

**THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000, as amended if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

Applications have been made to the UK Listing Authority and the London Stock Exchange for all of the New Common Shares to be admitted to the standard segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities, respectively. Admission to trading on the Main Market constitutes admission to trading on a UK regulated market. It is expected that admission will become effective and that dealings for normal settlement in the New Common Shares will commence on or around 14 October 2016.

This document comprises a prospectus relating to Gulf Keystone Petroleum Limited prepared in accordance with the Prospectus Rules. This document has been approved by the Financial Conduct Authority in accordance with Part VI of FSMA and, together with the documents incorporated into it by reference (as set out in Part 18 of this document: "*Documentation Incorporated by Reference*") has been filed with the FCA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

The Company and each of the Directors, whose names appear on page 49 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The whole of the text of this document should be read in its entirety, including the information incorporated by reference into this document, by any Shareholder and any other person contemplating a subscription of Common Shares. In particular, your attention is drawn to the letter of recommendation from the chairman of Gulf Keystone which is set out in Part 6 of this document: "*Letter from the Chairman to Shareholders*" and you should read Part 2 of this document: "*Risk Factors*" for a discussion of certain risks and other factors that should be considered when deciding on what action to take in relation to the Open Offer, and whether or not to subscribe for New Common Shares.

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## **GULF KEYSTONE PETROLEUM LIMITED**

**GULF KEYSTONE  
PETROLEUM LTD.**



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

### **Proposed Restructuring**

#### **Scheme of Arrangement in respect of the Debt Equitisation and Notes Reinstatement**

**Proposed Open Offer of up to 2,294,295,672 New Common Shares at 0.8314 pence per  
New Common Share to raise up to US\$25 million**

**Perella Weinberg Partners UK LLP**

**Financial Adviser**

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If you have sold or do sell or have otherwise transferred or do transfer all your Existing Common Shares held in certificated form prior to the date the shares are traded "*ex*" the entitlement to the Open Offer, please forward this document and, for Qualifying non-CREST Shareholders, the accompanying personalised Application Form and the enclosed Form of Proxy (and reply-paid envelope) at once to the purchaser or transferee, or the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold or otherwise transferred any part of your registered holding of Existing Common Shares, please

contact your bank, stockbroker or other agent through whom the sale or transfer was effected immediately and refer to the instructions regarding split applications set out in the Application Form, if relevant. However, no Application Form should be forwarded to or transmitted in or into the United States or the Excluded Territories where doing so may constitute a violation of local securities laws.

The distribution of this document and the accompanying documents issued by the Company in connection with the Restructuring, and Admission and/or the transfer of the Open Offer Entitlements and Excess Open Offer Entitlements through CREST into jurisdictions other than the United Kingdom, may be restricted by law. Therefore, persons into whose possession this document and any accompanying documents come should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws or regulations of any such jurisdiction. In particular, such documents should not be distributed, forwarded to, or transmitted in or into the United States or any Excluded Territory.

Subject to certain exceptions, neither this document nor the Application Form constitutes, or will constitute, or forms, or will form, part of, any offer or invitation to sell or issue, or any solicitation of any offer to purchase or acquire Common Shares to any person with a registered address, or who is located or resident, in the United States, or to any person with a registered address, or who is located or resident in any of the Excluded Territories. The New Common Shares have not been and will not be registered under the Securities Act or under securities laws of any state or other jurisdiction of the United States. The New Common Shares may not be offered, sold, taken up, resold, transferred or delivered, directly or indirectly, in or within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirement of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. Subject to certain exceptions, the New Common Shares are only being offered outside the United States in offshore transactions in reliance on Regulation S. Therefore, subject to certain exceptions, Application Forms will not be sent to, nor will any Open Offer Entitlements or Excess Open Offer Entitlements be credited to a stock account in CREST on behalf of, any Shareholder with a registered address in the United States. For a description of these and further restrictions, see paragraph 6 of Part 11 of this document: “*Terms and Conditions of the Open Offer*”.

The Open Offer closes at 11.00 a.m. on 15 September 2016 and payment is required in full by this time. If you are a Qualifying non-CREST Shareholder and wish to apply or subscribe for Open Offer Shares under the Open Offer, you should complete the accompanying Application Form and return it with your remittance in accordance with the instructions set out in paragraph 4 of Part 11 of this document: “*Terms and Conditions of the Open Offer*” and in the Application Form. If you are a Qualifying CREST Shareholder, the relevant CREST instructions must have settled, as explained in this document, by no later than 11.00 a.m. on 15 September 2016.

The Application Form is personal to Qualifying non-CREST Shareholders and cannot be transferred, sold or assigned except to satisfy *bona fide* market claims. Applications under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim.

No action has been taken by Gulf Keystone or any other person that would permit an offer of the Common Shares or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

Perella Weinberg Partners UK LLP (“**Perella Weinberg Partners**”), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting as financial advisor to the Company and no one else in relation to the Restructuring and the arrangements referred to in this document. Perella Weinberg Partners will not regard any other person (whether or not a recipient of this document) as its client in relation to the Restructuring and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Perella Weinberg Partners or for providing any advice in relation to the Restructuring, the contents of this document or any transaction or arrangement referred to herein. No liability whatsoever is accepted by Perella Weinberg Partners for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA or Rule 3.4 of the Prospectus Rules, the publication of this document does

not create any implication that there has been no change in the affairs of the Group since, or that the information contained herein is correct at any time subsequent to, the date of this document. Notwithstanding any reference herein to the Company's website, the information on the Company's website does not form part of this document.

#### ***Notice to US Investors***

Neither the New Common Shares nor the Open Offer Entitlements have been approved or disapproved by the US Securities and Exchange Commission, any other federal or state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Common Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Subject to certain exceptions at the Company's sole discretion, the New Common Shares made available under the Open Offer are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S. There will be no public offer of the New Common Shares in the United States.

For a description of restrictions on offers, sales and transfers of the New Common Shares and the distribution of this document, see paragraph 6 of Part 11 of this document: "*Terms and Conditions of the Open Offer*".

#### ***Notice to Overseas Investors***

This document, the Application Form, the Open Offer Entitlements and any other documents issued by the Company in connection with this document, the Restructuring and/or Admission do not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire, New Common Shares by any person in any jurisdiction in which such an offer or solicitation is unlawful.

Subject to certain exceptions, this document and the Application Form and any other documents issued by the Company in connection with this document, the Restructuring and/or Admission do not constitute an offer of the New Common Shares to any person with a registered address, or who is resident or located, in the United States or any Excluded Territory. The New Common Shares have not been, and will not be, registered or qualified under the relevant laws of any state, province or territory of the United States or any Excluded Jurisdiction, and the Company is not a "reporting issuer", as such term is defined under applicable Canadian securities laws. Accordingly, subject to certain exceptions, the New Common Shares may not be offered or sold in any Excluded Territory or to, or for the account or benefit of, any resident of any Excluded Territory. In addition, the New Common Shares may not be offered, sold, resold, taken up, transferred, delivered or distributed, directly or indirectly, into, in or within the United States, or for the account or benefit of, any resident of the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

All Overseas Shareholders and any other person (including, without limitation, a nominee, custodian or trustee) who has a contractual or other legal obligation to forward this document or any Application Form, if and when received, and any other documents issued by the Company in connection with this document, the Restructuring and/or Admission to a jurisdiction outside Ireland and the United Kingdom, should read paragraph 6 of Part 11 of this document: "*Terms and Conditions of the Open Offer*".

Each subscriber and purchaser of the Open Offer Shares will be deemed to have made the relevant representations, warranties, confirmations and acknowledgements described therein and in Part 11 of this document: "*Terms and Conditions of the Open Offer*".

This document is dated 31 August 2016.

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## PART 1

### SUMMARY

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

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

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

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

Section B – Issuer		
<b>B.1</b>	<b>Legal name Commercial name</b>	Gulf Keystone Petroleum Limited Gulf Keystone
<b>B.2</b>	<b>Domicile/ legal form/ legislation/ country of incorporation</b>	The Company was incorporated and registered in Bermuda on 29 October 2001 under the Companies Act (Bermuda) and the regulations made thereunder as an exempted company limited by shares with the name Gulf Keystone Petroleum Algeria, Ltd and with registered number 31165. Pursuant to a Shareholders’ resolution dated 18 May 2004, the Company’s name was changed to Gulf Keystone Petroleum Limited on 20 May 2004.
<b>B.3</b>	<b>Current operations/ principal activities and markets</b>	Gulf Keystone Petroleum Limited is an independent oil and gas exploration, development and production company with operations in Kurdistan. The Group is in the process of negotiating an orderly exit from the Ferkane PSC, its last remaining link to its historic operations in Algeria.  The Group’s principal asset, the Shaikan Block in Kurdistan, is held through the Company’s wholly owned subsidiary, Gulf Keystone Petroleum International Limited.
<b>B.4a</b>	<b>Significant recent trends</b>	The following is a list of recent significant developments in respect of the Group’s business: <ul style="list-style-type: none"> <li>• Average gross daily production rate for 2015 was 30,500 bopd up 69% from 18,000 bopd in 2014.</li> </ul>

