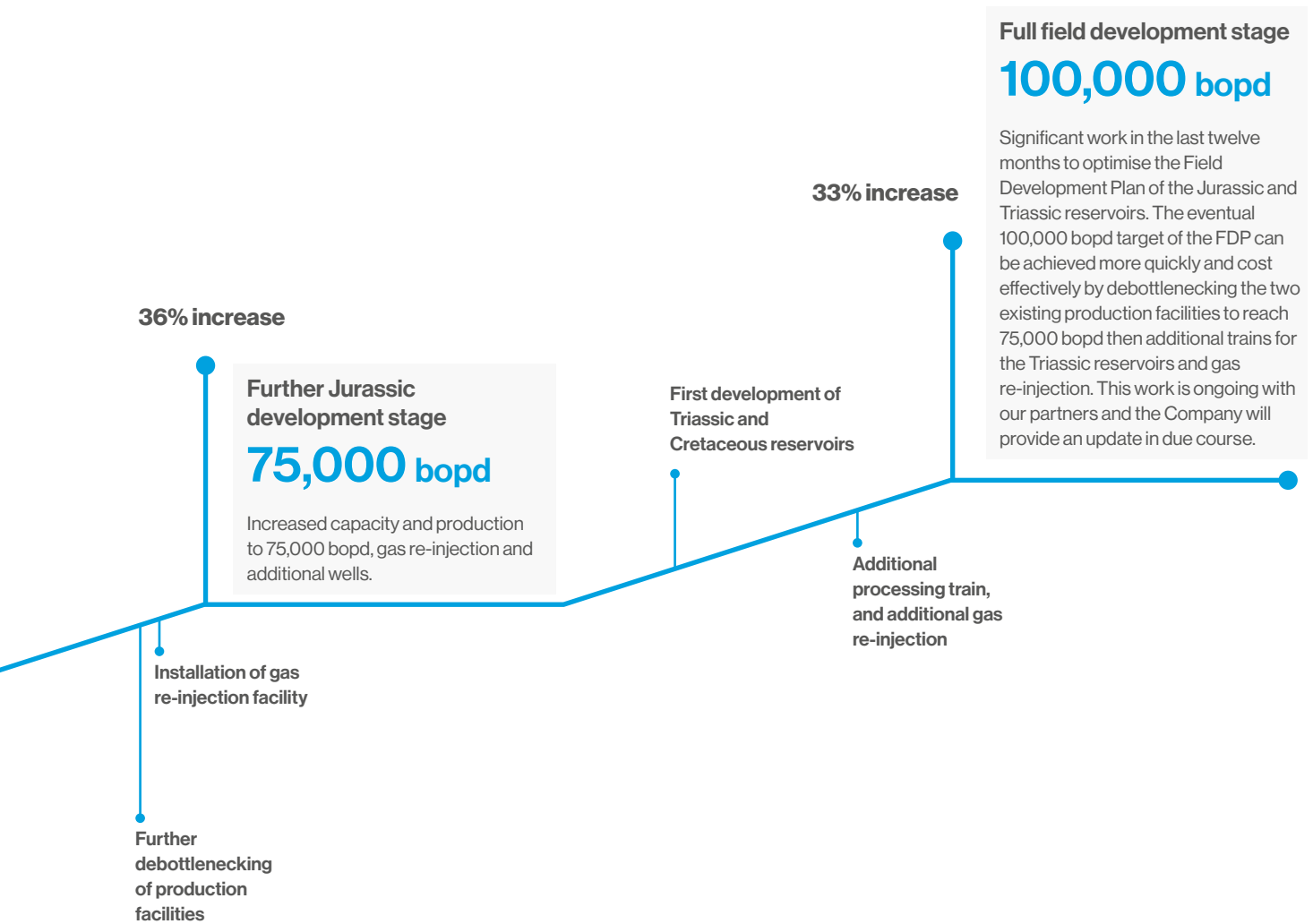
## FOCUS ON VALUE

- Stage 1 – maintain production level in line with current production capacity at 40,000 bopd
- Stage 2 – expand to 55,000 bopd in the near term
- Stage 3 – grow Jurassic to 75,000 bopd with gas re-injection
- Stage 4 – further development to reach over 100,000 bopd, including development of the Triassic and Cretaceous reservoirs
- Work continues on the optimisation of these programmes

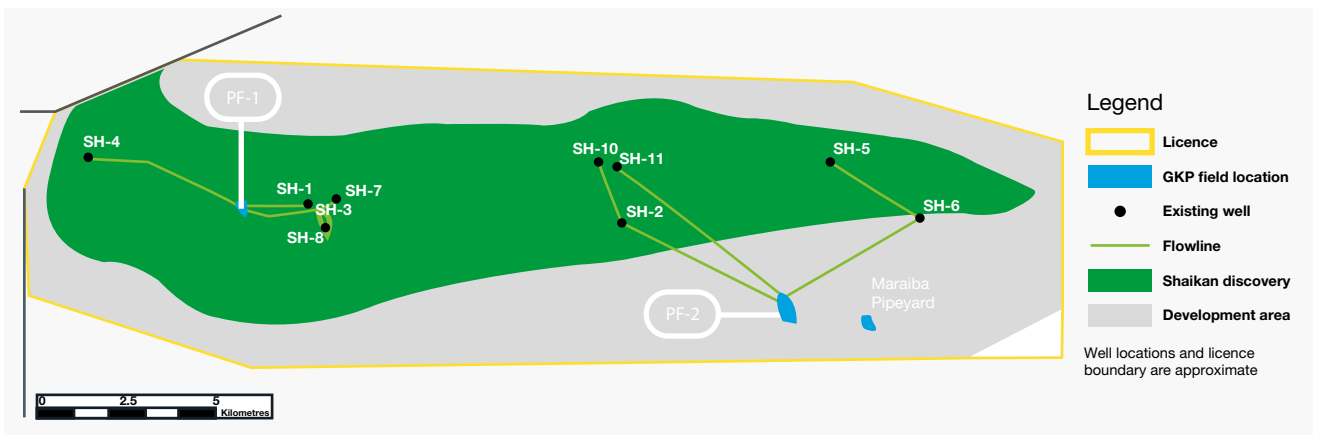


Investment plans subject to MOL and the Kurdistan Regional Government's ("KRG") Ministry of Natural Resources ("MNR") approval.

(1) Previous cost estimates for the 55,000 bopd project did not include these wells. These have been brought forward from the full field development to gain more reservoir understanding, assure a sustained increased plateau production and benefit from drilling efficiencies and cost savings from a single campaign.



## SHAIKAN FIELD TODAY



# BUSINESS OPERATIONS AND STAKEHOLDER ENGAGEMENT

Working with, and investing in, the community.



# SHAREHOLDER ENGAGEMENT



## Shareholder engagement continues to be a strategic priority.

Engagement with all stakeholders is of the utmost importance to a business, but ensuring shareholders, as the owners of the Company, are engaged with is a high priority for Gulf Keystone. We have made a considerable effort to be as transparent and communicative as possible with our shareholders. As the management of the business, we would like to thank our shareholders for their continued support during the reporting period.

### How we keep shareholders informed

We ensure that all shareholders can access details of the Company's results and other news releases through the London Stock Exchange's Regulatory News Service. These news releases are also published on the 'Investor Centre' section of the Group's website: <http://www.gulfkeystone.com>

In addition, the Company continues to identify different platforms and mediums to communicate with its shareholders, including its website, webcasts and Twitter.

The Company hosted a webcast for all audiences for its 2016 full year results in April 2017 and made increasing use of its Twitter profile to ensure that shareholders were kept up-to-date on company-specific news flow.

In the last year, Gulf Keystone has held several confidential and commercially sensitive discussions with its partners, the MNR and MOL, which has impacted the Company's ability to regularly report progress on those discussions to its stakeholders. The Company is mindful of those constraints, but it aims to provide updates once items are concluded and can be described clearly.





## BUSINESS OPERATIONS AND STAKEHOLDER ENGAGEMENT continued

# SAFE AND RELIABLE OPERATIONS



Behaving ethically, managing our impact, and working transparently is not sufficient.

We aim to invest in the economic development of our neighbouring communities, and we achieve operational success through them.

### HSSE

At Gulf Keystone, we always talk of “safe and reliable operations”, which shows that business success can only be achieved if reliable and responsible operations conjointly go along with safety and, even further, with the protection of the environment.

To bring this saying to life, Gulf Keystone is committed to conducting its operations to high safety and environmental standards and strives to improve its HSSE procedures, tools and processes constantly. Providing a solid HSSE management system, training personnel and integrating HSSE into day-to-day work are core activities necessary to obtain a safe work environment.

In 2017, Gulf Keystone managed to set some remarkable milestones in HSSE, first and foremost by achieving two years of LTI-free working time. With only two recordable incidents in 2017, the Company managed to bring down the Total Recordable Incident Frequency (“TRIF”) to 1.51, which is less than half of the last documented average TRIF in the Kurdistan region in 2015.

Loading trucks with oil is one of Gulf Keystone’s key activities. Consequently, significant care needs to be taken to ensure uninterrupted and safe loading activities. In 2017, 74,608 trucks were loaded but only 26 minor work-related incidents and spillages were recorded (0.03%).

During 2017, the HSSE management system and the emergency response organisation were completely revised. Existing procedures were reviewed and new protocols were written. A company-wide emergency management exercise was conducted and an HSSE workshop for managers and supervisors, addressing roles and responsibilities for HSSE, was held across the whole organisation.

Besides health and safety of workers, the protection of the environment is also a focus for the Company. A comprehensive environmental monitoring system ensures that the impact of the Company’s operations on the environment is minimised, controlled and documented. Gulf Keystone improved, in particular, air quality monitoring in the field to ensure that local and international air quality standards are met.

The significance and visibility of HSSE within the Company was increased in areas. Firstly, the HSSE function is now reporting directly to the COO and takes part in weekly senior management meetings to address HSSE-related matters directly with the executive members of the Board. This step and the HSSE workshop for managers and supervisors resulted in an even higher awareness about HSSE in leading positions.

Secondly, the relationship with the MNR was improved by regular meetings with the HSSE Department of the Ministry as well as attending Management Committee meetings.

The immense effort Gulf Keystone puts into the improvement of workers’ health and safety and the protection of the environment was not only positively recognised by the MNR but also by peers working in the Kurdistan region. Today, Gulf Keystone is considered as one of the leaders in managing HSSE within the Kurdish oil industry.

### Success through the community

Our relationship with the community is based on three key elements:

#### 1. Local employment

More than 80% of Gulf Keystone’s in-country staff are local. Of these, over 45% come from villages around our operation where Shaikan oil is produced, loaded and transported by people who live in the Shaikan area and work with Gulf Keystone.

It is essential, for the long-term success of our operation, that the benefits of oil production are shared with our neighbours in the community. We recognise the value that a diverse and inclusive workforce brings to our business and how it enhances our reputation.

This is achieved through the direct recruitment of workers from within the dozen villages surrounding our operations. We provide full induction and ongoing training to enable individuals from the local community to work as salaried employees of Gulf Keystone.



This recruitment is carried out in open collaboration with local government representatives to optimise the distribution of economic benefits and manage local stakeholder expectations. In 2017, a total of 25 promotions took place within the local employee workforce.

We operate a Competency Based Framework ("CBF") for our employees which provides the formal training and development required to allow them to progress within the Company. In implementing the CBF, Gulf Keystone ensures that it has proficient, capable and safe operational, HSSE and maintenance staff for Shaikan. Our aim is to nationalise as many expatriate positions as possible over time.

## 2. Local services and suppliers

Gulf Keystone ensures in its competitive tendering process that the employment of local workforce and use of local equipment is identified by bidders and taken into account during the tender evaluation. Currently, catering, fuel, security and guard services, and earth and road works, among others have all

been awarded to local companies after competitive tenders. Locally based companies are made aware of the upcoming tenders and encouraged to bid wherever possible.

We evaluate that for every direct hire by Gulf Keystone from the local community, three to four full-time jobs are maintained in local companies doing business with Gulf Keystone.

## 3. Long-term community investment

Beyond employment, Gulf Keystone has historically invested in its surrounding communities by being a good neighbour, providing ad-hoc financial or material assistance, where the need arises and when it corresponds to the Company's corporate social responsibility ("CSR") policy.

These actions are important to the community's well-being, as they respond to immediate needs that are not otherwise satisfied by public infrastructure. Gulf Keystone will continue such actions on an ad-hoc basis.

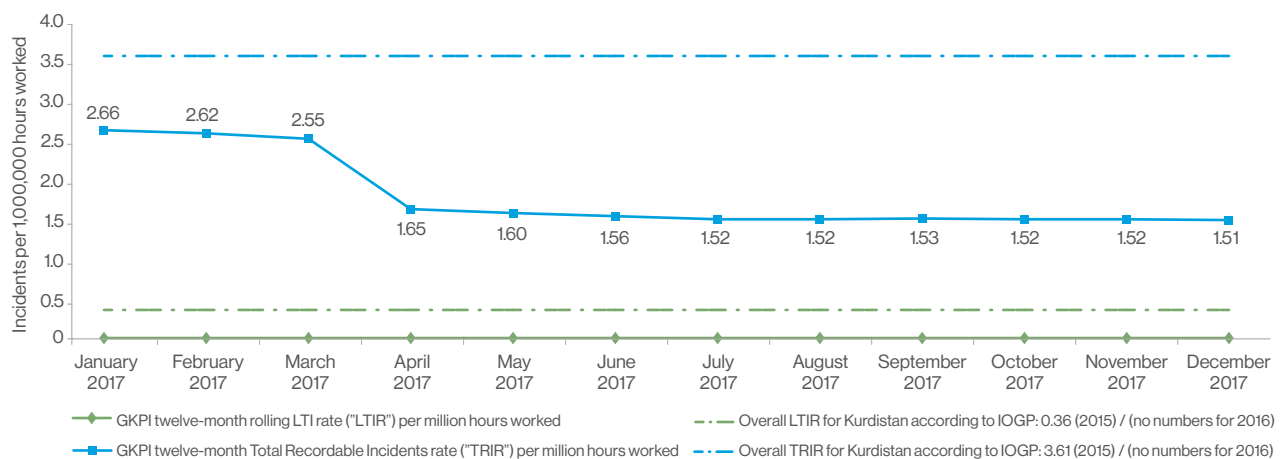
Looking longer-term however, valuable investments can be made in the economic capabilities of our area of operation. In 2017, Gulf Keystone initiated the formulation of a CSR strategy which aims to identify areas for community investment in 2018 and beyond. Annual CSR plans will list community investment projects such as projects to improve productivity in local agriculture, contribution to language training in local schools, or assistance to local businesswomen and businessmen to help them promote their professional expertise or services to international companies. A key feature of community investment by Gulf Keystone is that the long-term economic benefits remain even if Gulf Keystone is no longer active in the area.

Much as there is value for Gulf Keystone in investing in the Shaikan field development, there is also value for the business in investing in the local community. Over the life of Shaikan, investment in the community could lead to a more stable operating environment, an increasingly skilled workforce and goodwill from key stakeholders.

## An outstanding year for HSSE

Category	Measure	Year-on-year comparison		
		2015	2016	2017
Lost time incidents ("LTI")	Total incidents	2	—	—
Lost time incident frequency ("LTIF")	Million man-hours	1.68	—	—
Recordable incidents	Total incidents	7	2	2
Total recordable incidents frequency ("TRIF")	Million man-hours	5.88	1.81	1.51
Motor vehicle accidents	Total incidents	8	1	1
Driving violations ("IVMS data") (only those resulting in warnings)	Total incidents	50	58	25
First aid cases	Total incidents	8	4	2
Solid waste recycling	Percentage	66	67	85.5
Liquid hazardous waste recycling	Percentage	100	67	100

## Rolling LTIF and TRIF from January 2017 until December 2017



# MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

## BOARD

Responsible for the effectiveness of risk management and internal control systems

### AUDIT AND RISK COMMITTEE

Responsible for monitoring the effectiveness of the Group's risk management framework and internal controls

### HSSE AND CSR COMMITTEE

Ensures appropriate systems are in place to manage safety, environmental and community risks

### TECHNICAL COMMITTEE

Ensures that appropriate processes are in place to manage Shaikan development planning and project execution risks

## SENIOR MANAGEMENT

Responsible for implementation of internal control and risk management systems

## INTERNAL AUDIT FUNCTION

Assists the Audit and Risk Committee and senior management in executing their responsibilities

The Board considers the Group's principal risks at each scheduled<sup>(1)</sup> Board meeting and reviews reports from the Audit and Risk Committee, the HSSE and CSR Committee and the 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. The drafting and maintenance of the risk register is undertaken by senior management following consultation throughout the relevant parts of the Group.

