

A silhouette of a worker wearing a white hard hat and safety vest, standing on a metal platform or staircase of an oil rig. The worker is looking towards the right. The background is a bright orange and yellow sunset sky with the sun low on the horizon. In the foreground, there are dark silhouettes of industrial equipment, including a large circular structure on the left and pipes on the right. A tall lamp post is visible on the left side of the frame.

Gulf Keystone Petroleum

Annual report and accounts 2018

User guide

Welcome to the Gulf Keystone Petroleum annual report 2018. In this interactive pdf you can do many things to help you easily access the information that you want, whether that's printing, searching for a specific item or going directly to another page, section or website.

These are explained below.

Document controls

Use the document controls located in the top left corner to help you navigate through this report.



Links within this document

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.





CONTENTS

Strategic report

About Us	1	Key Performance Indicators	18
At a Glance	2	Strategy for Future Growth	
Investment Case	3	Production growth	20
Chairman's Statement	4	Reserves and resources	22
Executive Review	6	Regular payments and steady exports	24
Operational Review	10	Stakeholder Engagement	26
Business Model	14	Corporate Social Responsibility	28
Strategy and Objectives	16	Management of Principal Risks and Uncertainties	34

Governance

Board of Directors	42	HSSE and CSR Committee Report	62
Senior Management	44	Technical Committee Report	64
Corporate Governance Report	46	Remuneration Committee Report	65
Nomination Committee Report	56	Directors' Report	78
Audit and Risk Committee Report	58		

Financials

Directors' Responsibilities Statement	80	Consolidated Statement of Changes in Equity	88
Independent Auditor's Report	81	Consolidated Cash Flow Statement	89
Consolidated Income Statement	86	Summary of Significant Accounting Policies	90
Consolidated Statement of Comprehensive Income	86	Notes to the Consolidated Financial Statements	99
Consolidated Balance Sheet	87		

Additional information

Directors and Advisers	117
Glossary	118
Key Shareholder Engagements 2019	120

About this report

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

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

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



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

ABOUT US

Gulf Keystone Petroleum Limited is an independent oil company and the operator of the Shaikan Field, one of the largest developments in the Kurdistan Region of Iraq.

The Company's strategy is to increase production significantly from the Shaikan Field, which is currently developed with nine production wells and two production facilities with a combined capacity of 40,000 barrels of oil per day ("bopd"). With expansion to 55,000 bopd currently underway, there is longer-term potential to increase output to 75,000 bopd, install gas re-injection, and further

expand to 85,000 bopd and then to 110,000 bopd as we integrate Triassic production with that from the Jurassic which is already onstream.

With safe and reliable operations, a proven production track record and 591 million barrels of 2P reserves, we are in an exciting phase of investment to markedly increase production from Shaikan; the focus is on development.

2018 full-year highlights

31,563 bopd

Gross average production at upper end of guidance

Growth

On track to achieve uplift to 55,000 bopd in Q1 2020

\$250.6m
Record revenue

\$79.9m
Record profit after tax

Dividend
Distribution from 2019 onwards

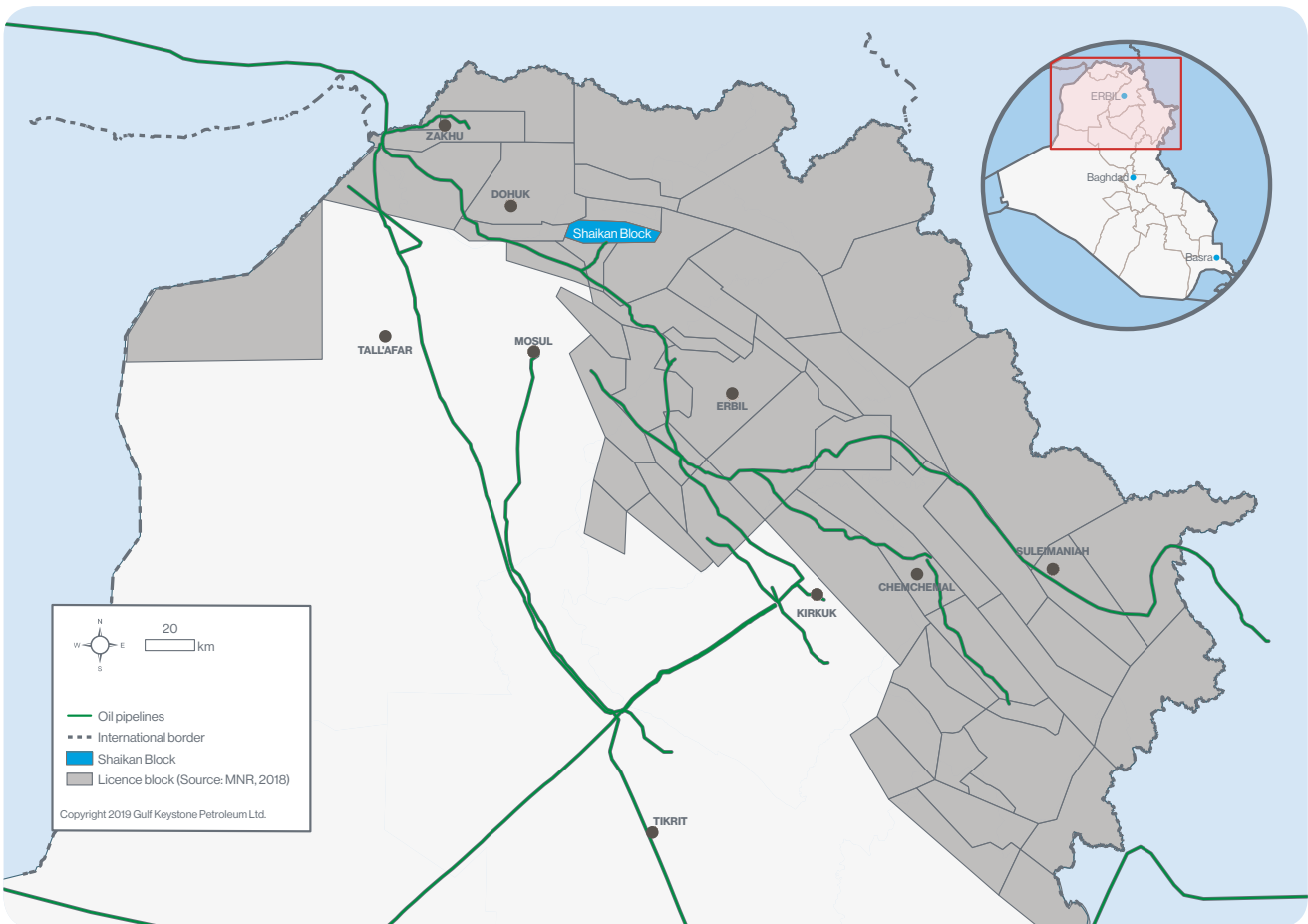
AT A GLANCE

We are a leading independent oil company operating in the Kurdistan Region of Iraq.

c.400 staff and contractors
working in Kurdistan and London



Located c.60km north-west of Erbil



INVESTMENT CASE

Near-term production uplift

Initial 55,000 bopd project carries relatively low execution risk and is expected to be achieved by Q12020.

pages 20 and 21

Longer-term upside

GKP and MOL have aligned objectives for a phased development which is expected to grow gross Shaikan production to 110,000 bopd.

pages 20 and 21

Fully funded for up to 110,000 bopd

With a cash balance of \$296 million as at 27 March 2019, the Company is fully funded for all phases of Shaikan's development. The gross capex guidance for the initial uplift to 55,000 bopd remains unchanged at \$200 million to \$230 million.

pages 20 and 21

Stable geopolitical backdrop

Safe operating environment with uninterrupted operations supported by regular payments.

pages 24 and 25

Consistent operational delivery

Gulf Keystone has demonstrated a track record of meeting its production targets, whilst maintaining low operating and G&A costs.

pages 10 to 13

Organisation built to deliver

Team further strengthened during 2018. Fit for purpose to lead Gulf Keystone into the next stage of its development.

pages 42 to 45

HSSE a priority

Continued focus on maintaining safe and reliable operations at Shaikan led to another strong year for HSSE performance, with one LTI occurring in the last three years.

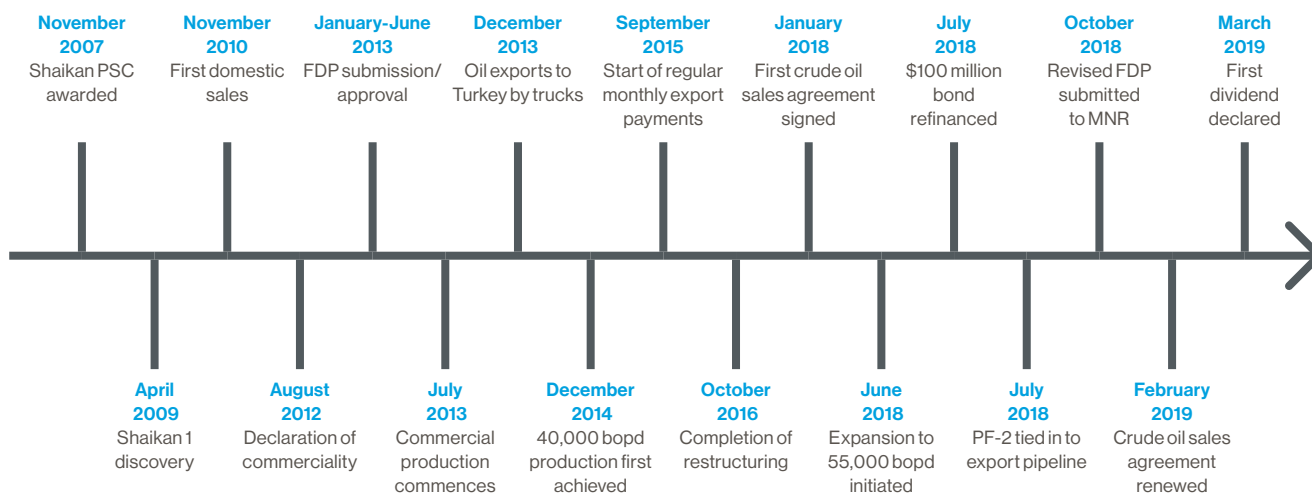
pages 28 and 29

Delivering value to shareholders

Focus on cost control, maintaining safe and secure operations, prudent investment in Shaikan and capital management strategy are expected to yield future returns for shareholders following first dividend in 2019.

pages 4 and 5

Our history in Kurdistan



CHAIRMAN'S STATEMENT



I have relished my first year as Chairman of Gulf Keystone and believe the Company has made considerable positive progress during 2018.

Jaap Huijskes

Non-Executive Chairman

27 March 2019

I am pleased to report that 2018 was a pivotal year for Gulf Keystone when, following an extensive period of negotiations, the Company recommenced investment into the Shaikan oil field. This could not have happened without the diligent work of the Company and the continued support from the Kurdistan Regional Government ("KRG") and the Ministry of Natural Resources of the KRG ("MNR"). Following our agreement with the KRG and our partner Kalegran B.V. (a subsidiary of MOL Hungarian Oil & Gas plc ("MOL")), Gulf Keystone will ramp up gross production to 55,000 bopd at Shaikan, which we expect to achieve in Q1 2020.

As with other oil and gas companies across the globe, the strong oil price in 2018 was a favourable macro factor for Gulf Keystone. Whilst prices eased towards the end of the period, the increase in value from a low of \$55 a barrel for Brent crude in Q4 2017 to a high of \$86 a barrel in 2018 meant the Company was able to announce a record profit after tax for the year of \$79.9 million. The combination of stable production and exports, regular payments from the KRG since September 2015 and a new bond, secured in July 2018, has enabled Gulf Keystone to build a robust balance sheet, leaving the Company well financed for the future development of Shaikan.

Kurdistan remained largely stable during the reporting period and we were able to significantly advance our development plans for Shaikan whilst enjoying safe and secure operating conditions. The revised Field Development Plan ("FDP"), submitted to the MNR in October 2018, has not been accepted.



The Board has decided to establish a dividend policy to ordinary shareholders

However, both GKP and MOL have aligned objectives for a phased development of Shaikan and continue to make considerable operational headway with the necessary construction and drilling works that will enable the Company to meet its production target of 55,000 bopd in Q1 2020 – an important milestone on the way to full development of the field.

As in previous years, we sought to communicate to our shareholders on a regular basis, and in as open a manner as possible. In conjunction with announcing our 2018 results we hosted our first Capital Markets Event (“CME”) on 28 March 2019, which enabled us to engage with a wide array of audiences, including our institutional and retail shareholders. We were pleased to provide more clarity on the subsequent phases of our Shaikan development project at the event, including capital expenditures. The CME presentation and webcast are also available on the Company’s website, for those that were not able to attend on the day.

Strong corporate governance continued to be a priority for the Company, with the composition of the Board changing considerably during the year. After many years of distinguished service, Philip Dimmock stood down as Senior Independent Director in July 2018 and was replaced by Martin Angle, who brings substantial financial, commercial and boardroom experience to the Company.

The Board will also look to complement the annual ordinary dividend with further supplemental dividends to shareholders

Kimberley Wood also joined the Board in 2018, as a Non-Executive Director. Kimberley adds significant legal expertise to the Board with over 18 years in the oil and gas sector, advising a wide range of oil and gas companies during this time. In line with industry best practice we remain committed to maintaining a strong, independent Board. We also continue to strive to achieve greater diversity throughout all levels of the business and see the further development of our extensive local employee workforce as being pivotal to the success of the Company.

Following a period of significant commercial and operational achievements in Kurdistan, the Board has decided to establish a dividend policy to ordinary shareholders, which comprises an annual dividend on the ordinary shares of the Company of no less than a total of \$25 million per financial year, payable semi-annually and split between an interim and final payment (1/3:2/3).

The Company is therefore pleased to announce its intention to pay an ongoing ordinary dividend on the ordinary shares of \$25 million in 2019 and, given its current financial strength, the Board is also proposing to complement this ordinary dividend in 2019 by a \$25 million supplemental dividend to shareholders on the ordinary shares. The total dividend of \$50 million for 2019 will be subject to approval at the next AGM in June 2019. It is the Board’s current intention that one-third of the total dividend will be paid following approval at the Company’s AGM, with the balance payable following release of the Company’s half-year results on dates to be determined in due course.

Shaikan has the potential to deliver significant value to all stakeholders for the foreseeable future

In future periods of strong cash flow generation, the Board will also look to complement the annual ordinary dividend with further supplemental dividends to shareholders while preserving its ability to grow the business.

When setting the appropriate ordinary, and any supplemental, dividend levels in future periods, the Board of Directors will look at a range of factors including, inter alia, the macro environment including the oil price, the commercial environment, the balance sheet of the Company, and all current and future investment plans. The payment of any dividend will be subject at all times to appropriate Board and shareholder approvals and compliance with Bermuda law.

I have relished my first year as Chairman of Gulf Keystone and believe the Company has made considerable positive progress during 2018. I would like to thank our shareholders for their continued support during what has been a busy time for the business. On a final note, I would like to express my gratitude to all of the Company’s employees, whose hard work and dedication over the last year has enabled the business to recommence investment into Shaikan, which has the potential to deliver significant value to all stakeholders for the foreseeable future.

Jaap Huijskes
Non-Executive Chairman
27 March 2019

EXECUTIVE REVIEW



2019 is set to be another significant year for the Company as we continue to create value for all of our stakeholders.

Jón Ferrier
Chief Executive Officer
27 March 2019

Sami Zouari
Chief Financial Officer
27 March 2019

Throughout 2018, our focus was on laying the foundations for the delivery of the Company's phased growth plans, which entail an unrivalled step change in production profile. In this regard, 2018 was another successful year for Gulf Keystone. The Company is on track to achieve its near-term production target of 55,000 bopd in Q1 2020, and with our partner MOL, continues to work towards delivering the staged investment programme, which is expected to lead ultimately to a gross production of up to 110,000 bopd.

We are pleased to report that the Shaikan Field maintained its track record of consistent performance, allowing the Company to announce full-year gross average production of 31,563 bopd, at the upper end of the guidance range of 27,000-32,000 bopd. There have been no signs of water or gas breakthrough and the quality of the crude produced at Shaikan has remained consistent.

2018 began favourably with the Company announcing its first Crude Oil Sales Agreement, ensuring that payments were normalised in line with oil prices and actual production from Shaikan. Importantly, this paved the way for the Company to once again invest in Shaikan. In February 2019, the Company renewed the Crude Oil Sales Agreement through to the end of 2020, giving Gulf Keystone greater certainty over oil sales payments for the foreseeable future.



GKP began an extensive work programme in the second half of 2018 – now fully underway

After a detailed planning phase, GKP began an extensive work programme in the second half of 2018, which is now fully underway. GKP has gone to considerable lengths to mitigate risks where it can with its Shaikan expansion plans. Given the project is onshore and the reservoir is well understood, the Company believes that the project carries relatively low execution risk.

The development vision of the Shaikan Field is described by the revised FDP which was submitted in October 2018. This revision was not accepted by the MNR, in particular due to a request for additional assurances on the timing and commitment to eliminate gas flaring – the single most complex and expensive component of the field’s development. We are hopeful that GKP, along with MOL, will reach an agreement with the MNR for the benefit of all parties. As the parties progress this matter, investment on the ground continues as per the initial phases of the plan.

The Company is in a robust financial position, and a disciplined approach to capital management remains central to everything we do. In 2018, the Company continued to receive regular oil payments from the KRG, with cash receipts in the year totalling \$225 million net to GKP. At the time of this report, the cash balance stands at \$296 million. It is also important to stress that the Company has immaterial outstanding revenue arrears.

We are pleased to have maintained a strong HSSE track record throughout 2018

Under our current market assumptions and predicted field performance, the Company is now fully funded for all phases of the Shaikan expansion programme, up to 110,000 bopd. The gross capital expenditure guidance for the 55,000 bopd phase of the uplift in production remains unchanged between \$200 million to \$230 million gross. With imminent growth in production, the Company expects to accelerate recovery of the c.\$500 million outstanding petroleum cost pool (gross). As a result of this robust financial position, the Board was pleased to confirm a dividend policy effective this year, subject to approval by the shareholders at the next AGM.

The Company has spoken in the past of discussions with the MNR and MOL which could potentially lead to an amendment to the existing Shaikan Production Sharing Contract (“PSC”) where the MNR is seeking a carried interest that is common in many other PSCs in the Kurdistan Region of Iraq. Should a new PSC amendment be concluded, the Company is confident that the revised fiscal terms are expected to be at least value neutral to GKP. This matter has no reason to impede development progress, investment and increasing production from Shaikan, as evidenced by our considerable activity in 2018 which continues apace in 2019.

A disciplined approach to capital management remains central to our strategy

The Company has received final clearance from Sonatrach in relation to the Ferkane Permit (Block 126). This officially marks Gulf Keystone’s exit from its Algerian operations. This positive development has allowed the Company to release \$10 million of past liabilities, with no further costs to be incurred.

Ensuring the safety of our people remains our number one priority and we are pleased to have maintained a strong HSSE track record throughout 2018. As the operational tempo increases, so do risks in the workplace; there can be no complacency with our HSSE performance.

2019 is set to be another significant year for the Company as we continue to create value for all of our stakeholders, in particular our shareholders and the Kurdistan Region of Iraq.



EXECUTIVE REVIEW continued

Key financial highlights

	Year ended 31 December 2018 \$'000	Year ended 31 December 2017 \$'000
Gross average production (bopd)	31,563	35,298
Realised price (\$/bbl)	49.0	34.6
Revenue	250.6	172.4
Operating costs (\$m) ⁽¹⁾	(30.7)	(28.8)
Operating costs per bbl (\$/bbl) ⁽¹⁾	(3.2)	(2.7)
General and administrative expenses (\$m)	(17.8)	(21.3)
Profit from operations (\$m)	78.2	24.1
Profit after tax (\$m)	79.9	14.1
Basic earnings per share (cents)	34.84	6.16
EBITDA (\$m) ⁽¹⁾	149.3	104.3
Capital investment (\$m) ⁽¹⁾	35.7	8.1
Net cash (\$m) ⁽¹⁾	191.2	58.5
Net increase in cash (\$m)	135.2	67.0
Revenue receipts (\$m)	224.7	132.0

(1) Operating costs, operating costs per barrel, EBITDA, capital investment and net cash are either non-financial or non-IFRS measures and are explained in the summary of significant accounting policies.

Revenues

The Group has delivered a year of strong financial results. 2018 revenue stands at \$250.6 million (2017: \$172.4 million), the highest recorded level since the Group started selling its Shaikan crude oil. This is the result of a higher Brent price and the signing of a Crude Oil Sales Agreement in January 2018 which allowed the Group to receive revenues based on its entitlement rather than the capped amount of \$12 million (net) received for the first nine months of 2017. Revenue recognised includes \$16.2 million MNR liability offset (2017: \$14.9 million).

The Group continues to recognise revenues on a cash receipt assured basis, leaving past revenue arrears off balance sheet. The Group's current assessment is that the possible range of revenue arrears is not material.

Operating costs, depreciation, other cost of sales and administrative expenses

The Group's operating costs increased to \$30.7 million (2017: \$28.8 million) as the Group undertook certain one-off maintenance projects during the year and started incurring costs associated with the preparation for the future production ramp up, mostly in relation to hiring additional resource.

Other cost of sales components include depreciation, depletion and amortisation ("DD&A") of oil and gas assets, capacity building charge, production bonuses, and certain other cost of sales such as the cost of trucking oil to Fishkhabour and oil inventory movements. Cost of sales increased to \$154.5 million (2017: \$127.0 million), which was mostly driven by the production bonus of \$16.0 million (2017: \$nil) and transportation costs of \$14.3 million (2017: \$2.4 million). With the completion of the export pipeline from PF-1 to the main export pipeline expected to become operational mid-year, trucking costs will be eliminated.

General and administrative expenses ("G&A") have come down from \$21.3 million in 2017 to \$17.8 million in 2018, with the Kurdistan office contributing \$7.8 million (2017: \$5.4 million) of this amount. The reduction in G&A is the result of prudent resource management which is a core part of the corporate culture and an important element of the Group's KPIs. The G&A amount includes \$1.8 million of share-based payments (2017: \$2.7 million) and \$0.4 million (2017: \$0.4 million) of depreciation costs.

The movement in these three components has allowed the Group to record an EBITDA of \$149.3 million, a 43% increase in comparison to the previous year (2017: \$104.3 million).

Net finance costs and other gains

The Group incurred net finance costs of \$9.4 million (2017: \$10.3 million). This includes \$2.9 million of accelerated amortisation of the refinanced Notes' issue costs (2017: \$nil).

The Company has received final clearance from Sonatrach in relation to the Ferkane Permit (Block 126). This officially marks Gulf Keystone's exit from its Algerian operations and resulted in a \$10.2 million release of past liabilities recognised in other gains.



A solid financial foundation underpinning the Group's strategy

Strong free cash flow generation

In 2018, the Group received revenue payments of \$224.7 million (2017: \$132.0 million). This, combined with strong capital discipline and low-cost operations, resulted in an increase in net cash of \$135.2 million (2017: \$67.0 million).

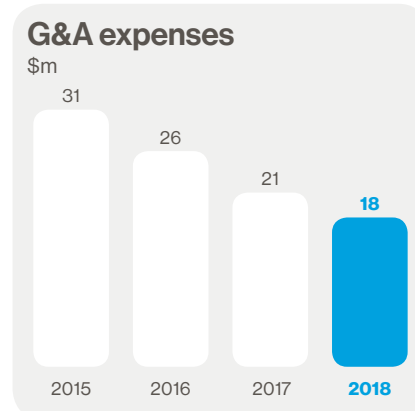
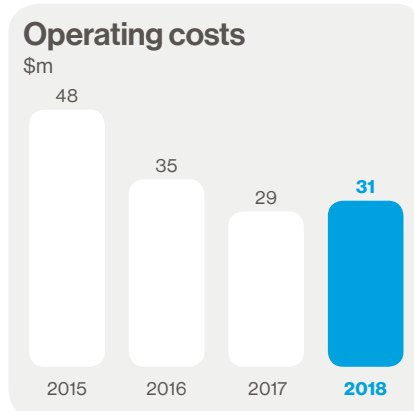
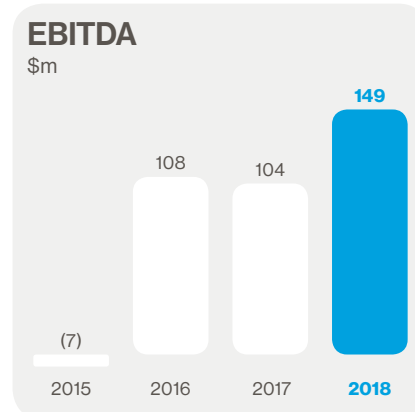
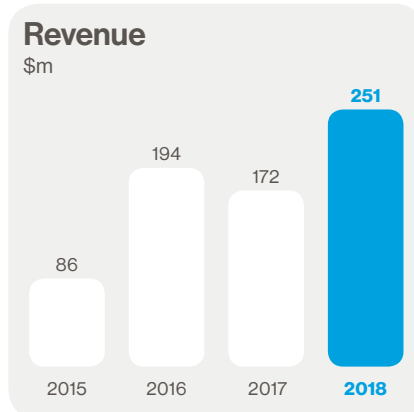
The cash balance at the end of 2018 stood at \$295.6 million (2017: \$160.5 million), serving as a solid base for the Shaikan investment programme.

In July 2018, the Group redeemed the \$100 million Reinstated Notes due in 2021 at a price equal to 100% of the principal, plus accrued and unpaid interest. The Group also successfully completed the private placement of a five-year senior unsecured \$100 million bond issue (the "New Notes") carrying a 10% fixed semi-annual coupon. The bond placement was oversubscribed, receiving strong investor demand, both from existing and new investors across international markets. The New Notes give the Group the flexibility to raise up to \$200 million of additional borrowing.

Capital investment

In 2018, capital investment in Shaikan amounted to \$35.7 million. This investment covered the work on the export pipeline from the production facilities to the main export pipeline, the SH-1 workover, work in preparation for the upcoming drilling campaign, production facilities improvement, various studies and reservoir engineering.

Capital investment in Shaikan will continue this year with the Group's work programme aimed at achieving the near-term production target of 55,000 bopd. In 2019, the gross capital expenditure associated with this project is expected to total \$130-150 million.



In addition, the Company has initiated certain workstreams in relation to the subsequent phase of the development which includes expansion to 75,000 bopd and the gas re-injection project, although the investment decision has not been finalised. In 2019, the gross capital expenditure associated with this workstream, which includes installation of additional electrical submersible pumps, certain long lead items, well pads civil works and engineering and design work on the gas re-injection project, is expected to be in the range of \$20-45 million, depending on the timing of the project investment decision and achievement of key milestones.

Jón Ferrier

Chief Executive Officer

Sami Zouari

Chief Financial Officer

27 March 2019

OPERATIONAL REVIEW



2018 was a year of operational delivery from the Shaikan Field, with the Company focused on laying the foundations to increase gross production from the field to 55,000 bopd and beyond.