		<ul style="list-style-type: none"><li>● Commencement of crude oil exports and sales from the Shaikan Block.</li><li>● Completion by the MNR of the regional export pipeline.</li><li>● Completion of a placing of 85,900,000 new Common Shares, raising US\$41 million.</li><li>● Receipt of regular payments from MNR for production from the Shaikan Block (US\$142.5 million gross received from September 2015 to date).</li><li>● Relinquishment of the Sheikh Adi and Akri-Bijeel Blocks.</li><li>● Relinquishment of Ber Bahr being finalised.</li><li>● Execution of the Bilateral MNR Agreement.</li><li>● Company announces Restructuring.</li></ul>																																
B.5	Group structure	<p>The Company is the parent company of the Group. The Subsidiaries of the Company are as follows:</p> <table><thead><tr><th>Name</th><th>Country of incorporation</th><th>Proportion of ownership interest</th><th>Principal activity</th></tr></thead><tbody><tr><td colspan="4"><i>Active Subsidiaries</i></td></tr><tr><td>Gulf Keystone Petroleum (UK) Limited</td><td>England &amp; Wales</td><td>100%</td><td>Geological, geophysical and engineering services and administration</td></tr><tr><td>Gulf Keystone Petroleum International Limited</td><td>Bermuda</td><td>100%</td><td>Exploration, evaluation, development and production activities</td></tr><tr><td colspan="4"><i>Inactive subsidiaries</i></td></tr><tr><td>Gulf Keystone Petroleum HBH Limited</td><td>Bermuda</td><td>100%</td><td>Exploration and evaluation activities</td></tr><tr><td>Gulf Keystone Petroleum Numidia Limited</td><td>Bermuda</td><td>100%</td><td>Exploration and evaluation activities</td></tr><tr><td>Shaikan Petroleum Limited</td><td>Bermuda</td><td>100%</td><td>Exploration and evaluation activities</td></tr></tbody></table>	Name	Country of incorporation	Proportion of ownership interest	Principal activity	<i>Active Subsidiaries</i>				Gulf Keystone Petroleum (UK) Limited	England & Wales	100%	Geological, geophysical and engineering services and administration	Gulf Keystone Petroleum International Limited	Bermuda	100%	Exploration, evaluation, development and production activities	<i>Inactive subsidiaries</i>				Gulf Keystone Petroleum HBH Limited	Bermuda	100%	Exploration and evaluation activities	Gulf Keystone Petroleum Numidia Limited	Bermuda	100%	Exploration and evaluation activities	Shaikan Petroleum Limited	Bermuda	100%	Exploration and evaluation activities
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B.6	Major Shareholders	<p>As at the Last Practicable Date, the Company is aware that the following Shareholders, directly or indirectly, had interests in 3% or more of the Company's capital or voting rights:</p> <table><thead><tr><th>Name of Shareholder</th><th>Number of Common Shares</th><th>Percentage of issued share capital (per cent.)</th></tr></thead><tbody><tr><td>Capital</td><td>123,891,966</td><td>12.00</td></tr><tr><td>TD Direct Investing</td><td>95,535,614</td><td>9.25</td></tr><tr><td>Hargreaves Lansdown Asset Mgt</td><td>87,200,759</td><td>8.45</td></tr><tr><td>Barclays Wealth</td><td>69,767,558</td><td>6.76</td></tr><tr><td>Halifax Share Dealing</td><td>68,032,012</td><td>6.59</td></tr><tr><td>Interactive Investor</td><td>42,635,802</td><td>4.13</td></tr><tr><td>HSBC Stockbroker Services</td><td>37,282,641</td><td>3.61</td></tr></tbody></table>	Name of Shareholder	Number of Common Shares	Percentage of issued share capital (per cent.)	Capital	123,891,966	12.00	TD Direct Investing	95,535,614	9.25	Hargreaves Lansdown Asset Mgt	87,200,759	8.45	Barclays Wealth	69,767,558	6.76	Halifax Share Dealing	68,032,012	6.59	Interactive Investor	42,635,802	4.13	HSBC Stockbroker Services	37,282,641	3.61								
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B.7	Selected historical key financial information	Tables 1, 2 and 3 below set out summary financial information of the Group for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 which has been extracted without material adjustment from the audited financial statements incorporated by reference into this document.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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An impairment charge of US\$144.1 million was recognised on Akri-Bijeel following an economic assessment of the block in 2014. The Group relinquished the block effective 31 December 2015. The Group recognised an impairment of US\$3.6 million in the 31 December 2015 financial statements to write off the remaining balance on the asset.

General and administration costs increased by US\$23.2 million from 2013 to 2014. 2013 general and administration costs included a net credit of US\$19.0 million related to the Excalibur litigation compared to a credit of US\$2.1 million in 2014. Additional general and administration costs in 2014 included US\$3 million relating to the impairment of the Group's Algerian asset, the cost of raising US\$250 million additional debt finance in connection with the issuance of the Guaranteed Notes, advisors fees relating to the move from an AIM to a Main Market listing and the costs of a community relations initiative to assist the KRG in the humanitarian relief effort, partially offset by savings in staff costs. General and administration costs decreased by US\$8 million from 2014 to 2015 mainly as a result of the additional costs in 2014 listed above and a reduction in share-based payments in 2015.

Finance costs increased by US\$41.7 million from 2013 to 2015. Costs include interest payable in respect of the Convertible Bonds of US\$27.5 million (2014: US\$26.9 million; 2013: US\$23.4 million); interest payable on the Guaranteed Notes of US\$42.6 million (2014: US\$29.1 million; 2013: US\$Nil) and the accretion charge on the decommissioning provision of US\$0.8 million (2014: US\$0.5 million; 2013: US\$0.4 million). In 2015, interest expense of US\$18.8 million (2014: US\$36.7 million; 2013: US\$13.4 million) was capitalised within tangible and intangible fixed assets.

**Table 2**

	Year ended 31 December		
	2015 US\$'000	2014 US\$'000	2013 US\$'000
<b>Condensed Cash Flow Statement</b>			
Net cash used in operating activities	(32,198)	(37,430)	(42,107)
Net cash used in investing activities	(52,149)	(197,445)	(182,252)
Net cash from financing activities	39,379	240,114	53,937
<b>Cash and cash equivalents at the end of the period</b>	<b>43,641</b>	<b>87,835</b>	<b>81,972</b>

Net cash used in operations decreased from US\$42.1 million for the year ended 31 December 2013 to US\$32.2 million for the year ended 31 December 2015. The loss from operations before non-cash charges and loan interest payments decreased from US\$8.1 million to US\$4.4 million during the period, mainly reflecting the ramp-up in production and liftings over the period partially offset by an increase in unrecognised revenue arrears from the KRG. Loan interest payments increased during the period by US\$35.7 million due to the issue of US\$50.0 million of Convertible Bonds in November 2013 and the Guaranteed Notes in April 2014. Net working capital adjustments resulted in an increase in cash of US\$24.5 million in 2015 compared to a decrease of US\$17.0 million in 2013. Working capital adjustments throughout the period were generally in line with the level of the Group's activities during the period except for an increase in receivables in 2013 related to the Excalibur litigation which was reversed in 2014 as the cash was received. The net cash outflow from tax payments/refunds decreased by US\$1.2 million between 2013 and 2015 and cash inflows from interest received decreased by US\$0.8 million.



		<p>Net cash used in investing activities increased by US\$15.2 million between 2013 and 2014 reflecting higher spending on exploration and development assets in 2014 and a reduction in liquid investments of US\$8.6 million in 2013. Net cash used in investing activities decreased by US\$145.3 million from 2014 to 2015 reflecting the Group’s strategic decision to limit spending on capital activities in light of the payment cycle from the KRG and the outstanding entitlements under the Shaikan PSC.</p> <p>Net cash from financing activities totalled US\$333.4 million during the period covered by the historical financial information. The cash inflow in 2013 was primarily from the issue of US\$50 million Convertible Bonds in November 2013. The cash inflow in 2014 of US\$240.1 million was generated primarily from the issue of US\$250 million Guaranteed Notes in April 2014, net of costs. In 2015, the cash inflow of US\$39.4 million was generated from the proceeds of a placing of 85,900,000 new Common Shares, at a placing price of 32 pence per share, net of issue costs.</p> <p><b>Table 3</b></p> <table><tr><th></th><th colspan="3">Year ended 31 December</th></tr><tr><th></th><th>2015 US\$’000</th><th>2014 US\$’000</th><th>2013 US\$’000</th></tr><tr><td colspan="4"><b>Condensed Consolidated Balance Sheet:</b></td></tr><tr><td colspan="4"><b>Non-current assets</b></td></tr><tr><td>Intangible assets</td><td>314,696</td><td>276,290</td><td>220,963</td></tr><tr><td>Property, plant and equipment</td><td>562,178</td><td>593,604</td><td>516,437</td></tr><tr><td>Deferred tax asset</td><td>483</td><td>732</td><td>3,680</td></tr><tr><td></td><td>877,357</td><td>870,626</td><td>741,080</td></tr><tr><td colspan="4"><b>Current assets</b></td></tr><tr><td>Assets classified as held for sale</td><td>—</td><td>8,587</td><td>103,086</td></tr><tr><td>Inventories</td><td>18,544</td><td>22,854</td><td>20,654</td></tr><tr><td>Trade and other receivables</td><td>16,527</td><td>16,380</td><td>34,023</td></tr><tr><td>Cash and cash equivalents</td><td>43,641</td><td>87,835</td><td>81,972</td></tr><tr><td></td><td>78,712</td><td>135,656</td><td>239,735</td></tr><tr><td><b>Total assets</b></td><td>956,069</td><td>1,006,282</td><td>980,815</td></tr><tr><td colspan="4"><b>Current liabilities</b></td></tr><tr><td>Trade and other payables</td><td>(127,399)</td><td>(103,985)</td><td>(100,795)</td></tr><tr><td>Provisions</td><td>(11,151)</td><td>(7,197)</td><td>(4,185)</td></tr><tr><td>Liabilities directly associated with assets classified as held for sale</td><td>—</td><td>(8,587)</td><td>(1,378)</td></tr><tr><td colspan="4"><b>Non-current liabilities</b></td></tr><tr><td>Convertible bonds</td><td>(310,444)</td><td>(303,278)</td><td>(296,725)</td></tr><tr><td>Other borrowings</td><td>(234,094)</td><td>(224,071)</td><td>—</td></tr><tr><td>Provisions</td><td>(27,333)</td><td>(19,559)</td><td>(15,365)</td></tr><tr><td><b>Total Liabilities</b></td><td>(710,421)</td><td>(666,677)</td><td>(418,448)</td></tr><tr><td><b>Net assets</b></td><td>245,648</td><td>339,605</td><td>562,367</td></tr><tr><td colspan="4"><b>Equity</b></td></tr><tr><td>Share capital</td><td>9,781</td><td>8,922</td><td>7,975</td></tr><tr><td>Share premium account</td><td>834,619</td><td>796,099</td><td>796,099</td></tr><tr><td>Share option reserve</td><td>47,085</td><td>51,017</td><td>33,486</td></tr><tr><td>Convertible bond reserve</td><td>10,179</td><td>15,834</td><td>21,488</td></tr><tr><td>Exchange translation reserve</td><td>(1,398)</td><td>(259)</td><td>728</td></tr><tr><td>Accumulated losses</td><td>(654,618)</td><td>(532,008)</td><td>(297,409)</td></tr><tr><td><b>Total Equity</b></td><td>245,648</td><td>339,605</td><td>562,367</td></tr></table> <p>There has been no significant change to the financial condition and operating results of the Group since 31 December 2015, the date on which the last financial information on the Group was published.</p>		Year ended 31 December				2015 US\$’000	2014 US\$’000	2013 US\$’000	<b>Condensed Consolidated Balance Sheet:</b>				<b>Non-current assets</b>				Intangible assets	314,696	276,290	220,963	Property, plant and equipment	562,178	593,604	516,437	Deferred tax asset	483	732	3,680		877,357	870,626	741,080	<b>Current assets</b>				Assets classified as held for sale	—	8,587	103,086	Inventories	18,544	22,854	20,654	Trade and other receivables	16,527	16,380	34,023	Cash and cash equivalents	43,641	87,835	81,972		78,712	135,656	239,735	<b>Total assets</b>	956,069	1,006,282	980,815	<b>Current liabilities</b>				Trade and other payables	(127,399)	(103,985)	(100,795)	Provisions	(11,151)	(7,197)	(4,185)	Liabilities directly associated with assets classified as held for sale	—	(8,587)	(1,378)	<b>Non-current liabilities</b>				Convertible bonds	(310,444)	(303,278)	(296,725)	Other borrowings	(234,094)	(224,071)	—	Provisions	(27,333)	(19,559)	(15,365)	<b>Total Liabilities</b>	(710,421)	(666,677)	(418,448)	<b>Net assets</b>	245,648	339,605	562,367	<b>Equity</b>				Share capital	9,781	8,922	7,975	Share premium account	834,619	796,099	796,099	Share option reserve	47,085	51,017	33,486	Convertible bond reserve	10,179	15,834	21,488	Exchange translation reserve	(1,398)	(259)	728	Accumulated losses	(654,618)	(532,008)	(297,409)	<b>Total Equity</b>	245,648	339,605	562,367
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B.8	Selected key <i>pro forma</i> financial information	Not applicable; this document does not contain <i>pro forma</i> financial information.																																																																																																																																				