A separate, more detailed operations risk register has 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 scheduled<sup>(1)</sup> 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 changes on an ongoing basis.

(1) Excludes meetings organised on an ad-hoc basis or for a specific purpose.



## 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.</p> <p>Uncertainty may arise from changes in the KRG leadership or the continued administration of the Shaikan licence by the KRG.</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. In September 2017, Kurdistan held an independence referendum which had not been sanctioned by Iraq. This led to political, and a degree of armed, conflict between Iraq and Kurdistan, causing increased logistical hurdles due to the closure of Kurdish air space.</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, imposition of additional costs and taxes, tax increases and other retroactive tax claims, revocation of licence to operate, expropriation of property, cancellation of contract rights and an increase in regulatory burdens.</p> <p>Fiscal pressures on the KRG.</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.</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>The Group has a corporate social responsibility policy in place which has led to a number of local initiatives.</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-corruption</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 anti-corruption laws.</p>	<p>Violation of anti-bribery or corruption 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, monetary losses and possible imprisonment or fines for staff.</p>	<p>The Legal Director and Company Secretary, Alasdair Robinson, has been appointed as the Anti-Bribery Officer for the Group and he has led the enhanced implementation of training and appropriate procedures to mitigate the risk of bribery. 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 and the non-facilitation of tax evasion.</p>

## MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES continued

Key risk factor	Potential impact	Mitigation
<b>Strategic</b> continued		
<p><b>Export route availability</b></p> <p>Risks associated with availability and accessibility of infrastructure allowing the Group to sell oil to export markets, and also changes to export route forced on the Group which affect profitability.</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 technical reasons, maintenance repairs, damage by military operations, theft and smuggling.</p> <p>Currently the Company's major export route is by way of trucking oil to Fishkhabour. Trucking oil carries its own inherent risks, for example road conditions and accidents.</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 Fishkhabour can support the current production of the Group. The current trucking arrangement does not affect the economic benefit accruing to the Group.</p> <p>Historically, trucking operations were contracted and managed by the MNR; therefore, the risk to the Group was largely reputational. However, since the signing of the Crude Oil Sales Agreement, the delivery point of the oil for export has changed from the Shaikan gate to the crude oil injection facility at Fishkhabour. This shifts the onus for safe trucking operations to the Group.</p> <p>A tie-in facility to the Atrush pipeline close to the PF-2 facility is currently being constructed. Once this is completed, part of Shaikan oil will be exported by this route, with the remainder still being trucked until PF-1 is eventually connected by pipeline.</p> <p>The Group continues to have a regular dialogue with the KRG to clarify the timeline for this arrangement.</p>
<p><b>Stakeholder expectations</b></p> <p>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 News Service, which is also available on the Group's website.</p>

Key risk factor	Potential impact	Mitigation
<p><b>HSSE and CSR</b></p> <p><b>HSSE risks</b></p> <p>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></p> <p>A condition of the approval for the Shaikan Field Development Plan granted in 2013 was the installation of a gas treatment and reinjection programme.</p>	<p>The environmental impact of gas flaring.</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 and ultimately elimination of flaring will be an integral part of the Group’s full Field Development Plan.</p>
<p><b>Security</b></p> <p>The Group is exposed, by virtue of the location of its operations, to a number of security risks. These include the threat of terrorist attack and local protests and unrest at Gulf Keystone sites.</p>	<p>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></p> <p>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 has a broader medium to long-term CSR strategy to complement the existing community welfare initiatives.</p>

# MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES continued

Key risk factor	Potential impact	Mitigation
<b>Operational</b>		
<p><b>Field delivery risk</b></p> <p>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>Rig availability.</p> <p>MNR contracting process causing delays.</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></p> <p>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 a 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>



Key risk factor	Potential impact	Mitigation
<b>Financial</b>		
<p><b>Liquidity and funding capability</b></p> <p>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 has a significant cash balance.</p> <p>The Board and management ensure that the strategy planning process is robust and consistent. The Group's business plan is regularly reviewed and revisited by the Board to ensure that it reflects any changes to internal or external factors.</p> <p>Business planning and corporate performance management processes are used to control spend.</p>
<p><b>Export payment mechanism</b></p> <p>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>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>The signing of the Crude Oil Sales Agreement in January 2018 means that the Group is now being paid according to its revenue entitlements. A regular payment cycle has been established and monthly payments by the MNR to the Group are being met.</p>
<p><b>Commodity prices</b></p> <p>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 2016, 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 10 to 13, and to the risks, uncertainties and the available mitigating action plans, as detailed on pages 24 to 29. 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.

The Group is in a strong financial position, with a significant cash balance and with a significantly reduced risk of inability to meet debt and interest payments. The cash inflows from the Group's export revenues are regular and are now based on entitlements rather than flat \$15 million payments, 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 2021.



## BOARD OF DIRECTORS



**1 Keith Lough**  
Non-Executive Chairman

### Skills and experience

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

A Chartered Certified Accountant, Keith joined Lasmo plc in 1988, 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. Keith was then CFO of PetroKazakhstan for two years before joining as CFO of British Energy, the nuclear power company. In 2004, Keith founded coal bed methane focused Composite Energy Limited, which was acquired by Dart in 2011, following which Keith was appointed CEO of Hutton Energy.

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.

**2 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. Before joining Gulf Keystone, he was 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 gained across technical, commercial and a variety of managerial and leadership positions. His roles prior to joining Gulf Keystone had a strong external orientation and have seen him working effectively with all stakeholders, including host governments.

Former to Maersk Oil, Jón's industry experience was gained with Anglo American, ConocoPhillips, Paladin Resources plc and Petro-Canada/Suncor, in a number of regions.

**3 Sami Zouari**  
Chief Financial Officer

### Skills and experience

Sami Zouari joined Gulf Keystone as Chief Financial Officer in January 2015, following careers in both the oil and gas industry and investment banking, where he also had a particular focus on the Energy and Commodities sectors in the Middle East and North Africa. He holds a Masters MA from Harvard and a BA from Columbia University.

Former to his appointment, he served as the Regional Head of Corporate and Investment Banking for North Africa, and the Middle East 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.



**4 Philip Dimmock**  
Senior Independent Director

**Skills and experience**

Philip Dimmock was appointed as a Non-Executive Director of Gulf Keystone 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 held the post of Vice President of the international division and served as Chairman of the UK subsidiary. 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 non-executive chairman of Block Energy plc and a consultant to Oando plc.

**5 Garrett Soden**  
Non-Executive Director

**Skills and experience**

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

Garrett has extensive experience as a senior executive and board member of various public companies in the natural resources sector. He has worked with the Lundin Group for the last decade. Garrett is currently President and CEO of Africa Energy Corp., a Canadian oil and gas exploration company focused on Africa. He is also a non-executive director of Etrion Corporation, Panoro Energy ASA, Petropavlovsk PLC and Phoenix Global Resources PLC. Previously, he was Chairman and CEO of RusForest AB, CFO of Etrion and PetroFalcon Corporation and a non-executive director of PA Resources AB. Prior to joining the Lundin Group, Garrett worked at Lehman Brothers in equity research and at Salomon Brothers in mergers and acquisitions. He also previously served as Senior Policy Advisor to the US Secretary of Energy.

Garrett holds a BSc honours degree from the London School of Economics and an MBA from Columbia Business School.

**6 David Thomas**  
Non-Executive Director

**Skills and experience**

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

He is a highly experienced oil and gas professional, having held a number of senior executive and international management roles in a career spanning over 35 years. He started in the industry as a petroleum engineer working for Conoco 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 of 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 as 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 and is currently the CEO of PICO Cheiron in Egypt. David has a BSc in Mining Engineering from Nottingham University and an MSc in Petroleum Engineering from Imperial College.

**7 Jaap Huijskes**  
Non-Executive Director

**Skills and experience**

Jaap Huijskes was appointed as Non-Executive Director at Gulf Keystone in November 2017.

Jaap is a highly experienced oil and gas executive, having worked for some 28 years in the upstream oil and gas sector. Jaap started his career with Shell and worked in a variety of project engineering and other more general roles around the world, moving from the North Sea to the Middle East and Australia. Jaap's last role with Shell was as Project Director for the Sakhalin II project followed by a short period at head office as Executive Vice President for all of Shell's upstream projects. Jaap left Shell to join OMV, the Austrian integrated oil and gas company as their board member responsible for all upstream activities. OMV's upstream activities at the time included significant exploration activities in the Kurdistan Region of Iraq.

Jaap retired from OMV in 2016 and is currently a non-executive at Energie Beheer Nederland, the Dutch State upstream participation company.

On 29 March 2018, it was announced that Jaap would replace Keith Lough as Non-Executive Chairman with effect from 11 April 2018.

## SENIOR MANAGEMENT



**1 Stuart Catterall**  
Chief Operating Officer

### Skills and experience

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

Stuart has over 30 years' experience in oil and gas undertaking a broad range of senior leadership and technical roles with Amerada Hess, BHP Billiton, Celtique Energy. Most recently and prior to joining Gulf Keystone, he worked 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.

**2 Bertrand Demont**  
Country Manager –  
Kurdistan Region of Iraq

### Skills and experience

Bertrand joined Gulf Keystone as Country Manager in September 2017.

Bertrand has over 18 years' experience in the development of new oil and gas fields, as well as the extension of producing fields, in the UK North Sea, Algeria, Indonesia, and France. During this time, he has managed country operations, corporate strategy, and led project engineering and construction work in remote onshore locations with operators including Total, BHP Billiton, Hess, and Petroceltic. He holds an M.Eng in Fluid Mechanics from the National Engineering School of Toulouse, France, and an MBA from Columbia Business School in New York.

**3 Alasdair Robinson**  
Legal Director and  
Company Secretary

### Skills and experience

Alasdair joined Gulf Keystone as Legal Director and Company Secretary in June 2017.

After qualifying as a solicitor, Alasdair worked in investment banking for over ten years, latterly as Head of Corporate Finance Execution at an independent investment bank. In 2007, he joined Melrose Resources as Corporate Finance Manager and Company Secretary, and upon its acquisition by Petroceltic International in 2012, was appointed General Counsel and Company Secretary of the enlarged group. Following Petroceltic's acquisition, Alasdair worked for a fund management group as Head of Finance, Legal and Risk before joining Gulf Keystone. Alasdair is a law graduate of Aberdeen University and has an MBA from Strathclyde Business School.



**4 Jane Barker**  
HR Director

**Skills and experience**

Jane joined Gulf Keystone as HR Director in July 2016.

Jane has over 30 years' experience in international and strategic HR in the oil and gas sector including senior management roles with LASMO in London and Venezuela and as HR Director for Afren until 2016. Her early career was spent with Gulf and Chevron in the UK and she also spent five years in financial services as Head of HR for a UK insurance company. Jane is a business studies graduate from the University of Otago.

**5 William McAvoek**  
Financial Controller

**Skills and experience**

William joined Gulf Keystone as Financial Controller in October 2017.

William is a Chartered Certified Accountant. From 2003 until it was acquired by First Quantum Minerals in 2006, he was Financial Controller at Adastra Minerals Inc., a mining company that was dual-listed on TSX and AIM and owned the Kolwezi Tailings Project in the Democratic Republic of Congo. From 2007 to 2010, he was Financial Controller at African Minerals Ltd, a mining company that was listed on AIM and owned the Tonkolili Iron Ore Project in Sierra Leone. From 2011 to 2014, he was Chief Financial Officer and Executive Director of International Petroleum Ltd, an oil and gas exploration and production company that was listed on the National Stock Exchange of Australia and owned assets in Russia, Kazakhstan and Niger.

**6 Gabriel Papineau-Legris**  
Commercial Director

**Skills and experience**

Gabriel joined Gulf Keystone as Commercial Director in September 2016.

He has over ten years of experience in the energy industry. Prior to his appointment at Gulf Keystone, Gabriel worked in private equity at Lime Rock Partners where he was involved in investigating and executing E&P and oilfield services investment opportunities internationally as well as monitoring portfolio companies. Prior to that, he worked in investment banking at Perella Weinberg Partners and Merrill Lynch, where he started his career, advising oil majors, E&P companies and governments on M&A and restructuring transactions, and capital market financing.

Gabriel graduated from HEC Montréal (BBA) and EDHEC Business School (MSc). He is also a CFA charterholder.

## CORPORATE GOVERNANCE REPORT



**Keith Lough**  
Non-Executive Chairman

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 April 2016. However, the Board recognises the importance of good governance and has considered the principles and provisions set out in the Code and has voluntarily resolved to adhere to the Code.

The Company is also committed to complying with the highest ethical standards including the maintenance of robust anti-bribery and corruption policies and procedures. This includes regular training of our staff, contractors and associated persons.

We continue to maintain high governance standards through our scheduled Board and Committee structure and commitment to the Code, ensuring that there is appropriate oversight of each key aspect of the Company's business.

**Keith Lough**  
Non-Executive Chairman

10 April 2018

As at 31 December 2017, the composition of the Board sub-committees was as follows:

Board				
Audit and Risk Committee	Remuneration Committee	Nomination Committee	HSSE and CSR Committee	Technical Committee
Garrett Soden (Ch) Jaap Huijskes Philip Dimmock	Philip Dimmock (Ch) David Thomas Garrett Soden	Jaap Huijskes (Ch) Philip Dimmock Garrett Soden Keith Lough	David Thomas (Ch) Jaap Huijskes Jón Ferrier Stuart Catterall	David Thomas (Ch) Jaap Huijskes Philip Dimmock Jón Ferrier Sami Zouari Stuart Catterall Gabriel Papineau-Legrís



## Gulf Keystone 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.

### 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 April 2016 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:

- Code Provision A.4.1 – requirement for appointment of Senior Independent Director – not complied with for part of year but rectified on 24 January 2017; and
- Code Provision B.2.4 – requirement for a description of the Board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives – not complied with, but the Board plans to improve diversity with future appointments.

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;
- annual operating and capital expenditure budgets;
- 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;
- acquisitions and disposals
- 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 2018, the Board has continued to focus its efforts on strategic objectives that will create shareholder value and ensuring that these are properly pursued while acting in the best interests of the Company as a whole.

As at the date of this report, the Board comprised two Executive Directors and five 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, ensuring that the Company's Directors have the right experience to meet the needs of the business. The Company places high importance on having robust Board composition to enable robust consideration and challenge of the strategies proposed by the Executive Directors by the five Non-Executive Directors.

As at the date of this report, the Board has five standing Committees: the Audit and Risk Committee, the Remuneration Committee, the Nomination Committee, the HSE and CSR Committee and the Technical Committee. Each standing Board Committee has specific written terms of reference issued by the Board and adopted by the relevant Committee, updated each year.

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

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

On 29 March 2018, it was announced that Keith Lough would step down as Non-Executive Chairman and as a Director on 11 April 2018. He will also resign from his Committee appointment. Jaap Huijskes will take over as Non-Executive Chairman on this day and following his appointment a further review will be undertaken on Committee membership.

## CORPORATE GOVERNANCE REPORT continued

### Board Committees

#### Audit and Risk Committee

As at 31 December 2017, the Audit and Risk Committee comprised three Non-Executive Directors, who are considered to be independent. The members were: Garrett Soden (Chairman), Philip Dimmock and Jaap Huijskes. Jaap Huijskes was appointed a member of the Committee on 12 December 2017, on which date Keith Lough stepped down from the Committee.

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; in particular the Chairman possesses relevant financial expertise. This Committee meets at least three times per year. During the year ended 31 December 2017, the Committee met five 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 March 2017.

The Audit and Risk Committee report is set out on pages 40 to 43, in a separate section of the Corporate Governance Report.