Stuart Catterall

Chief Operating Officer

27 March 2019

The Company delivered strong operational performance in 2018, following a similarly good year in 2017.

Gulf Keystone attained gross average production of 31,563 bopd during the period, at the upper end of our 27,000-32,000 bopd guidance for the year. The production figures were achieved by maintaining safe and reliable operations underpinned by predictable performance from the Shaikan Jurassic reservoir, which continues to produce in line with expectations. Plant uptime remained very high throughout the year at 99%.

The year marked the beginning of direct pipeline exports from Shaikan with the commissioning in July of the spur line from PF-2 to the Kurdish export pipeline. During 2018, the reduction in trucking operations to Fishkhabour reduced the risk of road traffic accidents, and today, following the installation of temporary unloading facilities at PF-2, only c.3,000 bopd are exported by trucks via Fishkhabour. Trucking will be eliminated in summer 2019 when the tie-in from PF-1 to the main export line is finalised.

The Company continues to focus on cost discipline at Shaikan. Operating costs have increased in comparison to 2017, due to various maintenance projects undertaken during the year and other investments in preparation for the increase in production.



Plant uptime remained very high throughout the year at 99%

This, together with the lower average production for the year, has resulted in an increase in opex per barrel from \$2.7/bbl in 2017 to \$3.2/bbl in 2018.

Over the last year, the Company has conducted an internal in-depth assessment of reserves. This used as a foundation: new petrophysical and geological interpretations, a comprehensive fracture network modelling study, updated well and facilities performance data, production history to the end of 2018 and dynamic reservoir simulation modelling incorporating all of these data. On this basis, GKP's internal review of reserves indicates an upgrade in Proven (1P) reserves and no material changes to Probable reserves (2P) compared to previous work. The lack of any significant change in the mid-case is reassuring, but more importantly the increase in 1P reserves is indicative of the reduced uncertainty and risk as production and reservoir performance becomes better understood.

However, GKP continues to report reserves based on the 2016 ERC Equipose ("ERCE") Competent Person's Report ("CPR"), the last audited assessment of reserves. Accounting for production in 2017 and 2018, the gross 1P and 2P reserves of Shaikan are estimated at 207 MMstb ("million stock tank barrels") and 591 MMstb respectively at the end of 2018. A revised CPR is expected to be released following FDP approval.

Trucking will be eliminated in summer 2019 when the tie-in from PF-1 to the main export line is finalised

At the end of 2018, Gulf Keystone had produced over 56 MMstb from Shaikan, representing 9% of Shaikan's gross 2P reserves. This knowledge proved instrumental when designing the phased investment programme at Shaikan and gives the Company comfort when setting out its future investment plans for the field.

Next stage of growth – 55,000 bopd project in the next twelve months

In June 2018, Gulf Keystone with its partner MOL, reached agreement with the MNR to recommence investment into Shaikan; a landmark event for the business. Since this time, a number of workstreams have commenced which will enable the Company to reach the target of 55,000 bopd in Q1 2020. The target of the investment in this phase is the continued exploitation of the high-quality Jurassic reservoir, which benefits from an unusually high oil column of up to 950 metres and a mapped east-west closure of c.25km. The scale of the reservoir allows for considerable opportunity for future infill well locations.

The Company signed an agreement with Independent Oil Tools ("IOT") to use "Rig 1" for its planned workover programme. The rig has now successfully completed a workover on the SH-1 well, resulting in an increase in production from the well by c.90%, to over 7,000 bopd. The IOT rig used will complete a workover for another operator in the region before returning to Shaikan for the remaining workovers in the 55,000 bopd expansion programme. This will include the SH-3 tubing change-out along with installation of electric submersible pumps ("ESPs") in wells SH-5, SH-10 and SH-11.

The Jurassic reservoir benefits from an unusually high oil column of up to 950 metres and a mapped east-west closure of c.25km

A drilling campaign using "Rig 40" (owned by DQE) is planned to commence shortly, with the first four wells (needed for the 55,000 bopd target) expected to be completed in Q1 2020. The four wells will target infill locations between existing wells to exploit the Jurassic Sargelu, Alan, Mus and Butmah formations, the source of all Shaikan production to date. Well pad construction for the first two wells of the campaign is complete.

Progress with the debottlenecking work at PF-1 and PF-2 remains on track for completion late 2019. After incurring minor operational delays, largely from the late delivery of drilling and well completion equipment, the 55,000 bopd production target is now expected in Q1 2020. The Company has made significant progress since construction commenced and remains on track to achieve this milestone. Gulf Keystone expects gross capital expenditure for the 55,000 bopd development phase to remain unchanged in the range of \$200 million to \$230 million, including a 25% contingency.

Gross production this year up to 26 March 2019 averaged 27,845 bopd; somewhat lower than the forecast range due to an unplanned export pipeline shutdown and the SH-1 workover. Nevertheless, average gross production guidance for 2019 remains in the range of 32,000-38,000 bopd as previously communicated.

OPERATIONAL REVIEW continued



Staged production growth over the next five years

Looking beyond the 55,000 bopd project initiated in June 2018, Gulf Keystone and its partner MOL have formulated a phased investment programme, which envisages gross field production increase in stages to 75,000 bopd, then up to 85,000 bopd (collectively "Phase 1"), and eventually 110,000 bopd ("Phase 2") once the Triassic reservoir is fully onstream. Compared to the previous development plan, this revised plan has been de-risked and optimised on phasing, timeline and expenditures. A revised Field Development Plan reflecting the strategy was submitted to the MNR in Q4 2018. This revision has not been accepted by the MNR, specifically due to a request for additional assurances on the timing and commitment to eliminate gas flaring. As the parties aim to progress this matter and reach an agreement for the benefit of all parties, investment on the ground continues as per the initial phases of this plan.

Whilst the FDP has not been accepted, the Company has commenced with various workstreams (including planning and procurement of certain long lead items) to prepare for the increase in output to 75,000 bopd. This project includes a new train plus utilities to be constructed at PF-1 and PF-2, which would increase total processing capacity at the field to 75,000 bopd. The expansion beyond 55,000 bopd to 75,000 bopd includes a gas re-injection facility which is expected to eliminate flaring, help maintain reservoir pressure, mitigate HSSE risks and lay the foundation for the development of the Triassic reservoir by enabling the handling of the higher gas-oil ratio expected from lighter Triassic oil. Gulf Keystone currently estimates the gross costs associated with the gas re-injection project, and the step up to 75,000 bopd, to be in the range of \$400 million and \$450 million, including a 25% contingency, but this remains subject to a final review and sanction. The gross capex of the expansion to 75,000 bopd is estimated between \$150 million and \$175 million with an estimated project duration of 18 to 24 months, while the capex for the gas re-injection is estimated between \$225 million and \$300 million with an estimated project duration of 24 to 30 months.

The 85,000 bopd phase requires production from Shaikan's Triassic reservoir, which is yet to be exploited. Installation of oil processing facilities at a new site, adjacent to the Jurassic gas re-injection facility, and the drilling of two new Triassic production wells, plus a possible third contingent well, would also need to be carried out to achieve the initial phase of production of c.10,000 bopd from the Triassic. In this initial, or pilot, phase the Company plans to use dynamic data from the first six to twelve months of production to better understand the reservoir's behaviour. Once this has been quantified, a final investment decision on the planned expansion work will be made. Further details on the costs of this Triassic pilot phase will be disclosed in due course, but initial estimates suggest gross capex for this stage in the region of \$135 million to \$165 million, including a 25% contingency, over a duration between 18 to 24 months.



It is currently envisaged that a final investment decision on Phase 2 (which includes expansion of the Triassic and a Cretaceous pilot) will be made before moving ahead with the ordering of compression and facility equipment in addition to the drilling of a further five wells required to increase output at Shaikan to the 110,000 bopd target level. The timing of Shaikan's Phase 2 development decision will be dependent on the outcome of the Phase 1 project. Further details on the costs of the subsequent 110,000 bopd phase will be disclosed in due course, but initial estimates suggest gross capex for these stages in the region of \$450 million to \$550 million, including a 25% contingency, over a duration between 24 to 30 months.

The Company has been thorough in designing this staged investment scheme and believes that the blueprint laid out represents prudent reservoir management and is in the best interests of all stakeholders. Realising the full potential from Shaikan and maximising its value for shareholders remains a priority for the Company and we believe our approach to be the optimal method of achieving this.

HSSE and CSR

Gulf Keystone strives to be at the forefront of HSE performance in Kurdistan and monitors and continually improves its safety practices accordingly. HSE performance was robust during the period with one lost time incident ("LTI") recorded, the first for three years.

Connecting PF-2 to the export pipeline in July 2018 significantly reduced the need to truck crude and the installation of a temporary unloading facility at PF-2 has allowed PF-1 trucks to materially reduce the distance they need to travel and has resulted in decreased HSE exposure. The connection of PF-1 to the main export pipeline in mid-2019 is expected to eliminate the need for trucking at Shaikan entirely.

Gulf Keystone remains committed to having a high proportion of the Company's workforce made up of local personnel. During 2018 c.80% of in-country staff were local employees, 35% of which live in the nearby villages surrounding Shaikan. Last year, a total of 25 promotions for local personnel took place; awarded on the basis of successful development and performance. A number of companies from the Shaikan area have been successful in our tendering processes and this, as well as providing excellent service, enables a higher proportion of local communities and personnel to share in the success of the Shaikan development.

We remain focused on assuring our environmental impact is minimised and in 2018 a number of drilling sites, where storage pits had been left in place, were remediated and landscaped. The programme was carried out in close collaboration with the MNR, who have agreed that it met all requirements. The programme continues in 2019, but by the end of this year we hope to have completed the remediation of all those sites. We were also very pleased to receive approval from the MNR for our Environmental and Social Impact Assessment ("ESIA") in relation to the drilling programme and the pipeline installation.

In 2018, the Company was pleased to agree a long-term corporate social responsibility ("CSR") strategy with local and government stakeholders. The aim of the strategy is to ensure community investment is built into the framework of Gulf Keystone's business actions. We have started a number of projects – in particular two relating to improvement to agricultural practice – and have identified a number of others which we are in the process of evaluating. We work actively with NGOs in the region using their expertise in the implementation of these projects.

Stuart Catterall

Chief Operating Officer

27 March 2019

BUSINESS MODEL

Gulf Keystone’s business model is to create value for stakeholders through a phased increase in production at Shaikan, whilst maintaining strict financial discipline. Growth opportunities that have the potential to generate cash flows and diversify the portfolio, may also be considered.

Inputs

Focus on HSSE

One LTI
in last three years

page 29

High class asset

2P reserves
of 591 MMstb

pages 22 and 23

Regular monthly payments

\$225m net
to GKP received in 2018

pages 24 and 25

Focus on costs

37%
G&A reduction since 2017

pages 8 and 9

Robust balance sheet

\$296m
Cash position as at
27 March 2019

page 7

Our core activities

Asset development



Gulf Keystone has utilised its knowledge of Shaikan’s underlying reservoir and focused on de-risking its planned expansion plan for the licence. Along with its partner MOL, the Company has worked hard to make sure the phased investment approach carries a low amount of execution risk and has the right team in place to oversee the project.

Optimise FDP



The development vision of the Shaikan Field is described by the revised FDP submitted in October 2018. This revision was not accepted by the MNR, due in particular to a request for additional assurances on the timing and commitment to eliminate gas flaring – the single most complex and expensive component of the field’s development. We are hopeful that GKP, along with MOL, will reach an agreement with the MNR for the benefit of all parties.

Our strategic objectives

1

Safety

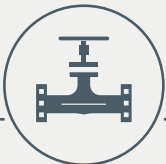
2

Project delivery



Outputs

Production growth



Gulf Keystone remains focused on increasing output from Shaikan. The phased investment plan set out in the FDP, our vision for growth, will see production increase to 110,000 bopd in the medium term. Works for the 55,000 bopd expansion plan are firmly underway, with the Company on track to achieve this uplift in output in Q1 2020.

Deliver value



The Board and senior management team are firmly focused on generating value for the Company's stakeholders. This is achieved by being strict on costs, ensuring safe and reliable operations continue at Shaikan and further optimising the performance of the field. The Company has announced a dividend distribution policy, with an annual dividend on the ordinary shares of the Company of no less than \$25 million per financial year from 2019 onwards.



Shareholders

Continued focus on cost control, maintaining safe and secure operations and prudent investment into Shaikan are expected to yield future returns for shareholders.



Government

Gulf Keystone has worked closely with its host government, the KRG, since it entered Kurdistan in 2007. It remains one of the Company's most important stakeholders.



Kurdistan

Kurdistan remains an active oil and gas region. The industry is essential to the Kurdistan economy and Gulf Keystone is proud to be an important contributor.



Communities

The Company enjoys good relations with the local communities around Shaikan. Gulf Keystone prides itself on being committed to the hiring, training and coaching of personnel from its area of operation.

3

Production growth

4

Cost focus

More on strategic objectives can be found on pages 16 and 17

STRATEGY AND OBJECTIVES

The achievement of our strategic objectives will allow us to build sustainable value resulting in returns to our investors as well as host government and employees.

Our strategic objectives in 2019

KPIs

Risks

<p>1 Safety</p> <ul style="list-style-type: none"> Maintain safe and reliable operations, eliminate trucking of Shaikan crude oil and complete 2019 Total Recordable Injury ("TRI") free. 	<ul style="list-style-type: none"> Delivering safe and reliable operations is a priority for the Company. The Company's number of TRIs is a fundamental measurement of our performance. In addition, we track our Total Recordable Injury Rate ("TRIR") to benchmark against our peers in the region. 	<ul style="list-style-type: none"> Impact of an incident may result in loss of life or injury. Disruption to business activities. Risk of litigation and reputational damage with an associated financial loss. Impact on the environment.
<p>2 Project delivery</p> <ul style="list-style-type: none"> Increase Shaikan production in line with our vision, using a phased and risk-managed approach. Complete debottleneck of production facilities to 55,000 bopd. Commence preparatory work for 75,000 bopd and beyond. 	<ul style="list-style-type: none"> Remain within capex guidance of gross \$200-230 million for the 55,000 bopd expansion project and deliver it on time in Q1 2020. 2019 gross capex guidance: <ul style="list-style-type: none"> \$130-150 million on 55,000 bopd; and \$20-45 million on subsequent phase. 	<ul style="list-style-type: none"> For phases beyond the 55,000 work programme, subject to FDP approval, timing of which is to be determined. Delays in the delivery of equipment. Unknown complications with development of the Shaikan Field. Failure to control exploration and production ("E&P") risks will lead to project delays, cost overruns and high production costs.
<p>3 Production growth</p> <ul style="list-style-type: none"> Achieve gross average production in the range of 32-38,000 bopd. 	<ul style="list-style-type: none"> Meet gross production guidance for the year. 	<ul style="list-style-type: none"> Loss of well due to water or gas breakthrough or mechanical failure may result in temporary well shut-ins.
<p>4 Cost focus</p> <ul style="list-style-type: none"> Prudently managing disciplined cost base (opex and G&A) as production at the Shaikan Field increases. 	<ul style="list-style-type: none"> Costs in line with 2019 budget. Robust cost control. 	<ul style="list-style-type: none"> Operational issues leading to costs overrun.

Beyond 2019

- Continue to minimise HSSE risks by providing outstanding safety training and ensuring a comprehensive HSSE strategy is in place which is implemented throughout the organisation.

- Focus on initiating subsequent phases of development.
- Prolonging life of existing wells through active management and infill well programme.

- Achieve production target of 55,000 bopd in Q1 2020.
- Continue to develop the Shaikan Field; phased and risk-managed approach.

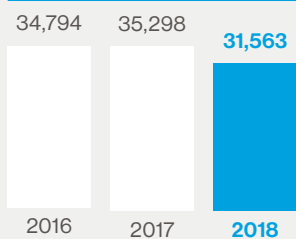
- Monitor costs base through business planning and corporate performance management.



KEY PERFORMANCE INDICATORS

Gulf Keystone sets key performance indicator (“KPI”) targets and assesses performance against these benchmarks on a regular basis.

Gross production (bopd) **2018 target: 27,000-32,000**



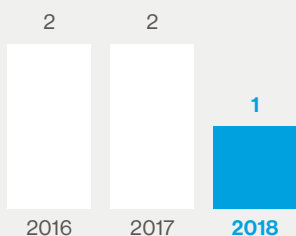
Description

- Gross production is an indicator of our revenue potential.
- It is also a direct measure of the anticipated growth of the Company in its efforts to achieve production of 55,000 bopd and up to 110,000 bopd thereafter.

Performance

- 2018 production was at the top end of the 27,000 - 32,000 range communicated to the market. Reservoir performance was strong and in line with our predictions.
- Reduction from previous year due to anticipated reservoir decline. Additional productive capacity coming online in 2019 (workovers, wells and ESPs) which will result in increased production rate.
- Approximately 90% of the Company's oil production is currently injected into the Kurdish export pipeline. This has improved reliability and safety of oil exports.

Safety performance (TRI)



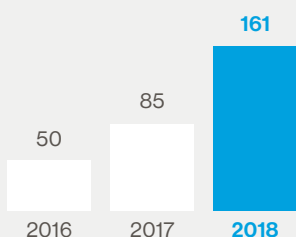
Description

- Safety performance is measured by the number of TRIs.
- The Company is committed to safe, reliable operations with HSSE remaining a priority.
- We require employees and contractors to work in a safe and responsible manner and provide them with the training and equipment to do so.

Performance

- GKP has had another good year and has maintained a strong emphasis on safety.
- In July 2018 the Company recorded its first LTI in three years. As at the date of this report there have been 263 days since the last LTI.
- The Company completed its HSSE Action Plan for 2018, which comprised both improvement initiatives and compliance measures.

Cash generated from operations (\$m)



Description

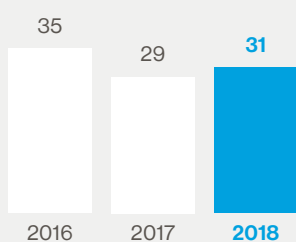
- This metric is an indicator of the profitability of the Company's operations and the ability to generate cash flows.
- It takes into account revenue, operating costs, G&A expenses and working capital movements.

Performance

- Significant improvement on 2017 due to the fact that the Company was paid based on entitlements for the entire year.
- Overall reduction to the cost base due to savings in G&A expenses, offset by a slight increase in operating costs.
- Working capital adjustments had a beneficial impact on cash generated in the year.



Operating costs (\$m)



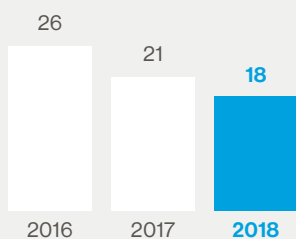
Description

- The Company's operating costs are derived by adjusting cost of sales for various non-cash items and transportation costs.
- The Company ensures operating costs remain in line with the budget and improves cost control and delivers cost reductions where possible, in order to remain a low-cost operator.

Performance

- Operating costs increased in 2018 due to one-off maintenance projects and preparation for the production ramp-up.

G&A expenses (\$m)



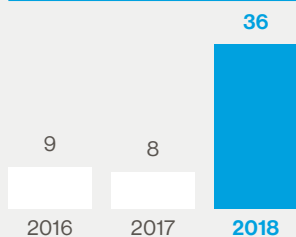
Description

- A key metric for the Company is to maintain low G&A expense, which represents the running costs of the business.
- We measure the performance based on whether we deliver costs in line with the budget and improving controls to ensure ongoing cost reductions.

Performance

- Of \$18 million G&A in 2018, \$8 million relates to Shaikan, with corporate costs standing at \$10 million (2017: \$16 million; 2016: \$17 million).
- Reduction in G&A expenses due to prudent resource management and cost saving initiatives.

Capital investment (\$m)



Description

- Capital investment comprises the Company's net spend on oil and gas assets as we execute the relevant production expansion programmes.
- Capital investment needs to be spent in an efficient, controlled and timely manner in order to achieve project success and development of oil reserves.

Performance

- Significant increase in capital investment in 2018 as the Company embarked on the 55,000 bopd work programme.
- Capital investment for 2016 and 2017 was minimised whilst the FDP was being updated.

All KPIs are linked to remuneration.

STRATEGY FOR FUTURE GROWTH

Production growth

Shaikan Field Development Plan:



55,000 bopd

Jurassic production anticipated in Q1 2020

55,000 bopd

Key activity

- Two tubing workovers
- Four new wells
- Installation of ESPs in three existing wells
- Debottlenecking of existing facilities at PF-1 and PF-2
- Installation of additional 3-phase separators and pre-heaters
- PF-1 pipeline tie-in into export pipeline

Estimated gross capex⁽¹⁾

\$200–\$230m

- 2018: \$45m
- 2019: \$130m–\$150m
- 2020: remainder

Timing

Debottlenecking: Q4 2019 completion
Drilling campaign: Q1 2020 completion

Drilling

Activity commenced with the SH-1 tubing workover which increased production by c.90%. The DQE Rig 40 was planned for mobilisation in April 2019 to drill the four wells required to deliver 55,000 bopd capacity. In Q2 2019, the IOT Rig 1 will install larger tubing at SH-3 and then install ESPs on SH-5, SH-10 and SH-11 to increase the production capacity of these existing wells.

Facilities and pipeline

Work is ongoing to debottleneck production facilities to a combined capacity of 55,000 bopd. Each of the two existing facilities will be expanded from 20,000 bopd to 27,500 bopd by reducing the manifold back pressure and adding separator booster pumps to the existing process trains. By mid-2019 the export pipeline is due to be completed to export oil from PF-1 into the main export pipeline system.

(1) GKP's net share of capex is 80%.

75,000 bopd and gas re-injection

Key activity

- Four new wells including a gas injector
- Installation of ESPs in three existing wells
- Completion of an additional process train at each PF (using the new separators installed in the 55,000 bopd project) and other facilities improvement
- A new production facility (PF-3) to process and inject gas
- Additional storage at PF-1

Estimated gross capex⁽¹⁾

\$400-\$450m, of which

- 75,000 bopd expansion: \$150-\$175m
- Gas re-injection: \$225-\$300m

Timing

- **75,000 bopd expansion: 18 to 24 months following sanction**
- **Gas re-injection: 24 to 30 months following sanction**

Expansion to 75,000 bopd

By drilling a further four wells and installing three ESPs in existing wells, total well capacity is expected to reach 75,000 bopd. Each Production Facility will be further upgraded with the completion of an additional process train (using the new separators installed in the 55,000 bopd project) and by adding a second stabiliser column. Additional storage at PF-1 will maximise availability during pipeline interruptions. Long-term drilling plans are under review, but it is expected that additional infill drilling will be required to maintain capacity as well as the initial programme explained above.

Gas re-injection

Along with the expansion to 75,000 bopd, a new production facility (PF-3) is expected to be constructed to process and re-inject associated gas back into the crest of the Jurassic reservoir. Pipelines are expected to be constructed from both PFs to PF-3, where the gas would be compressed and then re-injected into one well at the crest of the reservoir. Gas injection could have a beneficial impact on oil recovery in the longer term.

85,000 bopd

Key activity

- Drilling of two new Triassic pilot wells
- Installation of further facilities at PF-3
- Produced gas to be re-injected into the Jurassic during the pilot
- Pilot designed to reduce uncertainty, de-risking the development of gross 106 MMstb Triassic Contingent Resources (2C)

Estimated gross capex⁽¹⁾

\$135-\$165m

Timing

18 to 24 months following sanction

110,000 bopd

- C.six additional wells to develop Triassic resources including at least one gas injector
- Additional facilities at PF-3 to process and re-inject large volumes of Triassic gas
- Drill Cretaceous pilot to investigate heavy oil accumulation and develop plans to exploit using existing or new technologies

\$450-\$550m

24 to 30 months following sanction

STRATEGY FOR FUTURE GROWTH continued

Reserves and resources

In April 2017, the Company received confirmation from independent third party, ERCE, verifying 2P reserves as at 31 December 2016. After subtracting production, at 31 December 2018 gross 2P reserves are estimated at 591 MMStb. In addition to 2P reserves there are significant contingent resources of 239 MMStb (2C).

Production since 31 December 2016 of 24 MMStb has been stable with no water or gas breakthrough at the wells. Measured pressure decline during this time has been seen to flatten. This is a positive indication of additional pressure support, that is believed to be coming from the formation of a secondary gas cap as the pressure goes below the oil's bubble point. This observation, coupled with advanced fracture analysis and simulation, has led GKP to increase its internal estimate of 1P reserves and maintain 2P largely unchanged (allowing for production).

- **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 – 591 MMStb 2P reserves (gross) and 239 MMStb 2C resources (gross)**
- **Cumulative production figure to date (26 March 2019) is over 58 MMStb or 9% of the 2P reserves**
- **A revised CPR is expected to be released following FDP approval**



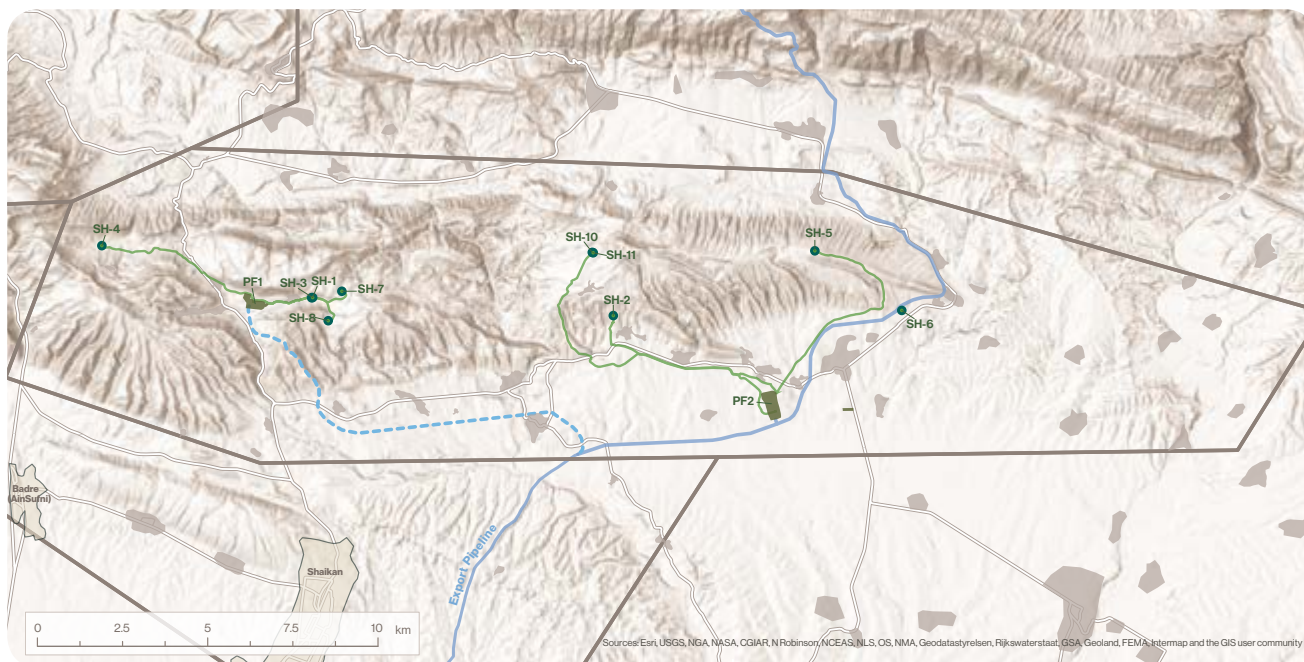


Reserves and resources summary as at 31 December 2018

Formation	Gross field oil reserves (MMstb)			Gross field oil resources (MMstb)		
	1P	2P	3P	1C	2C	3C
Cretaceous	1	3	4	14	53	175
Jurassic	188	544	853	97	80	340
Triassic	18	44	63	29	106	347
Total	207	591	920	140	239	862

Source: ERC Equipoise – CPR August 2016 and confirmation letter dated April 2017. CPR volume estimates of 615 MMstb as at 31 December 2016 adjusted for 12.9 and 11.5 MMstb gross production in 2017 and 2018 respectively.