<b>B.9</b>	<b>Profit forecast</b>	Not applicable; this document does not contain profit forecasts or estimates.
<b>B.10</b>	<b>Description of the nature of any qualifications in the audit report on the historical financial information</b>	Not applicable; the audit reports on the historical financial information for the years ended 31 December 2015, 2014 and 2013 do not contain any qualifications.
<b>B.11</b>	<b>Working capital explanation</b>	<p>The Company is of the opinion that the Group does not have sufficient working capital for its present requirements, that is for at least 12 months following the date of this document.</p> <p>In order to make the above working capital statement, the Directors have reviewed the Group's working capital requirements, which it has drawn up in accordance with ESMA guidance, in the event that: (a) the Restructuring does not proceed; and (b) the Restructuring is implemented.</p> <p><b>(a) Restructuring does not proceed</b></p> <p>In order for the Restructuring to be implemented it must be approved by Guaranteed Noteholders and Convertible Bondholders at the Creditor Meetings, and the Scheme must be sanctioned by the Court. The Scheme will require the consent of not less than 75% (by value), and a majority in number, of each of the Guaranteed Noteholders and Convertible Bondholders that attend and vote at each of the Creditor Meetings. In addition, there are a number of conditions that need to be satisfied, including, <i>inter alia</i>:</p> <ul style="list-style-type: none"> <li>• the Company having confirmed that the Scheme Shares to be issued in the Debt Equitisation will be admitted to trading on the London Stock Exchange promptly after the Scheme Effective Date;</li> <li>• the Company having confirmed that it has advised the Committee Advisors of any material changes to the Company's Capex Plan;</li> <li>• the Company having confirmed that it has not spent any Capex other than Capex relating to production maintenance;</li> <li>• satisfaction that any new Board member(s) selected and approved by the Majority Participating Holders and notified to the Company prior to the Scheme Effective Date will be appointed to the Board on or promptly after the Scheme Effective Date; and</li> <li>• the Company having agreed arrangements with the MNR reasonably satisfactory to both it and to the Majority Participating Holders regarding (a) the implementation of the Bilateral MNR Agreement, (b) the future marketing of the Group's oil until a formal audit has been carried out and (c) the predictability of future payments including recovery of past costs and receivables.</li> </ul> <p>If the Restructuring does not proceed, pursuant to the terms of the Restructuring Agreement there may be an alternative restructuring which will likely result in a liquidation of the Group. If the Restructuring does not proceed and there is no alternative restructuring, the Directors believe that the Group will be unable to service its debt and/or meet its obligations as they fall due and would become subject to applicable insolvency processes, among other consequences, at that time if not before, and that it is likely that Convertible Bondholders and/or Guaranteed Noteholders would accelerate the debt under the Convertible Bonds and/or Guaranteed Notes, respectively. In these circumstances:</p> <ul style="list-style-type: none"> <li>• the Company would cease trading and GKPI and other members of the Group would become subject to applicable insolvency processes; and/or</li> </ul>

	<ul style="list-style-type: none"> <li>• the Guaranteed Noteholders would be able to enforce their claim against GKPI under its guarantee of the Guaranteed Notes; and/or</li> <li>• the Guaranteed Noteholders would be able to instruct the Guaranteed Note Trustee to enforce the security over the shares in GKPI, in which case, pursuant to the Intercreditor Agreement, the Guaranteed Noteholders and Convertible Bondholders could acquire the Group's interest in the Shaikan Block; and/or</li> <li>• an acceleration of the Guaranteed Notes by the Guaranteed Noteholders would result in an event of default under the Convertible Bond Trust Deed as a result of the cross-acceleration event of default provision contained in the Convertible Bonds, and vice versa; and/or</li> <li>• the MNR could have cause to revoke GKPI's operatorship of the Shaikan Block and could have cause to terminate its participation in the Shaikan PSC.</li> </ul> <p><b><i>(b) Restructuring is implemented</i></b></p> <p>In accordance with ESMA guidance, the Directors have made the working capital statement after considering a reasonable worst case scenario, applying a number of adverse sensitivities reflecting key financial risks to the Group offset by mitigating actions available to management, principally the impact of delayed and/or partial payments from the KRG for the Company's exports from the Shaikan Block for an extended period of time in light of the fact that prior to September 2015, the Company had not received regular payments from the KRG for export sales. However, from September 2015 to June 2016, the Company has received regular monthly payments from the KRG for export sales.</p> <p>In order to meet its future working capital requirements the Group is dependent both on its cash surplus (approximately US\$96 million following completion of the Restructuring) and on receipt of monthly payments from the KRG for export sales.</p> <p>Based on the working capital assessment under the Reasonable Worst Case Scenario, following the implementation of the Restructuring a deficit, of approximately US\$0.4 million is forecast to occur in August 2017 increasing to a maximum cash deficit of US\$8.0 million occurring in September 2017 of the 12 month period.</p> <p>The Directors will continue to monitor the receipt of sale proceeds from the KRG and its working capital requirements. If the cash deficit projected under the Reasonable Worst Case Scenario is anticipated the Directors would seek to respond in a timely manner ahead of such deficit arising through the application of one, all, or a combination of the following (in order of the Company's confidence of their likelihood of success):</p> <ul style="list-style-type: none"> <li>• application of funds received from Qualifying Shareholders that participate in the Open Offer which may provide up to a further US\$5 million in cash proceeds (in addition to the Subscription). Based on the indications received to date, the Company is confident that such funds will be available upon completion of the Restructuring; and/or</li> <li>• the use of the General Debt Basket and/or the Super Senior Basket permitting the incurrence of (in aggregate) an additional US\$45 million indebtedness in funding. The Company is confident that it will be able to secure such financing under the General Debt Basket and/or the Super Senior Basket within the time frame required to address the cash deficit; and/or</li> <li>• execution of the Second Shaikan Amendment on terms materially identical to those set out in the Bilateral MNR Agreement, pursuant to which it can be expected that the MNR will pay its 20% share of costs as a result of any implementation of the Shaikan Government</li> </ul>
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		<p>Option, thereby reducing the paying interest of GKPI from 80% to 64%. The execution of the Second Shaikan Amendment on such terms would bring an overall net benefit to the Company's cash flow. The Company is currently negotiating the execution of the Second Shaikan Amendment and will only execute the Second Shaikan Amendment if the terms are aligned with the best interests of the Group; and/or</p> <ul style="list-style-type: none"> <li>• deferral of planned capital expenditures on the Shaikan Block, which may have a short term adverse impact on the Shaikan Block's production profile, until funds to undertake such work could be secured. GKPI is operator of the Shaikan Block and as such is able to propose such deferrals, subject to required approvals from MOL and the MNR; and/or</li> <li>• in addition to any agreed repayments of revenue arrears and back-costs attributable to the Shaikan Government Option which may be set out in the Bilateral MNR Agreement, seek an accelerated recovery of such arrears due to the Group by the KRG. The Company believes that based on the Company's longstanding constructive relationship with the KRG negotiations with the KRG on this point would have a positive outcome.</li> </ul> <p>If the Directors were, in such circumstances, unable to implement any of the mitigating actions set out above, it is likely that the Company would be forced into an insolvency process (be that administration or liquidation) shortly thereafter.</p>
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Section C – Securities		
<b>C.1</b>	<b>Type and class of the securities admitted to trading</b>	<p>Pursuant to the Debt Equitisation the Company is proposing to allot up to 19,616,227,993 New Common Shares.</p> <p>Pursuant to the Open Offer, the Company is proposing to offer up to 2,294,295,672 New Common Shares to all Qualifying Shareholders at the Offer Price.</p> <p>When admitted to trading, the New Common Shares will be registered with ISIN BMG4209G1087.</p>
<b>C.2</b>	<b>Currency of the securities issue</b>	The New Common Shares will be denominated in US Dollars.
<b>C.3</b>	<b>Issued share capital</b>	As at the Record Date, the Company had an issued share capital of US\$10,324,331, comprising 1,032,433,052 fully paid Common Shares with a par value of US\$0.01 each.
<b>C.4</b>	<b>Rights attaching to the securities</b>	<p>The New Common Shares will, when issued and fully paid, rank <i>pari passu</i> in all respects with the Existing Common Shares, including the right to all future dividends and other distributions declared, made or paid.</p> <p>The Common Shares rank equally for voting purposes. On a show of hands, every member who is present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share for which he is the holder.</p> <p>Each Common Share ranks equally for any dividend declared, made or paid.</p> <p>Every Common Share ranks equally for any distribution made on winding up.</p> <p>Qualifying Shareholders may apply for any whole number of New Common Shares in the Open Offer up to and including their maximum entitlement.</p>

		<p>The Excess Application Facility enables Qualifying Shareholders to apply for Excess Shares in excess of their Open Offer Entitlement up to a maximum aggregate number of Excess Shares not exceeding 2,294,295,672 New Common Shares. If there is an over-subscription resulting from excess applications for Open Offer Shares, allocations in respect of such excess applications will be scaled down (i) firstly, by reference to each applicant's <i>pro rata</i> holding of Common Shares, and (ii) secondly, at the discretion of the Company, by reference to the amount of each applicant's tendered applications under the Excess Application Facility.</p>
<b>C.5</b>	<b>Restrictions on free transferability of the securities</b>	<p>The Common Shares are freely transferable and there are no restrictions on transfer.</p>
<b>C.6</b>	<b>Admission to trading</b>	<p>The Existing Common Shares are listed on the standard segment of the Official List and are traded on the London Stock Exchange's Main Market for listed securities.</p> <p>Application will be made to the UKLA and to the London Stock Exchange for the New Common Shares to be admitted to the standard segment of the Official List and to trading on the London Stock Exchange's Main Market for listed securities. It is expected that Admission will become effective, and that dealings in the New Common Shares issued in connection with the Restructuring and Open Offer will commence on or around 14 October 2016. The New Common Shares will not be listed on any other regulated market.</p>
<b>C.7</b>	<b>Dividend policy</b>	<p>The Company has never declared or paid any dividends on the Common Shares. The Company currently intends to retain future earnings, if any, for future operations, expansion and debt repayment, if necessary. Therefore, at present, there is no intention to pay dividends and a dividend may never be paid. Any decision to declare and pay dividends will be made at the discretion of the Board and will depend on, among other things, the Group's results of operations, financial condition and solvency and distributable reserves tests imposed by corporate law and such other factors that the Board may consider relevant.</p>