#### Nomination Committee

As at 31 December 2017, the Nomination Committee comprised three Non-Executive Directors, who are considered to be independent, and the Chairman of the Board. The members were: Jaap Huijskes (Chairman), Philip Dimmock, Garrett Soden and Keith Lough. Jaap Huijskes was appointed to the Committee and took over as Chairman on 12 December 2017, on which date Philip Dimmock stepped down as Chairman (remaining a member of the Committee), and David Thomas stepped down from the Committee. Keith Lough will step down on 11 April 2018.

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 March 2018.

The Nomination Committee Report is set out on pages 44 and 45, in a separate section of the Corporate Governance Report.

#### Remuneration Committee

As at 31 December 2017, the Remuneration Committee comprised three Non-Executive Directors: Philip Dimmock (Chairman), Garrett Soden and David Thomas. This was unchanged since 31 December 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 nine 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 2017, the HSSE and CSR Committee comprised two Non-Executive Directors one Executive Director, and the Chief Operating Officer, being David Thomas (Chairman), Jaap Huijskes Jón Ferrier (CEO) and Stuart Catterall (COO). Stuart Catterall was appointed to the Committee on 24 January 2017 and Jaap Huijskes was appointed to the Committee on 12 December 2017, on which date Philip Dimmock stepped down.

The Committee aims to meet at least four times a year and met four times during 2017. 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.

#### Technical Committee

The Technical Committee was established in November 2016. As at the date of this report, the Committee comprises three Non-Executive Directors, the two Executive Directors, the Chief Operating Officer (COO) and the Commercial Director. As at 31 December 2017, the members of the Committee were: David Thomas (Chairman), Philip Dimmock, Jaap Huijskes, Jón Ferrier (CEO), Sami Zouari (CFO), Stuart Catterall (COO) and Gabriel Papineau-Legrès (Commercial Director). Stuart Catterall was appointed to the Committee on 24 January 2017 and Jaap Huijskes was appointed to the Committee on 12 December 2017.

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.

The Committee met three times in 2017.



### 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 2017, 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 ("SID")

Philip Dimmock was appointed as SID on 24 January 2017. The SID is responsible for assisting the Chairman with effective communications with shareholders and is available to shareholders should there be any concern which could not be resolved through the normal channels of the Chairman, Executive Directors or the Investor Relations team. The SID also ensures that there is a clear division of responsibility between the Chairman and Chief Executive Officer.

### Changes to the Board

On 29 November 2017, Jaap Huijskes was appointed as independent Non-Executive Director. On 22 January 2018, it was announced that Keith Lough had informed the Board of his intention to step down upon a successor being appointed. On 29 March 2018, it was announced that Jaap Huijskes would replace Keith Lough as Chairman with effect from 11 April 2018, at which point Keith Lough would resign from his position as a Director. No other changes to the Board were made or intimated during the year.

### 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 ten scheduled Board meetings were held during the year ended 31 December 2017. 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 2017 is shown in the table below. For Board and Board Committee meetings, attendance is expressed as the number of meetings that each Director attended followed by the number of meetings held for the period he was a Director during the year. The number of meetings attended by each Director is shown out of the total number he was eligible to attend.

	Full Board meetings	Audit and Risk Committee	Remuneration Committee	Nomination Committee	HSSE and CSR Committee	Technical Committee
Keith Lough <sup>(6)</sup>	9/10	4/5	—	2/3	—	—
Philip Dimmock <sup>(7)</sup>	10/10	5/5	9/9	3/3	4/4	3/3
Jaap Huijskes <sup>(1,2,3,4,5)</sup>	1/1	0/0	—	0/0	0/0	0/0
Garrett Soden	10/10	5/5	7/9	3/3	—	—
David Thomas <sup>(6)</sup>	10/10	—	9/9	3/3	4/4	3/3
Jón Ferrier	10/10	—	—	—	4/4	3/3
Sami Zouari	10/10	—	—	—	—	3/3
Stuart Catterall	—	—	—	—	4/4	3/3
Gabriel Papineau-Legrís	—	—	—	—	—	3/3

(1) Appointed as a Director on 29 November 2017.

(2) Appointed to Audit and Risk Committee 12 December 2017.

(3) Appointed to Nomination Committee 12 December 2017.

(4) Appointed to HSSE and CSR Committee 12 December 2017.

(5) Appointed to Technical Committee 12 December 2017.

(6) Stepped down from Audit and Risk Committee 12 December 2017.

(7) Stepped down from HSSE and CSR Committee 12 December 2017.

(8) Stepped down from Nomination Committee 12 December 2017.



## CORPORATE GOVERNANCE REPORT continued

### Directors' independence

The independence of each of the Non-Executive Directors is considered upon appointment, annually and at any other time a Director's circumstances change in a way that warrants reconsideration, and also by their ongoing actions. 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 and Legal Director 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 is well informed on the Group's latest operational, financial, and corporate and investor relations matters.

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

### Re-election of Directors

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

### Performance evaluation of the Board and its Committees

In October 2017, as facilitated by an external service provider, Evalu8 Limited, the Board and its Committees formally evaluated their performance. The Board and Committees are satisfied that they are operating effectively and that each Director has performed well in respect of his individual role on the Board and Committees. 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.

New Directors receive a full induction upon their appointment. This involves meetings with key members of the senior management team across all functional departments and will cover for example technical, finance, commercial, legal and governance. If necessary, meetings will also be set up with external advisers as part of this process. During the year, Jaap Huijskes joined as a Director and received such an induction.

Directors will also undertake appropriate training on an ongoing basis. An example of this is the training module on anti-bribery and corruption which the Company developed and which all Directors completed during the year.

### 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
- regular analysis and reporting on the Company's risk register.

The Board also believes that the ability to work in partnership with the host government 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 2017:

- implementation of policies and procedures for key business activities;
- an appropriate organisational structure;
- 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; 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 2017 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**, 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 and corporate webcasts with the Group's management.

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 2017, 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 Audit and Risk Committee's primary focus is to support the Group's ongoing monitoring review and evaluation of 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 2017 and the date of this report, the Committee comprised three Non-Executive Directors, who are considered to be independent. The members of the Committee are: Garrett Soden (Chairman), Philip Dimmock and Jaap Huijskes. The members of the Audit and Risk Committee during the year were as follows:

- Garrett Soden;
- Philip Dimmock;
- Jaap Huijskes (appointed to the Committee on 12 December 2017); and
- Keith Lough (stepped down from the Committee on 12 December 2017).

The meetings were also attended on a selective basis by Jón Ferrier (CEO), Sami Zouari (CFO), Nadzeya Kernoha (Financial Controller), William McAvock (Financial Controller)<sup>(1)</sup>, Marie Ross (Legal Director and Company Secretary)<sup>(2)</sup>, Alasdair Robinson (Legal Director and Company Secretary)<sup>(3)</sup>, representatives from finance management, representatives from operations and Deloitte LLP (external auditor).

(1) Maternity cover for Nadzeya Kernoha from October 2017.

(2) Retired in June 2017.

(3) Appointed in June 2017.



### Review of the Committee's activities

Five Audit and Risk Committee meetings were held in the financial year on 28 March, 7 June, 30 August, 18 September and 5 December 2017. Two meetings of the Committee have been held to date in 2018. 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 2017</b>	<ul style="list-style-type: none"> <li>• 2016 full-year results</li> <li>• Report from the external auditor on the 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>• Auditor independence</li> <li>• Going concern and viability statement</li> <li>• Updated corporate risk register</li> <li>• Management representation letter</li> <li>• Cost recovery report</li> <li>• Private session with external auditor</li> <li>• Whistleblowing</li> </ul>
<b>June 2017</b>	<ul style="list-style-type: none"> <li>• Year to date and budget forecast report</li> <li>• Internal audit report and strategy</li> <li>• Risk register update</li> <li>• Treasury management</li> <li>• IT review</li> <li>• Delegation of authority</li> </ul>
<b>August 2017</b>	<ul style="list-style-type: none"> <li>• 2017 half year results</li> <li>• Report from external auditor on outcome of interim review</li> <li>• Principal accounting judgements and estimates</li> <li>• Anti-bribery training</li> </ul>
<b>September 2017</b>	<ul style="list-style-type: none"> <li>• Further consideration of 2017 half-year results</li> <li>• Updated corporate risk register</li> <li>• Supply chain management audit report</li> <li>• 2017 forecast update</li> </ul>
<b>December 2017</b>	<ul style="list-style-type: none"> <li>• External audit engagement letter and fee quotation</li> <li>• 2017 Deloitte audit planning report</li> <li>• Auditor independence</li> <li>• Evaluation of external auditors</li> <li>• Risk review and mitigation</li> <li>• Internal audit update</li> <li>• Organisational structure review</li> <li>• Delegation of authority</li> <li>• Insurance review</li> </ul>
<b>March 2018 (two meetings)</b>	<ul style="list-style-type: none"> <li>• 2017 full year results</li> <li>• Report from external auditor on outcome of 2017 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 and viability statement</li> <li>• Updated corporate risk register</li> <li>• Management representation letter</li> <li>• Internal audit update</li> <li>• Review of insurance cover</li> <li>• Treasury management</li> <li>• Delegation of authority</li> <li>• Private session with external auditor</li> </ul>
<b>April 2018</b>	<ul style="list-style-type: none"> <li>• Further consideration of 2017 full-year results</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 and the external auditor. On the instruction of the Audit and Risk Committee, the internal audit function did not perform any new reviews during 2017. 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.

## AUDIT AND RISK COMMITTEE REPORT continued

### Significant issues considered by the Audit and Risk Committee in 2017 and early 2018

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.

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 2017 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 Crude Oil Sales Agreement on the revenue recognition assessment 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 Committee considered reports from management concluding no indicators of the Shaikan block impairment were identified in 2017. 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 impact of the Crude Oil Sales Agreement on the impairment assessment and concurred with management's accounting treatment.</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. The Committee reviews the internal audit annual plan and all reports arising therefrom and assesses and approves management's actions on findings and recommendations.

At its meetings during 2017, the Committee reviewed management's internal audit action tracker reports and progress made in closing a number of internal audit recommendations.

### 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 external auditor, which 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 2017.

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 2017, Deloitte LLP provided the following non-audit services to the Group:

- interim review of the half year results; and
- corporate finance services in relation to share consolidation.

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 alongside a full Board and Committee evaluation, externally facilitated by Evalu8 Limited, in October 2017. The evaluation found no areas of significant concern for the Committee.

### Garrett Soden

Chairman of Audit and Risk Committee

10 April 2018

## NOMINATION COMMITTEE REPORT



**Jaap Huijskes**

Chairman of Nomination Committee

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

#### 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 four independent Non-Executive Directors: Jaap Huijskes (Chairman), Philip Dimmock, Garrett Soden and Keith Lough. Jaap Huijskes was appointed as a member of the Nomination Committee, and its Chairman, on 12 December 2017. Prior to this, Philip Dimmock acted as Chairman of the Committee. David Thomas stepped down from the Committee on 12 December 2017 upon the appointment of Jaap Huijskes. Keith Lough will resign from the Committee with effect from 11 April 2018.

#### Diversity

As a small/medium-sized company, Gulf Keystone does not have a formal diversity policy. There is broad consensus that Board diversity requires improvement and this has been actively encouraged during recruitment and will continue to be a specific focus for the Committee. The Committee recognises the benefits of diversity across all areas of the Group and believes that a diverse Board is a positive factor in business success, brings a broader, more rounded perspective to decision making, and makes the Board more effective. When recruiting, the Board endeavours to consider a wide and diverse talent pool whilst also taking into account the optimum make-up of the Board, including the benefits of differences in skills, industry experience, business model experience, gender, race, disability, age, nationality, background and other attributes that individuals may bring.

#### 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 appointed following a formal pitch process. A detailed job profile and engagement scope will be agreed with the selected recruitment consultant following a review of the balance and composition of the Board. New Directors are subject to a formal induction process.



### Review of the Committee's activities

The Nomination Committee meets at least twice per year. During 2017, the Committee met formally on two occasions, in June and November. In addition, a number of informal meetings took place to discuss matters relevant to the Committee.

Some of the key matters considered by the Committee during the year ended 31 December 2017 were considering the balance and composition of the Board; and the recruitment of a further independent Non-Executive Director. In addition, in January 2018, the Committee commenced a formal exercise to seek a replacement Chairman for the Company.

On 29 November 2017, Jaap Huijskes was appointed an independent Non-Executive Director. The appointment of Mr Huijskes followed a search process, using external recruitment consultants, which identified Mr Huijskes as an appropriate candidate for the Board. Mr Huijskes has detailed knowledge and significant experience of the strategic, operational and technical dimensions of the upstream oil and gas sector, having led a distinguished career principally at Shell and OMV. Further information on Jaap Huijskes is detailed in the section on the Board of Directors on pages 30 and 31.

On 22 January 2018, the Company announced that Keith Lough had intimated his intention to step down as Chairman of the Company. Shortly thereafter, the Nomination Committee embarked upon a formal process for the appointment of his successor. Following a formal pitch process, Ridgeway Partners was engaged to lead this process. On 29 March 2018, it was announced that Jaap Huijskes would replace Keith Lough as Non-Executive Chairman with effect from 11 April 2018, at which point Keith Lough would step down as Director and also from his membership of the Committees. Notwithstanding this, the search process is continuing in order to identify and appoint other suitable independent Non-Executive Directors to create a Board with the necessary, complementary skills and diversity.

### Board evaluation

In October 2017, the Board and Committees undertook a formal evaluation process, using an external evaluation process and facilitator, Evalu8. All Directors (with the exception of Jaap Huijskes who had not joined the Board by this stage) participated in the evaluation and the results were presented and discussed at a scheduled meeting of the Board. There were no significant matters identified for improvement, except the need for the recruitment of a further independent Non-Executive Director.

This matter was addressed initially through the appointment of Jaap Huijskes and a further search process for an additional independent Non-Executive Director is ongoing.

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.

### Jaap Huijskes

Chairman of Nomination Committee

10 April 2018



## REMUNERATION COMMITTEE REPORT



**Philip Dimmock**

Chairman of Remuneration Committee

Executive management and staff are to be congratulated on the good performance that was recorded against the KPIs related to HSSE, financial and operational objectives.

### Part 1: Annual statement from the Chairman of the Committee

Dear Shareholder,

As Chairman of Gulf Keystone's Remuneration Committee, I am pleased to present our Directors' Remuneration Report for 2017.

Despite the uncertain regional environment, caused by the war with Daesh and the aftermath of the referendum on Kurdistan's independence, the executive management and staff are to be congratulated on the good performance that was recorded against the Key Performance Indicators ("KPIs") related to HSSE, financial and operational objectives. However, only limited progress could be made during the year with the strategic KPIs. After the year end, the execution of the Crude Oil Sales Agreement delivered a very significant milestone in the Company's development and positions the Company to achieve excellent progress in 2018.

During the year, the Remuneration Committee continued to apply the Directors' Remuneration Policy that was approved at the 2016 AGM. Nevertheless, we continued to review the Remuneration Policy to ensure that it remained effective and aligned with strategy and with the interests of shareholders. Remuneration packages were benchmarked against our peers in the oil and gas sector as well as the wider market.

The revised Executive Bonus Plan, which focuses on the achievement of objectives within the calendar year, was implemented. This plan reduced the maximum bonus award for the achievement of Stretch targets from 200% to 125% for the CEO and from 150% to 100% for the CFO. The Value Creation Plan focuses Executive Directors on the achievement of absolute shareholder returns.

The first measurement date will be 11 May 2018 when, providing the performance conditions have been achieved, the Executive Directors will be granted nil-cost options equivalent to their share of the performance pot. Subject to continued achievement of the performance requirements, 50% of these options will vest after the end of the third plan year and 50% after the end of the fourth plan year.

It is the Committee's intention to exercise its discretion (included within the current Directors' Remuneration Policy) to reduce the Directors' shareholding requirement from 300% to 150% for the CEO and from 200% to 100% for the CFO and to extend the time limit for achieving this target to five years from the date of change. These levels have been reduced to ensure that Executive Directors are able to realistically achieve the targets within the given timeframe, particularly as they have not been recipients of LTIP awards, which, under normal circumstances, would have enabled them to build up their shareholding. Any vested VCP awards will be included in their shareholding thresholds.

In voluntary compliance with section 439A of the Companies Act 2006 as revised in 2013, the Directors' Remuneration Policy is due for further shareholder approval in 2019. A full review will be undertaken later in 2018 to ensure that the policy submitted will be appropriate and based on best practice.