Shaikan Field – block outline



Key	
Completed wells	●
Facilities	■
Shaikan flowline	—
Villages	■
Planned export pipeline	- - -
Export pipeline	—
Block outline	□

STRATEGY FOR FUTURE GROWTH continued

Regular payments and steady exports

Payments

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. Regular monthly payments continued in 2018 and into 2019. In January 2018, Gulf Keystone received its last monthly gross payment of \$15 million (\$12 million net) from September 2017.

During 2018, the Company received payments for oil sales and reimbursement of transportation costs up to and including September 2018 for a total of \$225 million net. Gulf Keystone has received \$51 million net to date in 2019.

In February 2019, the Company renewed the Crude Oil Sales Agreement which is effective from 1 January 2019 until 31 December 2020. The KRG will purchase Shaikan crude oil directly injected at PF-2 into the export pipeline at the monthly average Brent oil price minus a total discount of c.\$21 per barrel and until the PF-1 pipeline is completed mid-2019, the KRG will purchase crude oil delivered by truck at a discount of c.\$22 per barrel.

Shaikan crude exports

During the first half of 2018, the majority of Shaikan crude was trucked 120km to Fishkhabour and injected into the Kurdistan export pipeline for sale on the export market; the remainder was sold in the domestic market.

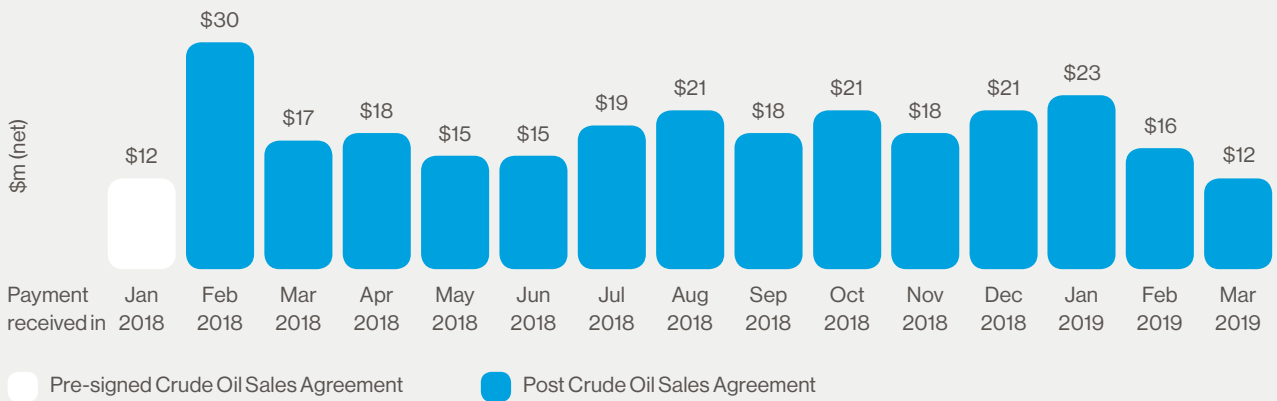
These domestic sales had a similar netback compared to export sales and there was little commercial impact of this arrangement, which allowed us to continue production without constraint. By 30 June 2018, the Company had ceased sales into the domestic market.

During July 2018, the Company used two new routes for selling crude oil into the export market by injecting into its newly commissioned spur line at PF-2 into the Atrush pipeline by trucking approximately 130km from Shaikan to South Khurmala for injection into the export pipeline and (albeit the latter route was only used in July). Additional pumps along with a temporary unloading facility have been installed at PF-2 which allows the majority of production from PF-1 to be trucked to PF-2 and exported via pipeline. Today, only c.3,000 bopd are exported by truck via Fishkhabour, significantly reducing the Company's HSSE exposure.

Progress continues to be made on the installation by KAR Group of the pipeline to connect PF-1 to the Atrush export pipeline. This project remains on schedule to be brought into service mid-2019, at which point the residual trucking of crude oil will be eliminated at Shaikan.



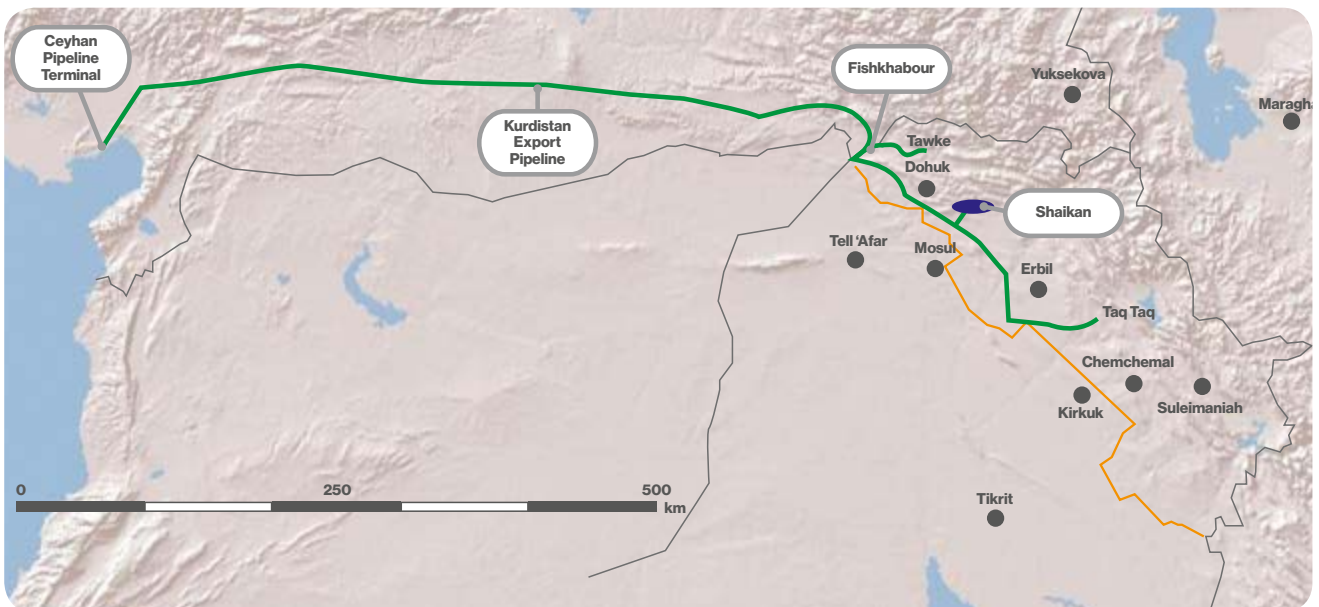
Continuous payments strengthening balance sheet



Month of production	Sep 2017	Oct/Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018
Gross production (kbopd)	33.3	34.5/31.1	33.4	32.9	33.2	28.9	32.8	33.1	30.5	33.5	29.3	32.6	32.4	32.4	27.5
Brent price (\$/bbl)	\$56.2	\$57.5/\$62.7	\$64.4	\$69.1	\$65.3	\$66.0	\$72.1	\$77.0	\$74.4	\$74.3	\$72.5	\$78.9	\$81.0	\$64.8	\$57.4

Source: monthly prices from Energy Information Administration.

Export route



STAKEHOLDER ENGAGEMENT

Shareholder engagement



Shareholder engagement continues to be of significant importance to Gulf Keystone. The Company went to great lengths to achieve this in 2018 and is determined to build on its communications function. We would like to thank our shareholders for their continued support and, as the Company moves into a busy operational period, we look forward to commencing with regular updates to our shareholders during 2019 and beyond.

How we keep shareholders informed

Shareholders can access details of the Company's results and all other news releases through the London Stock Exchange's Regulatory News Service. Gulf Keystone announcements are also published on the "Investor Centre" section of the Group's website. Interested persons can sign up to receive press releases via the alerts service on the Company's website located on the homepage: www.gulfkeystone.com.

In addition to using traditional communications platforms, the Company has also increased its use of other mediums, such as Twitter, webcasts and investor conference calls. Gulf Keystone also hosted its first Capital Markets Event on 28 March 2019, which was well attended by institutional investors and analysts. The presentation was webcast live to all audiences and the presentation used at the event is available for all investors to view on the "Presentations and Reports" section of the website.

Investors



Shareholders

We firmly believe that communicating with our shareholders, the owners of the Company, is important to the success of our business. Ensuring that shareholders are kept informed via a wide array of communications channels continues to be a priority for Gulf Keystone.

Debt investors

The refinancing of the Company's \$100 million bond in July 2018 was a significant moment for Gulf Keystone, as we welcomed a number of new debt investors to the business and increased our financial flexibility going forward. As with all investors, the Company takes pride in its external communications practices and endeavours to keep its debt investors informed of all material news.

Government and partner



As per the Shaikan Crude Oil Sales Agreement, the KRG is the sole buyer of Shaikan's crude oil.

Gulf Keystone works very closely with the KRG, and its partner MOL, on all aspects of the Company's operations. There continues to be active dialogue with the Government, the MNR and MOL, with all parties working in close proximity. This is achieved through regular meetings and conference calls, in addition to working events that take place in Kurdistan and London.

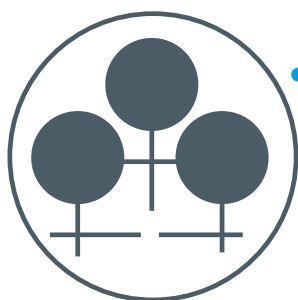
Ensuring that our employees in London, Erbil and in the field are informed and feel involved in the day-to-day operations of the business is crucial to the success of this Company. We are very fortunate to have a high calibre workforce and as a management team we strive to make sure that they feel engaged.

Employees



Gulf Keystone uses several communications platforms to ensure that employees are engaged and understand the objectives of the wider business. The use of in-person town hall meetings in London and Erbil takes place regularly, along with email updates from the CEO and the wider senior management team.

Communities



Since the Company's inception, we have worked alongside the communities located close to Shaikan and make sure that they feel involved in the business, and benefit from its operations.

Without the support and buy-in of these communities the day-to-day running of Shaikan would not be possible. We therefore consult with the local inhabitants on a regular basis, to make sure they are informed of upcoming developments at Shaikan and strive to employ local people and use local suppliers and contractors whenever possible.

Suppliers



Engagement with suppliers is an essential function for Gulf Keystone, particularly as the business moves into a development phase, whereby the sourcing of materials will be central to its operations. The Company has a rigorous tendering process, which ensures that a wide array of suppliers are able to take part. A particular focus is placed on working with businesses that are involved with local communities.

CORPORATE SOCIAL RESPONSIBILITY

HSSE



The Company had another good year with HSSE and the efforts by all Company personnel, who have risen to the challenge of improving not only employee, but the safety and health of its contractors and the environments in which it operates, continues to be effective. During 2018, Gulf Keystone had one LTI which occurred in July. Fortunately, there was no permanent harm done to the individual involved and, as with all incidents, an investigation was undertaken to understand the root causes and measures put in place to reduce the risk of re-occurrence.

The Company's TRIR is shown in the diagram below (see fig.1.) and reflects this single recordable incident in July and a step up to the rate to 0.78. The diagram also reflects the steady positive downward trend over the remaining part of the year ending at a creditable 0.75.

The key HSSE focus for 2018 was to deliver the objectives and targets of the HSSE Improvement and Compliance Plan. The aim of the plan was to start embedding

and strengthening HSSE through 24 improvement initiatives and 23 compliance targets, all endorsed by the Company's HSSE Committee. These initiatives ranged from training, to emergency response exercises, reducing environmental impact, audits and improved systems and procedures.

A top-down approach is used to demonstrate to the rest of the Company the focus of senior management leadership and commitment toward reinforcing the level of HSSE and that this effort is prevalent throughout the Company. UK-based senior management further fortify this with planned field visits to the Erbil offices and to both production facilities. Erbil-based management conducted planned monthly visits, which have significantly raised overall visibility of HSSE across the Company.

The HSSE function reports 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.

HSSE targets for 2018 included: rolling out the revised Company HSSE management system by senior management, revising all safety, operations and maintenance procedures, building an "online" HSSE document library, completing one-on-one emergency management training for field sites, Erbil and London office key personnel, establishing contractor site HSSE assessments and regular HSSE audits – in a process of continuous contractor monitoring and development, improving air quality management systems and the environmental remediation of seven drilling pits.

In the 2018 HSSE plan, areas of compliance requirements, all exercises and drills, internal and external audits and reporting, camp catering food sampling and testing, camp accommodation hygiene inspections and HSSE document revisions were completed.

The Company is pleased to report that it met its internal Health, Safety and Environmental targets in 2018.

Lost Time and Total Recordable Incident Rates 2016-2018

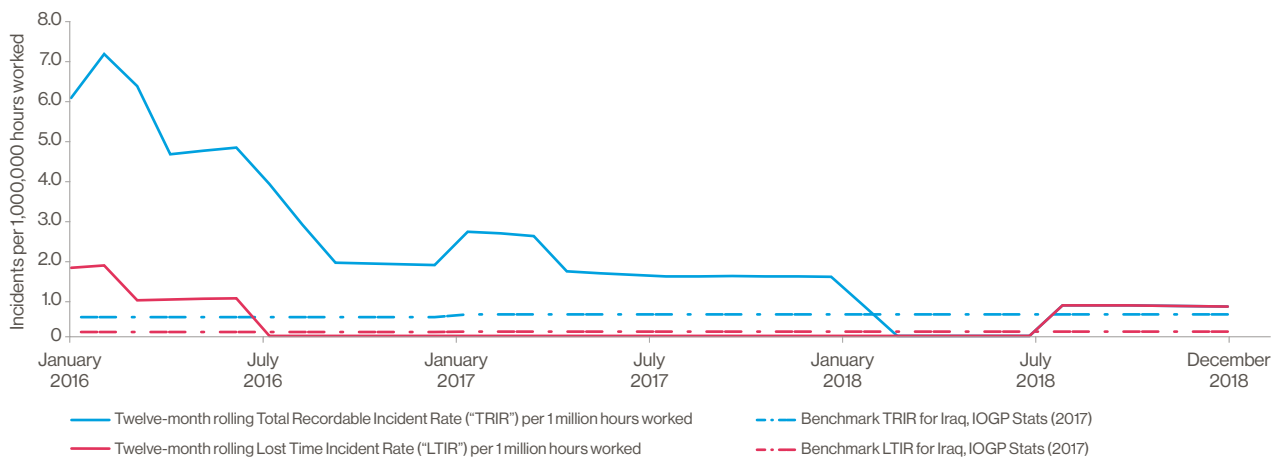


Fig.1. Lost Time Incident Rate and Total Recordable Incident Rate showing three-year period: 2016-2018.



Year-on-year statistical comparison

Category	Measure	2016	2017	2018
Lost time incidents ("LTI")	Total incidents	—	—	1
Lost time incident rate ("LTIR")	Million man-hours	—	—	0.75
Recordable incidents	Total incidents	2	2	1
Total recordable incident rate ("TRIR")	Million man-hours	1.81	1.51	0.75
Motor vehicle accidents	Total incidents	1	1	1
Driving violations (IVMS data ⁽¹⁾) (only those resulting in warnings)	Total incidents	58	25	0
First aid cases	Total incidents	4	2	1
Solid waste recycling	Percentage	67	85.5	87
Liquid hazardous waste recycling	Percentage	67	100	100

Fig.2. Shows the year-on-year statistical comparison.

(1) In vehicle monitoring system.

Two important Environmental and Social Impact Assessments ("ESIAs") were carried out in 2018 in compliance with Kurdistan Law. These were for the export pipeline construction at PF-1 and for the Shaikan-H well site. Preparation of the Master ESIA for the Shaikan Block was also started late in the year as planned.

In the area of waste management, Gulf Keystone maintained and exceeded its internal annual recycling target (set at 80%). The result was that 87% of all Company-generated waste were recycled with cradle-to-grave traceability to ensure third parties also comply with Company requirements and local legislation. Tools such as GPS vehicle tracking and waste transfer documentation were used to provide assurance. The utilisation of local bitumen manufacturers to handle waste oil and contaminated soils recyclability was researched, agreed and approved by the MNR who also helped in achieving the target.

The 2018 environmental remediation plan for drilling pits was completed with a total of seven pits fully remediated. The process of soil sampling during the remediation was closely followed by the MNR, who also reviewed soil laboratory analyses taken at the start of the project and prior to final backfilling of the pits.

Air quality monitoring ("AQM") and reporting saw the planned and successful introduction of the Sentinel AQM unit trial that will replace the existing units, which are nearing end of their useful life, over the next two years. MNR feedback has highlighted that the Company is a leader in Kurdistan with its AQM programme and detailed reporting.



CORPORATE SOCIAL RESPONSIBILITY continued

CSR strategy

We aim to lead the way in Kurdistan by behaving ethically, managing our impact, and working transparently with the local communities.

GKP agreed a long-term CSR strategy with the KRG in 2018; community investment will play a fundamental role in GKP's business decisions going forward.

Objective

- Ensure Gulf Keystone is seen as a best-in-class operator in the region.
- GKP to remain at the forefront of Corporate Social Responsibility ("CSR") and HSSE activities in Kurdistan.

Strategy

- Multi-year planning – sets out principles and framework of CSR initiatives.
- Include all relevant stakeholders in process – GKP, MOL, MNR and Local Authority.
- External consultant, Upperton Associates, used to ensure best practice.

2018 CSR initiatives

Local employment

- GKP is committed to attracting, retaining and developing local employees to support our growth in the region and to help build on our significant success.
- We aim to be a first-class employer, giving our people the tools and skills to enable them to achieve their full potential.
- A key objective in 2018 was to continue our impressive record of training and developing local employees.

- We are encouraged that our Competency Based Framework ("CBF") programme is now considered to be one of the most effective programmes for operational staff in Kurdistan.
- We are proud of the fact that last year c.80% of Kurdistan-based staff were local employees and around 35% live in the local villages surrounding Shaikan.
- A total of 25 local employees were promoted into higher-level positions in 2018.
- We sponsored a number of employees on degree programmes and also initiated a one-year Subsurface Development Programme for a national employee to be assigned to London.
- The Company's voluntary turnover in Kurdistan of 2.5% is exceptionally low and is a good indicator of positive employee engagement.
- In 2018 the Company invested \$300,000 in training and development programmes including the Competency Based Framework for operational staff; a full suite of HSSE training programmes; the Harvard "ManageMentor" soft skills training programme and other individual technical and non-technical training and development programmes.
- We will continue to support and develop our employees through structured learning and development including the initiation of the Engineering Graduate Apprenticeship programme in 2019; development of the bespoke GKP Management Development Programme which will run in Erbil in 2019, and continued sponsorship of degree and technical programmes.
- The Company's Diversity Policy was established in 2018.

In-country services and suppliers

- Via the Company's competitive tendering process, suppliers which use local equipment and workers are identified and prioritised where possible during the evaluation and award procedure.
- In accordance with Ministerial Directives, all ancillary services, such as food supplies, materials, equipment, services and manpower for civil works, are drawn from local Shaikan communities whenever possible.

Impact management

- The Company is committed to minimising the impact its operations have on the surrounding environment; this is done primarily through an ESIA for individual projects.
- Additionally, Gulf Keystone committed to repairs to the public road from Baadre to Mreba which traverses the block.

Community investment

- These investments, which sit outside of petroleum operations, provide long-term socio-economic benefits to the local communities.
- A review conducted during 2017-2018 identified two investment areas that would have a direct bearing on local communities: agriculture and "Education and Enterprise".
- The chosen community investments are expected to benefit local communities for the foreseeable future.

Good neighbour

- Gulf Keystone remains committed to providing material goods or assistance to cover basic needs of the community, in timing of absolute necessities such as power, heating and access to water.



Q&A with Saman Azher Askander, Process Supervisor

Saman, please could you introduce yourself?

My name is Saman Azher Askander. I am a 33-year-old chemical engineer from Duhok Zakho. I grew up in the city of Duhok and have twelve years' experience in the oil and gas industry. Prior to working at Gulf Keystone, I was enrolled at the University of Technology in Baghdad, where I gained a BSc degree in Chemical Engineering. I always wanted to work in the oil and gas industry and have found the six years I have been at Gulf Keystone very rewarding.

How has your career progressed at Gulf Keystone?

When I joined Gulf Keystone I began as a Control Room Operator before quickly moving up to Lead Plant Operator later that year. In April 2014 I was promoted to the position of Process Supervisor. Due to its strong safety record and reputation for being a great business to work for, Gulf Keystone is an extremely popular choice of employer for local workers.

Your performance is reviewed on a regular basis and employees are incentivised to work hard. I feel like a valued member of the team and am exceptionally grateful for all the support I have received to date.

What types of training opportunities does Gulf Keystone offer its employees?

Gulf Keystone makes training a top priority and employees are encouraged to undertake a range of personal development programmes. The Company understands that a highly skilled and motivated workforce is fundamental to getting the most out of employees. Having a structured plan in place helps employees better understand what their career trajectory will be and regular assessments ensure that individuals can recognise what they are doing well or need to improve. As a workforce, our strong HSSE record and industry expertise is something we are very proud of.

As someone who grew up in the area, do you think Gulf Keystone has had a positive impact on the region?

Gulf Keystone has a very good reputation in the region. The Company has been operating in Kurdistan for twelve years and is perceived as being committed to making sure the local population benefits from Shaikan. GKP has demonstrated this by investing in agriculture, another important sector for the local economy, which is expected to benefit local farmers, and their families, for generations to come. I have seen first-hand the positive impact Gulf Keystone has had on the neighbouring community.

CORPORATE SOCIAL RESPONSIBILITY continued

CSR strategy continued

Community investment – explained

Agriculture

The second most important industry to the Kurdistan Region of Iraq economy, after oil and gas, is agriculture, and the related theme of food security is deemed a priority by the KRG for economic development. Arable land makes up more than a quarter of the territory of the Kurdistan Region of Iraq. The Shaikan area has both arable farming, primarily wheat cultivation on the plain and horticulture on the hillsides, where there are orchards producing almonds, apricots and other soft fruits. Most local communities are involved in farming either for livelihood and income or for subsistence. In 2018 Gulf Keystone researched, identified and initiated investments in local agriculture.

One initiative was to fund a project to improve the yield and quality of the wheat produced in eight villages near Shaikan. Following the success of this programme further training for the local farmers on the utilisation of wheat seeds and fertilisers was initiated and will be carried into 2019. A training programme on the management of agricultural pests and utilisation of pesticides also commenced. KPIs for the value of these investments will be the wheat yield obtained per donum (one tenth of a hectare) and the price obtained by the farmer for the quality of their harvest.

As the Shaikan licence is a mountainous area, an additional project to improve the health and growth of livestock was also initiated in three villages, with a focus on improving and optimising animal feed and the overall management of livestock.

Education and Enterprise

The second focal area of Gulf Keystone's community investment programme is "Education and Enterprise". This includes many aspects of capacity building and support for small or emerging businesses.

Its focus ranges from practical skills training to supplement the existing educational curriculum – such as English language classes or coaching – to support for the development of small businesses, assistance with business planning, book-keeping and micro-loans to small start-ups.

These initiatives have the potential to be a catalyst for long-term economic change in the local community. Research on this aspect of community investment is ongoing, with a priority to identify expert and trusted partners for execution in 2019.

Outlook – the CSR plan for 2019

- A CSR plan for 2019 will be implemented once agreed with the MNR and the Local Authority in the Shaikan area.

Agriculture

- Investment will include wheat improvement project, livestock project and horticulture improvement project (orchards and vineyards) with Orbit Global.

Education

- Proposal from AMAR foundation (proposal under review) or other foundations to support GKP on education projects.
- Engaged with Sengeri Peshmerga Foundation and requested a proposal for classroom-based or home-based education programmes (under review).

Good neighbour

- Providing material goods or assistance to cover basic short to mid-term community needs.

Impact management

- A substantial budget has been identified in the CSR budget within 2019 operating costs and will go towards assisting local communities.

\$430,000
repair of road from
Baadre to Mreba

Funding
training courses
for local students
and women

\$25,000
for student, youth
and women's
training courses

Generators
supplied to
6 villages



Q&A with Lara M. Uthman, HR Manager

Lara, please could you introduce yourself?

I am Lara M. Uthman. I am from Erbil but grew up in Baghdad and returned to Erbil in 2008. I hold a Bachelor's degree in Computer Sciences from Al-Mansour University in Baghdad 2003 and have over 12 years' experience in Human Resources, Administration and Programme Management.

Before joining GKP I worked with international NGOs. I joined the HR department at Gulf Keystone Petroleum in 2013 and my first role was Interim HR Manager. This was the start of my career in the oil industry and I quickly found the chance to build on my former experience and gain more skills and knowledge.

How has your career progressed at Gulf Keystone?

After joining on a temporary basis in 2013, I was offered the staff role of Deputy HR Manager followed by a promotion to HR Manager in November 2016. The role has grown considerably in this time and I feel that my career has progressed quickly. I am now one of the Company's senior managers in Erbil and part of the leadership team in Erbil.

What types of training opportunities does Gulf Keystone offer its employees?

We provide a wide range of education and training courses to all employees which creates good promotion opportunities. We offer internationally accepted operations courses to all operational staff utilising the Southern Alberta Institute of Technical programme which is internationally recognised.

GKP also provides its employees with training programmes for leadership and interpersonal skills development such as Harvard "ManageMentor". We also plan to hold a leadership and management training programme during 2019. We ensure that all operational employees get full safety training such as First Aid, Fire Fighting and H2S Breathing Apparatus before mobilisation to ensure their safety. We also provide scientific trips, summer training and internship opportunities to students from different universities and technical institutes in Kurdistan. This has helped develop and provide future opportunities for local young people.

Do you think Gulf Keystone has had a positive impact on the region?

Absolutely. We've provided employment opportunities to over 50 staff members in our Erbil office and over 200 at our production process facilities, of which 35% are from the Shaikan area. This has had a ripple effect through our operations giving employment through sub-contractors and related businesses such as security, construction, catering etc.

We have had little work disruption and this shows the quality of our relationship with the local stakeholders which, along with the help of a strong CSR plan, means that GKP's impact is seen in a very positive light.

MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

BOARD

Responsible for the overall system of internal control and risk management

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

The Board considers the Group's principal risks at each scheduled⁽¹⁾ 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. In undertaking this risk review, the senior management team will also consider emerging risks. For example, the Company has requested that geopolitical advisers attend meetings with the Board and management to provide an assessment on the current and future political risks which may affect the Company, thus enabling the Company to plan for the mitigation of these risks.

There is a separate, more detailed operations risk register, which identifies all risks that are specific to the continued safe and reliable operations of the Shaikan asset as well as major future capex projects.

The Audit and Risk Committee engages in an evaluation of the Group's principal risks at each scheduled⁽¹⁾ 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 Board monitors the Company's risk management and internal control systems through reports from the Audit and Risk Committee and direct consideration of risk within the Board meeting agenda.

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
Strategic		
<p>Political, social and economic instability</p> <p>Risk owner: CEO</p> <p>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 changes in the continued administration of the Shaikan licence by the KRG.</p> <p>Link to strategic objective: 2</p> <p>Change in year: </p>	<p>There has been a history of tension between the political parties in the Kurdistan Region of Iraq. Any possible changes in the government would generate uncertainty and may cause a material adverse impact to the Group.</p> <p>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. During 2018 these tensions have lessened, and the Erbil airport has reopened.</p> <p>Political unrest or armed conflicts in Iraq could 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 of the political, social and economic instability 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 and 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 a PSC. Legal advice has been obtained regarding the terms of the PSC.</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 several local initiatives.</p>
<p>Disputes regarding title or exploration and production rights</p> <p>Risk owner: CEO</p> <p>The Iraqi Government has historically disputed the validity of the PSCs granted by the KRG.</p> <p>Link to strategic objective: 2</p> <p>Change in year: </p>	<p>If the validity of the PSCs was successfully challenged, the Group could be required by the KRG or another administration 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.</p> <p>The Group maintains continuous dialogue with appropriate government departments and closely monitors the local situation.</p>

Strategic objectives key:

1 Safety




2 Project delivery

3 Production growth

4 Cost focus


MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES continued


Key risk factor	Potential impact	Mitigation
Strategic continued		
<p>Business conduct and anti-corruption</p> <p>Risk owner: Anti-Bribery Officer</p> <p>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>Link to strategic objective: 2</p> <p>Change in year: </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, fines or possible imprisonment for staff and revocation of licence to operate.</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 regarding 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. A whistleblowing policy, with an external reporting service, was implemented during 2017, and matters reported under this are considered by the Board.</p> <p>The Group also has robust controls around payment approvals and the non-facilitation of tax evasion.</p>
<p>Export route availability</p> <p>Risk owner: CEO</p> <p>Risks associated with availability and accessibility of infrastructure allowing the Group to sell oil to export markets, and changes to export route forced on the Group which affect profitability.</p> <p>Link to strategic objective: 2</p> <p>Change in year: </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 the Kurdish export pipeline, but there is still a limited volume of oil which is trucked between PF-1 and Fishkhabour. Trucking oil carries its own inherent risks, for example road conditions and traffic accidents.</p> <p>These factors will need to be examined when considering further expansion of the field production.</p>	<p>A tie-in to the Atrush pipeline close to the PF-2 facility was completed in July 2018. All oil produced from PF-2 and most of the oil produced from PF-1 is currently exported by this route. Oil produced at PF-1 is either trucked to Fishkhabour, where it is injected into the export pipeline, or trucked to PF-2 where it is injected into the Atrush pipeline.</p> <p>An additional tie-in facility to the Atrush pipeline for oil produced from PF-1 is currently being constructed and is due to be completed in mid-2019. Once completed, all trucking operations will cease, and oil produced from PF-1 will no longer enter the pipeline via PF-2.</p> <p>The netback oil price for oil put through the export pipeline is greater than oil which is trucked.</p>
<p>Stakeholder expectations</p> <p>Risk owner: CEO</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>Link to strategic objective: 2</p> <p>Change in year: </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>Misalignment with our joint venture partner and/or the KRG may result in delays or modifications to the development project.</p>	<p>The Group maintains regular dialogue with the Group's stakeholder base and the general public. Gulf Keystone employs an investor relations team. All key developments are released to the market through the London Stock Exchange's Regulatory News Service, which is also available on the Group's website.</p> <p>The Group has demonstrated its ongoing commitment to the project by planning to deliver against all draft FDP requirements and by endeavouring to maintain alignment and constructive relationships with MOL and the KRG. The Group holds regular meetings in which the views and preferences of all parties are heard in order to determine the best way to take the development forward.</p>

Key risk factor	Potential impact	Mitigation
HSSE & CSR		
<p>HSSE risks</p> <p>Risk owner: COO</p> <p>The Group may be exposed to specific risks in relation to HSSE matters.</p> <p>Identified risk areas include H₂S leaks at the production facilities, loss of containment, road traffic accidents and other accidents at production facilities and well sites.</p> <p>Link to strategic objective:</p> <p>1</p> <p>Change in year: </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 HSSE and CSR Committees which ensure 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. The HSSE Action Plan for 2018 included improvement and compliance initiatives and was duly completed during the year. A further Action Plan has been implemented in 2019.</p> <p>The tie-in of PF-2 to the Atrush export pipeline has significantly reduced the volume of oil export trucking operations. Once PF-1 is tied into the Atrush export pipeline, all trucking operations will cease, reducing the risk of road traffic accidents significantly.</p> <p>The Group actively engages with local communities and governments.</p>
<p>Gas flaring</p> <p>Risk owner: COO</p> <p>A condition of the approval of the Shaikan FDP, granted in 2013, was the installation of a gas treatment and re-injection programme.</p> <p>Link to strategic objective:</p> <p>1 2</p> <p>Change in year: </p>	<p>The environmental impact of gas flaring.</p> <p>Continued gas flaring might result in the revocation of the licence to operate.</p>	<p>The Group maintains active dialogue with the regional authorities to ensure that it complies with the existing emissions regulations.</p> <p>Harmful gas emissions are closely monitored by the HSSE department with any variances outside normal levels investigated and reported to 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 by means of gas re-injection remains an integral part of the Group's FDP.</p>
<p>Security</p> <p>Risk owner: COO</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>Link to strategic objective:</p> <p>1</p> <p>Change in year: </p>	<p>Terrorist attacks or local protests may lead to loss of life or injury to personnel, disruption to operations, costs to repair facilities and reputational damage with an associated financial loss.</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>The 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 Company's security advisers prepare detailed risk assessments, security procedures and contingency plans which can be activated when threats arise.</p> <p>Local communities are 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>

MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES continued

Key risk factor	Potential impact	Mitigation
HSSE & CSR continued		
<p>Corporate social responsibility risks</p> <p>Risk owner: COO</p> <p>Disruptions to business may occur due to local communities' influence and discontent.</p> <p>Link to strategic objective: 2</p> <p>Change in year: </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. Following on from an initiative started in 2017, last year the Company agreed a long-term CSR strategy with local and government stakeholders.</p> <p>The Group remains committed to its CSR programme and has a broader medium to long-term CSR strategy to complement the existing community welfare initiatives.</p>
<p>Field delivery risk</p> <p>Risk owner: COO</p> <p>Field delivery risk applies to all phases of the E&P cycle from seismic acquisition through to production operations.</p> <p>The major identified risks within this area are the following:</p> <ul style="list-style-type: none"> • Loss of a well due to water or gas breakthrough, pressure decline or mechanical failure • Damage to wells during drilling due to loss of drill fluids • High non-productive time in drilling operations • Availability and quality of rigs and drilling services <p>Link to strategic objective: 2 3 4</p> <p>Change in year: </p>	<p>Failure to control E&P risks will manifest itself as project delays, cost overruns, high production costs, early field decommissioning and, ultimately, lower than expected reserves.</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>Issues around drilling operations might result in cost overruns and project delays, and possible even suspension of drilling operations.</p>	<p>Board, technical and financial 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>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.</p> <p>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>

Key risk factor	Potential impact	Mitigation
<p>Reserves</p> <p>Risk owner: COO</p> <p>Recoverable reserves are below expectations which will affect the revenue and economic viability of the field.</p> <p>Link to strategic objective:</p> <p>2 3</p> <p>Change in year: </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 include 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 investment is considered against the low-side scenario and the investment plans adjusted accordingly.</p> <p>Data acquired from well production and pressure measurements and the results from new wells is used to help model the reservoir and reduce uncertainty over time.</p>

Financial		
<p>Liquidity and funding capability</p> <p>Risk owner: CFO</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>Link to strategic objective:</p> <p>2 4</p> <p>Change in year: </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 which has improved markedly during the year, despite the increase in capital spending, due to revenue being paid according to revenue entitlements.</p> <p>During the year, the \$100 million Reinstated Notes (due in October 2021) were replaced by \$100 million of New Notes due in July 2023. The issue of the New Notes was oversubscribed. Both sets of notes have the same coupon rate of 10%.</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>

MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES continued

Key risk factor	Potential impact	Mitigation
Financial continued		
<p>Export payment mechanism</p> <p>Risk owner: CFO</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>Link to strategic objective: 2</p> <p>Change in year: </p>	<p>Irregular receipts of export payments may damage investor confidence in the region and make any fundraising difficult and may damage the Group's financial position and result in an inability to make the necessary investments in the field.</p>	<p>The Group continues to monitor the political situation in the Kurdistan Region of Iraq 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, which has been renewed in February 2019, means that the Group is now being paid according to its revenue entitlements.</p> <p>A regular payment cycle has been established and monthly payments by the MNR to the Group are being met. The Group is on a two to three-month payment term which is in line with its Kurdish peers.</p>
<p>Commodity prices</p> <p>Risk owner: CFO</p> <p>A material decline in oil prices may adversely affect the Group's cash flows and asset valuations and result in delays to the Shaikan development.</p> <p>Low oil prices may adversely impact the KRG's ability to meet its payment obligations towards the region's producers.</p> <p>Link to strategic objective: 2 4</p> <p>Change in year: </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> <p>The Group has benefited from an increase in oil prices during 2018. Internal planning uses prudent forward curves in order to ensure that any oil price volatility will have a predicted effect on the execution of the capital work programme.</p>

In addition, the Board has considered the Company's risks and exposure related to the current uncertainty around the United Kingdom's ("UK") withdrawal from the European Union ("EU"), an event known as Brexit. Particular consideration was given to the free movement of our staff and the effect on the global capital markets. It is the view of the Board that given the Company's operational focus is in the Kurdistan Region of Iraq and that it derives its income in oil, a globally traded commodity priced in US dollars, the risk was deemed to be immaterial and therefore was not included in the list of principal risks and uncertainties above.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have carefully assessed the Group's viability and prospects over a longer period than the twelve months required by the "Going Concern" provision. The Board assesses the business over a number of time horizons for different reasons, including the following:

- a) annual Corporate Budget (i.e. 2019);
- b) planning cycle for the upcoming production expansion programme to 55,000 bopd and 75,000 bopd (i.e. 2019-2021); and
- c) life-of-field plan used to produce an internal view of the value of the Company.

The Board concluded that the three-year period consistent with the Group's planning cycle for the upcoming production expansion programme is most appropriate for the purposes of the viability statement assessment for the following reasons:

- a) it is aligned with the Group's strategic planning cycle;
- b) the Group's cash flows can be reasonably estimated over that period as there is a reasonable amount of clarity regarding cost and revenue projections; and
- c) it is likely that the majority of the principal risks and uncertainties identified by the Group on pages 34 to 40 will have an impact within this period.

Based on these factors, the Board considers that a three-year assessment period appropriately reflects the underlying prospects and viability of the Group and the period over which the principal risks are reviewed. Notwithstanding this fact, the Group will continue to monitor the business over all time horizons noted above.

The Directors' viability assessment has been made with reference to the Group's strategy and business model, as detailed on pages 14 to 17, and to the risks, uncertainties and available mitigating action plans, as detailed on pages 34 to 40. 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 cash flow projections relating to Group's revenues, operational costs and capital expenditure and gained comfort that the Group is self-funded in the base case scenario. The Group is in a strong financial position, with a significant cash balance and a significantly reduced risk of inability to meet debt and interest payments. The cash inflows from the Group's export revenues are regular and have been based on revenue entitlements rather than the previous flat \$12 million (net) payments received, further strengthening the cash flow projections. The current financing arrangement ("New Notes") does not need to be repaid within the three-year review period and, in fact, allows the Group flexibility to secure an additional \$200 million of debt.

In addition, the Directors assessed the potential financial and operational impact of severe but plausible scenarios by modelling the effects of various risks and uncertainties in order to establish the Group's ability to meet its working capital requirements. In these downside scenarios, the Directors have considered whether the control system currently in place will be able to mitigate the effects and, where not, have identified additional mitigating actions that can be implemented. These additional actions include, but are not limited to, additional financing, further optimisation of the work programme, further rationalisation of our cost base, including cuts to discretionary capital expenditure, and dividends.

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 three-year assessment period.

BOARD OF DIRECTORS



Jaap Huijskes

Non-Executive Chairman

Skills and experience

Jaap Huijskes was appointed as Non-Executive Chairman of Gulf Keystone in April 2018 having been a Non-Executive Director since November 2017.

Jaap is a highly experienced oil and gas executive, having worked for nearly 30 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 Director at Energie Beheer Nederland, the Dutch State upstream participation company.



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. 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.

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



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 an MA from Harvard and a BA from Columbia University.

Prior 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 bopd.



Martin Angle

Senior Independent Non-Executive Director

Skills and experience

Martin Angle was appointed as Senior Independent Non-Executive Director of Gulf Keystone in July 2018.

He has had a distinguished executive career across investment banking, private equity and industry. His previous roles include senior positions with SG Warburg & Co. Ltd, Morgan Stanley, Dresdner Kleinwort Benson, as well as the Group Finance Director at TI Group plc, then a FTSE 100 company. More recently, he spent time at Terra Firma Capital Partners, where he held various senior roles in its portfolio companies.

As a Non-Executive Director, Martin served on a number of Boards including Pennon Group where he chaired the Remuneration Committee, Savills plc (Senior Independent Director), National Exhibition Group (Chairman), Severstal, and Dubai International Capital.



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 over a decade. Garrett is currently President and CEO of Africa Energy Corp. He is also a Non-Executive Director of Etrion Corporation, Panoro Energy ASA 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 and Petropavlovsk PLC. Prior to this, 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.



David Thomas

Non-Executive Director

Skills and experience

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

He is a highly experienced oil and gas professional with almost 40 years in the industry. He started his career as a petroleum engineer working for Conoco in the North Sea and Dubai before moving into various reservoir engineering and asset management positions. Subsequently, he joined Lasmco where he became the Group GM Operations and, following the company's acquisition, held three regional Vice President roles with Eni covering the North Sea, Russia/Asia/Australia and West Africa portfolios. David's 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.



Kimberley Wood

Non-Executive Director

Skills and experience

Kimberley Wood was appointed as a Non-Executive Director of Gulf Keystone in October 2018.

Kimberley is a legal professional with 18 years' experience and a specialist in the oil and gas sector. Most recently she was Head of Oil and Gas for EMEA at Norton Rose Fulbright LLP and remains a Senior Consultant for the firm. Throughout her career she has advised a wide range of companies in the sector, from small independents through to super majors. Kimberley was a Partner at Vinson & Elkins RLLP from February 2011 to April 2015 and was previously at Dewey & LeBoeuf LLP. She is included as an expert in Energy and Natural Resources in the 2018 "Expert Guide" series and Women in Business Law, 2018 and is a member of the Advisory Board to the City of London Geological Forum.

Kimberley is currently a Non-Executive Director of Africa Oil Corp., an E&P company listed on the TSX (Canada) and Nasdaq OMX (Stockholm), with assets in Kenya and Ethiopia and a member of the Lundin Group, and a Non-Executive Director of Valeura Energy Inc, a TSX listed oil and gas company.

SENIOR MANAGEMENT



Stuart Catterall

Chief Operating Officer

Skills and experience

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

He has over 30 years' experience in the oil and gas industry, undertaking a broad range of senior leadership and technical roles with Amerada Hess, BHP Billiton and 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.



Jane Barker

HR Director

Skills and experience

Jane joined Gulf Keystone as HR Director in July 2016.

She 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.



Ross Deutscher

Country Manager – Kurdistan Region of Iraq

Skills and experience

Ross joined Gulf Keystone as Country Manager in January 2019.

Prior to his GKPI assignment he successfully served over eight years in the Kurdistan Region of Iraq in senior leadership roles with Talisman Energy and Repsol, most recently as director accountable for the safe development of all operations and strategic leadership.

Ross has over 35 years' experience in the exploration for new oil and gas fields, as well as the development of producing fields, in the Kurdistan Region of Iraq, western Canada and USA, Venezuela, Colombia, Peru, UK and Dutch North Sea, Algeria and Spain.

Prior to Talisman and Repsol, Ross acquired oil and gas experience at Suncor, Vista Energy, Wascana Energy and Saskoil. He holds a BSc in Geological Engineering (Geophysics Option) from the University of Saskatchewan in Canada.



Nadzeya Kernoha

Head of Finance

Skills and experience

Nadzeya joined Gulf Keystone in January 2012.

She has more than ten years' experience in audit and finance within the oil and gas sector and qualified as a Chartered Accountant at Deloitte London where she worked within the Energy and Resource Audit Practice. Nadzeya held several roles with Gulf Keystone's finance team before assuming her current role as Head of Finance in January 2019.

Nadzeya graduated with a bachelor's degree in Business Administration and Economics from the American University in Bulgaria.



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.



Mark Parsley

Subsurface Manager

Skills and experience

Mark joined Gulf Keystone as Subsurface Manager in June 2018.

Mark has more than 20 years' experience in various subsurface roles in ARCO, Hess and Tullow. Mark has performed roles as a Reservoir Engineer, Economist, Production Engineer, Production Planner, Subsurface Team Leader, Reserves Manager, and Subsurface Manager for assets in the North Sea, SE Asia, Algeria, Middle East, West Africa, and the USA.

Mark graduated from Oxford University in Geology and has an MSc in Petroleum Engineering at Imperial College.



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, and Company Secretary, before joining Gulf Keystone.

Alasdair is a law graduate of Aberdeen University and has an MBA from Strathclyde Business School. He is a member of the London Stock Exchange Regional Advisory Group.

CORPORATE GOVERNANCE REPORT



Governance highlights

- New Chairman and two new independent Non-Executive Directors appointed in 2018
- Detailed Board evaluation undertaken by external consultants
- Continued voluntary adherence to the UK Corporate Governance Code

Jaap Huijskes

Non-Executive Chairman

27 March 2019

Dear Shareholder,

Strong corporate governance is a core tenet of Gulf Keystone's culture and operations. Although the Company is not subject to the UK Corporate Governance Code ("the Code") on account of its Bermudan incorporation and standard listing on the London Stock Exchange, the Company has voluntarily agreed to adhere to the Code so far as practicable. Following the publication of the revised Code in July 2018, an assessment has been undertaken of the Company's adherence to this in preparation for this version of the Code becoming effective for financial years beginning on or after 1 January 2019. The Company considers that the existing policies and practices adhere to the new provisions with a small number of exceptions, as set out later in this report.

We firmly believe that this establishes a solid basis from which to conduct Board and managerial decision-making acting in the best interests of the Company and its stakeholders. A copy of the Code is available on the website of the Financial Reporting Council ("FRC") on www.frc.org.uk.

The Company maintains five Board sub-committees, each of which report to the Board at scheduled meetings. As at 31 December 2018, the composition of the sub-committees was as follows:

Board				
Audit and Risk Committee	Remuneration Committee	Nomination Committee	HSSE and CSR Committee	Technical Committee
Garrett Soden (Ch) Kimberley Wood Martin Angle	Martin Angle (Ch) David Thomas Garrett Soden Kimberley Wood	Jaap Huijskes (Ch) Martin Angle Garrett Soden	David Thomas (Ch) Jaap Huijskes Jón Ferrier Kimberley Wood Stuart Catterall	David Thomas (Ch) Jaap Huijskes Jón Ferrier Sami Zouari Stuart Catterall Gabriel Papineau-Legris

There were a number of changes to the Board composition during 2018. In March, Keith Lough stepped down as Chairman, having led the Company through an extremely challenging but successful financial restructuring in late 2016. Following an evaluation process involving external consultants, I was appointed Chairman upon Keith's retirement. At the Annual General Meeting in July, our long-serving Senior Independent Director, Philip Dimmock, retired. He was replaced by Martin Angle following an external process. In October, we were joined by Kimberley Wood. Both Martin and Kimberley are independent Non-Executive Directors for the purposes of the Code. Upon joining Gulf Keystone, Martin and Kimberley underwent a full induction programme with the Company which covered all the principal departments.

Alasdair Robinson acts as Company Secretary to each Committee.

Following the changes made to the Board composition in 2018, a formal Board evaluation was undertaken by ICSA: The Governance Institute in early 2019. The overall "score" attributed to Gulf Keystone was "very good" and a small number of recommendations for enhancement of processes will be implemented.

Running alongside the Company's adherence to strong corporate governance is an absolute commitment to the highest ethical standards. Gulf Keystone has a zero-tolerance approach to bribery and corruption and has put in place a number of policies and procedures for this, including regular training.

It is our collective firm belief that strong governance and robust ethical compliance leads to a business culture which is aligned to the interests of our shareholders, employees and stakeholders as a whole, and thus it will remain a priority of the Company that this is maintained.

Jaap Huijskes

Non-Executive Chairman

27 March 2019



Q&A with Kimberley Wood

What was your background before joining Gulf Keystone in October 2018?

I am a lawyer with over 18 years' experience in the energy industry. Most recently I was a partner and Head of Oil and Gas for the EMEA region at Norton Rose Fulbright LLP and remain a Senior Consultant for the firm. In my practice, I have advised a very broad range of oil and gas companies, ranging in size and geographic area of focus, on their joint ventures, acquisitions and divestments, as well as their financing, and have drafted petroleum legislation and negotiated host government agreements. I am also currently a Non-Executive Director of Africa Oil Corp, a listed Africa focused E&P company and member of the Lundin group.

What was your initial impression of the business?

My first impression of GKP was that it has a business with significant growth potential, led by a strong management team. Having advised a number of oil and gas companies across a range of geographies, Gulf Keystone stood out as an organisation equipped with all of the necessary ingredients to succeed and deliver value for all of its stakeholders. The Company has a first-class asset, a robust balance sheet and strong corporate governance procedures and practices in place, all of which are good and necessary building blocks for a publicly listed business to have. The high calibre team also attracted me to GKP, and it felt like the Company was ready to move into the next stage of its development, which has the potential to generate significant returns for its stakeholders.

Since you joined the Board how have you found working at Gulf Keystone?

I have very much enjoyed my time with GKP thus far. We are at a very exciting and critical point in the Company's history,

as we look to develop Shaikan further and deliver value for all our stakeholders. Whilst no oil and gas project is without uncertainty, the Company has been doing a very good job in minimising the risks involved with this development, and ensuring that it adheres to the highest environmental and safety standards.

What are your thoughts on Kurdistan as an oil and gas region?

As those familiar with the region will know, the geopolitical environment around Kurdistan has stabilised in recent years and the oil and gas industry is extremely well supported by its hosts, the Kurdistan Regional Government. The regular payments from the MNR since September 2015, and the stable operating environment, have enabled E&P companies in the region to invest in their operations and increase production, which ultimately has a positive impact on the Kurdistan economy as a whole. The resurgence that we have seen in investment and economic activity in the region is well warranted given Kurdistan's significant hydrocarbon potential.

What areas of the business are you most focused on?

Given my background, I will be working closely with the rest of the Board to ensure the Company's strong corporate governance practices remain best in class and to make sure the right checks and balances are in place at all levels of the organisation. This is a pivotal moment for the Company, as the business moves into a busy development phase, making it essential that the right framework is in place to ensure the successful execution of the expansion programme.

CORPORATE GOVERNANCE REPORT continued

Board actions on strategy

In addition to specific key performance indicators, Gulf Keystone seeks to deliver on a number of overarching strategic objectives. Performance against these in 2018, and details of the 2019 objectives, are set out below.

Strategic objectives

2018 objectives

<p>Strategy and execution</p>	<ul style="list-style-type: none"> • Review overall strategy in the context of moving into an active investment phase • Ensure appropriate organisational capacity to deliver strategy • Clarify commercial basis for investment plan • Ensure funding is in place to execute investment plan • Maintain close control over costs
<p>Build and maintain a strong Board and management team</p>	<ul style="list-style-type: none"> • Appointment of Chairman and SID to replace retiring Directors • Enhance independent non-executive representation on the Board through additional appointments • Review Board Committee membership in light of changing Board membership • Continually seek to enhance senior management team through empowerment, promotion and, where necessary, additional recruitment • Introduce formal Diversity Policy and ensure its principles are maintained in all relevant HR matters
<p>Effective governance and values</p>	<ul style="list-style-type: none"> • Maintain strong corporate governance throughout the Company • Ensure an effective compliance programme is in place for adherence to all policies and procedures, including anti-bribery and corruption • Foster an open and transparent culture whereby all may discuss or report any matters of concern
<p>Stakeholder engagement and management</p>	<ul style="list-style-type: none"> • Active shareholder engagement programme • Ensure that all stakeholders understand and are aligned to the Company's objectives and strategy • Maintain a close working relationship with the Ministry of Natural Resources • Ensure that all suppliers adhere to the governance and compliance standards set by the Company

2018 performance

- Formal strategy “offsite” held and conclusions implemented
 - Full review of all resourcing and facilities with active plan to address any changes required
 - 2018 work programme and budget formally approved, and Field Development Plan submitted
 - \$100 million bond refinanced and cash balance preserved for investment
 - Corporate G&A decreased, and other expenses delivered under budget
-
- Chairman appointed in April 2018, SID in July 2018
 - New independent Non-Executive Directors appointed in July and October 2018
 - Membership of Board Committees was amended in July and October 2018
 - Strong senior management team now covering all necessary facets of the business
 - Diversity Policy implemented in 2018
-
- Decision taken to voluntarily adhere to 2018 Corporate Governance Code as far as practicable
 - Face-to-face and online training was undertaken
 - Whistleblowing procedure in place to record any concerns on an anonymous basis. Site presentations made on governance and compliance matters
-
- Over 100 shareholder meetings/calls were held during 2018, and seven investor conferences attended
 - Board members and executive team leaders engaged with shareholders, funders, government entities, suppliers and other stakeholders on a regular basis
 - Formal meetings and correspondence held with the MNR, including with respect to work programme and budget approvals and Field Development Plan approval
 - Additional processes implemented through supply chain management system to ensure compliance by suppliers. Ongoing checks by project management team

2019 objectives

- Ensure appropriate organisation in place to execute strategy
 - Maintain focus on and progress approval of the Shaikan Field Development Plan
 - Ensure funding is in place to execute investment plan
 - Maintain disciplined cost control
-
- Continually review Board and Committee composition, ensuring adherence to the Diversity Policy
 - Continually seek to enhance senior management team through empowerment, promotion and, where necessary, additional recruitment
 - Ensure Company reward policies are in line with market practice and are such that GKP can attract, motivate and retain a quality management team
-
- Maintain strong corporate governance throughout the Company
 - Ensure an effective compliance programme is in place for adherence to all policies and procedures, including anti-bribery and corruption
 - Foster an open and transparent culture whereby all may discuss or report any matters of concern
 - Review the effectiveness of the Board and its Committees
-
- Active shareholder engagement programme
 - Ensure that all stakeholders understand and are aligned to the Company’s objectives and strategy
 - Maintain a close working relationship with the Ministry of Natural Resources
 - Ensure that all suppliers adhere to the governance and compliance standards set by the Company
 - Hold a Capital Markets Event to fully articulate the Company’s strategy and plans
 - Provide regular operational updates to the market



CORPORATE GOVERNANCE REPORT continued

Introduction

It is an inherent duty of the Board of Directors that it must act in a manner, and in good faith, which will be most likely to promote the success of the Company for the benefit of its members as a whole, and taking account of the likely consequences of any decision in the long term, plus the interests of employees, suppliers, regulators, customers, the community and environment and the wider stakeholder group. One of the ways this is achieved is through the Board's commitment to maintain high standards of governance, aiming to create a culture which demands the same commitment and performance from all employees and contractors and in all business activities. The governance processes applied across the Group are illustrated below and in the individual Committee reports.