#### Section D – Risks

<b>D.1</b>	<b>Key information on the key risks that are specific to the Company or its industry</b>	<p>The Restructuring is subject to a number of conditions that need to be satisfied. If any of these inter-conditional requirements are not satisfied (or where possible waived) the Restructuring will not be implemented and in such circumstances:</p> <ul style="list-style-type: none"> <li>○ the Debt Equitisation will not take place and the entire principal amount of Convertible Bonds and Guaranteed Notes, together with accrued and unpaid interest including the interest that was due on 18 April 2016, will remain outstanding; and</li> <li>○ an event of default will be continuing under both the Convertible Bond Trust Deed and the Guaranteed Note Trust Deed unless and until the Company pays the interest amounts that were due to Convertible Bondholders and Guaranteed Noteholders on 18 April 2016 and as such the Convertible Bonds and Guaranteed Notes could be declared immediately due and repayable at their respective principal amounts together with accrued and unpaid interest.</li> </ul> <p>If the Restructuring is not implemented then there may be an alternative restructuring which will result in no value being returned to Shareholders. It is most likely that an alternative restructuring will result in a liquidation of the Company and the Company does not anticipate that there will be any value returned to Shareholders through that liquidation.</p>
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		<p>If the Restructuring does not proceed and there is no alternative restructuring, the Directors believe that the Group will be unable to service its debt and/or meet its repayment obligations under the Guaranteed Notes and would become subject to applicable insolvency processes, among other consequences. In addition, if the Restructuring does not proceed and there is no alternative restructuring the Directors believe it is likely that the Convertible Bondholders and/or the Guaranteed Noteholders would accelerate the debt under the Convertible Bonds and/or the Guaranteed Notes respectively, given the existing events of default thereunder and the failure of the Group to complete a consensual restructuring.</p> <p>The Company is of the opinion that, notwithstanding the Restructuring, the Group does not have sufficient working capital for its present requirements, that is, at least the next 12 months from the date of this document. In order to address a potential shortfall arising from the working capital assessment under the Reasonable Worst Case Scenario the Group would seek to respond in a timely manner ahead of such deficit arising through the application of one, all, or a combination of the following (in order of the Company's confidence of their likelihood of success):</p> <ul style="list-style-type: none"> <li>• application of funds received from Qualifying Shareholders that participate in the Open Offer which may provide up to a further US\$5 million in cash proceeds (in addition to the Subscription). Based on the indications received to date, the Company is confident that such funds will be available upon completion of the Restructuring; and/or</li> <li>• the use of the General Debt Basket and/or the Super Senior Basket permitting the incurrence of (in aggregate) an additional US\$45 million indebtedness in funding. The Company is confident that it will be able to secure such financing under the General Debt Basket and/or the Super Senior Basket within the time frame required to address the cash deficit; and/or</li> <li>• execution of the Second Shaikan Amendment implementing revised Shaikan PSC terms materially identical to those set out in the Bilateral MNR Agreement, pursuant to which it can be expected that the MNR will pay its 20% share of costs as a result of any implementation of the Shaikan Government Option, thereby reducing the paying interest of GKPI from 80% to 64%. The execution of the Second Shaikan Amendment on such terms would bring an overall net benefit to the Company's cash flow. The Company is currently negotiating the execution of the Second Shaikan Amendment and will only execute the Second Shaikan Amendment if the terms are aligned with the best interests of the Group; and/or</li> <li>• deferral of planned capital expenditures on the Shaikan Block, which may have a short term adverse impact on the Shaikan Block's production profile, until funds to undertake such work could be secured. GKPI is operator of the Shaikan Block and as such is able to propose such deferrals, subject to required approvals from MOL and the MNR; and/or</li> <li>• in addition to any agreed repayments of revenue arrears and back-costs attributable to the Shaikan Government Option which may be set out in the Bilateral MNR Agreement, seek an accelerated recovery of such arrears due to the Group by the KRG. The Company believes that based on the Company's longstanding constructive relationship with the KRG, negotiations with the KRG on this point would have a positive outcome.</li> </ul>
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		<p>If the Directors were, in such circumstances, unable to implement any of the mitigating actions set out above, it is likely that the Company would be forced into an insolvency process (be that administration or liquidation) shortly thereafter.</p> <ul style="list-style-type: none"> <li>• The Group may require additional financing in order to fund capital expenditure and operating expenses, and may not be able to obtain such financing on acceptable terms, or at all.</li> <li>• The Group's debt service obligations and requirements to comply with restrictive covenants following the Restructuring may adversely affect its business, financial condition and results of operations.</li> <li>• The Iraq Oil Ministry has historically disputed the validity of the KRG's PSCs and, therefore, the right and title of the Company to its oil and gas assets. In addition several bills regulating the oil and gas industry have been proposed by the Iraqi Government. It is uncertain which, if any, of these bills will be enacted into law or on what timeframe. Therefore, future laws passed by the Iraqi Government may adversely affect the Group's title to its assets.</li> <li>• Political, social and economic instability in Kurdistan, as well as the surrounding areas of Turkey, Syria and Iran, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.</li> <li>• Payments to operators in Kurdistan have, historically, been irregular and, as at 30 June 2016, the Company is owed approximately US\$28 million (net of payables outstanding to the MNR and excluding June 2016 and May 2016 revenue receivable) for historical oil production sold under this arrangement. Prior to September 2015 the Company had not received regular payments from the KRG for export sales. As at the Last Practicable Date the Group has received aggregate payments of US\$142.5 million gross from September 2015 to date.</li> <li>• Access to an oil export pipeline is critical to the Company's ability to maximise revenue from the Shaikan Block due to the cost of exporting oil by truck, the significantly discounted price of sales to the local market and the limited capacity of both the local market and infrastructure to absorb production in excess of near-term targets. If the construction and commissioning of the connecting spur pipeline and/or the blending facilities is or are delayed, incomplete or not constructed at all, oil sales and production will be restricted to the extent that production exceeds truck and/or local market capacity as the Group will have no other means to transport oil and cannot store significant quantities of oil on-site.</li> <li>• As its current source of revenue, the Group is entirely dependent on the Shaikan Block and any adverse development affecting the Shaikan Block may have a material adverse effect on the Group.</li> <li>• As at the date of this document, the Company continues to work with the Group's partners (MOL and the MNR) to agree and finalise the Second Shaikan Amendment however significant uncertainty remains in relation to the terms, timing and signing of the Second Shaikan Amendment. Until these arrangements are formalised and executed in the form of the Second Shaikan Amendment there can be no assurance that these terms will be formally implemented or that the MNR will continue to address monthly revenue payments in line with its announcement of 1 February 2016 and the Bilateral MNR Agreement, which could result in a loss of revenue and cash inflow to the Group and would adversely affect the Group's financial condition, results of operations and prospects.</li> </ul>
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		<ul style="list-style-type: none"> <li>Recovery, Reserve and resource estimates are subject to numerous inherent uncertainties many of which are outside of the Group's control and investors should not place undue reliance on statements in the Prospectus concerning the Group's resources, production profiles and development plans.</li> </ul>
<b>D.3</b>	<b>Key information on the key risks that are specific to the securities</b>	<ul style="list-style-type: none"> <li>The market price of the Common Shares could be negatively affected by sales or an additional offering of substantial numbers of Common Shares in the public market, or the perception or any announcement that such sales or an additional offering could occur.</li> <li>The issuance of additional Common Shares in the Company in connection with convertible equity securities, future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings and their voting interest.</li> <li>The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Group's control.</li> <li>The Company has never declared or paid any dividends on the Common Shares. The Company currently intends to retain future earnings, if any, for future operations, expansion and debt repayment, if necessary.</li> <li>On a winding-up of the Company, Shareholders will be entitled to be paid a distribution out of the assets of the Company available to its members, only after the claims of all creditors of the Company have been met.</li> <li>The Company is not resident or incorporated in the United Kingdom, the Channel Islands or the Isle of Man and, therefore, Shareholders will not receive the benefit of takeover offer protections provided by the Takeover Code save as set out in the Bye-laws.</li> <li>The ability of Shareholders to bring actions or enforce judgments against the Company or the Directors may be limited as the Company is governed by Bermuda law, a number of the Directors and officers of the Company are not residents of the United Kingdom and substantially all of the Group's assets are located in Kurdistan.</li> <li>Application for Admission of the New Common Shares is subject to the approval of the UK Listing Authority and Admission will become effective as soon as a dealing notice has been issued by the UK Listing Authority and the London Stock Exchange has acknowledged that the New Common Shares (nil and fully paid) will be admitted to trading. As such, Admission of the New Common Shares may not occur when expected.</li> <li>Subject to certain exceptions, the exercise of rights under the Open Offer will not be available to Shareholders with a registered address in the United States, and such Shareholders may as a result experience dilution of ownership in the Company.</li> <li>Shareholders who do not (or who are not permitted to) acquire New Common Shares in the Open Offer will experience further dilution in their ownership of the Company.</li> </ul>

#### Section E – Offer

<b>E.1</b>	<b>Net proceeds/ estimate of expenses</b>	The fees and expenses relating to the Restructuring, incurred since year end 2015, and to be incurred up to the estimated completion of the Restructuring, including professional fees and expenses and the costs of printing documents, are estimated to amount to approximately
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		<p>US\$14 million, including fees relating to the Open Offer. Of that amount, approximately US\$11 million remains payable from the Company's existing cash balance.</p> <p>No expenses will be charged to Shareholders who take up their Open Offer Entitlements.</p>
<b>E.2a</b>	<b>Reasons for the offer/use of proceeds/net amount of proceeds</b>	<p>The Guaranteed Notes and Convertible Bonds both mature in 2017. The Group's ability to service, repay and/or refinance those instruments on or before maturity has been severely and adversely affected by the general disruption in the oil and gas markets arising from the significant decline in oil prices in the second half of 2014 and during 2015 and the continued adverse effects of the geopolitics in region. The Group's financial performance has also been negatively impacted by the historic lack of a regular payment cycle for export sales and disruption to supply. The liquidity available to the Group to finance continuing operations has been tight and there has been no ability to fund the capital expenditure necessary to implement the Group's development plans or to ensure maintenance of current production levels over the medium term.</p> <p>The estimated net proceeds are as set out in E.1 above will be applied by the Company as follows the cash proceeds of \$25 million received pursuant to the Open Offer and/or the Subscription will be retained for the operation of the Company and funding the Company's interim investment plan to maintain production at 40,000 bopd.</p>
<b>E.3</b>	<b>Terms and conditions of the offer</b>	<p>The Company intends to raise gross proceeds of up to US\$25 million through the issue of 2,294,295,672 New Common Shares at the Offer Price. The Open Offer is conditional on, among other things, approval of the Scheme by the requisite amount of Scheme Creditors.</p> <p>The Offer Price represents a discount of 3.87 pence (82%) to the closing price of 4.70 pence per Existing Common Share on the London Stock Exchange on 13 July 2016 (being the last trading day prior to the announcement of the Open Offer).</p> <p>Qualifying Shareholders are being given the opportunity to apply for the Open Offer Shares at the Offer Price, on and subject to the terms and conditions of the Open Offer, up to a maximum of their <i>pro rata</i> entitlement (on the Record Date) which shall be calculated on the basis of 20 New Common Shares for every 9 Existing Common Shares. Accordingly, Qualifying Shareholders with fewer than 9 Existing Common Shares will not have the opportunity to participate in the Open Offer.</p> <p>The Open Offer will include an Excess Application Facility, which will allow Qualifying Shareholders to subscribe for additional Open Offer Shares. The maximum number of New Common Shares available under the Excess Application Facility will be up to the full number of Open Offer Shares. If applications for additional Open Offer Shares under the Excess Application Facility exceed the aggregate number of Excess Application Shares, subscriptions will be scaled back (i) firstly, by reference to each applicant's <i>pro rata</i> holding of Common Shares, and (ii) secondly, at the discretion of the Company, by reference to the amount of each applicant's tendered applications under the Excess Application Facility. Capital has undertaken not to participate in the Open Offer which will allow its basic entitlement to be available to satisfy applications under the Excess Application Facility.</p> <p>To the extent the Open Offer is not fully subscribed, Capital has agreed pursuant to the Second Subscription Agreement to subscribe for up to US\$20 million of New Common Shares at the Offer Price. If subscriptions from other Qualifying Shareholders under the Open Offer exceed</p>