Full details of the policy are provided in the Directors' Remuneration Policy table in Part 2 of this report. Part 3 contains our Annual Report on Remuneration, which explains how the Directors' Remuneration Policy has been implemented during the year ended 31 December 2017.



### Remuneration Policy objectives

Specific objectives of the Directors' Remuneration Policy are to motivate Executive Directors and other key executives to:

- achieve share price growth and return value to shareholders;
- deliver outstanding HSSE; financial and operational results, and
- ensure retention and motivation of Executive Directors.

Amendments to the Policy are designed to help fulfil those goals and to ensure that overall levels of remuneration are aligned with the delivery of our strategy, remain competitive and are consistent with Company's performance and returns to shareholders.

### Remuneration summary for 2017

The Committee's key decisions relating to remuneration in 2017 are described in more detail in the Annual Report on Remuneration contained on pages 52 to 57 and can be summarised as follows:

#### Base salary increases

The Committee agreed that no salary increases would be applied to either of the Company's Executive Directors.

#### Annual bonus

Based on an assessment of KPIs achieved in 2017, payments made under the annual bonus scheme to both CEO and CFO was set at 50% of base salary. Details of the way in which these awards were determined are set out on page 55 of the Annual Report on Remuneration.

#### Long-term incentive – Value Creation Plan ("VCP")

The first award, if any, for the initial performance period will be made 30 days following the disclosure of financial results. Therefore, we are unable to include details of any VCP award in this publication.

### Non-Executive Directors' fees and Chairman's fee

During 2017, benchmark data including fees and time commitments for non-executive roles was reviewed by the Board, with the Non-Executive Directors recused, and for the Chairman by the Remuneration Committee. It was determined that no changes to fees would be made.

### Part 2: Directors' Remuneration Policy Introduction

This Part 2 provides an overview of the Directors' Remuneration Policy. It describes the elements of remuneration and summarises the approach the Remuneration Committee will adopt in certain circumstances such as the exercise of discretion, the recruitment of new Directors and the making of any payments for loss of office.

Gulf Keystone Petroleum is not governed by the Large and Medium-sized Companies and Groups Regulations 2013 (the "Regulations"), but chooses to comply.

### Purpose and role of the Remuneration Committee

The Remuneration Committee determines and agrees with the Board the overall remuneration policy for the Executive Directors and other key employees. Within the terms of this agreed policy, the Committee is responsible for:

- individual remuneration packages for the Chairman, each Executive Director and the Chief Operating Officer as designated by the Board;
- approving the design of performance related pay schemes, recommending targets and award levels; and
- agreeing pension arrangements, service agreements and termination payments for Executive Directors and ensuring that any termination payments are fair to the individual and the Company.

The Committee also reviews and approves overall remuneration levels for employees below executive level, but does not set individual remuneration levels for such individuals. This oversight role allows the Committee to take into account pay policies and employment conditions throughout the Group when designing packages for the Executive Directors and other key employees. The Committee considers any standard increase applied to basic pay across the Group when reviewing Executive Directors' base salaries.

The Committee operates within written terms of reference agreed by the Board. These are reviewed periodically to ensure that the Committee remains up-to-date with best practices appropriate to Gulf Keystone, its strategy and the business and regulatory environment in which it operates. The terms of reference of the Remuneration Committee are available on the Company's website.

### Consultation with stakeholders

The Remuneration Committee values and has taken account of comments from major shareholders on matters concerning executive remuneration. From time to time, the Chairman of the Committee consults with major shareholders on executive remuneration policy and will continue to consult on any proposed policy changes. The Remuneration Committee has not carried out a formal consultation with employees, the majority of whom are based in Kurdistan, on matters concerning executive remuneration. The Committee is, however, mindful of proposed changes to the UK Corporate Governance Code in relation to consultation with employees and other stakeholders.

## REMUNERATION COMMITTEE REPORT continued

### Part 2: Directors' Remuneration Policy continued

Remuneration element	Link to strategy	Operation	Opportunity	Remuneration Committee discretion
<b>Base salary</b>	Essential to attract and retain key executives.	Reviewed annually as at 1 January based on: <ul style="list-style-type: none"> <li>• role, experience and individual performance;</li> <li>• pay awards elsewhere in the Group;</li> <li>• external market; and</li> <li>• general economic environment.</li> </ul>	Policy is to benchmark to the relevant market median.  Normally, salary increases for Executive Directors will be in line with the average employee increase.	The Committee retains discretion to: <ul style="list-style-type: none"> <li>• award above median increases in exceptional circumstances and in consultation with shareholders where necessary to retain or attract high calibre candidates;</li> <li>• select the appropriate market comparator group; and</li> <li>• increase salaries above the general employee average to reflect significant additional responsibilities.</li> </ul>
<b>Benefits</b>	Helps attract and retain key executives.	Directors are entitled to private medical insurance; CEO receives car allowance.	Benefit levels reflect those typically available to senior managers within Gulf Keystone. The CEO receives an allowance to cover private medical insurance and car allowance of £25,000.	If a Director is recruited from overseas, the Committee may provide additional benefits tailored to the circumstances (e.g. relocation expenses).
<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 are not included in base salary for annual bonus or other executive rewards.	15% of base salary.	
<b>Annual bonus</b>	Rewards achievement of annual key performance indicators.	Targets and weightings are set annually; performance is measured over a single year.  Bonus awards are determined after the year end based on achievement of targets.  Clawback provisions apply.	Maximum bonus opportunity is 125% of annual salary for the CEO and 100% for other Executive Directors.	The Committee may in exceptional circumstances, change performance measures and targets and their respective weightings part way through a performance year, if there is a significant event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate.  Discretion may also be exercised if the Committee believes the bonus outcome is not a fair and accurate reflection of business performance.  Safety is of central importance to the business and the Committee may reduce bonus awards if there is a serious safety event.



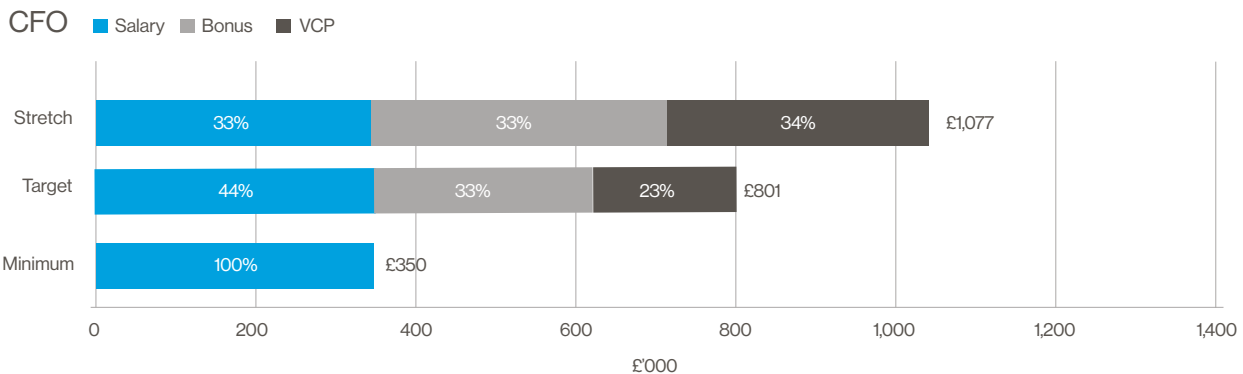
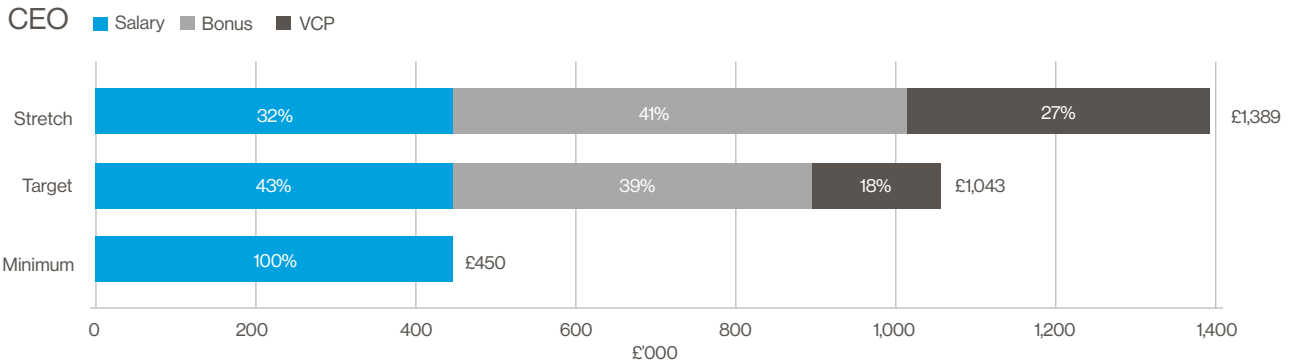
Remuneration element	Link to strategy	Operation	Opportunity	Remuneration Committee discretion
<b>Value Creation Plan ("VCP")</b>	<p>Provides an incentive to reward the successful implementation of the Company's strategy.</p> <p>Helps motivate and retain high performing executives.</p>	<p>Participants, who are selected at the discretion of the Committee, are awarded performance units representing their share in a "Performance Pot" equivalent to 8% of the increase in value of the Company in excess of a minimum compound annual TSR of 8% (the "hurdle"), which is measured annually.</p> <p>Provided the hurdle is achieved, participants will be granted nil-cost options each year for five years, starting one year after the initial award of units. The number of shares subject to each option depends on the individual's share of the Performance Pot and the market price of a share on the measurement date.</p> <p>Provided the Company continues to generate returns in excess of the hurdle, 50% of nil-cost options vest after the third measurement date and 50% vest after the fourth measurement date. If, by the fifth measurement date, GKP has failed to generate the hurdle rate TSR, all unvested nil-cost options will lapse.</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 Committee has discretion to make the exercise of nil-cost options subject to additional conditions.</p>
<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 150% salary holding required for the CEO and 100% salary holding required for all other Executive Directors.</p>	<p>The Committee has discretion to change the shareholding requirements.</p>

## REMUNERATION COMMITTEE REPORT continued

### Part 2: Directors' Remuneration Policy continued

#### Remuneration scenarios for Executive Directors based on current policy

The graphs below illustrate the relationship between the elements of remuneration for the current Executive Directors in 2018 for "Minimum", "Target" and "Stretch" scenarios.



The above illustrations are based on a number of assumptions:

- 1) the Minimum scenarios show the fixed level of remuneration, assuming there is no performance-related pay;
- 2) the Target scenarios illustrate the amounts receivable if performance is in line with expectations. Bonus awards are 90% of base salary for the CEO and 75% of base salary for the CFO. As the VCP does not include a Target (or Stretch) amount and awards are not based on a percentage of salary, the Target levels of VCP are based on an estimation of the number and value of nil-cost options which would be granted if GKP achieves a compound annual rate of TSR of 10%; and
- 3) the Stretch scenarios illustrate the levels of remuneration which would be payable if maximum bonus awards are made (125% of base salary for the CEO and 100% for the CFO). Stretch levels of VCP and are based on an estimation of the number and value of nil-cost options which would be granted if Gulf Keystone achieves a compound annual rate of TSR of 12%.

#### Executive Directors' recruitment policy

Remuneration packages for new Executive Directors are designed in accordance with the policy described in Part 1. Relocation packages are assessed on their individual merits. It is not our policy ordinarily to buy-out executives from pre-existing incentive arrangements, but the Committee will consider compensating a new Executive Director for the loss of incentives awarded by a previous employer, if it believes such compensation is warranted. We seek to avoid paying more than necessary to secure a candidate and will have regard to current 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. 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.

### Terms of the Executive Directors' service contracts

Executive Directors are engaged on rolling service contracts, which provide for 12 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 12 or six months, as appropriate, after one year.

### Non-Executive Directors' letter of appointment

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

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 benefits or incentive plans.

### Inspection of documents and re-election of Directors

Directors' service contracts and appointment letters will be available for inspection for 15 minutes prior to and during the 2018 AGM.

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

### Termination payment policy

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	Policy summary
<b>Salary and benefits</b>	<p>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. Benefits will cease on termination of employment.</p> <p>No compensation if termination is owing to misconduct or voluntary resignation.</p> <p>The Committee will determine such mitigation as it considers fair and reasonable in each case.</p>
<b>Annual bonus</b>	<p>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.</p> <p>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.</p>
<b>VCP</b>	<p>"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 TSR measurement date.</p> <p>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.</p>

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.

When deciding on 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.

# REMUNERATION COMMITTEE REPORT continued

## Part 3: Directors' Remuneration Report

### Introduction

GKP's auditor has reported on those sections (highlighted below) which the Regulations require to be audited.

### Remuneration Committee membership during 2017

Throughout the year, the Committee members were:

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

The members had no personal financial interest, other than as shareholders, in the decisions made by the Committee. There were no conflicts of interests arising from cross-directorships and no involvement in the Company's day-to-day operations. Details of members' attendance at Committee meetings are shown on page 37.

### Statement of shareholder voting

At the 2017 AGM held on 16 June 2017 no changes were made to the previously approved Directors' Remuneration Policy and the votes cast were as follows:

	Votes for %	Votes against %	% of issued share capital	Votes withheld
Resolution to approve Directors' Remuneration Report for year to 31 December 2016	70.66	29.34	59.74	634

### Payments to past Directors during the year (audited)

No payments were made to past Directors during the financial year ending 31 December 2017.

### Single total figure of remuneration table for the year (audited)

2017	Salary £'000	Pension £'000	Benefits £'000	Cash bonus £'000	Other £'000	Total £'000
<b>Executive Directors</b>						
Jón Ferrier	450	68	25	225	—	768
Sami Zouari	350	53	3	175	—	581
<b>Non-Executive Directors</b>						
Keith Lough	180	—	—	—	—	180
Philip Dimmock	100	—	—	—	—	100
Garrett Soden	81	—	—	—	—	81
David Thomas <sup>(1)</sup>	91	—	—	—	—	91
Jaap Huijskes <sup>(2)</sup>	7	—	—	—	—	7
Cuth McDowell <sup>(3)</sup>	6	—	—	—	—	6
<b>Total</b>	<b>1,265</b>	<b>121</b>	<b>28</b>	<b>400</b>	<b>0</b>	<b>1,814</b>

(1) Includes a payment from 2016.

(2) Jaap Huijskes joined on 29 November 2017.

(3) Cuth McDowell final salary payment in January 2017.



2016	Salary £'000	Pension £'000	Benefits £'000	Cash bonus £'000	Other £'000	Total £'000
<b>Executive Directors</b>						
Jón Ferrier	450	68	43	540	—	1,101
Sami Zouari	350	53	3	420	—	826
<b>Non-Executive Directors</b>						
Keith Lough	127	—	—	—	—	127
Philip Dimmock	93	—	—	—	—	93
Garrett Soden <sup>(1)</sup>	15	—	—	—	—	15
David Thomas <sup>(1)</sup>	15	—	—	—	—	15
Andrew Simon <sup>(2)</sup>	97	—	—	—	—	97
Cuth McDowell <sup>(3)</sup>	55	—	—	—	—	55
<b>Total</b>	<b>1,202</b>	<b>121</b>	<b>46</b>	<b>960</b>	<b>—</b>	<b>2,329</b>

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

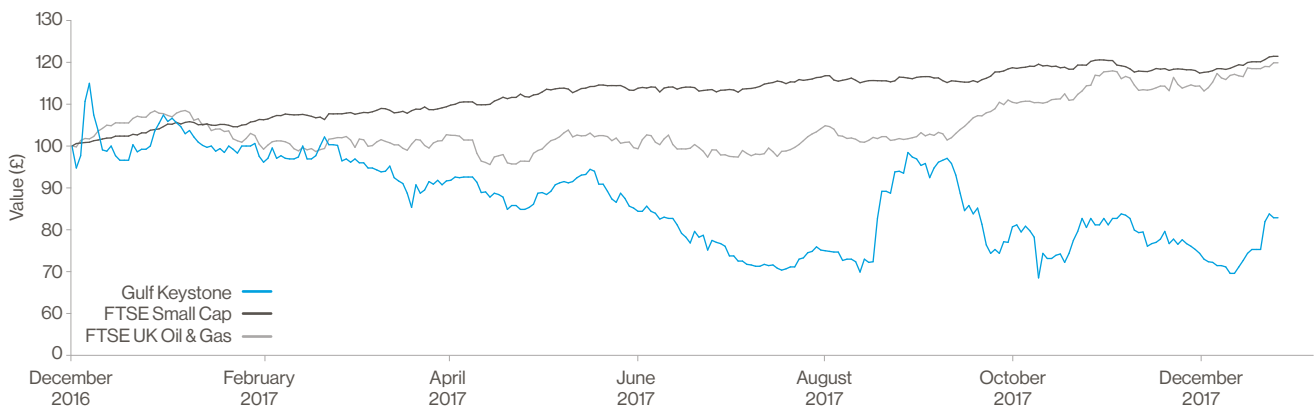
(2) Andrew Simon retired from the Board on 14 July 2016; Keith Lough was appointed Chairman on the same date.