The Board accepts responsibility for preparing the annual report and accounts which it considers, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

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 ("the Code") as issued by the Financial Reporting Council ("FRC"). However, in the interest of good governance, the Board has resolved to voluntarily adopt these provisions for the Group.

In July 2018, an updated version of the Code was published. Although this applies to accounting periods commencing on or after 1 January 2019, the Company has undertaken an assessment of how its existing policies and practices adhere to this version and continues to seek to comply with the Code so far as practicable. As at the date of this report, the Board considers that it and the Company have complied with the principles and provisions of the Code, except for the following matters, using the provision references set out in the July 2018 version of the Code:

- Provision 5 – Formal workforce engagement arrangement not yet in place; the Company is considering the formation of a workplace advisory panel during 2019.
- Provision 36 – No policy in place for post-employment shareholding requirements; this will be reviewed in the context of the Company's remuneration policy.

Within this Corporate Governance Report, and the Board Committee reports, the Company sets out the governance, risk management and internal control arrangements in place which demonstrate the Group's continued commitment to the Code and the principles enshrined therein.

The role of the Board

The Board's role is to lead the Company in the delivery of its strategic goals, generating long-term sustainable success whilst putting in place and respecting the necessary controls within which the Company must operate to ensure appropriate assessment and management of risk. The Board establishes the Company's purpose, values and strategy, and ensures that these are aligned with its culture.

The Board has a formal schedule of matters specifically reserved to it for decision making on certain aspects of the business. 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.

A Delegation of Authority is reviewed by the Board on a regular basis to ensure there are appropriate controls in place for management decisions. In addition, terms of reference are set and approved for each of the Board sub-committees; these are available on the Company's website. The Board and its Committees have access to the advice and services of the Legal Director and Company Secretary and, if necessary, the Board and its individual Directors have the ability to seek external expert advice at the expense of the Company.

Board and Committee meetings are attended by members of the senior management team upon invitation. At each Board meeting any attendees are requested to declare any conflicts of interest they may have, including in relation to significant shareholdings. The Board will ensure that the influence of third parties will not compromise or override independent judgement.

Board composition

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 9, the Chairman was independent on appointment. The Company regards the other Non-Executive Directors as independent according to Code Provision 10.

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 diverse Board composition to enable robust consideration and challenge of the strategies proposed by the Executive Directors by the five Non-Executive Directors. The experience provided by the Board covers, inter alia, financial/capital markets, legal, commercial, technical (including petroleum engineering, geology, operations and HSSE) and project management. The Company actively considers Board composition on a regular basis to ensure the Board has the necessary balance of skills, experience, knowledge, independence and diversity to discharge its duties.

Board appointments are undertaken through a formal, rigorous and transparent procedure run by external search consultants. During 2018, Martin Angle and Kimberley Wood were appointed to the Board; both were appointed following an external recruitment process managed by Ridgeway Associates which was based on merit and objective criteria including diversity. Ridgeway Associates has no other connection with the Company or any of its Directors.

Diversity

During 2018, the Company implemented a new Diversity Policy which seeks to ensure that there is no discrimination within the Company on the basis of gender, ethnicity, age, disability or other minority. The operation of this is monitored on a continual basis and a report is prepared for each scheduled Board meeting which sets out the breakdown of staff according to parameters. This includes the gender balance of those considered to be senior management. The implementation of the Diversity Policy has resulted in enhanced awareness throughout the organisation of the benefits of a diverse workforce.

Business ethics

The Company adopts a zero-tolerance approach to bribery and corruption and has adopted a number of measures and procedures to ensure ongoing compliance with relevant anti-bribery laws. An Anti-Bribery Policy is in place which is regularly reviewed and updated by the Board, the latest amendment being in March 2018. This policy also includes provisions on Conflicts of Interest and the Corporate Criminal Offence. Training is undertaken on a regular basis through both physical presentations (in Kurdistan and the UK), and online training courses. A number of procedures underlie the policy, including the maintenance of registers covering, for example, gifts and hospitality.

An external whistleblowing service, Expolink, is maintained in order to provide a mechanism whereby staff may make anonymous reports if necessary, which is designed to encourage staff to "speak up". In the event any reports are received through this service, the matter is brought to the attention of the Board and a full review is undertaken on the allegations. The Board will then determine whether there is a need for a further independent investigation of such matters and for follow-up action.

Workplace engagement

The Company has noted the new provisions contained in the Code published in July 2018 with respect to workplace engagement. In the context of the size of the Company, the Board does not intend to appoint either a Director from the workforce or a designated Non-Executive Director to ensure engagement with the workforce. However, the Company is proposing to create a formal workforce advisory panel or similar during 2019.

Board Committees

The Board has five standing Committees: the Audit and Risk Committee, the Remuneration Committee, the Nomination Committee, the HSSE 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 and published on the Company's website.

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 management. The key governance mandates of the Board's five main Committees are shown on the following pages.

Audit and Risk Committee

As at 31 December 2018, the Audit and Risk Committee comprised three Non-Executive Directors, who are considered to be independent. The members were: Garrett Soden (Chairman), Martin Angle and Kimberley Wood. Martin Angle was appointed a member of the Committee on 16 July 2018, with Philip Dimmock retiring from the Committee on 13 July 2018. Kimberley Wood was appointed to the Committee on 12 October 2018, on which date Jaap Huijskes stepped down from the Committee. The Board noted Code Provision 24 which states that the Chairman of the Board should not be a member of the Audit and Risk 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 2018, 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.

The terms of reference are reviewed regularly and were last updated in December 2018. The Audit and Risk Committee report is set out on pages 58 to 61.

Nomination Committee

As at 31 December 2018, the Nomination Committee comprised two Non-Executive Directors, who are considered to be independent, and the Chairman of the Board. The members were: Jaap Huijskes (Chairman), Garrett Soden and Martin Angle. Keith Lough stepped down from the Committee on 11 April 2018 and Philip Dimmock retired on 13 July 2018. Martin Angle was appointed to the Committee on 12 October 2018.

The Nomination Committee met on four occasions during the year on a formal basis. The terms of reference of the Nomination Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website: www.gulfkeystone.com. The terms of reference are reviewed regularly and were last updated in March 2019.

The Nomination Committee Report is set out on pages 56 and 57.



CORPORATE GOVERNANCE REPORT continued

Board Committees continued

Remuneration Committee

As at 31 December 2018, the Remuneration Committee comprised four Non-Executive Directors: Martin Angle (Chairman), Garrett Soden, David Thomas and Kimberley Wood. Philip Dimmock retired as Chairman on 13 July 2018, with Martin Angle appointed as Chairman on 16 July 2018. Kimberley Wood was appointed to the Committee on 12 October 2018.

This Committee, which meets at least twice per year, is responsible for making recommendations to the Board concerning the compensation of the Executive Directors and the Chairman, as well as the level and structure of remuneration for senior management. The Committee is also responsible for the determination of the Group's Remuneration Policy. The Remuneration Committee met on seven occasions during the year on a formal basis. A number of informal meetings also took place.

The terms of reference for the Remuneration Committee are available in the corporate governance section of Gulf Keystone's corporate website: www.gulfkeystone.com. The terms of reference are reviewed regularly and were last updated in December 2018.

HSSE and CSR Committee

As at 31 December 2018, the HSSE and CSR Committee comprised three Non-Executive Directors, one Executive Director and the Chief Operating Officer – represented by David Thomas (Chairman), Jaap Huijskes, Kimberley Wood, Jón Ferrier (CEO) and Stuart Catterall (COO). Kimberley Wood was appointed to the Committee on 12 October 2018.

The Committee aims to meet at least four times a year and met four times during 2018. The primary function of the Committee is to oversee the development of the Group's policies and guidelines for the management of HSSE and social risks, evaluate the effectiveness of these policies and their ability to ensure compliance with applicable legal and regulatory requirements, evaluate and oversee the quality and integrity of reporting to external stakeholders concerning HSSE and CSR, and review the results of any independent audits of the Group's performance in regard to HSSE and CSR making recommendations, where appropriate, to the Board concerning the same. The Committee also reviews HSSE and CSR performance and examines specific safety issues as requested by the Board.

The terms of reference of the HSSE and CSR Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website: www.gulfkeystone.com. The terms of reference are reviewed regularly and were last updated in December 2018.

Technical Committee

The Technical Committee was established in November 2016. As at the date of this report, the Committee comprises two Non-Executive Directors, the two Executive Directors, the Chief Operating Officer (COO) and the Commercial Director. As at 31 December 2018, the members of the Committee were: David Thomas (Chairman), Jaap Huijskes, Jón Ferrier (CEO), Sami Zouari (CFO), Stuart Catterall (COO) and Gabriel Papineau-Legrís (Commercial Director). Philip Dimmock retired from the Committee on 13 July 2018.

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 Plan and reserves and resource estimates for public release.

The Committee met four times in 2018.

The terms of reference of the Technical Committee are documented and agreed by the Board and are available in the corporate governance section of Gulf Keystone's corporate website: www.gulfkeystone.com. The terms of reference are reviewed regularly and were last updated in March 2019.

The role of the Chairman

In running the Board, the Chairman is responsible for creating an environment that facilitates robust and constructive challenge whilst promoting a culture of openness and debate. In creating this environment, the Chairman encourages open communications and aims to ensure that the Non-Executive Directors' 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 2018, 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")

Martin Angle was appointed as SID on 16 July 2018. 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 11 April 2018, Keith Lough retired from the Board, stepping down as Chairman. On that day, Jaap Huijskes was appointed Non-Executive Chairman. On 13 July 2018, at the Annual General Meeting, Philip Dimmock also retired from the Board. Martin Angle was appointed as Senior Independent Non-Executive Director on 16 July 2018. Kimberley Wood was appointed as an independent Non-Executive Director on 1 October 2018. 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 seven scheduled Board meetings were held during the year ended 31 December 2018. 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 2018 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 she/he was a Director during the year. The number of meetings attended by each Director is shown out of the total number he/she was eligible to attend.

	Full Board meetings	Audit and Risk Committee	Remuneration Committee	Nomination Committee	HSSE and CSR Committee	Technical Committee
Keith Lough ⁽¹⁾	4/4			2/2		
Philip Dimmock ⁽²⁾	8/8	3/3	5/5	2/3		3/3
Jaap Huijskes	12/12	4/4		4/4	4/4	4/4
Garrett Soden	10/12	5/5	5/7	3/4		
David Thomas	12/12		7/7		4/4	4/4
Kimberley Wood ^(3, 4, 5, 6)	2/2	1/1	1/1		1/1	
Martin Angle ^(7, 8, 9, 10)	4/4	2/2	2/2	1/1		
Jón Ferrier	12/12				4/4	4/4
Sami Zouari	12/12					4/4
Stuart Catterall					4/4	4/4
Gabriel Papineau-Legrís						4/4

(1) Resigned as a Director on 11 April 2018.

(2) Resigned as a Director on 13 July 2018.

(3) Appointed as a Director on 1 October 2018.

(4) Appointed to Audit and Risk Committee on 12 October 2018.

(5) Appointed to HSSE and CSR Committee on 12 October 2018.

(6) Appointed to Remuneration Committee on 12 October 2018.

(7) Appointed as a Director on 16 July 2018.

(8) Appointed to the Audit and Risk Committee on 16 July 2018.

(9) Appointed to the Remuneration Committee on 16 July 2018.

(10) Appointed to the Nomination Committee on 12 October 2018.



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 early 2019, the Board underwent a full performance evaluation, externally led by ICSA: The Governance Institute. This entailed detailed one-on-one interviews with each Director and the Company Secretary by external evaluators. Details of this are contained in the report of the Nomination Committee.

ICSA: The Governance Institute has no connection with the Company or its individual Directors.

Induction and training

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, Martin Angle and Kimberley Wood joined as Directors 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.

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 emerging and principal 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 2018:

- 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 2018 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. Further details on the Company's principal risks and procedures in place as to how these are managed and mitigated are contained on pages 34 to 40.

Relations with investors and stakeholders

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. Communication is undertaken through shareholder presentations, attendance and presentations at industry conferences, one-on-one meetings, conference calls and other written and oral mediums. In addition, the Company will meet with its bondholders on a periodic basis. Throughout 2018, the Group held a number of investor presentations which are available to view on the Group's website. During 2018 over 100 shareholder meetings/conference calls were held and seven investor conferences were attended.

The Company is committed to maintaining this constructive dialogue with all its investors and will continue to provide 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.

A list of the Company's significant shareholders as at the date of this report can be found in the Directors' Report and on the Group's website, at www.gulfkeystone.com.

The Company will also seek to engage with its wider stakeholders on a regular basis. This includes, for example, the Ministry of Natural Resources in Kurdistan, the Company's joint venture partner, MOL Group, residents local to the Company's operations, suppliers, contractors and employees.

Annual General Meeting

The AGM will be held on 21 June 2019. The Notice of AGM accompanies this annual report and sets out the business to be considered at the 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. Both the annual report and Notice of AGM are available on the Company's website.

Jaap Huijskes

Non-Executive Chairman

27 March 2019

NOMINATION COMMITTEE REPORT



Jaap Huijskes

Chairman of the Nomination Committee

27 March 2019

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.

Highlights

- Gulf Keystone introduced a formal Diversity Policy
- Martin Angle was appointed as the Senior Independent Non-Executive Director on 16 July 2018
- On 1 October 2018, the Board was further strengthened through the appointment of Kimberley Wood as an independent Non-Executive Director
- During the first quarter of 2019, the Board and Committees undertook a formal evaluation process, using an external evaluation process and facilitator, ICSA

Composition

The Nomination Committee currently comprises three independent Non-Executive Directors: Jaap Huijskes (Chairman), Garrett Soden and Martin Angle. Keith Lough stepped down from the Committee with effect from 11 April 2018 and Philip Dimmock stepped down from the Committee with effect from 13 July 2018. Martin Angle was appointed to the Committee on 16 July 2018.

Diversity

During 2018, Gulf Keystone introduced a formal Diversity Policy throughout the organisation. In addition, diversity statistics are provided in each scheduled Board meeting showing the breakdown of senior management (and their direct reports) and staff by a number of metrics; these are reviewed in detail by the Board and 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.

Succession

During 2018, the Committee has continued to focus on succession planning and the active engagement and development of the Company's staff. This included the review and development of succession planning for the Executive Directors and senior management team. The Company has a structured training programme for executives which includes access to the Harvard "ManageMentor" training system.

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 2018, the Committee met formally on four occasions. 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 2018 were: considering the balance and composition of the Board; the recruitment of further independent Non-Executive Directors, including a Senior Independent Director; and succession policy.

On 10 April 2018, upon the retirement of Keith Lough, Jaap Huijskes was appointed as Non-Executive Chairman. Mr Huijskes had been appointed to the Board in November 2017, and after detailed consideration by the Committee following an independent search process, the Committee and the Board considered Mr Huijskes to be the strongest candidate for the position of Non-Executive Chairman.

On 13 July 2018, at the Company's Annual General Meeting, Philip Dimmock retired as a Non-Executive Director having not put himself forward for re-election. Martin Angle was appointed as an independent Non-Executive Director on 16 July 2018, also replacing Mr Dimmock as the Senior Independent Director. Mr Angle was appointed following an external search process run by Ridgeway Partners. Ridgeway Partners was appointed following a pitch process and has no connection with the Company or individual Directors. Mr Angle has detailed knowledge and significant experience of finance, accounting, capital markets and governance. Further information on Mr Angle is detailed in the section on the Board of Directors on pages 42 and 43.

On 1 October 2018, the Board was further strengthened through the appointment of Kimberley Wood as an independent Non-Executive Director. Ms Wood was also appointed following an external search process conducted by Ridgeway Partners. She has detailed knowledge of the oil and gas industry having worked as a corporate lawyer in that sector for many years. Further information on Ms Wood is detailed in the section on the Board of Directors on pages 42 and 43.

Board evaluation

During the first quarter of 2019, the Board and Committees undertook a formal evaluation process, using an external evaluation process and facilitator, ICSA: The Governance Institute, which has no connection with the Company or individual Directors. All Directors and the Company Secretary participated in the evaluation through external one-on-one interviews and the results were presented and discussed at a scheduled meeting of the Board.

The evaluation covered a number of categories of governance: Board responsibilities; oversight; Board meetings; support for the Board; Board composition; working together; and outcome and achievements. Within each category, the Directors and the Company Secretary were asked a number of detailed questions on the operation of the processes and resources in place, and were asked to comment on and score the effectiveness of these. The review concluded that the overall "score" for the Company was "very good" and recommended a small number of actions which the Company should take to further enhance the operation of the Board, an example of such actions being more formalised meetings between the Chairman and the Non-Executive Directors to assess matters such as performance. The Board will act on all of these recommendations and intends to repeat this detailed evaluation process at least every three years.

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 the Nomination Committee

27 March 2019

AUDIT AND RISK COMMITTEE REPORT



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.

Garrett Soden

Chairman of the Audit and Risk Committee

27 March 2019

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 2018 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), Kimberley Wood and Martin Angle. The members of the Audit and Risk Committee during the year were as follows:

- Garrett Soden;
- Philip Dimmock (retired on 13 July 2018);
- Jaap Huijskes (stepped down from the Committee on 12 October 2018);
- Martin Angle (appointed on 16 July 2018); and
- Kimberley Wood (appointed on 12 October 2018).

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

Review of the Committee's activities

Five Audit and Risk Committee meetings were held in the financial year. Two meetings of the Committee have been held to date in 2019. Meetings are held at key times during the Group's reporting and audit calendar. The Committee considered the following matters during the period:

Month	Key issues considered and reviewed
March 2018 (2 meetings)	<ul style="list-style-type: none"> • 2017 full-year results • Report from the external auditor on the 2017 audit • Principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditor • Auditor independence • Going concern and viability statement • Risk register review • Management representation letter • Cost recovery report • Private session with external auditor • Treasury management • Delegation of authority
April 2018	<ul style="list-style-type: none"> • Formal approval of full-year results
September 2018	<ul style="list-style-type: none"> • 2018 half-year results • Report from external auditor on outcome of interim review • Principal accounting judgements and estimates • Risk register review • Anti-bribery review
December 2018	<ul style="list-style-type: none"> • External audit engagement letter and fee quotation • 2018 Deloitte audit planning report • Auditor independence • Evaluation of external auditors • 2019 budget • Risk review and mitigation • Internal audit update • Organisational and tax structure review • Delegation of authority • Insurance review • Terms of reference

Two further meetings of the Committee were held in March 2019.

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.

The Committee worked closely with the management team 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.

(1) Maternity cover for Nadzeya Kernoha until October 2018.

AUDIT AND RISK COMMITTEE REPORT continued

Significant issues considered by the Audit and Risk Committee in 2018 and early 2019

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>Revenue recognition: 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.</p> <p>In 2018, the Group has continued to recognise revenue when cash receipt is assured. The key judgement for the revenue recognition is considering whether the current accounting policy remains appropriate.</p>	<p>The Committee considered whether recognition of revenue in relation to oil 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 2018 was appropriate.</p>
<p>Impairment and capitalisation and carrying value of oil and gas assets: An assessment of any impairment, and capitalisation and carrying value, 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 2018. 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>As a result of the debottlenecking programme which has commenced during the year and the 2019 drilling campaign, there is an increase in the levels of capitalisation of the Shaikan asset. Detailed testing was undertaken by the auditors to ensure that capitalisation is appropriate.</p>
<p>Going concern: 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. In late 2018, the Committee, in conjunction with the finance team, agreed to formulate an enhanced internal audit plan which included detailed analysis on particular matters on a periodic basis. This was commenced with immediate effect. In addition, at its meetings during 2018, 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 2018.

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

The FRC's Audit Quality Review team selected to review the audit of Gulf Keystone Petroleum's 2017 financial statements as part of their 2018/19 annual inspection of audit firms. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performed to or above the expected level. The Chairman of the Audit and Risk Committee received a full copy of the findings of the Audit Quality Review team and discussed these with Deloitte. The Audit and Risk Committee confirms that there were no significant areas for improvement identified within the report. The Audit and Risk Committee is also satisfied that there is nothing within the report which might have a bearing on the audit appointment.

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 2018, Deloitte LLP provided the following non-audit services to the Group:

- interim review of the half-year results.

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 ICASA: The Governance Institute in February 2019.

Garrett Soden

Chairman of the Audit and Risk Committee
27 March 2019

HSSE AND CSR COMMITTEE REPORT



Gulf Keystone is committed to maintaining high levels of safety, environmental and social performance as fundamental tenets of its business principles.

David Thomas

Chairman of the HSSE and CSR Committee

27 March 2019

Highlights

- The Committee monitored and supported the Company's 2018 HSSE action plan implementation and was pleased to see an overall achievement of 100% during the year
- Security situation in Kurdistan remained stable during the year, enabling normal staff travel patterns and field operations
- The Company took a proactive role in the implementation of a number of specific initiatives to minimise any environmental impact from the Company's operations

The Company endeavours to ensure that no harm comes to people as a result of its operations and that any effect on the environment is minimised. It also looks to have a beneficial long-term impact on the communities located in the vicinity of the Shaikan Field. The Group aims to ensure that all employees and contractors understand that working safely is the absolute priority and that they are responsible for their own safety and the safety of those around them.

HSSE and CSR governance process

The importance of health, safety and environmental practices to the Group is demonstrated by the priority given to it at all levels of management meetings and Board and HSSE and CSR Committee meetings. At weekly senior management meetings, it is always the first item discussed on the agenda. At Board meetings, a formal report back is provided on these matters to the Directors and time is specifically assigned during the meeting for this purpose.

The role of the HSSE and CSR Committee 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 CSR policies and strategy.

The Committee's activities form an integral part of the Group's HSSE governance process, which included the following key elements: Board and management site visits, external and internal audits, third-party inspections, Permit to Work 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 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 2018, the HSSE and CSR Committee comprised three of the independent Non-Executive Directors, David Thomas, Jaap Huijskes and Kimberley Wood, the CEO, Jón Ferrier, and the COO, Stuart Catterall. The Company's HSSE Manager, Andrew Britten, also attends meetings, along with other management and staff members as required. Philip Dimmock retired from the Committee on 13 July 2018 and Kimberley Wood was appointed to the Committee on 12 October 2018.

Review of the Committee's activities

The Committee meets formally at least four times a year and during 2018 met on four occasions. During these meetings, the principal matters considered were:

1. security review and risk assessment.
2. HSSE performance review (historical, current and forward looking);
3. updated HSSE Management System and Improvement Plan;
4. review of any specific HSSE incidents which had occurred to capture lessons learned;
5. CSR strategy reviews and consideration of specific initiatives;
6. specific Shaikan Field initiatives including:
 - a. pit remediation;
 - b. air quality monitoring initiatives;
 - c. new export pump station and pipeline; and
 - d. well workover and ESP installation planning.

Health and safety

During 2018, the Committee monitored and supported the Company's 2018 HSSE action plan implementation and was pleased to see an overall achievement of 100% during the year. A particular area of focus was ensuring that "lessons learned" were captured and communicated within the organisation and deep reviews were conducted on near miss incidents considered to have significant safety implications. Work also continued on improving the Company's emergency response capabilities and a full response simulation was held during the year. A further area of focus was preparing for safe rig operations in the field which recommenced towards the end of the year.

Security

The security of the Company's employees, contractors and stakeholders is an absolute priority and we are pleased to report that the security situation in Kurdistan remained stable during the year, enabling normal staff travel patterns and field operations. The Board and the Committee receive regular reports on security matters from well qualified local sources and, when required, also solicit advice from specialist consultants, well versed in regional politics and security matters. The security situation is very closely monitored and the Company has response plans in place which can be activated immediately if required.

Environment

During 2018, the Company took a proactive role in the implementation of a number of specific initiatives to minimise any environmental impact from the Company's operations. Two of these worthy of highlighting include:

- Pit remediation. The Company has implemented an extensive programme for the management of drilling waste pits to ensure they are fully environmentally remediated. In the interests of full transparency, an MNR HSE team was invited to witness the pit remediation activity and to monitor soil samples taken before, during and after the process was completed. They subsequently confirmed the MNR satisfaction with the process.
- Air quality monitoring. The Company runs a number of air quality monitoring initiatives to ensure that the local communities are not adversely impacted by the Company's operations. Depending upon the location, different monitoring devices are used and all the data collected has demonstrated that the Company operates well within required air contaminant limits.

Corporate Social Responsibility

Following on from an initiative started in 2017, last year the Company agreed a long-term CSR strategy with local and government stakeholders. This strategy was developed with the assistance of expert consultants and non-profit making organisations with experience in oil and other industry-related CSR initiatives in the Kurdistan environment. The strategy contains four main themes, including providing local employment opportunities, acting as a good neighbour by supporting specific local infrastructure projects, community investments (primarily in agriculture and education) and managing the impact of the Company's operations. The actions required to implement the strategy are contained in an annual CSR plan and funds for the programme are provided as part of the annual budget cycle.

David Thomas

Chairman of the HSSE and CSR Committee
27 March 2019

TECHNICAL COMMITTEE REPORT



David Thomas

Chairman of the Technical Committee

27 March 2019

Given the importance of the Shaikan Field to the Company's stakeholders, the Technical Committee was established in late 2016 to provide support and guidance for the field development planning and project execution activities, and with the following 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; and
- review and recommend for executive approval any information relating to the Shaikan Field Development Plan and reserves and resources estimates for public release.

During 2018 the Shaikan partners updated the Field Development Plan and, in parallel with this process, the Technical Committee was primarily engaged in reviewing and providing support on the following matters:

1. production forecasting and near-term field management plans;
2. adoption of a new project management system;
3. project execution contracting strategy; and
4. longer-term field development initiatives.