		US\$5 million then the amount to be subscribed for by Capital will reduce dollar for dollar by the amount of the excess so that the full US\$25 million is available to Qualifying Shareholders to whom the Open Offer is made other than Capital. Capital has undertaken not to otherwise participate in the Open Offer.																																			
E.4	Interests material to the issue/conflicting interests	There is no interest, including any conflict of interest, that is material to the Company or the offer of New Common Shares.																																			
E.5	Name of the offeror/lock-up agreements	Not applicable.																																			
E.6	Dilution	<p>The Restructuring will result in substantial dilution for existing Shareholders in their interests in the Company. The New Common Shares issued pursuant to the Debt Equitisation will represent 85.5% (assuming that the Open Offer is subscribed in full by all Qualifying Shareholders) and the Open Offer Shares will represent 10.0% (respectively) of the total number of Common Shares in issue following completion of the Restructuring.</p> <p>Following the implementation of the Restructuring (assuming that the Open Offer is subscribed in full by all Qualifying Shareholders), the existing Shareholders, in aggregate, will own up to approximately 14.5% of the share capital in the Company, and the Guaranteed Noteholders and Convertible Bondholders, in aggregate, will own approximately 85.5% of the share capital in the Company.</p> <p>The following table shows the dilution to the issued share capital as a result of the Restructuring and the cumulative dilution effect for the existing Shareholders.</p> <table><tr><th></th><th colspan="2">Post-Debt Equitisation / Excluding Open Offer</th><th colspan="2">Post-Debt Equitisation and Open Offer fully Subscribed</th></tr><tr><th></th><th>Ownership (%)</th><th>Ownership (Common Shares)</th><th>Ownership (%)</th><th>Ownership (Common Shares)</th></tr><tr><td>Guaranteed Noteholders</td><td>72.8</td><td>15,031,035,606</td><td>65.5</td><td>15,031,035,606</td></tr><tr><td>Convertible Bondholders</td><td>22.2</td><td>4,585,192,387</td><td>20.0</td><td>4,585,192,387</td></tr><tr><td>Existing Shareholders Pre-Restructuring equity</td><td>5.0</td><td>1,032,433,052</td><td>4.5</td><td>1,032,433,052</td></tr><tr><td>Existing Shareholders subscribing to the Open Offer</td><td>—</td><td>—</td><td>10.0</td><td>2,294,295,672</td></tr><tr><td><b>Total Post-Open Offer</b></td><td><b>100.0</b></td><td><b>20,648,661,045</b></td><td><b>100.0</b></td><td><b>22,942,956,717</b></td></tr></table>		Post-Debt Equitisation / Excluding Open Offer		Post-Debt Equitisation and Open Offer fully Subscribed			Ownership (%)	Ownership (Common Shares)	Ownership (%)	Ownership (Common Shares)	Guaranteed Noteholders	72.8	15,031,035,606	65.5	15,031,035,606	Convertible Bondholders	22.2	4,585,192,387	20.0	4,585,192,387	Existing Shareholders Pre-Restructuring equity	5.0	1,032,433,052	4.5	1,032,433,052	Existing Shareholders subscribing to the Open Offer	—	—	10.0	2,294,295,672	<b>Total Post-Open Offer</b>	<b>100.0</b>	<b>20,648,661,045</b>	<b>100.0</b>	<b>22,942,956,717</b>
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E.7	Estimated expenses charged to the investor	Nil.																																			

## PART 2

### RISK FACTORS

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

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

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

#### **RISKS RELATING TO THE RESTRUCTURING AND THE GROUP'S FINANCIAL ARRANGEMENTS**

***The Restructuring is subject to a number of conditions that must be approved in order for it to proceed.***

In order for the Restructuring to be implemented it must be approved by Guaranteed Noteholders and Convertible Bondholders at the Scheme Meetings, and the Scheme must be sanctioned by the Court. The Scheme will require the consent of not less than 75% (by value), and a majority in number, of each of the Guaranteed Noteholders and Convertible Bondholders that attend and vote at each of the Scheme Meetings. In addition, there are a number of conditions that need to be satisfied, including, *inter alia*:

- the Company having confirmed that the Scheme Shares to be issued in the Debt Equitisation will be admitted to trading on the London Stock Exchange promptly after the Scheme Effective Date;
- the Company having confirmed that it has advised the Committee Advisors of any material changes to the Company's Capex Plan;
- the Company having confirmed that it has not spent any Capex other than Capex relating to production maintenance;
- satisfaction that any new Board member(s) selected and approved by the Majority Participating Holders and notified to the Company prior to the Scheme Effective Date will be appointed to the Board on or promptly after the Scheme Effective Date; and
- the Company having agreed arrangements with the MNR reasonably satisfactory to both it and to the Majority Participating Holders regarding (a) the implementation of the Bilateral MNR Agreement, (b) the future marketing of the Group's oil until a formal audit has been carried out and (c) the predictability of future payments including recovery of past costs and receivables.



In addition, consummation of the Open Offer will be conditional on implementation of the Debt Equitisation and the Notes Reinstatement.

If any of these inter-conditional requirements are not satisfied (or where possible waived), the Restructuring will not be implemented and in such circumstances:

- the Debt Equitisation will not take place and the entire principal amount of Convertible Bonds and Guaranteed Notes, together with accrued and unpaid interest, including the interest that was due on 18 April 2016 will remain outstanding; and
- an event of default will be continuing under both the Convertible Bond Trust Deed and the Guaranteed Note Trust Deed unless and until the Company pays the interest amounts that were due to Convertible Bondholders and Guaranteed Noteholders on 18 April 2016. While such events of default are continuing, the Convertible Bondholders and Guaranteed Noteholders could request the relevant trustee to declare the debt under the Convertible Bonds and Guaranteed Notes, as applicable, immediately due and repayable at the principal amount together with accrued and unpaid interest, however signatories to the Restructuring Agreement cannot take action to accelerate prior to the termination date under the Restructuring Agreement or in connection with the alternative restructuring.

See “*If the Restructuring is not implemented then there may be an alternative restructuring which will result in no value being returned to Shareholders*” and “*If the Restructuring is not implemented and there is no alternative restructuring it is highly likely that there will be no value returned to Shareholders*” below.

A full description of the conditions to the Restructuring is set out in paragraph 13.3 of Part 17 of this document: “*Additional Information*”.

***If the Restructuring is not implemented then there may be an alternative restructuring which will result in no value being returned to Shareholders.***

Under the Restructuring Agreement if the Scheme is not approved by the requisite majorities at the Scheme Meetings by 26 September 2016 or the Scheme has not been sanctioned by the Court on or before 7 October 2016 (or, if earlier, the date 20 Business Days after the Scheme Meetings have approved the Scheme by the requisite majorities) other than by reason of a breach of obligation by a signatory to the Restructuring Agreement then the Company, and GKPI have agreed to work co-operatively and in good faith with the signatories to the Restructuring Agreement to implement an alternative restructuring. The general principles of the alternative restructuring would provide for a restructuring of the liabilities of the Group but neither the Shareholders nor Convertible Bondholders who have not entered into the Restructuring Agreement by 1 August 2016 will participate in any value preserved or created through the alternative restructuring. It is most likely that an alternative restructuring will result in a liquidation of the Company and the Company does not anticipate that there will be any value returned to Shareholders through that liquidation.

The Company considers that should the Restructuring not proceed then the alternative restructuring contemplated in the Restructuring Agreement would offer a better return to creditors than liquidation.

***If the Restructuring is not implemented and there is no alternative restructuring it is highly likely that there will be no value returned to Shareholders.***

If the Restructuring does not proceed and there is no alternative restructuring, the Directors believe that the Group will be unable to service its debt and/or meet its repayment obligations at maturity under the Guaranteed Notes and would become subject to applicable insolvency processes, among other consequences, at that time if not before. This is because the Directors believe that the Group will be unable to secure financing on acceptable terms and in an amount sufficient to enable it to refinance the Guaranteed Notes prior to maturity, which would result in an event of default under the Guaranteed Notes for non-payment of principal, giving Guaranteed Noteholders the ability to accelerate the debt under the Guaranteed Notes. In addition, if the Restructuring does not proceed and there is no alternative restructuring, the Directors believe it is likely that the Convertible Bondholders and/or the Guaranteed Noteholders would accelerate the debt under the Convertible Bonds and/or the Guaranteed Notes respectively, given the existing events of default thereunder and the failure of the Group to complete a consensual restructuring or alternative restructuring. In these circumstances:



- the Company would cease trading and GKPI and other members of the Group would become subject to applicable insolvency processes; and/or
- the Guaranteed Noteholders would be able to enforce their claim against GKPI under its guarantee of the Guaranteed Notes; and/or
- the Guaranteed Noteholders would be able to instruct the Guaranteed Note Trustee to enforce the security over the shares in GKPI, in which case, pursuant to the Intercreditor Agreement, the Guaranteed Noteholders and Convertible Bondholders could acquire the Group's interest in the Shaikan Block; and/or
- an acceleration of the Guaranteed Notes by the Guaranteed Noteholders would result in an event of default under the Convertible Bond Trust Deed as a result of the cross-acceleration event of default provision under the Convertible Bonds, and vice versa; and/or
- the MNR could have cause to revoke GKPI's operatorship of the Shaikan Block and could have cause to terminate its participation in the Shaikan PSC.

In these circumstances the Directors consider that if the Restructuring does not proceed and there is no alternative restructuring, the Shareholders would be unlikely to receive any proceeds from the sale of the Group or the required disposal of the Group's assets or other return of income or capital by the Company, and therefore the Shareholders would be unlikely to see any return of their current investment.

***Currently, the Company is of the opinion that the Group does not, and will not even following completion of the Restructuring, have sufficient working capital for its present requirements, that is for at least the next 12 months following the date of this Prospectus and, if a reasonable worst case scenario considered by the Directors in reaching that opinion were to occur and the Group was unable to enhance its cash resources by other means and/or the Directors were unable to implement certain mitigating actions, it is likely that the Company would be forced into an insolvency process.***

In accordance with ESMA guidance, the Directors have made the working capital statement after considering a reasonable worst case scenario, applying a number of adverse sensitivities reflecting key financial risks to the Group offset by mitigating actions available to management, principally the impact of delayed and/or partial payments from the KRG for the company's exports from the Shaikan Block for an extended period of time in light of the fact that prior to September 2015 the Company had not received regular payments from the KRG for export sales. However, from September 2015 to June 2016, the Company has received regular monthly payments from the KRG for export sales.

In order to meet its future working capital requirements the Group is dependent both on its cash surplus (expected to be approximately US\$96 million following completion of the Restructuring) and on receipt of monthly payments from the KRG for export sales.

Based on the working capital assessment under the Reasonable Worst Case Scenario, following the implementation of the Restructuring a deficit, of approximately US\$0.4 million is forecast to occur in August 2017 increasing to a maximum cash deficit of US\$8.0 million occurring in September 2017 of the 12 month period.