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

## TSR performance

The following charts compare the change in value of a £100 investment in the Company and in both the FTSE Small Cap Index and the FTSE Oil & Gas Producers Index since the consolidation of the Company's share capital in 2016:

### Total shareholder return ("TSR") 8 December 2016 to 31 December 2017



Source: Thomson Reuters Datastream.



**REMUNERATION COMMITTEE REPORT** continued**Part 3: Directors' Remuneration Report** continued

## Historical CEO pay

	2014 £'000	2015 £'000	2016 £'000	2017 £'000
Single figure remuneration	849 <sup>(1)</sup>	1,021 <sup>(2), (3)</sup>	1,101	<b>768</b>
Bonus percentage of maximum payable	69%	40% <sup>(4)</sup>	60%	<b>50%</b>
Vested LTIP awards as percentage of maximum	0%	0%	0%	<b>0%</b>

(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 remuneration

The following table shows the percentage change in the remuneration of the CEO between the years ended 31 December 2016 and 31 December 2017 and the average percentage change for the remuneration in the Group as a whole excluding the CEO.

	Salary	Benefits <sup>(1)</sup>	Annual bonus <sup>(2)</sup>
CEO percentage change	0%	(42%)	(58%)
Group percentage change	0%	100%	(7%)

(1) New pension and medical scheme introduced for all employees, excluding Executive Directors, in 2017.

(2) New bonus plan introduced for employees in 2017.

## 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:

	2017 \$'000	2016 \$'000	Percentage change
Total employee pay	<b>18,856</b>	20,929	(9.9%)
Profit/(loss) after tax	<b>14,126</b>	(17,435)	181%
Operating expenditure	<b>46,042</b>	61,191	(24.8%)

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.

## Executive Directors' base salary provision

There were no salary increases for Executive Directors during the financial year ending 31 December 2017.

## Annual cash bonus plan (audited)

During 2017, Gulf Keystone operated annual executive performance bonus plan. Maximum bonus potential is 125% of base salary for the CEO and 100% for other executives.

The diagram below shows the corporate performance elements and their relative weightings.

## Corporate performance elements

<b>HSSE</b> <b>15%</b>	<b>Financial</b> <b>30%</b>	<b>Production</b> <b>20%</b>	<b>Long-term plan</b> <b>15%</b>	<b>Strategic</b> <b>20%</b>
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The following table describes the KPIs set for 2017 and the levels achieved.

Metric	Extent of achievement	Weighting	Results	
			Score	Weighted score
<b>HSSE</b>	Delivered 98.7% of the HSSE management plan out of a range of 90% to 100% completion.	7.5%	93.5%	7.0%
	Delivered excellent safety performance (TRIFR) in line with a TRIFR Target of 1, where Threshold was 2, and Stretch 0.	7.5%	75%	5.6%
<b>Financial</b>	Received eleven monthly cash payments during the year which was in line with the Company's target.	15%	75%	11.3%
	Achieved net operating costs well below budget and in line with Stretch target which was budget less 8%. This achievement takes into account the lower investment levels.	10%	100%	10%
	Net G&A costs delivered in line with Threshold level which was in line with the G&A budget forecast.	5%	50%	2.5%
<b>Operational</b>	Achieved average gross production of 35,298 which is above the 35,000 bopd target level, but below Stretch of 38,746 bopd. High levels of production achieved in spite of geopolitical challenges during the latter half of the year.	20%	77%	15.4%
	The Shaikan long-term plan was developed and presented to partners in line with our target, although initiation of the pipeline export scheme was not finalised by year end.	15%	75%	11.2%
<b>Strategic</b>	Certain strategic and commercial project milestones were not completed by year end.	10%	0%	0%
	Due to delayed investment, the near-term project execution plan metric was not met.	10%	0%	0%
<b>Total</b>		<b>100%</b>	<b>—</b>	<b>63%</b>

The above KPIs are used to determine annual bonus awards for employees throughout the Group.

Executive Directors received the following bonus awards for 2017:

Executive	Bonus award	% of base salary
CEO	£225,000	50%
CFO	£175,000	50%

While the executives are commended for the good performance achieved against the HSSE, financial and operational KPIs, in order to align with shareholder value, the Remuneration Committee used discretion to make bonus awards for 2017 lower than that calculated solely from the scores against KPIs.

### Pension provision for Executive Directors (audited)

In lieu of a pension provision, each Executive Director received a cash allowance equivalent to 15% of base salary.

### Benefits

Benefits received by the CEO included a car allowance and private medical insurance, totalling £25,000. The CFO received private medical insurance totalling £2,847.

## REMUNERATION COMMITTEE REPORT continued

### Part 3: Directors' Remuneration Report continued

#### Value Creation Plan ("VCP")

The VCP provides for participants to share in an incentive pot equivalent to 8% of the increase in value of the Company provided GKP generates total shareholder return ("TSR") in excess of 8% per annum compound over five years.

Each participant's share of the incentive pot is represented by an award of performance units. The Company's TSR performance is measured annually and, if it exceeds the hurdle, a proportion of the total number of performance units awarded may convert into nil-cost options over GKP common shares following each measurement date. This process continues each year for five years.

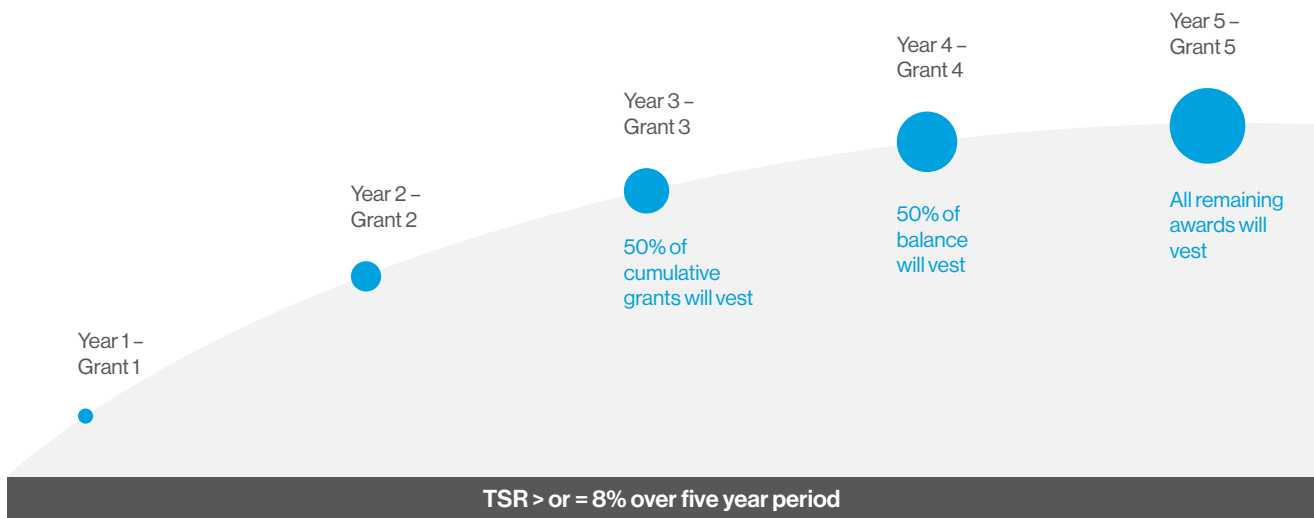
Nil-cost options cannot ordinarily be exercised until after the third annual measurement date and exercise is dependent on the Company generating TSR in excess of 8% per annum compound.

The following graphs provide an overview of the scheme.

#### Incentive pot distribution



#### Value Creation Plan



Provided the hurdle TSR has been achieved:

- 50% of the cumulative number of nil-cost options granted in the first three years of the VCP will vest and may be exercised after three years. If the hurdle TSR has not been achieved, no nil-cost options will vest at this point but they will not lapse and will be carried forward;
- after four years, 50% of the cumulative balance of nil-cost options granted in the first four years of the VCP will vest and may be exercised after four years. If the hurdle TSR has not been achieved, no nil-cost options will vest at this point but they will not lapse and will be carried forward;

However, if the hurdle TSR has not been achieved after five years, any unvested nil-cost options will lapse and may not be exercised.

#### Long-term incentive awards granted/vested in 2017 (audited)

No long-term incentive awards were made to Executive Directors in 2017 and none vested or were exercised.

#### Statement of Directors' shareholdings and share interests (audited)

Executive Directors are required to maintain a shareholding in the Company. Up to and including 2017, the policy requirements were 300% of base salary for the CEO and 200% for other Executive Directors. The net value of vested but unexercised share awards are 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.

As stated in Part 1, the Remuneration Committee has exercised its discretion to reduce the required levels to 150% of base salary for the CEO and 100% of salary for other Executive Directors.



Directors' shareholdings and share interests as at 31 December 2017 were as follows:

	Shareholding requirement as a % of salary	Beneficially owned shares	Vested but unexercised scheme interests	Unvested scheme interests subject to performance conditions	Unvested scheme interests not subject to performance conditions	Total conditional and unconditional interest in shares
<b>Executive Directors</b>						
Jón Ferrier	150%	—	—	—	—	—
Sami Zouari	100%	—	15,000	—	—	15,000
<b>Non-Executive Directors</b>						
Keith Lough	—	—	—	—	—	—
Philip Dimmock	—	—	—	—	—	—
Garrett Soden	—	—	—	—	—	—
David Thomas	—	—	—	—	—	—
Jaap Huijskes	—	—	—	—	—	—

## Implementation of the future Remuneration Policy in 2018

### Base salaries and benefits

No change to base salaries or benefits is proposed for 2018.

### Annual bonus – summary of KPIs for 2018

#### 2018 Corporate and executive KPIs

Category	KPI	Weighting
<b>Strategic</b>	Investment milestones to build capacity to 55,000 bopd	20%
<b>Financial</b>	Gross operating cost	10%
	Shaikan G&A (gross)	5%
	Corporate G&A	5%
<b>Licence to operate</b>	HSSE improvement plan	10%
	Safety performance TRIF	10%
<b>Operational</b>	Gross production bopd	25%
	Project milestones	5%
	Field Development Plan	10%
<b>Total</b>		<b>100%</b>

The same Company KPIs are used for both the executive and employee bonus plans for which all Company employees are eligible. The Executive Bonus Plan includes an individual performance award of up to 30% of the maximum bonus available for the achievement of individual goals and leadership performance relating to the delivery of the Company's key strategic targets for the year. The Executive Directors are expected to create the environment and develop opportunities to enable the organisation as a whole to achieve extraordinary performance and maximum KPI scores.

### VCP

Subject to the Company's TSR performance, it is proposed that the first nil-cost options will be granted on, or as soon as practicable after, the first measurement date, which falls on 11 May 2018.

This Directors' Remuneration Report was approved by the Board on 10 April 2018 and signed on its behalf by:

#### Philip Dimmock

Chairman of the Remuneration Committee

10 April 2018

## HSSE AND CSR COMMITTEE REPORT



**David Thomas**

Chairman of HSSE and CSR Committee

The Group strives to operate successfully and efficiently in Kurdistan while protecting people, property and the environment.

Gulf Keystone Petroleum is committed to conducting its business safely and in a socially responsible and ethical manner. The Group strives to operate successfully and efficiently in Kurdistan while protecting people, property and the environment from harm as a consequence of its operations. The Company aims to ensure 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 and CSR governance process

The role of the HSSE and CSR Committee, which has been in place for five years, is to ensure that appropriate management systems and processes are in place to minimise any HSSE risks associated with the Group's activities. The Committee also oversees the formulation and implementation of the Company's Corporate Social Responsibility ("CSR") policies and strategy.

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

A key focus of the Committee is on continuous HSSE performance improvement and encouraging an open and honest culture, involving all staff members of the Group and its contractors.

### Composition

As at 31 December 2017, the HSSE and CSR Committee comprised three of the independent Non-Executive Directors, David Thomas, Jaap Huijskes and Philip Dimmock, the CEO, Jón Ferrier, and the COO, Stuart Catterall. The Company's HSSE Manager, Patrick Krott, also attends meetings.



### Review of the Committee's activities

The Committee meets formally at least four times a year and during 2017 met on 17 February, 9 May, 24 October and 11 December.

Throughout 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. Unfortunately, similar visits planned for the Committee in 2017 had to be deferred due to the regional military activity associated with the expulsion of Daesh from Northern Iraq and the closure of Erbil airport at the end of September 2017 following the Kurdish independence referendum.

Despite these precautionary measures being required, Kurdish operational staff from Erbil and the Shaikan field were able to participate in the HSSE and CSR Committee through the use of video and telephone conferencing technology.

In 2018, the Committee plans to have further meetings with the workforce and site tours to underpin the Group's ongoing health and safety management programme, providing travel conditions return to normal.

In October 2017, the Committee undertook a formal evaluation process, externally facilitated by Evalu8 Limited. No matters of significant concern were identified.

### Health and safety

During 2017, the Committee actively monitored and supported the implementation of the Company's 2017 HSSE action plan and was pleased to see that an overall achievement of 99% was obtained during the course of the year. Particular areas of focus were improving the Company's emergency response and crisis management capabilities getting prepared for the safe re-commencement of drilling and work-over operations in the field and following through with an upgrade of the HSSE management system. In addition, the Committee helped guide and set priorities for the preparation of the new HSSE action plan for 2018.

### Security

During the first half of 2017, the regional security situation gradually improved and the ultimate defeat of Daesh at Mosul was a major success which gave grounds for confidence in the future. However, the reaction to the independence referendum held in September 2017 led to a great deal of uncertainty in the last quarter of the year. Gulf Keystone continued its operations on an uninterrupted basis in the fourth quarter of 2017 but had to take some precautions to ensure the safety of its personnel. Also, following the closure of Erbil airport at the end of September 2017, personnel movements and logistics became more complex. Although the situation is now more stable, the recent resurgence of some terrorist cells around the area of Kirkuk implies that the situation could deteriorate again and the Company is monitoring the situation closely.

### Environment

In 2017, air quality monitoring and waste management continued to be a key area of focus in regard to the environment. The Group has plans to further improve our air quality monitoring systems in 2018, with the addition of more accurate technology that will allow us to ensure we meet and exceed the required standards. 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

Throughout 2017, the Company commenced the development of a long-term CSR strategy to complement its existing local Shaikan community development and support plans. The Company has commissioned a specialist international consultant with specific Kurdish experience to assist with this process. The new CSR strategy is in the final stages of preparation and we intend to implement it during 2018.

### David Thomas

Chairman of HSSE and CSR Committee

10 April 2018

## TECHNICAL COMMITTEE REPORT



**David Thomas**  
Chairman of Technical Committee

...the Technical Committee was established to support Shaikan development planning and project execution activities...

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.

During 2017, the Technical Committee was primarily engaged on two main issues:

1. optimisation of the Field Development Plan; and
2. update of Jurassic and Triassic sub-surface understanding to enable reserves and production forecasts to be revised.

Significant progress was made on both of these issues, but delays to the completion of the commercial agreements with the MNR

have meant that we are not yet in a position to disclose publicly any of this work. However, recent progress on the commercial matters means that we anticipate both a revision to the Field Development Plan and an update to the Competent Person's Report ("CPR") in due course to take account of this work.