The formal FDP was submitted to the MNR in October 2018 and as at the date of this report the MNR's formal approval of the plan is still pending. The FDP contains a detailed schedule for the future development of the Shaikan Field, including increasing the production level through a sequential series of facilities and drilling investments to 55,000 bopd, then to 75,000 bopd and ultimately to c.110,000 bopd. A revised CPR is expected to be released following FDP approval.

The members of the Committee are: David Thomas (independent Non-Executive Director, Chairman), Jaap Huijskes (Non-Executive Chairman), Jón Ferrier (CEO), Sami Zouari (CFO), Stuart Catterall (Chief Operating Officer) and Gabriel Papineau-Legrís (Commercial Director). Philip Dimmock retired from the Committee on 13 July 2018.

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 regularly invited to participate in Committee meetings to provide input 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 met four times in 2018.

David Thomas

Chairman of the Technical Committee

27 March 2019

REMUNERATION COMMITTEE REPORT



Martin Angle

Chairman of the Remuneration Committee

27 March 2019

2018 membership and meeting attendance

	Member since	Remuneration Committee
Philip Dimmock ⁽¹⁾	11 September 2014	5/5
Martin Angle (Chairman) ⁽²⁾	16 July 2018	2/2
Garrett Soden	8 December 2016	5/7
David Thomas	8 December 2016	7/7
Kimberley Wood ⁽³⁾	12 October 2018	1/1

(1) Philip Dimmock retired on 13 July 2018.

(2) Martin Angle joined the Remuneration Committee as Chairman on 16 July 2018.

(3) Kimberley Wood joined the Remuneration Committee on 12 October 2018.

Part 1: Annual Statement from the Chair of the Committee

Dear Shareholder,

I am pleased to present my first Directors' Remuneration Report following my appointment as Chairman of the Remuneration Committee on 16 July 2018. It has been an exciting year for the Company, which has taken a number of positive strides forward. The Company's strong performance is reflected in research by Bloomberg, which shows that in 2018 Gulf Keystone was among the top five highest performing shares in a sample comprising 117 UK listed energy companies, and indeed the top performer overall for those companies with a market capitalisation of over £200 million.

Throughout 2018, we applied the Directors' Remuneration Policy approved by shareholders in December 2016. That approval will expire this year and must be renewed. We are proposing to make some policy changes to meet evolving best practice, which will be put to shareholders for a binding vote at the AGM on 21 June 2019. It is intended that, subject to shareholders' approval, the new policy will remain in place until 2022.



REMUNERATION COMMITTEE REPORT continued

Our remuneration policy objectives apply throughout the workforce

The Company's remuneration policy is designed to attract, retain and motivate the high quality of executive talent required to develop and implement a strategy to meet the challenges of operating in Kurdistan, run a successful and sustainable business and add value which benefits all stakeholders. Under our remuneration policy we ensure that Directors' base salaries are benchmarked against relevant comparators and pitched at median level. The variable elements of remuneration are structured so that short and long-term incentives are linked to strategic key performance indicators taking account of risks, increasing shareholder value and promoting outcomes which are aimed at improving long-term benefits for the Company.

Consistent with our inclusive culture, our remuneration policy, including the bonus and Long-Term Incentive Plan ("LTIP"), applies throughout the workforce and all eligible employees participate in the annual bonus plan which is linked to both corporate and individual targets. Corporate targets are the same for all participants. Also, all permanent employees participate in the 2014 LTIP which aligns their interests with the long-term success of the Company.

Policy review and proposed changes

In 2018, the Committee carried out a thorough review of the Company's remuneration policy with the advice of MM&K Limited, the Company's remuneration adviser, the HR Director and Legal Director/Company Secretary, to ensure it remains fit-for-purpose. The review covered all aspects of Director and senior executive remuneration. Following the review, the Committee proposes to make some changes to the policy whilst retaining other elements of our current policy. MM&K Limited has no other connection with the Company or its individual Directors.

Our proposed policy changes are summarised below (more details can be found in the policy section of this report on pages 68 to 70):

	Existing policy	Proposed new policy post-2019 AGM
Annual bonus	No deferral	Mandatory deferral of 30% of award; three-year deferral period; deferred bonus paid in GKP shares.
	Weighting 70% on corporate targets; 30% on individual targets.	Weighting 80% on corporate targets; 20% on individual targets.
	Threshold award at 50% of maximum; target at 75% of maximum.	Threshold award at 30% of maximum and target at 75% of maximum from 2020.
Long-term incentives	Awards under Value Creation Plan ("VCP") for Executive Directors; 2014 LTIP awards for senior managers and other employees.	No additional Performance Unit awards will be made under the VCP; however, the existing award will be allowed to run-off. Executive Directors will become eligible for 2014 LTIP awards, in accordance with the plan rules as approved by shareholders, following the end of the VCP scheme in 2022.
Directors' shareholding requirement	150% of base salary for the CEO; 100% for other Executive Directors.	200% of base salary for all Executive Directors, in accordance with Investment Association Remuneration Principles: <ul style="list-style-type: none"> the net-of-tax value of shares representing deferred bonus and shares subject to vested options, which are not subject to any additional performance conditions, will be counted.
Benefits	Private medical insurance	<ul style="list-style-type: none"> Private medical insurance Income protection insurance Critical illness insurance Death in service benefit

Summary of remuneration decisions made in 2018

The Committee's key decisions relating to remuneration in 2018 are described in more detail in the Annual Report on Remuneration contained on page 72 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 in 2018. The salary review budget for all other employees, including senior managers, was 5% of payroll.

Annual bonus

Based on the Committee's assessment of Company and individual performance in 2018, the bonus awarded to the CEO was 95% of base salary out of a maximum potential of 125% and the CFO was awarded 74% of base salary out of a maximum potential of 100%. Details of the way in which these awards were determined are set out on page 75 of the Annual Report on Remuneration.

Long-term incentive – Value Creation Plan (“VCP”)

Only one award of Performance Units has been made under the VCP to the CEO and CFO in December 2016 and, following the remuneration policy review, no further awards of Performance Units are envisaged. The Company has received advice that it is contractually committed to allowing the existing awards to run-off, subject to performance and the plan limits. Following the first measurement date on 15 May 2018, nil-cost options over 1,681,839 shares were granted to each of the CEO and CFO. The Executive Directors are not eligible to participate in any other long-term incentive scheme until the VCP has ended in 2022.

Chairman and Non-Executive Directors' fees

During 2018, 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. No changes to fee levels were made.

The Committee believes the remuneration levels paid in relation to the year ended 31 December 2018 were appropriate taking into account the total shareholder return performance of the Company for the year, the attainment of most of the key performance indicators set by the Committee at the start of 2018 and the individual performance of the Executive Directors.

Instances of the exercise of discretion by the Committee

No discretion was exercised by the Committee outside the normal remuneration policy guidelines.

Committee meetings and composition

The Committee met on seven occasions in 2018. In addition, a working group was established comprising myself, the HR Director, Legal Director/Company Secretary and our remuneration consultants MM&K to conduct a review of our remuneration policy referred to above and to report back to the Committee. A number of meetings took place as part of this review.

In October, I was delighted to welcome Kimberley Wood to the Remuneration Committee. Following Kimberley's appointment, the Committee comprises four members. Further details of the purpose and role of the Committee can be found on page 52.

Basis of preparation of this report

Gulf Keystone is not subject to English company law or the UK Corporate Governance Code. However, the Company's Byelaws require it to comply with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the “2013 Regulations”). This report has been prepared in accordance with those regulations.

The Company is committed to maintaining high corporate governance standards and the principles enshrined in the UK Corporate Governance Code are taken into account to the extent they are considered to be appropriate. The Committee acknowledges the expanded remit of remuneration committees resulting from changes to the UK Corporate Governance Code introduced in 2018 and has adopted revised terms of reference in recognition of its expanded role under the revised Code. As Gulf Keystone has fewer than 250 employees in the UK, not all of the Code changes introduced in 2018 are applicable.

2019 AGM

Two remuneration-related resolutions will be proposed at the 2019 AGM. As I have referred to above, our future remuneration policy, described on pages 68 to 70, will be the subject of a binding vote. In addition, our Directors' Remuneration Report (pages 65 to 77) will be the subject of an advisory vote, in accordance with the 2013 Regulations.

The Committee ensures that, in carrying out its remit, it takes account of the views and opinions of all the relevant stakeholders. We have communicated with our principal shareholders, who listened carefully and provided constructive responses to our proposed policy changes. Our new remuneration policy reflects the outcome of that positive engagement. We firmly believe that the policy has been appropriately set to motivate, retain and attract high quality executives and applies broadly across the Company.

We very much appreciate the continued support of our stakeholders and hope that you will support the resolutions contained within this report at the AGM on 21 June 2019.

Yours sincerely

Martin D Angle

Chairman of the Remuneration Committee
27 March 2019

REMUNERATION COMMITTEE REPORT continued

Part 2: Directors' Remuneration Policy

Introduction

This Part 2 provides an overview of the future 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. This policy contained in this part of the report will be the subject of a binding vote at the AGM on 21 June 2019.

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 the agreed policy, key responsibilities of the Committee include:

- determining and agreeing with the Board the framework and broad policy for the remuneration of the Company's Executive Directors and setting remuneration for the Chairman of the Board, the Executive

Directors and the senior management team (being those individuals considered to be Persons Discharging Managerial Responsibilities ("PDMR")) and any other members of the executive management as it is designated to consider by the Board;

- when setting remuneration policy for Directors, reviewing and having regard to remuneration and related policies across the Group, aligning incentives and rewards with culture;
- reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determining each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to the Executive Directors and other designated senior executives and the performance targets to be used;
- 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; and
- overseeing any major changes in employee benefits structures throughout the Company and/or the Group and giving advice on any such changes.

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 Company when designing packages for the Executive Directors and other key employees, and the alignment of incentives and rewards with culture. The Committee considers any standard increase applied to basic pay across the Company 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. Revised terms of reference were adopted in December 2018 and are available on the Company's website.

Remuneration Policy table

The Company's future Directors' Remuneration Policy is described in the following table:

Remuneration element	Link to strategy	Operation	Opportunity	Remuneration Committee discretion
Base salary	Essential to attract and retain key executives.	Reviewed annually as at 1 January based on: <ul style="list-style-type: none"> role, experience and individual performance; pay awards elsewhere in the Group; external market; and general economic environment. 	Policy is to benchmark to the relevant market median. Normally, salary increases for Executive Directors will be no more than the average employee increase.	The Committee retains discretion to: <ul style="list-style-type: none"> award above median increases in exceptional circumstances and in consultation with shareholders where necessary to retain or attract high calibre candidates; select the appropriate market comparator group; and increase salaries above the general employee average to reflect significant additional responsibilities.

Remuneration element	Link to strategy	Operation	Opportunity	Remuneration Committee discretion
Benefits	Helps attract and retain key executives.	<p>Directors are entitled to private medical insurance, income protection insurance, critical illness cover, death-in-service benefit. The CEO receives a car allowance.</p> <p>The Committee may provide additional benefits, where appropriate, in the individual's particular circumstances (for example relocation costs). Executive Directors are also eligible for benefits which are introduced for the wider workforce on broadly similar terms.</p>	Benefit levels reflect those typically available to senior managers within Gulf Keystone. The CEO receives an allowance to cover private medical insurance and a 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).
Pension	Helps executives provide for retirement and aids retention.	<p>Up to 15% of base salary may be provided as a taxable cash allowance.</p> <p>Pension allowances are not included in base salary for annual bonus or other executive rewards.</p>	<p>15% of base salary for current Executive Directors.</p> <p>For future appointments, pension contribution rates for Executive Directors will be aligned with the rates applicable to the majority of the workforce.</p>	
Annual bonus	Rewards achievement of annual key performance indicators.	<p>Targets and weightings are set annually; performance is measured over a single year.</p> <p>Bonus awards are determined after the year end based on achievement of targets.</p> <p>30% of the annual bonus is deferred for three years after award date and paid in shares (for Executive Directors only).</p> <p>Specific malus and clawback provisions apply.</p>	Maximum bonus opportunity is 125% of annual salary for the CEO and 100% for other Executive Directors.	<p>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.</p> <p>Discretion may also be exercised if the Committee believes the bonus outcome is not a fair and accurate reflection of business performance.</p> <p>Safety is of central importance to the business and the Committee may reduce bonus awards if there is a serious safety event.</p>

REMUNERATION COMMITTEE REPORT continued

Remuneration Policy table continued

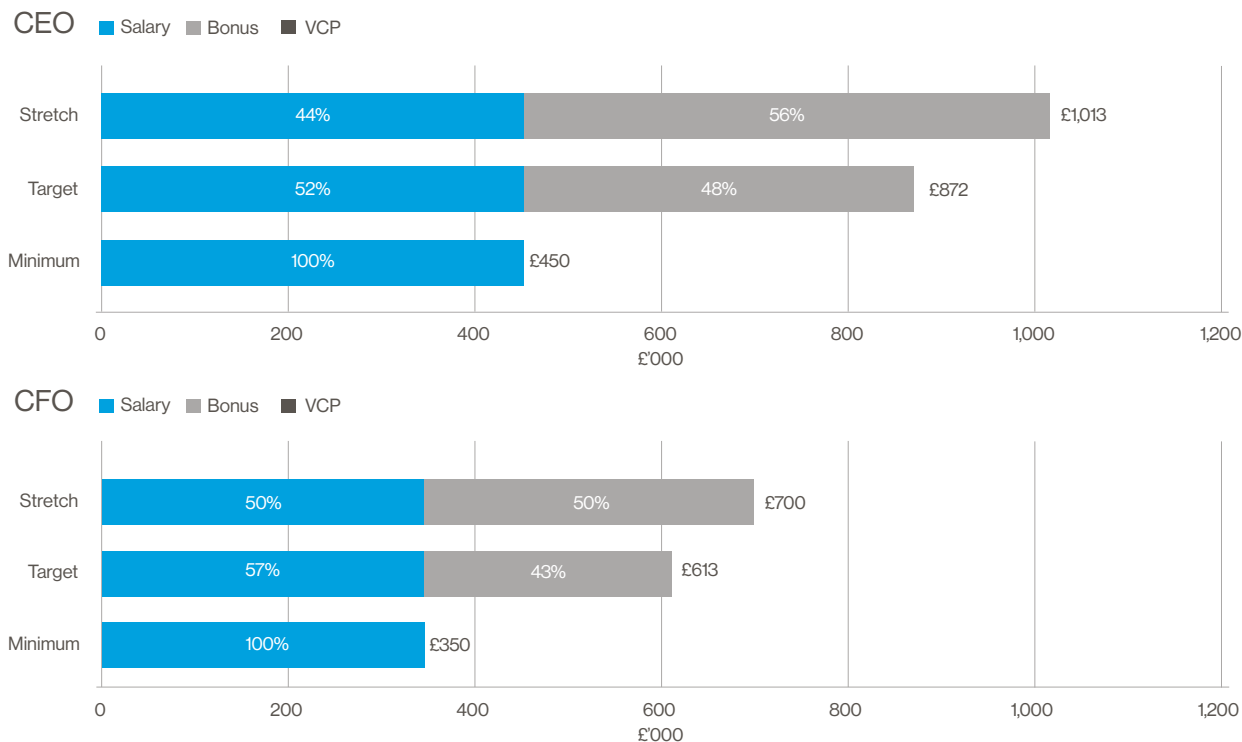
Remuneration element	Link to strategy	Operation	Opportunity	Remuneration Committee discretion
2014 LTIP	<p>Incentivises executives to deliver key financial targets over the longer term, with particular focus on shareholder return and the generation of cash to fund investment in growth and long-term sustainability of the business.</p> <p>Helps retain key executives.</p>	<p>Awards are usually granted annually to participants, but grants may be made at other times, such as on recruitment or promotion of an executive.</p> <p>Awards are in the form of nil-cost share options, nominal-cost share options or conditional shares. In special circumstances they may be cash-settled.</p> <p>Awards normally vest after three years to the extent that performance targets have been met.</p> <p>It is the Company's practice to make awards under the 2014 LTIP to all employees of the Company as appropriate in a range of values up to a maximum of 100% of salary.</p> <p>The Executive Directors are not eligible to participate in the plan until the VCP has ended in 2022.</p>	<p>The CEO and CFO are not eligible to participate in this scheme until the VCP has ended in 2022.</p> <p>When eligible, the maximum value of the shares subject to award to the CEO is 200% of annual salary and for the CFO it is 150% of salary.</p> <p>At threshold performance 30% of the award vests.</p> <p>100% of the award vests on upper quartile or on exceptional performance.</p>	<p>The Committee may exercise its discretion as permitted in the rules of the LTIP which is subject to shareholders' approval.</p>
Shareholding requirements	<p>Aligns the interests of executives and shareholders.</p>	<p>Formal requirements apply to Executive Directors.</p>	<p>At least 200% of salary holding required for all Executive Directors.</p>	<p>The Committee has discretion to change the shareholding requirements.</p>

Value Creation Plan ("VCP")

The VCP was approved by shareholders in December 2016 and only one award of Performance Units has been made to the CEO and CFO. Following the remuneration policy review in 2018 and having taken account of views expressed by shareholders, it was decided that no further awards will be made. Under this contractual legacy, any outstanding awards will be allowed to run-off and vest subject to the Company achieving the performance criteria of 8% compound annual growth in Total Shareholder Return ("TSR") on each of five annual measurement dates and the plan limits in place, in accordance with the VCP rules. As such, it may be possible that additional conversions of the Performance Units into nil-cost options may occur in future (up to but not later than 2022).

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 2019 (the first years to which the new policy relates) 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 75% of maximum bonus potential. As no VCP awards will vest in 2019, no value has been included in respect of this plan; 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). As no VCP awards will vest in 2019, no value has been included in respect of this plan.

Projected remuneration assuming 50% share price growth over incentive plan performance period

- VCP – No VCP awards will vest in 2019.
- 2014 LTIP – no awards will be made to Executive Directors.

Executive Directors' recruitment policy

Remuneration packages for new Executive Directors are designed in accordance with the policy described in this Part 1. Relocation packages are assessed on their individual merits. It is not the Company's 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 Report on Remuneration for the relevant financial year.

Terms of the Executive Directors' service contracts

Executive Directors are engaged on rolling service contracts, which provide for twelve months' written notice of termination from the CEO and six months' notice from other Executive Directors, with the same notice periods required from the Company.

In exceptional circumstances, the Committee may agree to a longer notice period initially, reducing to twelve or six months, as appropriate, after one year.

Non-Executive Directors' letters 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.

REMUNERATION COMMITTEE REPORT continued

Non-Executive Directors' letters of appointment continued

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 prior to and during the 2019 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 will differentiate between "good" and "bad" leavers. The Company's policy is summarised in the table below:

Remuneration element	Policy summary
Salary and benefits	<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>
Annual bonus	<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>
2014 LTIP	<p>For "good" leavers, which may include those whose employment ceases owing to ill-health, the award shall vest in full on the normal vesting date. For "good" leavers, which includes those who leave owing to death, the award shall vest in full immediately. For "good" leavers due to other reasons which are considered to justify treatment as a good leaver, the award shall vest on the normal vesting date.</p> <p>Options granted to a "bad" leaver lapse on cessation of employment.</p>
VCP	<p>"Good" leavers (including 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 change of control.

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.

Part 3: Annual Report on Remuneration

Introduction

This part of the report is subject to an advisory vote at the AGM on 21 June 2019. GKP's auditor has reported on those sections (highlighted below) which the Regulations require to be audited.

Remuneration Committee membership during 2018

Throughout the year, the Committee members were:

- Philip Dimmock (Chairman – retired on 13 July 2018);
- Martin Angle (Chairman – appointed on 16 July 2018);
- Garrett Soden;
- David Thomas; and
- Kimberley Wood (joined on 12 October 2018).

Prior to his appointment as Chairman of the Committee, Martin Angle had chaired and served on remuneration committees of other companies for over ten years. The members had no personal financial interest, other than as shareholders, in the decisions made by the Committee. There were no conflicts of interest 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 65.

Statement of shareholder voting

At the AGM held on 13 July 2018, 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 2017	65.3	34.7	42.2	29,249,094

Payments to past Directors during the year (audited)

No payments were made to past Directors during the financial year ending 31 December 2018 and no payments were made for loss of office.

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

2018	Salary £'000	Pension £'000	Benefits £'000	Cash bonus £'000	Other £'000	LTIP ⁽¹⁾ £'000	Total £'000
Executive Directors							
Jón Ferrier	450	68	25	430	0	0	973
Sami Zouari	350	53	5	259	0	0	667
Non-Executive Directors							
Keith Lough	60	0	0	0	0	0	60
Philip Dimmock ⁽²⁾	58	0	0	0	0	0	58
Garrett Soden	80	0	0	0	0	0	80
David Thomas	90	0	0	0	0	0	90
Jaap Huijskes	159	0	0	0	0	0	159
Martin Angle ⁽³⁾	42	0	0	0	0	0	42
Kimberley Wood ⁽⁴⁾	18	0	0	0	0	0	18
Total	1,307	121	30	689	0	0	2,147

(1) No LTIP awards vested in 2018.

(2) Philip Dimmock left the Company on 13 July 2018.

(3) Martin Angle joined the Company on 16 July 2018.

(4) Kimberley Wood joined the Company on 1 October 2018.



REMUNERATION COMMITTEE REPORT continued

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

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

(1) Includes a payment from 2016.

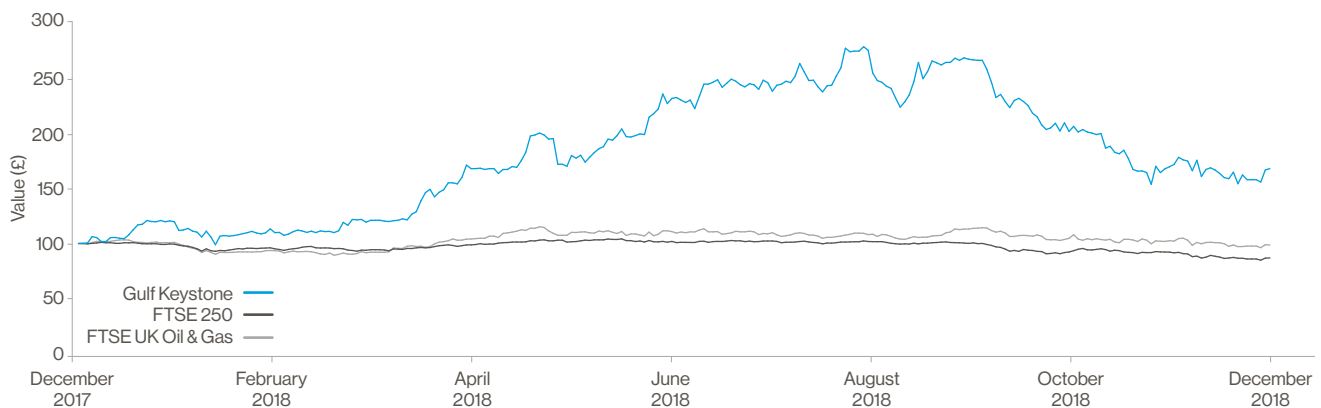
(2) Jaap Huijskes joined the Company on 29 November 2017.

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

TSR performance

The following charts compare the change in value of a £100 investment in the Company and in both the FTSE 250 Index and the FTSE Oil & Gas Producers Index:

Total shareholder return ("TSR") 29 December 2017 to 31 December 2018



The TSR for the Company for the year to 31 December 2018 was 69%.

Historical CEO pay

	2015 £'000	2016 £'000	2017 £'000	2018 £'000
Single figure remuneration	1,021 ^(1,2)	1,101	768	973
Bonus percentage of maximum payable	40% ⁽³⁾	60%	50%	76%
Vested LTIP awards as percentage of maximum	0%	0%	0%	0%

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

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

(3) 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 2017 and 31 December 2018 and the average percentage change for the remuneration in the Group as a whole excluding the CEO.

	Salary	Benefits	Annual bonus
CEO percentage change	0%	0%	91.3%
Group percentage change	6.4%	0%	24.1%

Relative importance of spend on pay

The table below shows the change from 31 December 2017 to 31 December 2018 in aggregate employee costs, profit/(loss) before tax and operating expenditure:

	2018 \$'000	2017 \$'000	Percentage change
Total employee pay	29,687	26,628	11.5%
Profit/(loss) after tax	79,889	14,126	465.5%
Operating expenditure	69,479	44,765	55.2%

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 2018.

Annual cash bonus plan (audited)

During 2018, Gulf Keystone operated its 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

Strategic 20%	Financial 20%	Licence to operate 20%	Operational 40%
-------------------------	-------------------------	----------------------------------	---------------------------

The following table describes the KPIs set for 2018 and the levels achieved.

Metric	Extent of achievement	Weighting	Results	
			Score	Weighted score
Strategic	Recommence investment towards arresting production decline and build capacity to 55,000 bopd	20%	75%	15.00%
Financial	Gross operating cost	10%	100%	10.00%
	Shaikan G&A (gross)	5%	75%	3.75%
	Corporate G&A	5%	100%	5.00%
Licence to operate	HSSE improvement plan	10%	100%	10.00%
	Safety performance (TRI)	10%	75%	7.50%
Operational	Gross production bopd ⁽¹⁾	25%	88%	22.00%
	Project milestones	5%	0%	0.00%
	Field Development Plan	10%	75%	7.50%
Total		100%	—	80.75%

(1) Gross production KPI is calculated on a linear basis and the final achievement fell between Target and Stretch performance.

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

Executive Directors received the following bonus awards for 2018:

Executive	Bonus award	% of base salary
CEO	£430,470	95.66%
CFO	£259,105	74.03%

The executives are commended for the good performance achieved against the HSSE, strategic, financial and most of the operational KPIs. The Remuneration Committee approved the executive bonus on the full 80.75% for Corporate performance objectives and assessed their individual performance based on the weighting of 70% Company and 30% Individual.



REMUNERATION COMMITTEE REPORT continued

Pension provision for Executive Directors (audited)

In lieu of a pension provision, each Executive Director received a taxable cash allowance equivalent to 15% of base salary. The Remuneration Committee has taken a decision not to align current Executive Directors' pension provision with the wider UK workforce as there are contractual obligations in place. However, in the case of future appointments, pension contribution rates will be aligned.

Benefits

Benefits received by the CEO included a car allowance and private medical insurance, totalling £25,000. The CFO received private medical insurance totalling £4,907.35.

Value Creation Plan ("VCP") awards granted/vested in 2018 (audited)

As a result of the Company's strong TSR performance in the period from December 2016 to the first measurement date, a proportion of the Performance Units awarded in December 2016 converted into nil-cost options awarded to each of the CEO and the CFO of 1,681,839 shares in May 2018. None of the awards have vested. The first vesting date falls in May 2020.