The Directors will continue to monitor the receipt of sale proceeds from the KRG and its working capital requirements. If the cash deficit projected under the Reasonable Worst Case Scenario is anticipated the Directors would seek to respond in a timely manner ahead of such deficit arising through the application of one, all, or a combination of the following (in order of the Company's confidence of their likelihood of success):

- application of funds received from Qualifying Shareholders that participate in the Open Offer which may provide up to a further US\$5 million in cash proceeds (in addition to the Subscription). Based on the indications received to date, the Company is confident that such funds will be available upon completion of the Restructuring; and/or
- the use of the General Debt Basket and/or the Super Senior Basket permitting the incurrence of (in aggregate) an additional US\$45 million indebtedness in funding. The Company is confident that it will be able to secure such financing under the General Debt Basket and/or the Super Senior Basket within the time frame required to address the cash deficit; and/or
- execution of the Second Shaikan Amendment on terms materially identical to those set out in the Bilateral MNR Agreement, pursuant to which it can be expected that the MNR will pay its 20% share of costs as a result of any implementation of the Shaikan Government Option,

thereby reducing the paying interest of GKPI from 80% to 64%. The execution of the Second Shaikan Amendment on such terms would bring an overall net benefit to the Company's cash flow. The Company is currently negotiating the execution of the Second Shaikan Amendment and will only execute the Second Shaikan Amendment if the terms are aligned with the best interests of the Group; and/or

- deferral of planned capital expenditures on the Shaikan Block, which may have a short term adverse impact on the Shaikan Block's production profile, until funds to undertake such work could be secured. GKPI is operator of the Shaikan Block and as such is able to propose such deferrals, subject to required approvals from MOL and the MNR; and/or
- in addition to any agreed repayments of revenue arrears and back-costs attributable to the Shaikan Government Option which may be set out in the Bilateral MNR Agreement, seek an accelerated recovery of such arrears due to the Group by the KRG. The Company believes that based on the Company's longstanding constructive relationship with the KRG negotiations with the KRG on this point would have a positive outcome.

If the Directors were, in such circumstances, unable to implement any of the mitigating actions set out above, it is likely that the Company would be forced into an insolvency process (be that administration or liquidation) shortly thereafter.

***The Group may require additional financing in order to fund capital expenditure and operating expenses, and may not be able to obtain such financing on acceptable terms, or at all.***

Under the terms of the Reinstated Notes, the Company will be permitted to incur up to US\$45 million (in aggregate) under the Super Senior Basket and the General Debt Basket. However, neither the Super Senior Basket nor the General Debt Basket are underwritten or committed facilities and the Company's ability to obtain financing in accordance with the Super Senior Basket and/or the General Debt Basket will depend, *inter alia*, on prevailing financial market conditions at the time and the Company's business performance. Furthermore, any additional debt financing may involve restrictive covenants, which may limit or affect the Group's operating flexibility. The Company may not be able to obtain financing under the Super Senior Basket and/or the General Debt Basket, or other available debt incurrence capacity under the Reinstated Notes, on acceptable terms or at all, which could adversely affect its ability to carry out its investment plan.

***The Group's debt service obligations and requirements to comply with related covenants may adversely affect its business, prospects, financial condition and results of operations.***

If the Restructuring is consummated, the Reinstated Notes will contain customary restrictive covenants, restricting the ability of the Group to, amongst other things, incur additional debt, grant security interests to third persons, dispose of material assets, undertake organisational measures such as mergers, changes of corporate form, joint ventures or similar transactions and enter into transactions with related parties. A breach of any of those covenants, ratios, tests or restrictions, including as a result of events beyond the Group's control, could result in an event of default that could materially and adversely affect the Group's financial condition and results of operations.

Any such default could lead to an acceleration of debt under other debt instruments it is permitted to incur that contain cross acceleration or cross default provisions. If the Group's obligations under the Reinstated Notes were to be accelerated, it is possible that the Group's assets would not be sufficient to repay such debt in full.

Further, the Directors may wish to implement the Company's business plan in a way that is not permitted by such restrictive covenants so as to add value to the business as a whole and/or increase the ability of the Group to generate cash in the long term. The Company may not be able to implement such changes to its business plan unless it first obtains consent of the holders of the Reinstated Notes, which may not be forthcoming. There can be no assurance that the restrictive covenants in the Reinstated Notes will not adversely affect the Group's ability to finance its future operations or capital needs, or engage in other business activities that may be in its best interest.

The Group's debt service obligations and requirements to comply with related covenants could have negative consequences for the Group in the longer term, including the following:

- limiting the Group's ability to obtain additional financing in the future, including its ability to refinance its debt;
- limiting the Group's flexibility in planning for, or responding to, changes in its business and industry;

- limiting the Group's ability to react to market conditions or take advantage of potential business opportunities as they arise;
- limiting the Group's ability to pay dividends; or
- placing the Group at a competitive disadvantage to other, less leveraged competitors or those who are not reliant on external funding,

each of which, alone or in combination, could have a material adverse effect on the Group's business, financial condition and results of operations.

***Notwithstanding the Restructuring the Company will retain some indebtedness which limits its financial and operational flexibility.***

As at 31 December 2015 the Company had US\$544.5 million in gross financial indebtedness, comprising principal based on undiscounted cash flows at the maturity date of the Guaranteed Notes and Convertible Bonds, and if the Restructuring is consummated, the Company will have approximately US\$100 million in total indebtedness immediately thereafter. The Company is subject to the risk that over the longer term it will be unable to generate sufficient cash flow, or be unable to obtain sufficient funding, to satisfy its obligations to service and/or refinance its indebtedness.

The Company's indebtedness has important consequences over the longer term, including:

- requiring the Company to use a portion of cash flow to service its debt obligations, thereby reducing financial flexibility and cash available to finance its operations;
- potentially limiting the Company's ability to borrow additional amounts for working capital in the longer term, capital expenditure or debt service requirements, or the Company's ability to refinance existing indebtedness;
- increasing the Company's vulnerability to general adverse economic and industry conditions including increases in interest rates and credit spreads; and
- restricting the Company's ability to pay dividends or other distributions from retained earnings.

The above factors could limit the Company's financial and operational flexibility, and as a result could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

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

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

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

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

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

The Iraqi Constitution, which came into force in 2006, provides, among other things, that the "management of oil and gas extracted from present fields" is a shared power between the Iraqi Government and the producing governorates and regional governments, of which only the KRG is recognised to date. The Iraqi Constitution does not define the term "present fields" nor does it include oil and gas (or any other natural resource other than water) among the matters for which the Iraqi Government is granted exclusive powers under the constitution. The Iraqi Constitution further provides that with regard to powers "shared between the federal government and the regional government, priority shall be given to the law of the regions and governorates in case of dispute".

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

The KRG has maintained that, under the Iraqi Constitution, it has exclusive jurisdiction over the management of oil and gas resources in Kurdistan. As a consequence, in August 2007, the KRG enacted the Kurdistan Oil and Gas Law asserting the jurisdiction of the KRG over the management of oil and gas resources in Kurdistan. In particular, the Iraqi Constitution provides that regional laws that relate to matters over which regional governments have jurisdiction have priority over federal laws to the extent that the latter are inconsistent with the former. Under the Kurdistan Oil and Gas Law, the Minister of Natural Resources has the authority to enter into contracts for the exploration, development and production of oil and gas, subject to the approval of the Kurdistan Region Oil and Gas Council.

Consequently the KRG granted and has continued to enter into PSCs with international oil companies, granting the right to explore for, develop and produce petroleum in Kurdistan.

In May 2009 the Iraqi Ministry of Oil asserted that PSCs granted by the KRG (including the Shaikan PSC) are “*illegal and illegitimate*” resulting in ongoing uncertainty for the Group and the other international companies active in the Kurdistan petroleum sector with respect to the validity and enforceability of their petroleum interests in Iraq. Notwithstanding this uncertainty, as at the date of this document, a number of international companies, including Exxon, Marathon and Chevron, hold PSCs with several companies (including Exxon and Total) holding interests in both Iraq and Kurdistan.

Since August 2012, a special committee of the Iraqi Government has been seeking to reach a compromise on the oil legislation with Kurdistan. This continued following the 2014 appointment in Iraq of Prime Minister Haydar al-Abadi’s government. See also the Risk Factor “*There is uncertainty relating to the payment mechanism for export oil in Kurdistan*”.

Notwithstanding these developments, as at the date of this document, the Iraqi Government has not passed either a new petroleum law or a federal revenue sharing law and there can be no assurance that the Iraqi Government and the KRG will reach an agreement in the near future, or when, if ever, the diverging views between the KRG and the Iraqi Government in relation to the validity of the PSCs entered into by the KRG will be resolved. Furthermore, following the emergence of Daesh in 2014 the KRG has put negotiations in respect of a federal petroleum law on hold as it works with the Iraqi Government to address the threats posed by this organisation in the region, and therefore any future alteration to the position of the Iraqi Government with respect to the validity of the PSCs, the 2007 Draft Bill or any other matter which may impact the Group’s operation of its licenses, is inherently uncertain.

The KRG continues to contend that the provisions of the Iraqi Constitution support its view that it has jurisdiction in relation to oil and gas matters in Kurdistan and that the Kurdistan Oil and Gas Law is valid and consistent with the provisions of the Iraqi Constitution.

On the basis that the KRG has jurisdiction over oil and gas matters and the Kurdistan Oil and Gas Law is a valid law under the Iraqi Constitution, the Directors believe, based on Iraqi legal advice, that, as at the date of this document, the PSCs entered into by the KRG are valid and enforceable pursuant to applicable laws.

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



prospects; in particular, any revenue stream the Group receives from that asset could cease. Please see the Risk Factor entitled: “*The Group is totally reliant on the Shaikan Block*” for further information.

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

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

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

In particular, in early June 2014, Daesh launched attacks on northern Iraq, taking over various towns and strategic crossing points including Mosul, the second largest city in Iraq. As a result of these attacks, some oil companies were temporarily forced to suspend operations. While the Company did not suspend operations, it did temporarily move some non-essential staff out of the region. The situation has also put intense pressure on governmental resources and the dramatic and sudden influx of nearly two million involuntary displaced persons from Iran, Syria and elsewhere in Iraq, seeking refuge in Kurdistan, has led to an ongoing humanitarian crisis in the region.

As at the date of this document, the Company’s operations are not affected by Daesh’s engagement in the surrounding region. If Daesh were to engage in further attacks or make further territorial advances in Iraq and, in particular, Kurdistan, it could result in the Company and its joint venture partners suffering further delays or suspensions to their operations, losing operating control over their assets or the right to extract and sell oil, incurring additional costs for increased security and/or increased difficulty in attracting/retaining qualified service companies and related personnel, which could materially adversely impact the Company’s business, financial condition and results of operations and prospects.

There can be no assurance that the Group will be able to obtain or maintain effective security of any of the Group’s assets or personnel in the countries in which it operates. If the Group is unable to maintain effective security over its assets or personnel, this could have a material adverse effect on the Group’s business, results of operations, financial condition or reputation. In addition, the possible threat of criminal or terrorist actions against the Group, in particular its properties, facilities or third party infrastructure, could have a material adverse effect on the Group’s ability to generate revenue or adequately staff its operations, or could materially increase the cost of doing so (please see the Risk Factor entitled: “*The Group is totally reliant on the Shaikan Block*” for further information).