The members of the Committee are: David Thomas (Independent Non-Executive Director, Chairman), Philip Dimmock (Senior Independent Director), Jón Ferrier (CEO), Sami Zouari (CFO), Gabriel Papineau-Legris (Commercial Director) and Stuart Catterall (Chief Operating Officer). In addition, following his appointment as Director in December 2017, Jaap Huijskes was also appointed as a member of the Committee.

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 plans to meet on a quarterly basis but adjusts the meeting timings to coincide with key decision points within the project development schedule or the release of significant new technical or reserves related information.

The Committee held its inaugural meeting on 23 November 2016, met three times in 2017, on 23 March, 3 July and 1 November and twice so far in 2018, on 16 January and 27 March.

In October 2017, the Committee undertook a formal evaluation process, externally facilitated by Evalu8 Limited. No matters of significant concern were identified.

**David Thomas**  
Chairman of the Technical Committee  
10 April 2018



## 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 2017. A review of the business is set out in the preceding sections of this Annual Report, including the Chairman's Statement, Executive Review and Operational Review, which are incorporated into this report by reference. The Corporate Governance Report also forms part of this report.

### Results and dividends

The Group's financial results for the year ended 31 December 2017 are set out in the consolidated financial statements. The Group made a net profit after taxation for the year of \$14.1 million (2016 loss of \$17.4 million) and the Directors do not recommend a dividend for the year (2016: \$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 Directors' Remuneration Report on pages 52 to 57.

### 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.

### 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 Byelaws and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's common shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued common shares are fully paid.

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 bylaw amendments

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

The Company's Byelaws 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 Byelaws, the Companies Act (Bermuda) and related legislation. In accordance with the Byelaws, all of the Directors are required to stand for re-election by the shareholders each year at the Annual General Meeting.

The following Directors have held office during the year:

**Jón Ferrier** – Chief Executive Officer<sup>(4,5)</sup>

**Sami Zouari** – Chief Financial Officer<sup>(5)</sup>

**Philip Dimmock** – Senior Independent Director<sup>(1,2,3,5)</sup>

**Keith Lough** – Non-Executive Chairman<sup>(3)</sup>

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

**David Thomas** – Independent Non-Executive Director<sup>(1,2,3)</sup>

**Jaap Huijskes** – Independent Non-Executive Director (appointed November 2017)<sup>(1,3,4,5)</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.

### 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 2017 had any interest in the common shares of the Company.<sup>(1)</sup>

At the date of this report, the EBT held 10,672 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 2017 are disclosed in the Remuneration Committee Report.

(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' REPORT continued

### Significant shareholdings

As at 3 April 2018, being the date of the most recent analysis of the Company's share register, the Company discloses the following significant shareholdings:

Shareholder	Number of common shares	Percentage of issued share capital
Taconic Capital Advisors	31,134,938	13.57
Lansdowne Partners	29,280,882	12.76
Sothic Capital Management	29,238,448	12.74
UBS Group AG	26,195,453	11.42
Capital Research Global Investors <sup>(1)</sup>	19,593,285	8.54
Cowell & Lee Advisors	11,249,540	4.90

(1) 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 Executive Review 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 Executive Review.

The Group has seen a significant improvement in the pattern of cash receipts from the MNR, with the total receipts of \$132 million net to the Group in 2017 and further net receipts of \$61.5 million in the first quarter of 2018 in relation to 2017 sales.

Following the relinquishment of the Ber Bahr block in July 2017, the Group has focused on its core asset, the Shaikan block. The Group's improved liquidity 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 option to delay the Reinstated Notes interest payments, the improvements in oil revenues receipts and 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 \$203 million of unrestricted cash as at 10 April 2018. 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 2017 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 Shaikan 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

10 April 2018



## 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 ("IAS 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, IAS 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 IFRSs 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 10 April 2018 and is signed on its behalf by:

### Jón Ferrier

Chief Executive Officer

10 April 2018

# INDEPENDENT AUDITOR'S REPORT

to the members of Gulf Keystone Petroleum Limited

## Report on the audit of the financial statements

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of the Group's profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

We have audited the financial statements of Gulf Keystone Petroleum Limited (the "parent company") and its subsidiaries (the "Group") which 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 26.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• revenue recognition; and</li> <li>• impairment of oil and gas assets.</li> </ul> <p>The key audit matters are consistent with prior year with the exception of the accounting for the debt restructuring and change in accounting policy as further described below.</p>
<b>Materiality</b>	The materiality that we used for the Group's financial statements 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 approach</b>	<p>The Crude Oil Export Sales Agreement between the Ministry of Natural Resources of the Kurdistan Regional Government ("MNR") and the Group and the negotiations towards an amended Production Sharing Contract ("PSC") for the Shaikan block were the most significant transactions which were taken into consideration during our audit for the year ended 31 December 2017, with particular emphasis on the key audit matters, revenue recognition and impairment of oil and gas assets.</p> <p>The one-off transactions which occurred in the prior year relating to the debt restructuring and the change in accounting policy from modified full cost to successful efforts, which were included in our audit opinion in the prior year, are no longer applicable and therefore were not deemed as a key audit matter for the current year.</p>



## Conclusions relating to going concern, principal risks and viability statement

### Going concern

We have reviewed the Directors' statement on page 62 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

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

### Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 24 to 29 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' explanation on page 29 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 report, add or draw attention to in respect of these matters.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of the most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

## INDEPENDENT AUDITOR'S REPORT continued

to the members of Gulf Keystone Petroleum Limited

### Revenue recognition

#### Key audit matter description



Revenue totalling \$172.4 million has been recognised during the year, of which \$156.3 million relates to cash-settled amounts for oil sold in 2017, \$14.9 million relates to the offsetting of payables owned to the MNR against amounts due for previously unrecognised revenue and \$1.2 million for transportation services.

During the year ended 31 December 2017, the Group has continued to receive regular cash receipts and has continued to estimate revenue on a "payment-assured" basis. In light of the January 2018 Crude Oil Export Sales Agreement and the in-principle agreement regarding the proposed amendments to the Shaikan PSC, our key audit matter has been revised in order to reflect these matters. The key judgements in relation to the revenue are:

- whether the Crude Oil Export Sales Agreement signed in January 2018 would trigger a change from the previous cash assured basis to an accruals basis;
- whether the Crude Oil Export Sales Agreement would be an adjusting post balance sheet event which would affect the 2017 revenue recognised;
- whether the point of revenue recognition was updated appropriately following the Crude Oil Export Sales Agreement;
- whether transportation services revenue is correctly recognised under the Crude Oil Export Sales Agreement;
- to what extent the in-principle agreement regarding the proposed amendments to the Shaikan PSC should affect the 2017 revenue recognition and accounts;
- the mechanical accuracy of the complex invoice calculations;
- whether there is any risk in relation to unpaid revenue amounts; and
- potential impacts of IFRS 15 Revenue from Contracts with Customers adoption for the period beginning 1 January 2018 and related disclosures.

As referenced on page 42 of the Annual Report 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 81, by management as a critical accounting judgement.

#### How the scope of our audit responded to the key audit matter



We have assessed the appropriateness of the revenue recognition policy in light of current year developments and recalculated the revenue recognised for oil sales and transportation services for the year. In particular we have performed the following:

- reviewed the terms of Crude Oil Export Sales Agreement and the proposed amendments to the Shaikan PSC and challenged management on their assessment of the accounting implications with reference to the relevant accounting standards, in particular IAS 18 Revenue and IFRS 15 Revenue from Contracts with Customers;
- recalculated the expected monthly entitlement revenue for the oil sales 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 Crude Oil Export Sales Agreement;
- vouched all cash receipts in 2017 and reviewed post period end bank statements to confirm that the outstanding receivable as at 31 December 2017 in respect of September, October, November and December revenue of \$57.9 million was subsequently received;
- reviewed the nature of the costs being offset on a sample basis to determine whether they are appropriate in accordance with the PSC terms;
- tested the unrecognised revenue balance available to verify there is a sufficient balance against which to recognise the payables offset; and
- challenged management on their assessment in relation to the adoption IFRS 15 and considered whether the related disclosures in this area comply with the relevant accounting standards and are balanced, proportionate and clear.

#### Key observations



Based on our analysis, recognising revenue on a "payment-assured" basis is still appropriate under the Crude Oil Export Sales Agreement since the agreement is only effective from 1 October 2017 and does not apply to sales earlier than that date and the proposed amendments to the Shaikan PSC are still under discussion between the parties and subject to change.

We concur with management's treatment of sales for the period ending 31 December 2017 and that it is appropriate to recognise \$172.4 million of revenue.

## Impairment of oil and gas assets

### Key audit matter description



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. 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.

Having considered a range of factors management has concluded that there were no indicators of impairment for the Shaikan field, which had a carrying value of \$416.9 million as at 31 December 2017.

As a consequence of the ongoing discussions for an amended PSC for Shaikan and the political complexities of the region, of which the Kurdish independence referendum has added further uncertainty, the assessment of the recoverable amount of Shaikan remains a key judgement. We also considered there to be a potential fraud risk that the assumptions applied to the impairment assessment are inappropriate.

As referenced on page 42 of the Annual Report the 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 81, by management as a critical accounting judgement.

### How the scope of our audit responded to the key audit matter



We have reviewed management's conclusions and carried out our own independent assessment for impairment indicators. As part of our work we have:

- held meetings with key operational and finance staff to understand the current status and future intention for the Shaikan Field;
- considered the Shaikan valuation model (prepared by management for internal purposes) and challenged management on the reasonableness of the following underlying assumptions:
  - oil prices – comparing the oil price assumptions with third-party forecasts and publicly available forward curves;
  - discount rate – performed an independent recalculation of the discount rate;
  - production profile – comparing forecasted production per the valuation model with actual historical production and estimates set out in the Competent Person's Report;
  - future capital expenditure – comparing estimates to those set out in the Competent Person's Report; and
  - the Group's economic interest in the Shaikan Field – consideration of appropriateness in light of the proposed amendments to the Shaikan PSC; and
- reviewed the sensitivity analysis performed on the key assumptions of valuation model to determine whether there was headroom to support Shaikan's book value.

### Key observations



We concur with management that there are no impairment indicators and hence the value of Shaikan is not materially misstated.

## INDEPENDENT AUDITOR'S REPORT continued

to the members of Gulf Keystone Petroleum Limited

### 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:

Group materiality	\$9.1 million (2016: \$9.1 million).
Basis for determining materiality	2% (2016: 2%) of net assets.
Rationale for the benchmark applied	We considered net assets to be an appropriate metric to use in our materiality assessment as the value of the Group is derived from the Shaikan field. 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 (2016: \$455,000), 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.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in respect of these matters.



## Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with section 90 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.

### **Christopher Thomas ACA (Senior Statutory Auditor)**

For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
10 April 2018



## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	2017 \$'000	2016 \$'000
<b>Continuing operations</b>			
Revenue	2	172,372	194,409
Cost of sales	3	(126,996)	(142,827)
<b>Gross profit</b>		<b>45,376</b>	51,582
General and administrative expenses		(21,304)	(25,536)
<b>Profit from operations before exceptional items</b>	4	<b>24,072</b>	26,046
Interest revenue	2	702	100
Finance costs	7	(11,023)	(60,182)
Impairment expense	10	—	(215,658)
Gain on debt extinguishment	16	—	222,455
Other gains	6	314	9,931
<b>Profit/(loss) before tax</b>		<b>14,065</b>	(17,308)
Tax credit/(charge)	8	61	(127)
<b>Profit/(loss) after tax for the year</b>		<b>14,126</b>	(17,435)
<b>Profit/(loss) per share (cents)</b>			
Basic	9	6.16	(30.82)
Diluted	9	6.12	(30.82)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 \$'000	2016 \$'000
Profit/(loss) for the year	14,126	(17,435)
Items that may subsequently be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	1,281	(2,901)
<b>Total comprehensive profit/(loss) for the year</b>	<b>15,407</b>	(20,336)



## CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Notes	2017 \$'000	2016 \$'000
<b>Non-current assets</b>			
Intangible assets	10	63	99
Property, plant and equipment	11	417,473	489,379
Deferred tax asset	18	403	310
		<b>417,939</b>	489,788
<b>Current assets</b>			
Inventories	13	17,190	15,971
Trade and other receivables	14	61,710	41,565
Cash and cash equivalents		160,456	92,870
		<b>239,356</b>	150,406
<b>Total assets</b>		<b>657,295</b>	640,194
<b>Current liabilities</b>			
Trade and other payables	15	(57,038)	(56,284)
Provisions	17	(7,197)	(7,461)
		<b>(64,235)</b>	(63,745)
<b>Non-current liabilities</b>			
Other borrowings	16	(97,067)	(98,886)
Provisions	17	(24,107)	(23,794)
		<b>(121,174)</b>	(122,680)
<b>Total liabilities</b>		<b>(185,409)</b>	(186,425)
<b>Net assets</b>		<b>471,886</b>	453,769
<b>Equity</b>			
Share capital	19	229,430	229,430
Share premium account	19	920,728	920,728
Exchange translation reserve		(3,018)	(4,299)
Accumulated losses		(675,254)	(692,090)
<b>Total equity</b>		<b>471,886</b>	453,769

The financial statements were approved by the Board of Directors and authorised for issue on 10 April 2018 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 2017

	Notes	Attributable to equity holders of the Company					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 2016</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
Net profit for the year		—	—	—	14,126	—	14,126
Other comprehensive profit for the year		—	—	1,281	—	—	1,281
<b>Total comprehensive profit for the year</b>		—	—	1,281	14,126	—	15,407
Share-based payment expense	22	—	—	—	2,710	—	2,710
<b>Balance at 31 December 2017</b>		229,430	920,728	(3,018)	(675,254)	—	471,886



## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Notes	2017 \$'000	2016 \$'000
<b>Operating activities</b>			
Cash generated in operations	20	85,300	49,619
Interest received		702	100
Reinstated notes coupon payments	16	(10,111)	—
<b>Net cash generated from operating activities</b>		<b>75,891</b>	<b>49,719</b>
<b>Investing activities</b>			
Purchase of intangible assets		—	(123)
Purchase of property, plant and equipment		(8,856)	(9,557)
<b>Net cash used in investing activities</b>		<b>(8,856)</b>	<b>(9,680)</b>
<b>Financing activities</b>			
Proceeds on issue of share capital and conversion	19	—	23,535
Cost incurred on the Restructuring		—	(13,884)
<b>Net cash from financing activities</b>		<b>—</b>	<b>9,651</b>
<b>Net increase in cash and cash equivalents</b>		<b>67,035</b>	<b>49,690</b>
Cash and cash equivalents at beginning of year		92,870	43,641
Effect of foreign exchange rate changes		551	(461)
<b>Cash and cash equivalents at end of the year being bank balances and cash on hand</b>		<b>160,456</b>	<b>92,870</b>

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### General information

The Company is incorporated in Bermuda (registered address: Cumberland House, 9th Floor, 1 Victoria Street, Hamilton, Bermuda). On 25 March 2014, the Company's common shares were admitted, with a standard listing, to the Official List of the United Kingdom Listing Authority ("UKLA") and to trading on the London Stock Exchange's Main Market for listed securities. Previously, the Company was quoted on AIM, a market operated by the London Stock Exchange. In 2008, the Company established a Level 1 American Depositary Receipt programme in conjunction with the Bank of New York Mellon, which has been appointed as the depositary bank. The Company serves as the holding company for the Group, which is engaged in oil and gas exploration and production, operating in the Kurdistan Region of Iraq and the Republic of Algeria.

### Adoption of new and revised 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 ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

#### Amendments to IAS 7 Disclosure Initiative

The Group has adopted the amendments to IAS 7 for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consist of borrowings (note 16). The application of these amendments has had no impact on the Group's consolidated financial statements.

#### Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements, as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

#### Annual Improvements to IFRSs 2014-2016 Cycle

The Group has adopted the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

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

At the date of 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 and in some cases had not yet been adopted by the EU:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)
IFRS 16	Leases
IFRS 17	Insurance Contracts
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IAS 40 (amendments)	Transfers of Investment Property
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 28 Investments in Associates and Joint Ventures
IFRIC 22	Foreign Currency Transactions and Advanced Consideration
IFRIC 23	Uncertainty over Income Tax Treatments

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:



### IFRS 9 Financial Instruments

The Group will adopt IFRS 9 Financial Instruments for the year commencing 1 January 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets, as well as new rules for hedge accounting. It replaces the old standard of IAS 39 in its entirety.