Directors	Type of award	Basis of award	Average share price (£) ⁽¹⁾	No. of shares over which award was granted	% of shares which vest if performance measure is met	Face value of shares over which award was made (£'000)	Vesting determined by TSR performance ⁽²⁾ to
Jón Ferrier	Nil-cost options	Conversion of VCP Performance Units	£1.69	1,681,839	50% in 2020 25% in 2021 25% in 2022	£ 2,846	May 2020, 2021, and 2022
Sami Zouari	Nil-cost options	Conversion of VCP Performance Units	£1.69	1,681,839	50% in 2020 25% in 2021 25% in 2022	£ 2,846	May 2020, 2021, and 2022

(1) Average share price is the average of the market value for a share for the 30-day period following the announcement of the Company's financial results for the previous financial year; equal to \$2.346 and converted to GBP using average USD/GBP exchange rate of 0.72, calculated over the same period.

(2) Vesting is dependent on the Company's TSR exceeding a compound annual growth rate of 8%.

2014 LTIP awards granted/vested in 2018 (audited)

No long-term incentive awards were made to Executive Directors in 2018 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 2018, the policy requirements were 150% of base salary for the CEO and 100% 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 increase the required level to 200% of base salary for all Executive Directors, with a five-year timescale to achieve this.

Directors' shareholdings and share interests as at 31 December 2018 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
Executive Directors						
Jón Ferrier	150%	—	—	1,681,839	—	1,681,839
Sami Zouari	100%	—	15,000	1,681,839	—	1,696,839
Non-Executive Directors						
Keith Lough	0%	—	—	—	—	—
Philip Dimmock	0%	—	—	—	—	—
Garrett Soden	0%	—	—	—	—	—
David Thomas	0%	—	—	—	—	—
Jaap Huijskes	0%	—	—	—	—	—
Martin Angle	0%	—	—	—	—	—
Kimberley Wood	0%	—	—	—	—	—

Implementation of the future Directors' Remuneration Policy in 2019

Base salaries and benefits

No change to base salaries or benefits is proposed for 2019.

Annual bonus – summary of KPIs for 2019

2019 performance elements

Corporate performance 80%	Individual performance 20%
--	---

2019 corporate performance elements

Commercial 20%	Financial 20%	Licence to operate 25%	Operational 35%
---------------------------------	--------------------------------	---	----------------------------------

2019 corporate and executive KPIs

Category	KPI	Weighting
Commercial	Operational investment activity	20%
Financial	Gross operating cost	10%
	Shaikan G&A (gross)	5%
	Corporate G&A	5%
Licence to operate	HSSE improvement and process safety plan including CSR	15%
	Safety performance (TRI)	10%
Operational	Gross production (bopd) – Annual average	15%
	Gross production attained by year end (bopd)	10%
	Project capital cost for 55,000 bopd project	10%
Total		100%

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 20% 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

No additional Performance Units will be awarded. Performance Units already awarded may convert into nil-cost options provided the performance condition is met.

This Directors' Remuneration Report was approved by the Board on 27 March 2019 and signed on its behalf by:

Martin D Angle

Chairman of the Remuneration Committee

27 March 2019



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 2018. 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 2018 are set out in the consolidated financial statements. The Group made a net profit after taxation for the year of \$79.9 million (2017: profit of \$14.1 million) and the Directors recommend an ongoing ordinary dividend on the ordinary shares of \$25 million in 2019 and, given its current financial strength, the Board is also proposing to complement this ordinary dividend in 2019 by a \$25 million supplemental dividend to shareholders on the ordinary shares (2017: \$nil). The total dividend of \$50 million for 2019 will be subject to approval at the next AGM in June 2019.

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 75 to 77.

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 Byelaw amendments

The Company's Byelaws may only be revoked or amended by the shareholders of the Company by a 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.

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.

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 2018 had any interest in the common shares of the Company.⁽¹⁾

At the date of this report, the Employee Benefit Trust ("EBT") held 0.01 million common shares of the Company. A further 0.1 million 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 2018 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.

Significant shareholdings

As at 15 March 2019, 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
Lansdowne Partners	29,280,881	12.76
Sothic Capital Management	28,344,486	12.35
Hof Hoorneman	15,972,000	6.96
The Capital Group Companies, Inc	14,790,086	6.45
BlackRock Inc	10,799,729	4.71
UBS Group AG	10,686,081	4.66
JPMorgan Chase & Co	10,087,853	4.40
BrightSphere Investment Group	8,026,892	3.50
Caius Capital	7,165,375	3.12

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 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'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 2018 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

27 March 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required 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 International Accounting Standard ("IAS") Regulation. Under IAS 1 the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 27 March 2019 and is signed on its behalf by:

Jón Ferrier

Chief Executive Officer

27 March 2019

Sami Zouari

Chief Financial Officer

27 March 2019

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 of Gulf Keystone Petroleum Limited give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Bermuda Companies Act 1981.

We have audited the financial statements, 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 25.

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

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">• revenue recognition; and• capitalisation and carrying value of oil and gas assets. <p>The key audit matters are consistent with the prior year with the exception of the inclusion of capitalisation of oil and gas assets as further described below.</p>
Materiality	<p>The materiality that we used for the Group's financial statements was \$6.6 million which was determined on the basis of profit before tax ("PBT") and net assets for 31 December 2018.</p>
Scoping	<p>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.</p>
Significant changes in our approach	<p>The signed Crude Oil Export Sales Agreement between the Ministry of Natural Resources of the Kurdistan Regional Government ("MNR") and the Group and the ongoing negotiations towards an amended Production Sharing Contract ("PSC") for the Shaikan block were significant transactions which were taken into consideration in planning our audit for the year ended 31 December 2018, with a particular emphasis on the key audit matters, revenue recognition and carrying value of oil and gas assets.</p> <p>Additionally, the commencement of the debottlenecking programme during the year and the subsequent increasing capitalisation of costs into the Shaikan Field was also included in the key audit matter and factored in capitalisation of oil and gas assets risk.</p>

INDEPENDENT AUDITOR'S REPORT continued

to the members of Gulf Keystone Petroleum Limited

Conclusions relating to going concern, principal risks and viability statement

<p>Going concern</p> <p>We have reviewed the Directors' statement on page 81 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's 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.</p>	<p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>
<p>Principal risks and viability statement</p> <p>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:</p> <ul style="list-style-type: none"> the disclosures on pages 36 to 42 that describe the principal risks and explain how they are being managed or mitigated; the Directors' confirmation on page 36 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or the Directors' explanation on page 43 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. 	<p>We confirm that we have nothing material to report, add or draw attention to in respect of these matters.</p>

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 year 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.

Revenue recognition

Key audit matter description



Revenue totalling \$250.6 million (2017: \$172.4 million) has been recognised during the year, of which \$227.4 million (2017: \$156.3 million) relates to cash-settled amounts for oil sold in 2018, \$16.2 million (2017: \$14.9 million) relates to the offsetting of payables owed to the MNR against amounts due for previously unrecognised revenue and \$7.0 million (\$1.2 million) for transportation services.

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

- whether any circumstances occurred during the year that would trigger GKP to change its accounting policy from "payment-assured" to an accrual basis;
- whether the liabilities offset against previously unrecognised revenues are eligible under the Shaikan PSC;
- whether transportation services revenue is correctly recognised under the Crude Oil Export Sales Agreement;
- the mechanical accuracy of the complex invoice calculations;
- whether there is any risk in relation to unpaid revenue amounts; and
- the impact of IFRS 15 "Revenue from contracts with customers" adoption and related disclosures.

As referenced on page 60 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 matter and also, as referenced on page 101 and note 2, by management as a critical accounting judgement.

Revenue recognition *continued*

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 the Crude Oil Export Sales Agreement and the proposed amendments to the Shaikan PSC and challenged management on its assessment of the accounting implications with reference to the relevant accounting standards, in particular IFRS 15;
- recalculated the expected monthly entitlement revenue for the oil sales based on production in the year 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 2018 and reviewed post year-end bank statements to confirm that the outstanding receivable as at 31 December 2018 in respect of October, November and December revenue of \$53.1 million was subsequently received;
- reviewed the nature and validity of the liabilities offset against previously unrecognised revenue in accordance with the PSC terms;
- verified there is sufficient unrecognised revenue balance available against which to offset the liabilities; and
- challenged management on its assessment in relation to the adoption of 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 year ending 31 December 2018 and that it is appropriate to recognise \$250.5 million of revenue.

Capitalisation and carrying value 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 \$379.6 million as at 31 December 2018 (2017: \$416.9 million).

As a consequence of the ongoing discussions for an amended PSC for Shaikan and the political complexities of the region, 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 could be subject to conscious or unconscious bias.

Additionally, as a result of the debottlenecking programme which commenced during the year, the value of the costs capitalised to the Shaikan asset increased from \$8.1 million in 2017 to \$35.7 million in 2018; we therefore consider there to be a risk of inappropriate costs being capitalised rather than expensed.

As referenced on page 60 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 105 and note 11, by management as a critical accounting judgement.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Gulf Keystone Petroleum Limited

Capitalisation and carrying value of oil and gas assets continued

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 – performing 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 Shaikan PSC;
- reviewed the sensitivity analysis performed on the key assumptions in the valuation model to determine whether there was headroom to support Shaikan's book value under certain downside scenarios;
- challenged management's capitalisation policy by assessing whether it is in line with the requirements of IAS 16 "Property, Plant and Equipment"; and
- performed detailed testing on additions to oil and gas assets, analysing the nature of the costs and assessing whether capitalisation was appropriate.

Key observations



We concur with management that there are no impairment indicators and hence the value of Shaikan is appropriate. In addition, we are satisfied that the costs capitalised during the year are in line with management's policy on capitalisation and that management's policy is appropriate.

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	\$6.6 million (2017: \$9.1 million).
Basis for determining materiality	Determined on the basis of PBT and net assets for 31 December 2018 (2017: 2% of net assets).
Rationale for the benchmark applied	The benchmarks used reflect the core focus of the users of the accounts. In the past the Group was not receiving payments in line with the oil produced and therefore the income statement did not accurately reflect the Company's operations. Since this is no longer the case, we have included PBT as one of our benchmarks for determining materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$330,000 (2017: \$455,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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

Other information

<p>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.</p> <p>Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.</p> <p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none">• 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.	<p>We have nothing to report in respect of these matters.</p>
---	---

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 FRC's website at: 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
27 March 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Continuing operations			
Revenue	2	250,554	172,372
Cost of sales	3	(154,534)	(126,996)
Gross profit		96,020	45,376
General and administrative expenses	4	(17,813)	(21,304)
Profit from operations		78,207	24,072
Finance revenue	7	4,441	702
Finance costs	7	(13,873)	(11,023)
Other gains and losses	6	10,925	314
Profit before tax		79,700	14,065
Tax credit	8	189	61
Profit after tax for the year		79,889	14,126
Profit per share (cents)			
Basic	9	34.84	6.16
Diluted	9	33.87	6.12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 \$'000	2017 \$'000
Profit after tax for the year	79,889	14,126
Items that may subsequently be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(800)	1,281
Total comprehensive profit for the year	79,089	15,407

CONSOLIDATED BALANCE SHEET

as at 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Non-current assets			
Intangible assets	10	84	63
Property, plant and equipment	11	380,537	417,473
Deferred tax asset	18	559	403
		381,180	417,939
Current assets			
Inventories	13	14,190	17,190
Trade and other receivables	14	67,909	61,710
Cash and cash equivalents		295,566	160,456
		377,665	239,356
Total assets		758,845	657,295
Current liabilities			
Trade and other payables	15	(81,478)	(57,038)
Provisions	17	(4,155)	(7,197)
		(85,633)	(64,235)
Non-current liabilities			
Borrowings	16	(97,795)	(97,067)
Provisions	17	(22,600)	(24,107)
		(120,395)	(121,174)
Total liabilities		(206,028)	(185,409)
Net assets		552,817	471,886
Equity			
Share capital	19	229,430	229,430
Share premium	19	920,728	920,728
Exchange translation reserve	19	(3,818)	(3,018)
Accumulated losses	19	(593,523)	(675,254)
Total equity		552,817	471,886

The financial statements were approved by the Board of Directors and authorised for issue on 27 March 2019 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 2018

	Notes	Attributable to equity holders of the Company				Total equity \$'000
		Share capital \$'000	Share premium \$'000	Exchange translation reserve \$'000	Accumulated losses \$'000	
Balance at 1 January 2017		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
Total comprehensive profit for the year		—	—	1,281	14,126	15,407
Share-based payment expense	22	—	—	—	2,710	2,710
Balance at 31 December 2017		229,430	920,728	(3,018)	(675,254)	471,886
Net profit for the year		—	—	—	79,889	79,889
Other comprehensive loss for the year		—	—	(800)	—	(800)
Total comprehensive profit/(loss) for the year		—	—	(800)	79,889	79,089
Share-based payment expense	22	—	—	—	1,842	1,842
Balance at 31 December 2018		229,430	920,728	(3,818)	(593,523)	552,817

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Operating activities			
Cash generated from operations	20	161,483	85,300
Interest received	7	4,441	702
Interest paid on Reinstated Notes	16	(7,713)	(10,111)
Net cash generated from operating activities		158,211	75,891
Investing activities			
Purchase of intangible assets		(66)	—
Purchase of property, plant and equipment		(20,589)	(8,856)
Net cash used in investing activities		(20,655)	(8,856)
Financing activities			
Issue costs of new notes		(2,366)	—
Net cash from financing activities		(2,366)	—
Net increase in cash and cash equivalents		135,190	67,035
Cash and cash equivalents at beginning of year		160,456	92,870
Effect of foreign exchange rate changes		(80)	551
Cash and cash equivalents at end of the year, being bank balances and cash on hand		295,566	160,456

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 the Alternative Investment Market ("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 depository bank. The Company serves as the holding company for the Group, which is engaged in oil and gas exploration and production, operating in the Kurdistan Region of Iraq. During 2018 the Company was still operating in Algeria, however it formally exited the country in January 2019.

Adoption of new and revised standards

Amendments to International Financial Reporting Standards ("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 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 for the first time in the current year. The standard requires an entity to address the classification, measurement and recognition of financial assets and liabilities. The impact of this adoption has not had a material impact on the Group's financial statements. In applying IFRS 9 on trade receivables the expected credit loss is not determined to be material.

IFRS 15 Revenue from Contracts

The Group has adopted IFRS 15 for the first time in the current year. The Group's accounting policy under IFRS 15 is that revenue is recognised when the Group satisfies a performance obligation by transferring oil to our customer and completing transportation services on their behalf. The application of IFRS 15 is not determined to be material.

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 have not yet been adopted by the EU:

IFRS 16	Leases
IFRS 17	Insurance Contracts
IFRS 9	Prepayment Features with Negative Compensation
IAS 28 (amendments)	Long-term interests in Associates and Joint Ventures
Annual Improvements Standards 2015-17 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
IAS 19 (amendments)	Employee benefits, plan amendments, curtail or settlement
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 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 16 Leases

IFRS 16 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 date for the initial application of IFRS 16 for the Group will be 1 January 2019.

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

On initial application of IFRS 16, the Group will:

- recognise right-of-use assets and lease liabilities, initially measured at the present value of the future lease payments;
- recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit and loss; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under the transition rules of IFRS 16 the Group has chosen to adopt the cumulative catch-up approach. The Group will not restate any prior year figures and make any necessary adjustments between assets and liabilities through opening retained earnings. The Group does not expect the implementation of IFRS 16 to have a material impact on the financial statements.

The impact of IFRS 16 on the Group has been set out in the table below:

Date of assessment	Assets \$'000	Liabilities \$'000	Net assets \$'000	Expenses \$'000	Retained earnings \$'000
1 January 2019	979	(979)	—	—	—
Year ended 31 December 2019	221	(14)	207	8	8
Year ended 31 December 2020	234	(255)	(21)	(10)	(2)
Year ended 31 December 2021	47	(54)	(7)	(14)	(16)
Year ended 31 December 2022	—	—	—	7	(9)

Statement of compliance

The financial statements have been prepared in accordance with 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 are initially recognised at fair value, but are not 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 financial position of the Group at the year end and its cash flows and liquidity position are included in the Financial Review.

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 \$196 million of net cash as at 27 March 2019. The Group's forecasts, taking into account the risks applicable, show that the Group has sufficient financial headroom for the twelve months from the date of approval of the 2018 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.

Non-IFRS measures

The Group uses certain measures to assess the financial performance of its business. Some of these measures are termed "non-IFRS measures" because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. These non-IFRS measures include financial measures such as operating costs and non-financial measures such as gross average production.

The Group uses such measures to measure and monitor operating performance and liquidity, in presentations to the Board and as a basis for strategic planning and forecasting. The Directors believe that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

The non-IFRS measures may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group's operating results as reported under IFRS.

An explanation of the relevance of each of the non-IFRS measures and a description of how they are calculated is set out below. Additionally, a reconciliation of the non-IFRS measures to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations is set out below, where applicable. The Group does not regard these non-IFRS measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Non-IFRS measures continued

Operating costs

Operating costs is a useful indicator of the Group's costs incurred to produce Shaikan oil. Operating costs, in comparison with cost of sales, exclude certain non-cash accounting adjustments, contractual PSC payments and transportation costs.

	Year ended 31 December 2018 \$ million	Year ended 31 December 2017 \$ million
Cost of sales	154.5	127.0
Depreciation of oil and gas assets	(70.7)	(79.8)
Production bonus	(16.0)	—
Capacity building payments	(17.0)	(17.2)
Transportation costs	(14.3)	(2.4)
Working capital movement	(5.8)	1.2
Operating costs	30.7	28.8

Gross operating costs per barrel (unaudited)

Gross operating costs are divided by gross production to arrive at operating costs per bbl.

	Year ended 31 December 2018	Year ended 31 December 2017
Gross production (MMbbls)	11.5	12.9
Gross operating costs (\$ million)	36.8	35.4
Gross operating costs per barrel (\$ per bbl)	3.2	2.7

EBITDA

EBITDA is a useful indicator of the Group's profitability, which excludes the impact of costs attributable to income tax (expense)/credit, finance costs, interest revenue, depreciation, depletion and amortisation and other gains and losses.

	Year ended 31 December 2018 \$ million	Year ended 31 December 2017 \$ million
Profit from operations	78.2	24.1
Depreciation of oil and gas assets	70.7	79.8
Depreciation and amortisation	0.4	0.4
EBITDA	149.3	104.3

Capital investment

Capital investment is the value of the Group's additions to oil and gas assets excluding any movements in decommissioning assets.

	Year ended 31 December 2018 \$ million	Year ended 31 December 2017 \$ million
Additions to oil and gas assets	35.7	8.1
Capital investment	35.7	8.1

Net cash

Net cash is a useful indicator of the Group's indebtedness, financial flexibility and capital structure because it indicates the level of cash and cash equivalents less cash borrowings within the Group's business. Net cash is defined as current and non-current borrowings plus non-cash adjustments, less cash and cash equivalents. Non-cash adjustments include unamortised arrangement fees and other adjustments.

	Year ended 31 December 2018 \$ million	Year ended 31 December 2017 \$ million
Outstanding New Notes	(100.0)	(100.0)
Non-cash adjustments	(4.4)	(2.0)
Cash and cash equivalents	295.6	160.5
Net cash	191.2	58.5

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. Where the Group acts as operator of 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 revenue

The recognition of revenue, particularly the recognition of revenue from export sales of crude oil, is considered to be a key accounting judgement.

All oil is sold to the KRG, who in turn resell the oil either for export in the pipeline at PF-2, at Fishkhabour, or by trucking it to domestic customers. The selling price is determined in accordance with the principles of the crude oil export sales agreement ("Crude Oil Sales Agreement"), based on the Brent crude price less a quality discount and transportation costs. The sales agreement also specifies the delivery point, KRG's contribution to transportation costs and payment terms relating to export sales of crude oil. The Crude Oil Sales Agreement has been governing Shaikan crude oil sales from 1 October 2017 onwards.

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.

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

- for the crude oil sales via Fishkhabour route, the point of sale is the point that the crude oil is unloaded into the export pipeline at Fishkhabour;
- for the crude oil sales via Atrush feeder line, the point of sale is the point that the crude oil is injected into the Atrush feeder line;
- the point of sale 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 ("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 exploration and 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.



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Interest revenue

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 assets

Property, plant and equipment ("PPE") 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 assets

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

Pre-licence costs

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

Exploration and evaluation costs

The Group follows the successful efforts method of accounting for exploration and evaluation ("E&E") costs. Expenditures directly associated with evaluation or appraisal activities are initially capitalised as intangible assets 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.

Depreciation of oil and gas assets

The net book values of producing assets are depreciated generally on a field-by-field basis using the unit of production ("UOP") basis, which uses the ratio of oil and gas production in the period to the remaining commercial reserves plus the production in the period. Production associated with unrecognised export sales revenue is included in the DD&A calculation. Costs used in the calculation comprise the net book value of the field, and any further anticipated costs to develop such reserves.

Commercial reserves are proven and probable ("2P") reserves together with, where considered appropriate, a risked portion of 2C contingent resources, which are estimated using standard recognised evaluation techniques. The estimate is regularly reviewed by independent consultants.

Impairment of PPE 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 assets which do not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any impairment identified is immediately recognised as an expense.

Borrowing costs

Borrowing costs directly relating to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised and added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Foreign currencies

The individual financial statements of each company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and the financial position of the Group are expressed in US dollars, 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments

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

Trade receivables

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

Cash and cash equivalents

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

Liquid investments

Liquid investments comprise short-term liquid investments 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.

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 asset. The amount recognised is reassessed each year in accordance with local conditions and requirements. Any change in the present value of the estimated expenditure is dealt with prospectively. The unwinding of the discount is included as a finance cost.

Share-based payments

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

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

Leasing

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Key estimates

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.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Key estimates continued

Carrying value of producing assets continued

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 2018 was Shaikan, with a carrying value of \$379.7 million. No impairment indicator was identified as at 31 December 2018.

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 markets. However, as the payment mechanism for sales to the export market continues to develop 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 Corporate. 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 asset and the Erbil office, which provides support to the operations in Kurdistan;
- Algeria: the Algerian segment consists of the Algiers office and the Group's operations in Algeria. This activity has now been exited in January 2019;
- Corporate: the Corporate segment consists of the Group's UK and Bermuda offices. It represents all overhead and administration costs incurred that are of a corporate nature and elimination of intercompany income and charges which cannot be directly linked to one of the above segments.

31 December 2018	Algeria \$'000	Kurdistan \$'000	Corporate \$'000	Total \$'000
Revenue				
Oil sales	—	243,711	—	243,711
Transportation revenue	—	6,843	—	6,843
Inter-segment sales	—	—	—	—
Total revenue	—	250,554	—	250,554
Cost of sales				
Production costs	—	(69,479)	—	(69,479)
Oil and gas assets depreciation expense	—	(70,744)	—	(70,744)
Transportation costs	—	(14,311)	—	(14,311)
Gross profit	—	96,020	—	96,020
General and administrative expenses				
Allocated general and administrative expenses	(153)	(7,776)	(9,500)	(17,429)
Depreciation and amortisation expense	—	(105)	(279)	(384)
Profit/(loss) from operations	(153)	88,139	(9,779)	78,207
Interest revenue	—	3,713	728	4,441
Finance costs	—	(723)	(13,150)	(13,873)
Other gains and losses	10,205	39	681	10,925
Profit/(loss) before tax	10,052	91,168	(21,520)	79,700
Tax benefit	—	—	189	189
Profit/(loss) after tax	10,052	91,168	(21,331)	79,889
Capital expenditure	—	36,316	109	36,425
Total assets	—	686,636	72,209	758,845

During 2018, the allocated general and administrative expenses of \$17.4 million (2017: \$20.6 million) included costs that are recoverable under the terms of the Shaikan PSC amounting to \$7.3 million (2017: \$5.4 million).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

1. Segment information continued

31 December 2017	Algeria \$'000	Kurdistan \$'000	Corporate \$'000	Total \$'000
Revenue				
Oil sales	—	171,203	—	171,203
Transport revenue	—	1,169	—	1,169
Total revenue	—	172,372	—	172,372
Cost of sales				
Production costs	—	(44,765)	—	(44,765)
Oil and gas assets depreciation expense	—	(79,785)	—	(79,785)
Transportation costs	—	(2,446)	—	(2,446)
Gross profit	—	45,376	—	45,376
General and administrative expenses				
Allocated general and administrative expenses	(63)	(5,387)	(15,157)	(20,607)
Depreciation and amortisation expense	—	(145)	(280)	(425)
Profit/(loss) from operations	(63)	39,844	(15,437)	24,344
Interest revenue	—	432	270	702
Finance income/(costs)	—	(714)	(10,309)	(11,023)
Other gains	—	323	(281)	42
Profit/(loss) before tax	(63)	39,885	(25,757)	14,065
Tax expense	—	—	61	61
Profit/(loss) after tax	(63)	39,885	(25,696)	14,126
Capital expenditure	—	43,578	—	43,578
Total assets	31	582,192	75,072	657,295

The 2017 segmental analysis has been restated to combine corporate activities under one heading.

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:

	2018 \$'000	2017 \$'000
Kurdistan	380,339	417,024
United Kingdom	282	512
	380,621	417,536

Information about major customers

Included in revenues arising from the Kurdistan segment are revenues of approximately \$250.6 million which arose from sales to the Group's largest customer (2017: \$172.4 million).

2. Revenue

	2018 \$'000	2017 \$'000
Oil sales	243,711	171,203
Transportation revenue	6,843	1,169
	250,554	172,372

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

During 2018, the cash-assured values recognised as oil sales were the invoiced revenue for the year amounting to \$227.5 million (2017: \$156.3 million). The MNR liability offset revenue recognised was \$16.2 million (2017: \$14.9 million). The oil sales price was calculated using the monthly Brent price less an average discount of \$22.3 (2017: \$20.3) per barrel for quality, pipeline tariff and transportation costs.

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.

Interest revenue has been presented as part of net finance costs (note 7).

3. Cost of sales

	2018 \$'000	2017 \$'000
Oil production costs	69,479	44,765
Depreciation of oil and gas assets	70,744	79,785
Transportation costs	14,311	2,446
	154,534	126,996

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 \$17.0 million (2017: \$17.2 million) and Shaikan PSC production bonus of \$16.0 million (2017: \$nil). All costs are included with no deferral of costs associated with unrecognised sales in accordance with the Group's revenue policy. Production and DD&A costs related to revenue arrears recognised in 2018 and 2017 have been charged to the income statement in prior periods when the oil was lifted.

A unit-of-production method has been used to calculate the DD&A charge for the year. This is based on full entitlement production, commercial reserves and costs for Shaikan. 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.

The breakdown of the 2017 comparative has been restated by \$1.3 million to accurately show the full transportation costs, as part of this had previously been shown in oil production costs.