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

Under the PSCs granted by the KRG, oil contractors, such as the Group, are entitled to a share of production. The contractors are entitled to sell their share of production. Such sales may be to local purchasers in Kurdistan and/or international export sales with the approval of the MNR. The Group’s oil produced from the Shaikan Block is currently trucked to the DNO facilities at Fishkhabour where it is injected into the export pipeline for international sale facilitated by the MNR.

Historically, all export sales in Iraq, including in Kurdistan, have been conducted by the Iraqi federal SOMO using pipeline infrastructure controlled by the Iraqi federal authorities. The proceeds of such

sales were received by the Iraqi Government, which, in turn, was required to pass on oil contractors' entitlements to the KRG for onward payment to the relevant contractors.

At the start of 2015 the KRG reached a deal with the Iraqi Government to, *inter alia*, export crude oil in exchange for regular payments of the region's 17% share of Iraq's federal budget, which was subsequently codified in the Budget Law. Whilst both the KRG and the Iraq Ministry of Oil have confirmed that Kurdistan fulfilled its obligations of exporting oil in accordance with the Budget Law, the Iraqi Government, due to a number of factors, has to date, been unable to meet, in full, Kurdistan's monthly budgetary dues.

Since January 2014 the KRG has been exporting oil produced in Kurdistan to the international market via Turkey through the regional pipeline infrastructure to help meet Kurdistan's governmental salaries, maintain vital government services, and pay the Peshmerga and other security forces who are fighting Daesh. The revenue from these sales is remitted directly to the KRG and although this is below Kurdistan's 17% share of the federal budget, it is significantly higher than the amount the Iraqi Government was able to allocate to the KRG on a monthly basis prior to such sales commencing.

As a result of the KRG not receiving payments in accordance with the Budget Law, payments from the KRG to oil and gas operators in Kurdistan, including the Company, have been irregular and, as at 30 June 2016, the Company is owed approximately US\$ 28 million (net of payables outstanding to the MNR and excluding June 2016 and May 2016 revenue receivable) for historical oil production sold for export. On 3 August 2015 the KRG acknowledged the impact that the lack of historical payment for crude oil production was having on oil companies in the region and announced that, from September 2015 onwards, it would allocate, on a monthly basis, a portion of the revenue from direct crude oil sales to the producing oil companies, to cover their ongoing expenses. Furthermore, as exports rose in early 2016, the KRG announced its intention to make monthly payments based on the contractual production entitlements under relevant PSCs, and to make additional revenue available to enable oil companies to begin to catch up on the past receivables due under their PSCs.

Whilst the KRG has reaffirmed its efforts to continue to seek solutions to these financial issues through negotiations and dialogue with the Iraqi Government, there can be no certainty in relation to the agreement between the KRG and the Iraqi Government in respect of the payment mechanics for oil exports and negotiations surrounding the resumption of payments and satisfaction of monies owed are continuing at the date of this document.

Notwithstanding the content of the KRG's announcements in August 2015, and subsequently in February 2016, and the consistent receipt by the Group of payments to date, there can be no certainty that such payments will continue to be received or that they will be sufficient to cover ongoing expenses or address money owed for historical production. As at the date of this document the Group has received aggregate payments of US\$142.5 million gross from September 2015 to date.

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

The Iraqi Government continues to oppose unilateral oil exports by the KRG and has publicly stated that it will take action against any company that facilitates any such sales. Since May 2014 the Iraqi Government also has pending arbitration against Turkey at the International Chamber of Commerce in relation to such exports.

***The construction of a spur line connecting the Shaikan Block to the export pipeline is critical to the long-term future operations of the Group.***

The construction of a spur pipeline connecting the Shaikan Block to the export market is critical to the long- term future operations of the Group.

Since mid-September 2015 the Company has delivered all Shaikan production to Fishkhabour by truck for injection into the international pipeline with an average production rate of 35,000 bopd. The Company believes that access to the export pipeline is critical to ensure the Group's long-term ability to maximise its revenue due to the cost, safety and environmental issues of transporting oil by



truck and the limited capacity of available infrastructure to absorb any significant increase in oil production beyond the Group's current levels of production.

The Company believes that access to the international pipeline via a spur pipeline from the Shaikan Block would enable it to lower transportation costs, increase production capacity, and improve HSSE performance, whilst maintaining steady sales in the international market.

Pending the construction and commissioning of the connecting spur pipeline and/or the associated facilities, oil production will be restricted to the extent that production from Shaikan exceeds truck capacity as the Group will have no other means to transport oil and cannot, with the current development plan, store significant quantities of oil on-site.

Further, the Company's access to the spur pipeline may be subject to an oil quality bank, a mechanism of penalty and compensatory payments by/to the Company depending on quality of the crude it delivers into the spur pipeline. The commercial terms (including any quality discount) upon which the Group will have access to the pipeline to export oil are not known and, accordingly, there may be a material adverse effect on the Group's business, financial condition, results of operations and prospects if permission is withheld or such terms are unfavorable.

***Transportation and export of oil by truck carries inherent risks.***

Currently, all oil production from the Shaikan Block is transported by truck to Fishkhabour for injection into the international pipeline. Transport of the Group's oil production by truck is relatively expensive and is subject to limitations on capacity. It is also not industry best practice to transport oil by truck, as this carries with it inherent risks relating to potential safety and environmental concerns in the event of any accidents. It is also less secure than the transport of oil by pipeline. In Kurdistan, the transport of oil by truck is licensed by the KRG, which may revoke or amend such licenses at any time. In the event that a major accident causes environmental damage, or the KRG revokes or amends licenses on less favorable terms, the Group may be materially restricted from transporting oil from the Shaikan Block to the local or export market by truck. Whilst pressure on truck capacity was significantly eased following completion of the regional pipeline infrastructure at the beginning of 2014, to the extent that production exceeds truck capacity and/or any of the other events highlighted above occur, this may lead to a drop in production revenues and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

Under the terms of the Shaikan PSC, to the extent that the Group is unable to re-inject or sweeten natural gas, or considers that neither re-injecting nor sweetening natural gas for the domestic energy market is justified technically and economically, prior authorisation is required for the prolonged flaring of natural gas. The Group's requisite flaring permits expired in 2014, however the Company is continuing to flare natural gas with the consent of the MNR. While the Group is currently discussing renewing these permits and is confident that a renewal will be granted, there can be no assurance that these permits will be renewed.

There is currently a limited market for natural gas in Kurdistan and Iraq as a whole with no national grid to facilitate distribution and very limited infrastructure to enable companies in Kurdistan to sell or export gas. Uncertainties also exist in relation to the agreement of a universal revenue sharing and payment mechanism for sales of any form of natural gas.

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

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

The Group's oil and gas interests are located in developing countries. Exploration and development activities in developing countries or their political sub-divisions, such as Kurdistan, may require protracted negotiations with host governments, local governments and communities, local competent authorities, national oil companies and third parties and may be subject to economic, social and

political considerations outside of the Group's control, such as the risks of expropriation, nationalisation, renegotiation, forced interruption, suspension or shut-in of operations, curtailment of oil sales, forced change or nullification of existing contracts or royalty rates, unenforceability of contractual rights, changing taxation policies or interpretations, adverse changes to laws (whether of general application or otherwise) or the interpretation or enforcement thereof, foreign exchange restrictions, inflation, changing political conditions, the death or incapacitation of political leaders, local currency devaluation, currency controls and foreign governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In addition, the Group's operations may be viewed as detrimental due to the impact to the environmental, economic or social circumstances of the local communities, including the need, from time to time, to relocate communities or infrastructure networks such as utility services. Any of the factors detailed above or similar factors could have a material adverse effect on the business, results of operations or financial condition of the Group. If disputes arise in connection with operations in developing countries and, in particular under the terms of the Shaikan PSC, the Group may be subject to the exclusive jurisdiction of foreign courts or foreign arbitration tribunals or may not be successful in subjecting foreign persons, especially foreign oil ministries and national oil companies, to the legal jurisdiction of England and Wales.

## **RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY**

### ***The Group is totally reliant on the Shaikan Block.***

The Group is entirely dependent upon the Shaikan PSC which is the Group's sole source of revenue and any adverse development affecting the Shaikan Block or the Shaikan PSC would have a material adverse effect on the Group, its business, prospects, results of operations and financial condition. In February 2015, the Group was requested to stop production and trucking from the Shaikan Block pending renegotiation of the trucking costs and quality discount due to the Company from the KRG for oil produced and sold both by the KRG and Iraq. Production and exports were resumed on 18 March 2015. In addition, on 17 February 2016 export through the international pipeline was suspended due to security measures, re-opening on 11 March 2016 during which period oil exports fell by nearly a half from 601,811 bopd in January to 350,067 bopd in February.

The Group may be subject to further curtailments, outside of its control. Any further adverse developments at or affecting the Shaikan Block which lead to a prolonged and material interruption to or cessation of production or sales in the future may have a material adverse effect on the Group's business, results of operations and financial condition. See also the Risk Factors entitled "*The construction of an oil export pipeline connecting the Shaikan Block to the export market is critical to the long-term future operations of the Group*", "*Political, social and economic instability may affect the Group and its operations and personnel*" and "*The Group cannot completely protect itself against legal risks relating to disputes regarding title or exploration and production rights*".

### ***There is no guarantee that the Company will be able to secure the Second Shaikan Amendment on the terms set out in the Bilateral MNR Agreement***

The Bilateral MNR Agreement has two principal purposes, namely to:

1. record the agreement and mutual understanding of MNR and GKPI in relation to certain aspects of the Shaikan PSC, including (*inter alia*):
  - (a) MNR's approval of the proposed assignment and transfer to GKPI of the entire 5% participating interest in the Shaikan PSC currently held by Texas;
  - (b) MNR and GKPI's intention to implement the Shaikan Third Party Option so that (i) a 7.5% participating interest in the Shaikan PSC in aggregate shall be allocated in favour of GKPI, MOL and Texas *pro rata* to their respective participating interests; and (ii) a 7.5% carried interest in the Shaikan PSC shall be allocated to MNR;
  - (c) MNR and GKPI's intention, subject to the satisfaction of certain conditions (including the payment by MNR of certain Capex, opex and other back-costs attributable to its Shaikan Government Option) to recognise the allocation to MNR of the Shaikan Government Option with effect from 1 August 2012;
  - (d) the basis in due course for (i) the calculation; and (ii) payment on a monthly basis until satisfied in full, of the back-costs referred to in sub-paragraph 2(c) above;

- (e) the reduction in the capacity building value charge to be paid per month by GKPI under the Shaikan PSC from 40% to 30% of sales of GKPI's Profit Petroleum (as defined in the Shaikan PSC); and
  - (f) the commitment of each of MNR and GKPI to enter into the Second Shaikan Amendment for the purposes of giving effect to each of the objectives listed at subparagraph 2 (a) through to 2 (e) above; and
2. finalise the terms of relinquishment and termination by the Group of its rights and obligations under the Sheikh Adi PSC, which has now been completed in accordance with the executed Relinquishment and Termination Agreement attached to the Bilateral MNR Agreement.

Whilst the Bilateral MNR Agreement provides an interim contractual framework that reflects GKPI and the MNR's commitment to implement these terms; it is not intended to be a medium or long term position, nor is it complete in so far as it does not address certain contractor terms which are expected to be clarified in the Second Shaikan Amendment.