The Group has performed an assessment of potential impact of adopting IFRS 9 based on the financial assets and financial liabilities as at the date of initial application of IFRS 9 (1 January 2018) and has concluded that the adoption of IFRS 9 will not have a material impact on the financial statements of the Group.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2018. The Group is required to adopt IFRS 15 for the year ending 31 December 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a five-step approach to revenue recognition:

- step 1: identify the contract(s) with a customer;
- step 2: identify the performance obligations in the contract;
- step 3: determine the transaction price;
- step 4: allocate the transaction price to the performance obligations in the contract; and
- step 5: recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group recognises revenue from the following major sources:

- sales of crude oil, and
- transportation services provided to third parties in relation to the transport of their share of the crude oil.

The Group has performed an assessment of the potential impact of adopting IFRS 15 based on the revenue relationships as at the date of initial application of IFRS 15 (1 January 2018) and has concluded that the adoption of IFRS 15 will not have a material quantitative impact on the financial statements of the Group.

### IFRS 16 Leases

IFRS 16, which has not yet been endorsed by the EU, introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group currently expects to adopt IFRS 16 for the year ending 31 December 2019. No decision has been made about whether to use any of the transitional options in IFRS 16.

The Group has performed a preliminary assessment of the potential impact of adopting IFRS 16 based on the current leases and has concluded that the adoption of IFRS 16 will not have a material impact on the financial statements of the Group. The Group will perform a further assessment of the potential impact of adopting IFRS 16 as at 31 December 2018.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 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 Executive Review and the Operational Review.

The Group has seen a significant improvement in the pattern of cash receipts from the Ministry of Natural Resources of the Kurdistan Regional Government of Iraq ("MNR"), with the total receipts of \$132 million net to the Group in 2017 and further net receipts of \$61.5 million in the first quarter of 2018 in relation to 2017 sales.

Following the relinquishment of the Ber Bahr block in July 2017, the Group has focused on its core asset, the Shaikan block. The Group's improved liquidity 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 approvals of the MNR and MOL Hungarian Oil & Gas Plc ("MOL"), the continuation of the regular payment cycle from the MNR and a commercially acceptable investment environment.

The option to delay the Reinstated Notes interest payments, the improvements in oil revenues receipts and 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 \$203 million of free cash as at 10 April 2018. 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 2017 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 of crude oil, is considered to be a key accounting judgement.

Under the Production Sharing Contract for the Shaikan Block between the Kurdistan Regional Government of Iraq ("KRG") and Gulf Keystone Petroleum International Limited ("GKPI") and Texas Keystone Inc. and Kalegran Limited (a subsidiary of MOL) signed on 6 November 2017 as amended by subsequent agreements ("Shaikan PSC"), all oil is sold to the KRG, who in turn resell the oil either for export in the pipeline at Fishkhabour or by trucking it to domestic customers. The selling price is determined in accordance with the principles of the Shaikan PSC, based on the Brent crude price less a quality discount and transportation costs.

As the payment mechanism for sales 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 KRG's payments to the international oil companies operating in the Kurdistan Region of Iraq. In January 2018, the Group entered into a crude oil export sales agreement with the KRG (the "Crude Oil Sales Agreement"). This Crude Oil Sales Agreement specifies the delivery point, pricing, KRG's contribution to transportation costs and payment terms relating to export sales of crude oil and it is effective from 1 October 2017 until 31 December 2018.



The value of sales revenue is determined after taking account of the following:

- the point of sale for export sales from 15 November 2017 onwards is the point that the crude oil is unloaded into the export pipeline at Fishkhabour;
- the point of sale for export sales prior to 15 November 2017 and for domestic sales is at the Shaikan facility;
- GKP recognises revenue for its share of the revenue on a cash-assured basis and these amounts of recognised revenue may be lower than the Company's entitlement under the Shaikan PSC, giving rise to unrecognised revenue amounts;
- from 15 November 2017 onwards, the Group has performed transportation services in respect of the KRG's share of export oil sales. It recharges all of these transportation costs at nil mark-up to the KRG and these recharged transportation costs are recognised as revenue; and
- under the Shaikan PSC and the bilateral agreement between GKPI and the MNR signed on 16 March 2016 (the "Bilateral Agreement"), the Group is entitled to offset certain costs (including capacity building payments and production bonuses) against amounts owed by the KRG to GKPI. In these instances, the Group recognises revenue and a reduction in the liability to the KRG.

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.

Income tax arising from the Company's activities under its production sharing contract is settled by the KRG on behalf of the Company. However, the Company is not able to measure the amount of income tax that has been paid on its behalf and, therefore, the notional income tax amounts have not been included in revenue or in the tax charge.

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

### Intangible assets other than oil and gas interests

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

Computer software — 33% straight-line

### Oil and gas assets

The Group 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 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 evaluations ("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 has 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 continued

### Oil and gas assets continued

#### 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 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 sales revenue accounting policy section on pages 76 and 77, 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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### Financial instruments continued

#### 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.

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

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

#### Borrowings

Interest-bearing loans and overdrafts are recorded at the fair value of proceeds received, net of transaction costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise. The liability is carried at amortised cost using the effective interest rate method until 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 on pages 76 to 80, 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 Impairment of Assets, at least annually.

As at 31 December 2017, an internal valuation of the Shaikan field was performed, providing further support in relation to the conclusion that no indicators of impairment existed.

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. The Group assesses its group of assets called cash-generating units ("CGUs") 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 2017 was Shaikan with a carrying value of \$416.9 million. No impairment indicator was identified as at 31 December 2017.

#### 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. 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 receipts are 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. The Group also recognised payables to the MNR that were offset against amounts receivable from the MNR for previously unrecognised revenue in line with the terms of the Shaikan PSC.

The judgement is not to recognise revenue in excess of the sum of the cash receipt that is assured and the amount of payables to the MNR that can be offset against amounts due for previously unrecognised revenue in line with the terms of the Shaikan PSC, despite the Group being entitled to additional revenue under the terms of the Shaikan PSC. Any future agreements between the Company and the KRG might change the amounts of revenue recognised.

## 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-Bijeel, 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 2017	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	Total \$'000
<b>Revenue</b>						
Oil sales	—	171,203	—	—	—	171,203
Transportation revenue	—	1,169	—	—	—	1,169
Inter-segment sales	—	—	4,337	—	(4,337)	—
<b>Total revenue</b>	—	172,372	4,337	—	(4,337)	172,372
<b>Cost of sales</b>						
Production costs	—	(46,042)	—	—	—	(46,042)
Oil and gas properties depreciation expense	—	(79,785)	—	—	—	(79,785)
Transportation costs	—	(1,169)	—	—	—	(1,169)
<b>Gross profit/(loss)</b>	—	45,376	4,337	—	(4,337)	45,376
<b>General and administrative expenses</b>						
Allocated general and administrative expenses	(63)	(5,387)	(6,476)	(12,110)	3,429	(20,607)
Depreciation and amortisation expense	—	(145)	(280)	—	—	(425)
<b>Profit/(loss) from operations</b>	(63)	39,844	(2,419)	(12,110)	(908)	24,344
Interest revenue	—	432	—	270	—	702
Finance costs	—	(714)	—	(10,309)	—	(11,023)
Other gains/(losses)	—	323	—	(281)	—	42
<b>Profit/(loss) before tax</b>	(63)	39,885	(2,419)	(22,430)	(908)	14,065
Tax expense	—	—	61	—	—	61
<b>(Loss)/profit after tax</b>	(63)	39,885	(2,358)	(22,430)	(908)	14,126
Capital expenditure	—	43,578	—	—	—	43,578
Total assets	31	582,192	14,105	57,335	3,632	657,295

During 2017, the total allocated general and administrative expenses of \$20.6 million (2016: \$25.0 million) included costs that are recoverable under the terms of the Shaikan PSC amounting to \$5.4 million (2016: \$9.2 million).



31 December 2016	Algeria \$'000	Kurdistan \$'000	United Kingdom \$'000	Corporate \$'000	Elimination \$'000	As restated (note 25) 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

## 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:

	2017 \$'000	2016 \$'000
Algeria	—	—
Kurdistan	417,536	488,893
Bermuda	—	—
United Kingdom	512	585
	<b>417,536</b>	<b>489,478</b>

## Information about major customers

Included in revenues arising from the Kurdistan segment are revenues of approximately \$172.4 million which arose from sales to the Group's largest customer (2016: \$194.4 million from largest customer).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

### 2. Revenue

	2017 \$'000	2016 \$'000
Oil sales	171,203	194,409
Transportation revenue	1,169	—
	172,372	194,409
Interest revenue	702	100
	173,074	194,509

The Group accounting policy for revenue recognition is set out in the summary of significant accounting policies above, with revenue recognition on a cash-assured basis.

During 2017, the cash-assured values recognised as oil sales were the group's share of the \$15 million received in respect of sales in each of the first nine months of the year and the invoiced revenue for the last three months of the year amounting to \$156.3 million (2016: \$121.8 million). The cost offset revenue recognised was \$14.9 million (2016: \$72.6 million). The oil sales price was calculated using the monthly Brent price less an average discount of \$20.3 (2016: \$20.2) per barrel for quality and transportation costs.

### 3. Cost of sales

	2017 \$'000	2016 \$'000
Oil production costs	46,042	61,191
Depreciation of oil and gas properties	79,785	81,636
Transportation costs	1,169	—
	126,996	142,827

Oil production costs represent the Group's share of gross production expenditure for the Shaikan field for the year and include capacity building charges of \$17.2 million (2016: \$18.0 million), but no Shaikan PSC production bonus was payable in 2017 (2016: \$8.0 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 2017 and 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 field full 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

	Notes	2017 \$'000	2016 \$'000
Profit/(loss) from operations has been arrived at after charging/(crediting):			
Depreciation of property, plant and equipment	11	80,163	82,176
Amortisation of intangible assets	10	47	38
Credit in relation to Excalibur litigation	6	—	(3,188)
Staff costs	5	22,770	24,228
Auditor's remuneration for audit services (see below)		219	173
Operating lease rentals	21	2,924	3,936



	2017 \$'000	2016 \$'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	192	154
<b>Fees payable to the Company's auditor for other services to the Group</b>		
– audit of the Company's subsidiaries pursuant to legislation	27	19
<b>Total audit fees</b>	<b>219</b>	<b>173</b>
Other assurance services (half year review)	67	73
Corporate finance services	5	454
Tax services (advisory)	–	9
<b>Total fees</b>	<b>291</b>	<b>709</b>

## 5. Staff costs

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

	2017 Number	2016 Number
Office and management	72	80
Technical and operational	222	229
	<b>294</b>	<b>309</b>

Employee benefits recognised as an expense during the year comprised:

	Notes	2017 \$'000	2016 \$'000
Wages and salaries		18,478	20,929
Social security costs		1,672	2,044
Share-based payment	22	2,620	1,255
		<b>22,770</b>	<b>24,228</b>

## 6. Other gains

	2017 \$'000	2016 \$'000
Other gains	272	6,876
Exchange gains	42	3,055
	<b>314</b>	<b>9,931</b>

In 2017, other gains consisted of the release of the decommissioning liability relating to the Ber Bahr block of \$0.3 million.

In 2016, other gains consisted of the release of the decommissioning liability relating to the Akri-Bijeel block of \$3.7 million and the receipt of an additional repayment of costs incurred in relation to Excalibur Ventures LLC litigation of \$3.2 million. 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

	Notes	2017 \$'000	2016 \$'000
Interest payable in respect of convertible bonds	16	–	22,203
Interest payable in respect of other bonds	16	–	35,232
Reinstated notes interest capitalised	16	10,309	2,481
Unwinding of discount on provisions	17	714	699
Capitalised finance costs		–	(433)
		<b>11,023</b>	<b>60,182</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued**8. Tax**

	Notes	2017 \$'000	2016 \$'000
<b>Corporation tax</b>			
Current year charge		—	—
Adjustment in respect of prior years		—	1
Deferred UK corporation tax income/(expense)	18	61	(128)
<b>Tax income/(expense) attributable to the Company and its subsidiaries</b>		<b>61</b>	<b>(127)</b>

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 Shaikan 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 19.25% (2016: 20.00%) 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 PSC, 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 income/(expense) for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2017 \$'000	2016 \$'000
<b>Profit/(loss) before tax</b>	<b>14,065</b>	<b>(17,308)</b>
Tax at the Bermudian tax rate of 0% (2016: 0%)	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	61	(127)
<b>Tax credit/(charge) for the year</b>	<b>61</b>	<b>(127)</b>

**9. Profit/(loss) per share**

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

	2017 \$'000	2016 \$'000
<b>Profit/(loss)</b>		
Profit/(loss) after tax for the purposes of basic and diluted loss per share	14,126	(17,435)
	2017 Number ( '000)	2016 Number ( '000)
<b>Number of shares</b>		
Basic weighted average number of shares	229,317	56,565

The Group followed the steps specified by IAS 33 in determining whether potential common shares are dilutive or anti-dilutive.



## Reconciliation of dilutive shares

	2017 Number (000s)	2016 Number (000s)
<b>Number of shares</b>		
Basic number of ordinary shares outstanding	229,317	56,565
Effect of dilutive potential ordinary shares	1,595	—
<b>Diluted number of ordinary shares outstanding</b>	<b>230,912</b>	56,565

The average number of ordinary shares in issue excludes shares held by Employee Benefit Trustee ("EBT") and the Exit Event Trustee.

The diluted number of ordinary shares outstanding including share options is calculated on the assumption of conversion of all potentially dilutive ordinary shares. During the year ended 31 December 2017, there were 460,000 (2016: 460,000) share options that were excluded from the calculation of diluted earnings, because they were anti-dilutive.

## 10. Intangible assets

	Exploration and evaluation costs \$'000	Computer software \$'000	Total \$'000
<b>Year ended 31 December 2016</b>			
Opening net book	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>
<b>Year ended 31 December 2017</b>			
Opening net book value	—	99	99
Amortisation charge	—	(47)	(47)
Foreign currency translation differences	—	(11)	(11)
<b>Closing net book value</b>	<b>—</b>	<b>63</b>	<b>63</b>
<b>At 31 December 2017</b>			
Cost	—	1,064	1,064
Accumulated amortisation	—	(1,001)	(1,001)
<b>Net book value</b>	<b>—</b>	<b>63</b>	<b>63</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 the Other creditors in note 15.

During 2016, expenditure amounting to \$215.7 million relating to the Sheikh Adi block was written off upon relinquishment and included in the impairment expense in the consolidated income statement.

The net book value at 31 December 2017 includes intangible assets relating to computer software. The amortisation charge of \$47,000 (2016: \$38,000) for computer software has been included in general and administrative expenses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued**11. Property, plant and equipment**

	Oil and gas properties \$'000	Fixtures and equipment \$'000	Total \$'000
<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>
<b>Year ended 31 December 2017</b>			
Opening net book value	<b>488,634</b>	<b>745</b>	<b>489,379</b>
Additions	<b>8,059</b>	<b>114</b>	<b>8,173</b>
Depreciation charge	<b>(79,785)</b>	<b>(378)</b>	<b>(80,163)</b>
Foreign currency translation differences	—	<b>84</b>	<b>84</b>
<b>Closing net book value</b>	<b>416,908</b>	<b>565</b>	<b>417,473</b>
<b>At 31 December 2017</b>			
Cost	<b>693,146</b>	<b>5,941</b>	<b>699,087</b>
Accumulated depreciation	<b>(276,238)</b>	<b>(5,376)</b>	<b>(281,614)</b>
<b>Net book value</b>	<b>416,908</b>	<b>565</b>	<b>417,473</b>

The net book value of oil and gas properties at 31 December 2017 comprises property, plant and equipment relating to the Shaikan block and has a carrying value of \$416.9 million (2016: \$488.6 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 \$79.8 million on oil and gas properties (2016: \$81.6 million) has been included within cost of sales (note 3). The depreciation charge of \$0.4 million on fixtures and equipment (2016: \$0.5 million) has been included in general and administrative expenses.