4. General and administration costs

	2018 \$'000	2017 \$'000
Depreciation and amortisation	383	425
Auditor's remuneration for audit fees (see below)	252	219
Operating lease rentals	2,044	2,924
Other general and admin costs (including staff costs)	15,134	17,736
	17,813	21,304

	2018 \$'000	2017 \$'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	224	192
Fees payable to the Company's auditor for other services to the Group		
– audit of the Company's subsidiaries pursuant to legislation	28	27
Total audit fees	252	219
Corporate finance services	–	5
Other assurance services (half-year review)	70	67
Total fees	322	291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

5. Staff costs

The average number of employees and contractors (including Executive Directors) employed by the Group was as follows:

	2018 Number	2017 Number
Office and management	76	76
Technical and operational	295	277
	371	353

Staff costs in respect of those employees were as follows:

	2018 \$'000	2017 \$'000
Wages and salaries	25,582	22,444
Social security costs	2,263	1,672
Share-based payment (see note 22)	1,842	2,712
	29,687	26,828

The Group has restated the staff costs note to include the costs relating to contractors. These staff members are long-term workers in key positions and therefore this presentation is a more accurate statement of the Group's staff costs.

A proportion of these costs is allocated to operating costs and a proportion is capitalised as oil and gas assets under the Group's accounting policy for property, plant and equipment, with the remainder classified as administrative overhead costs in the income statement. The net staff cost recognised in the income statement is \$25.6 million (2017: \$23.1 million).

6. Other gains

	2018 \$'000	2017 \$'000
Other gains	10,215	272
Exchange gains	710	42
	10,925	314

The Company has received final clearance from Sonatrach in relation to the Ferkane Permit (Block 126). This officially marks Gulf Keystone's exit from its Algerian operations, which resulted in a \$10.2 million release of past liabilities recognised in other gains in 2018.

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

7. Finance costs and finance revenue

	2018 \$'000	2017 \$'000
Notes interest charged during the year (see note 16)	(13,150)	(10,309)
Unwinding of discount on provisions (see note 17)	(723)	(714)
Total finance costs	(13,873)	(11,023)
Finance revenue	4,441	702
Net finance costs	(9,432)	(10,321)

8. Tax

	2018 \$'000	2017 \$'000
Current year charged	—	—
Adjustment in respect of prior year	—	—
Deferred UK corporation tax credit (see note 18)	189	61
Tax credit attributable to the Company and its subsidiaries	189	61

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.

In the Kurdistan Region of Iraq, 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.

UK corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profit for the year of the UK subsidiary.

Deferred tax is provided for due to the temporary differences, which give rise to such a balance in jurisdictions subject to income tax. During the current period no taxable profits were made in respect of the Group's Kurdistan 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:

	2018 \$'000	2017 \$'000
Profit before tax	79,700	14,065
Tax at the Bermudian tax rate of 0% (2017: 0%)	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	189	61
Tax credit for the year	189	61

9. Profit per share

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

	2018 \$'000	2017 \$'000
Profit		
Profit after tax for the purposes of basic and diluted profit per share	79,889	14,126

	2018 Number '000	2017 Number '000
Number of shares		
Basic weighted average number of shares	229,317	229,317

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

Reconciliation of dilutive shares:

	2018 Number '000	2017 Number '000
Number of shares		
Basic number of ordinary shares outstanding	229,317	229,317
Effect of dilutive potential ordinary shares	6,528	1,595
Diluted number of ordinary shares outstanding	235,845	230,912

The average number of ordinary shares in issue excludes shares held by the 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 2018, there were 0.3 million (2017: 0.5 million) share options that were excluded from the calculation of diluted earnings because they were anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

10. Intangible assets

	Computer software \$'000	Total \$'000
Year ended 31 December 2017		
Opening net book value	99	99
Amortisation charge	(47)	(47)
Foreign currency translation differences	11	11
Closing net book value	63	63
At 31 December 2017		
Cost	1,064	1,064
Accumulated amortisation	(1,001)	(1,001)
Net book value	63	63
Year ended 31 December 2018		
Opening net book value	63	63
Additions	66	66
Disposals at cost	(29)	(29)
Amortisation charge	(46)	(46)
Amortisation of disposals	29	29
Foreign currency translation differences	1	1
Closing net book value	84	84
At 31 December 2018		
Cost	1,102	1,102
Accumulated amortisation	(1,018)	(1,018)
Net book value	84	84

The amortisation charge of \$46,000 (2017: \$47,000) for computer software has been included in general and administrative expenses (note 4).

11. Property, plant and equipment

	Oil and gas assets \$'000	Fixtures and equipment \$'000	Total \$'000
Year ended 31 December 2017			
Opening net book value	488,634	745	489,379
Additions	8,059	114	8,173
Depreciation charge	(79,785)	(378)	(80,163)
Foreign currency translation differences	—	84	84
Closing net book value	416,908	565	417,473
At 31 December 2017			
Cost	693,146	5,941	699,087
Accumulated depreciation	(276,238)	(5,376)	(281,614)
Net book value	416,908	565	417,473
Year ended 31 December 2018			
Opening net book value	416,908	565	417,473
Additions	35,715	644	36,359
Disposals at cost	(126,584)	(399)	(126,983)
Revision to decommissioning charge	(2,229)	—	(2,229)
Depreciation charge	(70,744)	(337)	(71,081)
Depreciation on disposals	126,584	399	126,983
Foreign currency translation differences	—	15	15
Closing net book value	379,650	887	380,537
At 31 December 2018			
Cost	600,048	6,201	606,249
Accumulated depreciation	(220,398)	(5,314)	(225,712)
Net book value	379,650	887	380,537

The net book value of oil and gas assets at 31 December 2018 is comprised of property, plant and equipment relating to the Shaikan block and has a carrying value of \$379.7 million (2017: \$416.9 million).

The additions to the Shaikan asset during the year include costs for the work on the export pipelines from both production facilities to the main export pipeline, SH-1 workover, work in preparation for the upcoming drilling campaign, production facilities improvement work and various studies and reservoir engineering.

The DD&A charge of \$70.7 million on oil and gas assets (2017: \$79.8 million) has been included within cost of sales (note 3). The depreciation charge of \$0.3 million on fixtures and equipment (2017: \$0.4 million) has been included in general and administrative expenses (note 4).

Additions during the year include capitalised staff costs of \$4.0 million (2017: \$1.6 million).

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

12. Group companies

Details of the Company's subsidiaries and joint operations at 31 December 2018 are as follows:

Name of subsidiary	Place of incorporation	Proportion of ownership interest	Principal activity
Gulf Keystone Petroleum (UK) Limited 6th floor, New Fetter Place Management services, including geological, 8-10 New Fetter Lane, London EC4A 1AZ	United Kingdom	100%	Geophysical and engineering services
Gulf Keystone Petroleum International Limited Cumberland House, 9th floor, 1 Victoria Street PO Box 1561, Hamilton HMTX, Bermuda	Bermuda	100%	Exploration and evaluation activities in Kurdistan

Name of joint operation	Place of incorporation	Proportion of ownership interest	Principal activity
Shaikan	Kurdistan	80% ⁽¹⁾	Production and development 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.

During the year the following subsidiaries were dissolved:

- Gulf Keystone Petroleum Numidia Limited;
- Gulf Keystone Petroleum HBH Limited; and
- Shaikan Petroleum Limited.

13. Inventories

	2018 \$'000	2017 \$'000
Warehouse stocks and materials	13,534	14,569
Crude oil	656	2,621
	14,190	17,190

Inventories at 31 December 2018 include write downs to net realisable value of \$0.6 million (2017: \$0.4 million).

14. Trade and other receivables

	2018 \$'000	2017 \$'000
Trade receivables	61,251	57,887
Other receivables	5,405	3,260
Prepayments and accrued income	1,253	563
	67,909	61,710

Trade receivables comprise invoiced amounts due from the MNR for crude oil sales totalling \$53.2 million as at 31 December 2018 (2017: \$57.9 million), which have all been received subsequent to the year end. This included past due trade receivables of \$40.9 million (2017: \$42.6 million). During 2018, the Group purchased a share of Shaikan revenue arrears from MOL amounting to \$9.1 million. In line with the requirements of IFRS 9, the fair value of this receivable stood at \$8.0 million as at 31 December 2018. The adjustment to the fair value is recognised in cost of sales (note 3).

Included within other receivables for 2018 is an amount of \$0.4 million (2017: \$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 2018 (2017: \$nil) (see note 23). No impairments of other receivables have been recognised during the year (2017: \$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.

	2018 \$'000	2017 \$'000
Trade payables	11,857	2,687
Other payables	19,552	26,168
Accrued expenses	50,069	28,183
	81,478	57,038

There is \$4.4 million interest payable included in accrued expenses as at 31 December 2018 (2017: \$2.0 million) (see note 16).

In 2018, other payables included \$10 million (2017: \$10 million) in relation to the Sheikh Adi PSC bonus that was payable on the declaration of commerciality. It is likely that this liability will be offset against unrecognised Shaikan revenue arrears, in accordance with the principles agreed under the Bilateral Agreement between the Group and the MNR. In 2017, the other payables balance also included \$16.2 million of payments received in excess of the Group's revenue entitlements from the MNR under the Bilateral Agreement. In 2018, this amount was transferred to revenue as an offset of past revenue arrears.

16. Long-term borrowings and warrants

	2018 \$'000	2017 \$'000
Liability component at 1 January	99,084	98,886
Interest charged during the year	13,150	10,309
Interest paid during the year	(7,713)	(10,111)
Exchange or redemption of Reinstated Notes	(100,000)	—
Issue of New Notes at fair value	97,635	—
Liability component at 31 December	102,156	99,084

Liability component reported in:

	2018 \$'000	2017 \$'000
Current liabilities (see note 15)	4,361	2,017
Non-current liabilities	97,795	97,067
	102,156	99,084

On 14 October 2016, the Company issued \$100 million of guaranteed notes ("Reinstated Notes"). The unsecured Reinstated Notes were guaranteed by Gulf Keystone Petroleum International Limited, one of the Company's subsidiaries, and their key terms are summarised as follows:

- maturity date was 18 October 2021. At any time prior to maturity, the Reinstated Notes were redeemable in part or full at par and could therefore be refinanced without any prepayment penalty;
- the Company had the option to defer its interest payments until the maturity of the Reinstated Notes in payment in kind at 13% or pay in cash at 10% until 18 October 2018. From 19 October 2018, the Company would be mandatorily liable to pay interest in cash at 10%; and
- the Company was permitted to raise up to \$45 million of additional indebtedness at any time on market terms to fund capital and operating expenditure.

In July 2018, the Group redeemed all of the \$100 million Reinstated Notes at a price equal to 100% of the principal, plus accrued and unpaid interest on the Notes up to and including the Redemption Date. The Group also successfully completed the private placement of a five-year senior unsecured \$100 million bond issue (the "New Notes"). The unsecured New Notes are guaranteed by Gulf Keystone Petroleum International Limited and Gulf Keystone Petroleum (UK) Limited, two of the Company's subsidiaries, and their key terms are summarised as follows:

- maturity date is 25 July 2023;
- at any time prior to maturity, the New Notes are redeemable in part or full with a prepayment penalty;
- the interest rate is 10% per annum with semi-annual payment dates; and
- the Company is permitted to raise up to \$200 million of additional indebtedness at any time on market terms to fund capital and operating expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

16. Long-term borrowings and warrants continued

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

	Market price	2018 \$'000	2017 \$'000
New Notes	\$1.0275	102,750	—
Reinstated Notes	\$0.98241	—	98,241
		102,750	98,241

As of 31 December 2018, the Group's remaining contractual liability, comprising principal and interest based on undiscounted cash flows at the maturity date of the New Notes, is as follows:

	2018 \$'000	2017 \$'000
Within one year	10,000	10,000
Within two to five years	135,639	130,000
	145,639	140,000

17. Provisions

	2018 \$'000	2017 \$'000
Current provisions	4,155	7,197
Non-current provisions	22,600	24,107
	26,755	31,304

	Current provisions (Algeria) \$'000	Non-current provisions (Kurdistan) \$'000	Total \$'000
Decommissioning provision			
At 1 January 2018	7,197	24,107	31,304
New provisions and changes in estimates	—	(2,230)	(2,230)
Unwinding of discount	—	723	723
Release of provisions	(3,042)	—	(3,042)
At 31 December 2018	4,155	22,600	26,755

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. The expenditure on the Shaikan block in Kurdistan is expected to take place over the next 25 years.

In January 2019, the Group made a payment of \$4.2 million in final settlement of all Algerian decommissioning liabilities.

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. The deferred tax assets arise in the United Kingdom.

	Accelerated tax depreciation \$'000	Share-based payments \$'000	Tax losses carried forward \$'000	Total \$'000
At 1 January 2017	(82)	36	356	310
Credit/(charge) to income statement	21	92	(52)	61
Exchange differences	(7)	8	31	32
At 31 December 2017	(68)	136	335	403
Credit/(charge) to income statement	37	202	(50)	189
Exchange differences	1	(18)	(16)	(33)
At 31 December 2018	(30)	320	269	559

19. Share capital

	2018 \$'000	2017 \$'000
Authorised		
Common shares of \$1 each (2017: \$1 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
	292,105	292,105

	Common shares			
	No. of shares '000	Amount \$'000	Share capital \$'000	Share premium \$'000
Balance at 31 December 2016	229,430	1,150,158	229,430	920,728
Balance at 31 December 2017	229,430	1,150,158	229,430	920,728
Balance at 31 December 2018	229,430	1,150,158	229,430	920,728

At 31 December 2018, a total of 0.1 million common shares at \$1.0 each were held by the EBT (2017: 0.1 million at \$1.0 each) and 0.1 million shares at \$1.0 each were held by the Exit Event Trustee (2017: 0.1 million at \$1.0 each). All 0.2 million common shares were included within reserves (2017: 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):

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

20. Reconciliation of profit from operations to cash generated from operations

	2018 \$'000	2017 \$'000
Profit from operations	78,207	24,072
Adjustments for:		
Depreciation, depletion and amortisation of property, plant and equipment	71,081	80,163
Amortisation of intangible assets	46	47
Other gains or losses	—	(11)
Share-based payment expense	1,785	2,710
(Increase)/decrease in inventories	3,000	(1,219)
(Increase) in receivables	(4,330)	(20,125)
Increase/(decrease) in payables	11,694	(337)
Cash generated from operations	161,483	85,300

The increase in receivables includes \$8.0 million relating to the purchase of a share of Shaikan revenue arrears from MOL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

21. Commitments

Operating lease commitments – the Group as a lessee

	2018 \$'000	2017 \$'000
Minimum lease payments under operating leases recognised as expense for the year	2,019	2,924

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

	2018 \$'000	2017 \$'000
Within one year	2,264	1,144
Within two to five years	1,608	1,519
	3,872	2,663

Operating lease payments represent rentals payable by the Group for certain of its office and residence properties, facilities and vehicle rentals in the United Kingdom and the Kurdistan Region of Iraq. The non-cancellable operating leases within Kurdistan are 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. Capital commitments of \$29.9 million are expected in the year ending 31 December 2019 for the Group (2018: \$nil).

22. Share-based payments

	2018 \$'000	2017 \$'000
Share options charge	1,842	2,710
	1,842	2,710

Value Creation Plan ("VCP")

The VCP was approved by shareholders in December 2016 and, as of 31 December 2018, one award of Performance Units has been made to the CEO and CFO. No further awards of Performance Units are envisaged. Any outstanding awards under the VCP will be allowed to run-off and vest subject to the Company achieving the performance criteria of 8% compound annual growth in TSR on each of five annual Measurement Dates and the plan limits in place, in accordance with the VCP rules. As such, it may be possible that additional conversions of the Performance Units into nil-cost options may occur in future (up to but not later than 2022).

Following the first measurement date on 15 May 2018, nil-cost options over 1,681,839 shares were granted to each of the CEO and CFO. The Executive Directors are not eligible to participate in any other long-term incentive scheme until the VCP has ended in 2022.

	2018		2017	
	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	—	—	—	—
Granted during the year	3,364	—	—	—
Outstanding at 31 December	3,364	—	—	—
Exercisable at 31 December	—	—	—	—

Depending on the achievement of the performance criteria, the nil-cost options will vest as follows: 50% in May 2020, 25% in May 2021 and 25% in May 2022.

A charge of \$0.6 million (2017: \$1.1 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.

	2018		2017	
	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	1,595	—	1,402	—
Granted during the year	—	—	611	—
Exercised during the year	—	—	(325)	—
Forfeited during the year	(155)	—	(93)	—
Outstanding at 31 December	1,440	—	1,595	—
Exercisable at 31 December	—	—	—	—

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of eight years.

During 2018 no options (2017: 611,000 options) were granted to employees under the Group's SRP.

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

	2018	2017
Weighted average opening share price on date of grant (in pence)	n/a	119.47

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 SRP options is three years. The risk-free rate for the options awarded was 0.26% for the 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.

The Company has not made a dividend payment to date and, as there was no expectation of making payments in the immediate future following grants of the SRP options in 2016 and 2017, the dividend yield variable has been set at zero for all grants.

A charge of \$0.8 million (2017: \$0.9 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)	
	2018	2017	2018	2017
11 December 2026	—	—	939	994
9 January 2027	—	—	250	350
30 June 2027	—	—	206	206
30 July 2027	—	—	45	45
	—	—	1,440	1,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

22. Share-based payments continued

Long-Term Incentive Plan

At the 2016 Annual General Meeting, shareholders approved the adoption of the Gulf Keystone Petroleum 2016 Long-Term Incentive Plan ("LTIP"), which is designed to reward members of staff through the grant of share options at a zero exercise price, that vest three years after grant, subject to the fulfilment of specified performance conditions. These performance conditions attached to the 2018 LTIP grant are 50% Group total shareholder return ("TSR") over the vesting period and 50% Group TSR relative to a bespoke group of comparators.

	2018		2017	
	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	—	—	—	—
Granted during the year	1,786	—	—	—
Forfeited during the year	(172)	—	—	—
Outstanding at 31 December	1,614	—	—	—
Exercisable at 31 December	—	—	—	—

A charge of \$0.5 million (2017: \$nil) in relation to the LTIP is included in the total share options charge.

Equity-settled share option plan

The Group's share option plan provides for an exercise price at least equal to the closing market price of the Group shares on the date prior to grant. Awards made under the Group's share option plan have a vesting period of at least three years, except for awards made under the legacy 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 2018 under this scheme.

	2018		2017	
	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	10,149.7	360	10,190.0
Expired during the year	(34)	—	—	—
Outstanding at 31 December	326	11,492.6	360	10,149.7
Exercisable at 31 December	326	11,492.6	360	10,149.7

No options were exercised, granted or cancelled in 2018 (2017: nil).

The options outstanding at 31 December 2018 had a weighted average exercise price of £115 (2017: £102) and a weighted average remaining contractual life of two years (2017: three years).

A charge of \$nil (2017: \$0.69 million) in relation to the equity-settled share option plan 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)	
	2018	2017	2018	2017
13 February 2018	3,000	3,000	—	11.0
24 September 2018	3,000	3,000	—	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
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
			326.1	359.7

Exit Event Awards

In March 2012, the Remuneration Committee recommended that the Company make cash-settled awards to certain Executive Directors and employees conditional on the occurrence of an Exit Event (as defined below) up to a maximum amount equivalent to the value of 0.1 million common shares (adjusted for consolidation on 100:1 basis) at the time of an Exit Event. A trustee (the "Exit Event Trustee") was appointed to hold and, subject to the occurrence of an Exit Event, to sell sufficient common shares to satisfy the Exit Event Awards.

As at 31 December 2018, the Exit Event Trustee held 0.1 million common shares to satisfy any future Exit Event Awards to full-time employees of the Company and subsidiary companies, subject to the occurrence of an Exit Event, with such beneficiaries to be determined in due course. Any Exit Event Awards previously made to the Directors and employees of the Group have expired.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

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:

J Barker	- HR Director
S Catterall	- Chief Operations Officer
B Demont	- Development Manager - Kurdistan Region of Iraq
N Kernoha	- Head of Finance
W McAvock	- Financial Controller
G Papineau-Legrís	- Commercial Director
A Robinson	- Legal Director & Company Secretary

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

	2018 \$'000	2017 \$'000
Short-term employee benefits	5,444	6,514
Share-based payment - options	1,132	1,630
	6,576	8,144

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

24. Financial instruments

	2018 \$'000	2017 \$'000
Financial assets		
Cash and cash equivalents	295,566	160,456
Loans and receivables	66,656	61,148
	362,222	221,604
Financial liabilities		
Trade and other payables	81,478	57,038
Borrowings	97,795	97,067
	179,273	154,105

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

The maturity profile and fair values of the New 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 values of financial assets and liabilities

With the exception of the New Notes, the Group considers the carrying value of all its financial assets and liabilities to be materially the same as their fair value. The fair value of the New Notes, as determined using market values at 31 December 2018, was \$102.8 million (2017: Reinstated Notes \$98.2 million) compared to the carrying value of \$97.8 million (2017: Reinstated Notes \$97.1 million).

No material financial assets are impaired at the balance sheet date. All financial assets and liabilities, with the exception of derivatives, are measured at amortised cost.

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 capital structure of the Group consists of cash, cash equivalents, New Notes and equity attributable to equity holders of the parent. Equity comprises 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 will make adjustments 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.

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, as well as the impact of adoption of IFRS 9, 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

24. Financial instruments continued

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.

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

The Group conducts and manages its business predominantly in US dollars, the operating currency of the industry in which it operates. The Group also purchases the operating currencies of the countries in which it operates routinely on the spot market. Cash balances are held in other currencies to meet immediate operating and administrative expenses or to comply with local currency regulations.

At 31 December 2018, 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 profit 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. The Group must pay interest on its New Notes semi-annually in cash at 10%.

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 a material impact on the Group's profit for the year or the previous year. A rate of 0.5% is used as it represents management's assessment of a reasonable change 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 2018, the maximum exposure to credit risk from a trade receivable outstanding from one customer is \$61 million (2017: \$60 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 (2017: \$27 million) in relation to the proceeds from the sale of test production in the period prior to the approval of the Shaikan FDP in July 2013. The Shaikan PSC does not appear to address expressly any party's rights to this pre-FDP petroleum. This suggests that there must have been some other agreement, understanding or arrangement between GKP and the KRG as to how this pre-FDP 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-FDP petroleum are for the account of the contractor (GKP and MOL), rather than the KRG, and accordingly recorded them as test revenue in prior years. However, the KRG has requested a repayment of these amounts and 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.

DIRECTORS AND ADVISERS

Registered office

Cumberland House
9th Floor, 1 Victoria Street
PO Box 1561
Hamilton HMFx
Bermuda

Directors

Jaap Huijskes

Non-Executive Chairman

Jón Ferrier

Chief Executive Officer

Sami Zouari

Chief Financial Officer

Martin Angle

Senior Independent Director

Garrett Soden

Non-Executive Director

David Thomas

Non-Executive Director

Kimberley Wood

Non-Executive Director

Bermudan Company Secretary

Coson Corporate Services Ltd

Cumberland House
9th Floor, 1 Victoria Street
PO Box 1561
Hamilton HMFx
Bermuda

Bermudan legal adviser

Cox Hallett Wilkinson

Cumberland House
9th Floor, 1 Victoria Street
PO Box 1561
Hamilton HMFx
Bermuda

UK solicitors

Ashurst LLP

Broadwalk House
5 Appold Street
London EC2A 2AG
United Kingdom

Memery Crystal LLP

165 Fleet Street
London EC4A 2DY
United Kingdom

Auditor

Deloitte LLP

2 New Street Square
London EC4A 3BZ
United Kingdom

Registrars

Computershare Investor Services (Jersey) Ltd

Queensway House
Hilgrove Street
St Helier
Jersey JE11ES
Channel Islands

Joint corporate brokers

Canaccord Genuity Limited

88 Wood Street
London EC2V 7QR
United Kingdom

Peel Hunt LLP

Moor House
120 London Wall
London EC2Y 5ET
United Kingdom

Financial adviser

Citigroup Global Markets Limited

33 Canada Square
London E14 5LB
United Kingdom

Bankers

Bank of N.T. Butterfield & Son Ltd

65 Front Street
PO Box HM 195
Hamilton HM AX
Bermuda

Barclays Bank PLC

Level 27
1 Churchill Place
London E14 5HP
United Kingdom

Byblos Bank S.A.L – Iraq

Street 60 – Near Sports Stadium
PO Box 34-0383
Erbil
Kurdistan Region of Iraq

Byblos Bank S.A.L – UK

Berkeley Square House
Suite 5, Berkeley Square
London W1J 6BS
United Kingdom

CitiBank, N.A. London Branch

Citigroup Centre
25 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Kurdistan International Bank for Investment and Development

Golan Street
Erbil
Iraq

The Royal Bank of Scotland Group plc

43 Curzon Street
London W1J 7UF
United Kingdom

Investor relations and media relations

Celicourt Communications

7-10 Adam Street
London WC2N 6AA
United Kingdom

GLOSSARY

1C	low estimate of contingent resources
1P	proved reserves
2C	best estimate of contingent resources
2P	proved plus probable reserves
3C	high estimate of contingent resources
3P	proved plus probable plus possible reserves
AGM	Annual General Meeting
bbl	barrel
bopd	barrels of oil per day
CBF	Competency Based Framework
CGU	cash-generating unit
CPR	Competent Person's Report
CSR	corporate social responsibility
DD&A	depreciation, depletion and amortisation
E&E	exploration and evaluation
E&P	exploration and production
EBT	employee benefit trust
ERCE	ERC Equipoise
ESIA	Environmental Social Impact Assessment
ESP	electric submersible pump
FDP	Field Development Plan
FVTPL	fair value through profit and loss
G&A	general and administrative
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

IOGP	International Association of Oil & Gas Producers
IVMS	in vehicle monitoring system
KPI	key performance indicator
KRG	Kurdistan Regional Government
LTI	lost time incident
LTIP	Long-Term Incentive Plan
LTIR	Lost time injury rate
MMstb	million stock tank barrels
MNR	Ministry of Natural Resources of the Kurdistan Regional Government
MOL	Kalegran B.V. (a subsidiary of MOL Hungarian Oil & Gas plc)
NGO	Non-governmental organisation
PF-1	Shaikan Production Facility-1
PF-2	Shaikan Production Facility-2
PSC	production sharing contract
SH	Shaikan
Shaikan PSC	PSC for the Shaikan block between the KRG, GKPI, TKI and MOL signed on 6 November 2007 as amended by subsequent agreement
SRP	Staff Retention Plan
TKI	Texas Keystone, Inc.
TRI	total recordable injury (includes but not limited to LTI and medical treatment injury)
TRIR	total recordable injury rate
TSR	total shareholder return
VCP	Value Creation Plan



KEY SHAREHOLDER ENGAGEMENTS 2019

[28 March 2019](#)

2018 results announcement and Capital Markets Event, London

[21 June 2019](#)

AGM – Frankfurt, Germany



The paper used in this report is produced using virgin wood fibre from well-managed forests with FSC® certification. All pulps used are elemental chlorine free and manufactured at a mill that has been awarded the ISO 14001 and EMAS certificates for environmental management. The use of the FSC® logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council.

Printed by CPI Colour, an FSC® and ISO 14001 accredited company, who is committed to all round excellence and improving environmental performance as an important part of this strategy.

Designed and produced by
lyonsbennett
www.lyonsbennett.com

Kurdistan Region of Iraq

Gulf Keystone Petroleum
International Ltd.
3rd Floor
UB Centre
Bakhtyari
Erbil

Bermuda

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

United Kingdom

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