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

## 12. Group companies

Details of the Company's subsidiaries and joint operations at 31 December 2017, and 31 December 2016, are as follows:

Name and address 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%	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>(2)</sup>	Principal activity
Shaikan	Kurdistan	80% <sup>(1)</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) 75% is held directly by Gulf Keystone Petroleum International Limited, with 5% held in trust for Texas Keystone, Inc. ("TKI") until formal transfer of the share is completed.

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

(3) Relinquished effective 16 March 2016.

(4) Relinquished effective 13 July 2017.

## 13. Inventories

	2017 \$'000	2016 \$'000
Warehouse stocks and materials	14,569	14,814
Crude oil	2,621	1,157
	<b>17,190</b>	15,971

Inventories at 31 December 2017 include write downs to net realisable value of \$0.4 million (2016: \$2.9 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued**14. Trade and other receivables**

	2017 \$'000	2016 \$'000
Trade receivables	57,887	36,000
Other receivables	3,260	4,976
Corporation tax receivable	1	—
Prepayments and accrued income	562	589
	<b>61,710</b>	<b>41,565</b>

Trade receivables comprise amounts due from the MNR for revenue less capacity building payments for the four months from September 2017 to December 2017 totalling \$57.9 million as at 31 December 2017 (2016: \$36.0 million), which has all been received subsequent to the year end. This included past due trade receivables of \$42.6 million (2016: \$24.0 million).

Included within other receivables for 2017 is an amount of \$0.4 million (2016: \$0.4 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 2017 (2016: \$nil) (see note 23). No impairments of receivables have been recognised during the year (2016: \$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.

	2017 \$'000	2016 \$'000
Trade payables	2,687	2,922
Other payables	26,168	26,917
Accrued expenses	28,183	26,445
	<b>57,038</b>	<b>56,284</b>

There is \$2.0 million interest payable included in the accrued expenses as at 31 December 2017 (2016: \$nil) (see note 16).

In accordance with the Bilateral Agreement, the Group received payments during 2016 from the MNR in excess of entitlements under the Shaikan PSC amounting to \$16.2 million and the amount of the Sheikh Adi PSC bonus that was payable on the declaration of commerciality was reduced to \$10.0 million. Both of these liabilities are included in other payables, but these liabilities form part of the ongoing Shaikan PSC amendment negotiations and it is likely that they will be offset against unrecognised revenue arrears, because, under the Shaikan PSC and the Bilateral Agreement, the Group is entitled to offset certain costs against amounts owed by the KRG to GKPI. In these instances, the Group recognises revenue that has previously been unrecognised and a reduction in the liability to the KRG.

**16. Long-term borrowings and warrants**

On 14 October 2016, the Company successfully completed a balance sheet restructuring (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 was 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") were extinguished as a result of the Restructuring. The related accrued interest payable of \$20.2 million was also cancelled 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 \$222.4 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 has 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 the Restructuring was expensed.

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

	2017 \$'000	2016 \$'000
Liability component at 1 January	98,886	555,374
Liability component of the Guaranteed Notes at issue:		
Interest charged during the year	—	57,435
Interest paid during the year	(10,111)	—
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	10,309	2,481
<b>Liability component at 31 December</b>	<b>99,084</b>	<b>98,886</b>

Liability component reported in:

	Notes	2017 \$'000	2016 \$'000
Current liabilities	15	2,017	—
Non-current liabilities		97,067	98,886
		<b>99,084</b>	<b>98,886</b>

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 2017, the Company recognised \$10.3 million interest capitalised on the Reinstated Notes (2016: \$2.5 million). Of this amount, \$8.3 million was capitalised as part of other borrowings in the consolidated balance sheet and \$2.0 million interest was accrued on the Reinstated Notes (2016: \$nil). 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 2017 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	2017 \$'000	2016 \$'000
Convertible Bonds	n/a	—	—
2014 Notes	n/a	—	—
Reinstated Notes	\$0.98241	98,241	97,229
		<b>98,241</b>	<b>97,229</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued**16. Long-term borrowings and warrants** continued

As of 31 December 2017, 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:

	2017 \$'000	2016 \$'000
Within one year	10,000	—
Within two to five years	130,000	167,241
	<b>140,000</b>	<b>167,241</b>

As at 31 December 2017, there were no warrants to purchase new common shares of \$1.00 each at an exercise price of \$81.30 in issue (2016: 400,000 warrants), as the warrants expired unexercised on 18 April 2017.

**17. Provisions**

	2017 \$'000	2016 \$'000
Current provisions	7,197	7,461
Non-current provisions	24,107	23,794
	<b>31,304</b>	<b>31,255</b>

	Current provisions (Algeria and Kurdistan) \$'000	Non-current provisions (Kurdistan) \$'000	Total \$'000
Decommissioning provision			
<b>At 1 January 2017</b>	7,461	23,794	31,255
New provisions and changes in estimates	8	(402)	(394)
Unwinding of discount	—	715	715
Release of provisions	(272)	—	(272)
<b>At 31 December 2017</b>	<b>7,197</b>	<b>24,107</b>	<b>31,304</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. The expenditure on the Shaikan block in Kurdistan is expected to take place over the next 25 years.

The Group relinquished Ber Bahr in July 2017 with no further liabilities payable by the Group. The balance of the decommissioning liability of \$0.3 million was released and recognised in other gains in the consolidated income statement (2016: \$nil).

**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 2016</b>	(111)	158	436	483
Credit/(charge) to income statement	15	(132)	(11)	(128)
Exchange differences	14	10	(69)	(45)
<b>At 31 December 2016</b>	(82)	36	356	310
Credit/(charge) to income statement	21	92	(52)	61
Exchange differences	(7)	8	31	32
<b>At 31 December 2017</b>	<b>(68)</b>	<b>136</b>	<b>335</b>	<b>403</b>



## 19. Share capital

	2017 \$'000	2016 \$'000
<b>Authorised</b>		
Common shares of \$1.00 each (2016: \$1.00 each)	231,605	231,605
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>	<b>292,105</b>

	Common shares			
	Number of shares '000	Amount \$'000	Share capital \$'000	Share premium \$'000
<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>	229,430	1,150,158	229,430	920,728
<b>Balance 31 December 2017</b>	<b>229,430</b>	<b>1,150,158</b>	<b>229,430</b>	<b>920,728</b>

At 31 December 2017, a total of 0.01 million common shares at \$1.00 each were held by the EBT (2016: 0.1 million at \$1.00 each) and 0.1 million shares at \$1.00 each were held by the Exit Event Trustee (2016: 0.1 million at \$1.0 each). All 0.11 million common shares were included within reserves (2016: 0.2 million).

### Rights attached to share capital

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

- i) entitled to one vote per common share;
- ii) entitled to receive notice of, and attend and vote at, general meetings of the Company;
- iii) entitled to dividends or other distributions; and
- iv) in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for a reorganisation or otherwise or upon a distribution of capital, entitled to receive the amount of capital paid up on their common shares and to participate further in the surplus assets of the Company only after payment of the series A liquidation value (as defined in the Byelaws) on the series A preferred shares.

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

	2017 \$'000	2016 \$'000
Profit from operations	24,072	26,046
Adjustments for:		
Depreciation, depletion and amortisation of property, plant and equipment	80,163	82,176
Amortisation of intangible assets	47	38
Other gains or losses	(11)	—
Share-based payment expense	2,710	1,255
(Increase)/decrease in inventories	(1,219)	2,573
Increase in receivables	(20,125)	(22,129)
Decrease in payables	(337)	(40,522)
<b>Net cash generated by operations</b>	<b>85,300</b>	49,437
Income tax received	—	182
<b>Net cash generated from operating activities</b>	<b>85,300</b>	49,619



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued**21. Commitments****Operating lease commitments – the Group as a lessee**

	2017 \$'000	2016 \$'000
Minimum lease payments under operating leases recognised as expense for the year	<b>2,924</b>	3,936

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

	2017 \$'000	2016 \$'000
Within one year	<b>1,144</b>	1,805
In the second to fifth years inclusive	<b>1,519</b>	1,617
	<b>2,663</b>	3,422

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 2018 for the Group (2017: \$nil).

**22. Share-based payments**

	2017 \$'000	2016 \$'000
Share options charge	<b>2,710</b>	1,686
	<b>2,710</b>	1,686

**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 below).

A charge of \$1.12 million (2016: \$0.06 million) 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.

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.

	2017		2016	
	Number of share options '000	Weighted average exercise price (in pence)	Number of share options '000	Weighted average exercise price (in pence)
Outstanding at 1 January	1,402	—	1,402	—
Granted during the year	611	—	—	—
Exercised during the year	(325)	—	—	—
Forfeited during the year	(93)	—	—	—
Outstanding at 31 December	1,595	—	1,402	—
Exercisable at 31 December	—	—	—	—

The weighted average share price at the date of exercise for share options exercised during the period was £1.06. The options outstanding at 31 December 2017 had a weighted average remaining contractual life of nine years.

During 2017, 611,000 options were granted to employees under the Group's staff retention plan.

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

	2017	2016
Weighted average opening share price on date of grant (in pence)	119.47	120.00

The expected volatility was calculated as 97.2% for the January 2017 awards, 94.0% for the early July 2017 awards, 94.1% for the July 2017 awards 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 for the new options awarded was 0.26% for January 2017 awards, 0.43% for early July 2017 and 0.32% for late July 2017.

The weighted average fair value of the options granted in 2017 was £1.19 (2016: £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 \$0.90 million (2016: \$0.04 million) in relation to the SRP is included in the total share options charge.

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

Expiry date	Exercise price (pence)		Options ('000)	
	2017	2016	2017	2016
11 December 2026	—	—	994	—
9 January 2027	—	—	350	—
30 June 2027	—	—	206	—
30 July 2027	—	—	45	—
			1,595	—

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued**22. Share-based payments** continued**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 2017 under this scheme.

	2017		2016	
	Number of share options '000	Weighted average exercise price (in pence)	Number of share options '000	Weighted average exercise price (in pence)
Outstanding at 1 January	360	10,190.0	35,967	101.9
Share consolidation (note 19)	—	—	(35,607)	10,088.1
Outstanding at 1 January	360	10,190.0	360	10,190.0
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Outstanding at 31 December	360	10,149.7	360	10,190.0
Exercisable at 31 December	360	10,149.7	309	10,599.0

No options were exercised, granted or cancelled in 2017 (2016: nil).

The options outstanding at 31 December 2017 had a weighted average exercise price of £102 (2016: £102) and a weighted average remaining contractual life of three years (2016: four years).

A charge of \$0.69 million (2016: \$1.59 million) in relation to the SRP is included in the total share options charge.

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

Expiry date	Exercise price (pence)		Options ('000)	
	2017	2016	2017	2016
13 February 2018	3,000	3,000	11.0	11.0
24 September 2018	3,000	3,000	20.1	20.1
15 March 2019	3,000	3,000	15.9	15.9
30 July 2019	3,000	3,000	10.0	10.0
24 June 2020	7,500	7,500	156.3	156.3
22 September 2020	14,750	14,750	2.5	2.5
10 October 2020	17,500	17,500	2.5	2.5
6 February 2021	17,500	17,500	94.4	94.4
19 June 2021	14,625	14,625	5.5	5.5
7 July 2021	14,625	14,625	2.5	2.5
14 July 2021	14,625	14,625	2.5	2.5
21 July 2021	14,625	14,625	5.0	5.0
19 September 2021	15,250	15,250	2.5	2.5
26 October 2021	14,625	14,625	2.5	2.5
21 January 2022	5,500	5,500	15.0	15.0
20 March 2022	19,450	19,450	4.0	4.0
20 March 2022	25,000	25,000	2.5	2.5
8 July 2023	15,875	15,875	2.5	2.5
24 April 2024	9,975	9,975	2.5	2.5
			359.7	359.7



### 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 2017, the fair value of Exit Event Awards was \$nil (2016: \$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:

Jane Barker	HR Director
Stuart Catterall	Chief Operating Officer
Bertrand Demont	Kurdistan Country Manager
Umur Eminkahyagil	Kurdistan Country Manager
Kathy Kelly	Sub-Surface Manager Kurdistan
Nadzeya Kernoha	Financial Controller
William McAvock	Financial Controller
Mohamed Messaoudi	Algeria Country Manager
Gabriel Papineau-Legrís	Commercial Director
Alasdair Robinson	Legal Director and Company Secretary
Marie Ross	Legal Director and Company Secretary
John Stafford	Vice President Operations
Nadim Zahawi	Chief Strategy Officer

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

	2017 \$'000	2016 \$'000
Short-term employee benefits	6,514	5,136
Other allowances	—	—
Share-based payment – options	1,630	302
	<b>8,144</b>	<b>5,438</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** continued**24. Financial instruments**

	2017 \$'000	2016 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	160,456	92,870
Loans and receivables	61,148	40,976
	<b>221,604</b>	133,846
<b>Financial liabilities</b>		
Trade and other payables	57,038	41,844
Reinstated Note	97,068	98,886
	<b>154,106</b>	140,730

All loans and payables, except for the Reinstated 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 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".

**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.

**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 the pound sterling ("GBP"), United States dollar ("USD"), Algerian dinar ("DZD") and Iraqi dinar ("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 2017, 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 between one and three months, to maximise returns and accessibility. Under the terms of the Reinstated Notes, until 18 October 2018, the Group has the option to defer interest at 13% or pay in cash at 10%. From 19 October 2018, the Group must 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 2017, the maximum exposure to credit risk from a trade receivable outstanding from one customer is \$60 million (2016: \$36 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. Contingent liabilities

The Group has a contingent liability of \$27 million (2016: \$27 million) 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 Shaikan 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 Gulf Keystone 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 (Gulf Keystone 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 the Group is currently involved in negotiations to resolve this matter. The Group has received external legal advice and does not consider that a probable material payment is payable to the KRG. This contingent liability forms part of the ongoing Shaikan PSC amendment negotiations and it is likely that it will be settled as part of those negotiations.

## 26. Events after the balance sheet date

In early April 2018, considering the current healthy cash balance and regularity of payments from the MNR, the Group decided to pay its upcoming Reinstated Notes coupon of \$5.0 million at 10% interest rate on 18 April 2018, even though it has the option to postpone it to maturity (at 13% interest rate).

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## KEY SHAREHOLDER ENGAGEMENTS 2017/18

16 June 2017

2017 AGM – Brussels, Belgium

11 April 2018

2017 results announcement

19 September 2017

Interim results announcement

## GLOSSARY

1C	low estimate of contingent resources	IOGP	International Association of Oil & Gas Producers
1P	proved reserves	IVMS	in vehicle monitoring system
2C	best estimate of contingent resources	KPI	key performance indicator
2P	proved plus probable reserves	KRG	Kurdistan Regional Government
3C	high estimate of contingent resources	LTI	lost time incident
3P	proved plus probable plus possible reserves	LTIF	lost time incident frequency
AGM	Annual General Meeting	LTIP	Long-Term Incentive Plan
bbl	barrel	MMstb	million stock tank barrels
bopd	barrels of oil per day	MNR	Ministry of Natural Resources of the Kurdistan Regional Government
CBF	competency based framework	MOL	MOL Hungarian Oil & Gas Plc
CGU	cash generating units	PF-1	Shaikan Production Facility-1
CPR	Competent Person's Report	PF-2	Shaikan Production Facility-2
CSR	corporate social responsibility	PIK	Payment-in-Kind
DD&A	depreciation, depletion and amortisation	PSC	production sharing contract
E&E	exploration and evaluation	SH	Shaikan
E&P	exploration and production	Shaikan PSC	PSC for the Shaikan Block between the KRG and GKPI and TKI and Kalegran Limited (a subsidiary of MOL) signed on 6 November 2007 as amended by subsequent agreements
EBT	employee benefit trust	SRP	Staff Retention Plan
ERCE	ERC Equipoise	TKI	Texas Keystone, Inc.
ESP	electric submersible pump	TRIF	total recordable incident frequency
FDP	Field Development Plan	TRIFR	total recordable incident frequency rate
FEED	front end engineering design	TSR	total shareholder return
FVTPL	fair value through profit and loss	VCP	Value Creation Plan
G&A	general and administrative	WI	working interest
GKP	Gulf Keystone Petroleum Limited		
GKPI	Gulf Keystone Petroleum International Limited		
HSSE	health, safety, security and environment		
IAS	International Accounting Standards		
IFRS	International Financial Reporting Standard		



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