As at the date of this document, the Company continues to work with the Group's partners (MOL and the MNR) to finalise the Second Shaikan Amendment however significant uncertainty remains in relation to the terms, timing and signing of the Second Shaikan Amendment.

Whilst the Group remains confident that the Second Shaikan Amendment will implement amendments to the Shaikan PSC reflecting the terms agreed by GKPI and the MNR under the Bilateral MNR Agreement, until these arrangements are formalised and executed in the form of the Second Shaikan Amendment there can be no assurance that these terms will be formally implemented or that the MNR will continue to address monthly revenue payments in line with its announcement of 1 February 2016 and the Bilateral MNR Agreement, which could result in a loss of revenue and cash inflow to the Group and would adversely affect the Group's financial condition, results of operations and prospects.

***The terms of the Shaikan PSC, which governs the Group's interest in the Shaikan Block, include change of control provisions which, if triggered, could lead to the termination of the Shaikan PSC with respect to GKPI.***

Under the terms of the Shaikan PSC, upon the occurrence of an unapproved change of control of GKPI, a contractor entity (which change of control could be triggered, *inter alia*, due to an enforcement of the Share Mortgage following an event of default under the Guaranteed Notes), the KRG can terminate the Shaikan PSC in respect of GKPI. In such event, the Common Shares could experience a substantial diminution in value or could become worthless, and the available assets, which a shareholder may recover, could be substantially reduced.

See paragraph 13 of Part 17 of this document: "*Additional Information*" for details of the Shaikan PSC and the Share Mortgage.

***The Company has a history of net losses and negative cash flow, and may not be profitable or have positive cash flow in the future.***

The Company has incurred losses for each of the years 2013, 2014 and 2015, which reflects the nature of an exploration and production company and, in particular, the current situation in Kurdistan – see the Risk Factor "*There is uncertainty relating to the payment mechanism for export oil in Kurdistan*". The Company may continue to experience operating losses and negative cash flow in the future and may not become profitable or have positive cash flow if it is unable to generate sufficient revenues to offset its operational costs. If the Company does not achieve or sustain profitability, its business and its ability to repay the Reinstated Notes will be adversely affected.

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

Prior to that time, any revenues from oil and gas test production will be shown in the income statement of the Group but with an equal and offsetting amount recorded against cost of sales. Therefore, the Group will incur losses during that period which reflect the administrative and financing costs of running the business and any unsuccessful exploration and appraisal activities. An

amount equal to such revenues will also be credited to the intangible assets of the Group against exploration and evaluation costs, reducing the net book value of such assets in the Group's balance sheet. It will only be once oil and gas production commences at a commercial scale and a regular payment cycle is established for such production that a gross profit or loss will be recorded in relation to such operations.

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

The Group's revenues, profitability and future rate of growth will depend substantially on prevailing oil and gas prices, both of which can be volatile and subject to fluctuation. In 2014, Brent daily spot crude prices fell from in excess of US\$100 a barrel to US\$53 per barrel toward the end of the year, with the downward trend continuing in 2015 and the beginning of 2016 to a low of US\$28 in January 2016. The oil price has been affected by, among other things, reduced global demand, particularly from emerging markets, and increased US production. Prices have also been significantly affected by OPEC's decision not to reduce global production levels. Changes in oil prices will directly affect the Group's revenues and net income.

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

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

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

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



***The Group's success depends on its ability to continue to produce Reserves commercially.***

Oil production is capital intensive and involves a high degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome.

In addition production from successful wells may be adversely affected by conditions including delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, natural disasters, difficulties arising from environmental or other challenges, equipment or services shortages or failures, insufficient storage or transportation capacity or adverse geological conditions, procurement delays or difficulties arising from the political, environmental and other conditions in the areas where the Reserves are located or through which the Group's products are transported, and those may also make it uneconomical to develop Reserves and Prospective and Contingent Resources.

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

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

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

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

The exploration and development operations of the Group are carried out with third parties in accordance with the terms of the Shaikan PSC, the Shaikan FDP and the related joint operating agreement, licences, permits and other authorisations as set forth therein.

There is a risk that other parties with interests in the Group's oil and gas property may elect not to participate in certain activities which require that party's consent or may breach the terms of the Shaikan PSC or any other documents relating to their interest in the Shaikan Block. Similarly there is a risk that other participants who have invested in the Shaikan Block may default in their obligations to fund capital or meet other funding obligations and, as such, the Group may be required to contribute all or part of any such funding shortfall. The relevant legislation in Kurdistan provides that fines may be imposed and a licence or agreement may be suspended, revoked, or terminated if a licence holder, or party to a related agreement, fails to comply with its obligations under such licence or agreement, or fails to make timely payments of levies and taxes for the licensed or agreed activity, provide the required geological information or meet other reporting requirements.

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

Sanctions regimes imposed by governments, including those imposed by the European Union, the United States (including the Office of Foreign Assets Control), or other countries or international bodies, could operate to restrict the Group from engaging in trade or financial transactions with certain countries, businesses, organisations and individuals. The legislation, rules and regulations which establish sanctions regimes are often broad in scope and difficult to interpret, and in recent years, governments have increased and strengthened such regimes.

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

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

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

- explosions and fires;
- blowouts and other operational disruptions in relation to the Company's upstream exploration;

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

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

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

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

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

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

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

***Environmental liabilities could be significant.***

Significant liability could be imposed on the Group by, amongst others, the competent authority, the MNR or the local courts for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased or used by the Group, acts of sabotage by third parties, or non-compliance with environmental laws or



regulations by the Group. Such liabilities could have a material adverse effect on the Group. While the current legislation to which the Group is subject is limited, it is expected that additional environmental protection laws will be implemented in the future. It is not possible to predict what future environmental regulations will provide; however, these laws could impose additional obligations on the Group which may, for example, result in the Group incurring significant expenditures for the installation and operation of pollution control systems, as well as equipment for remedial measures and a penalty regime in the event of a breach of those laws, which could adversely affect the Group's business, financial condition and results of operations. It is also not possible to predict how environmental regulations will be applied or enforced in the future.

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

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

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

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

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

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

The Reserves and resources estimates contained in this Prospectus are derived from the interpretation of seismic and other geo-scientific data and, where appropriate, well test results and logs. Such interpretation and estimates of the amounts of oil Reserves and resources are subjective and the results of drilling, testing and production subsequent to the date of any particular estimate may result in substantial revisions to the original interpretation and estimates. The Reserves and resources information set out in this Prospectus represent estimates only, based on data available up to 30 June 2016. Moreover, different reservoir engineers may make different estimates of Reserves, resources and cash flows based on the same available data. Actual production, revenues and expenditures with respect to Reserves and resources will vary from estimates, and the variances may be material.

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

expenditures with respect to its Reserves will vary from estimates thereof, and such variations could be material.

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

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

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

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

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

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

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

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

The Group is highly dependent upon its executive management, as well as its senior management team and employees having relevant oil and gas experience. The loss of any of such personnel with its concomitant loss of institutional and operational knowledge, experience and expertise, and its ability to deliver the strategy of the Group could have a material adverse effect on the Group.

There is no assurance that the Group will successfully continue to retain existing specialised personnel and executive and senior management or attract additional qualified executive and senior management and/or oil and gas personnel required to successfully execute and implement the Group's business

plan, which will be particularly important as the Group expands. Competition for such personnel willing to relocate to Iraq is intense. The loss of such personnel and the failure to successfully recruit replacements would have a material adverse effect on its business, prospects, financial condition and results of operations.

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

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

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

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

***The Group may be subject to labour disruptions.***

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

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

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

Group's ability to access the capital markets or obtain credit for future funding on commercially acceptable terms or at all.

***Foreign Subsidiaries.***

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

**RISKS RELATING TO THE TAXATION OF THE GROUP**

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

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

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

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

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

The principal operating activities of the Group are undertaken in Kurdistan. The tax system in Iraq may be subject to change, particularly in relation to the oil and gas sector. Taxation of the Group's operating activities in Kurdistan is pursuant to the KRG's oil and gas legislation and governed by terms within the Shaikan PSC. However, it is possible that the terms of the Shaikan PSC may cease to be recognised as valid or otherwise may not be enforceable in Kurdistan. See the Risk Factors entitled: "*The Group cannot completely protect itself against legal risks relating to disputes regarding title or exploration or production rights*" and "*There is uncertainty relating to the timing and payment mechanism for export oil in Kurdistan*". It is also possible that the arrangements under the Shaikan PSC may be overridden or adversely affected by enactment of any future oil and gas law in Iraq. In either case, this could materially impact the financial position of the Group and reduce net returns to Shareholders.

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

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

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

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

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



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

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

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

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

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

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

## **RISKS RELATING TO THE COMMON SHARES**

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

The Board cannot predict what effect, if any, future sales of Common Shares, or the availability of Common Shares for future sale, or the offer (by way of further issuance) of additional Common Shares in the future, will have on the market price of Common Shares. Sales or an additional offering of substantial numbers of Common Shares in the public market, or the perception or any announcement that such sales or an additional offering could occur, could adversely affect the market price of Common Shares and may make it more difficult for shareholders to sell their Common Shares at a time and price which they deem appropriate. Creditors acquiring New Common Shares in the Debt Equitisation are not subject to an equity lock-up and can sell their New Common Shares, and other Common Shares they may acquire, at any time. In addition, Capital can sell its Common Shares, including those acquired (if any) in the Subscription, at any time after the completion, lapse or termination of the Restructuring.

***The Bye-laws of the Company do not contain any rights of pre-emption in favour of existing Shareholders.***

Shareholders do not have pre-emption rights under the Bye-laws or the Companies Act (Bermuda) over further issues of any class of shares in the Company. Accordingly the Directors retain discretion to allot additional equity on a non-pre-emptive basis, as was the case under the terms of the First Subscription Agreement and, as a result, Shareholders may suffer dilution in their percentage ownership in the event further such allotments are made.

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

The Group may issue additional equity whether in connection with the Warrants, the Share Scheme, further convertible equity securities, share incentive or option plans or otherwise. The Bye-laws of the Company do not contain any rights of pre-emption in favour of existing Shareholders. As a result, Shareholders would suffer dilution in their percentage ownership. Shareholders may also suffer dilution in their voting interest upon the conversion of the Warrants and/or the exercise of any options granted under the Share Scheme into Common Shares.



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

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

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

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

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

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

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

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

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

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

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

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

***The Company is Standard Listed and, accordingly, the Company is not required to comply with those protections applicable to a Premium Listing.***

The Company is Standard Listed and, as a consequence, additional ongoing requirements and protections applicable to a Premium Listing do not apply to the Company. In particular, the provisions of Chapters 6 to 13 of the Listing Rules, being additional requirements for listing of equity securities (listing principles, sponsors, continuing obligations, significant transactions, related party transactions, dealing in own securities and treasury shares and contents of circulars), do not apply. In addition, a Standard Listing does not permit the Company to gain UK FTSE indexation.

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

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

While application has been made to list the New Common Shares on the regulated market of the London Stock Exchange, the Company is not so resident or incorporated and, therefore, Shareholders will not receive the benefit of the takeover offer protections provided by the Takeover Code save for the "Takeover Offers" provisions of the Bye-laws which seek to replicate certain core provisions of the Takeover Code. For further details, see paragraph 4.7 of Part 17 of this document: "Additional Information".

***Shareholders may be exposed to fluctuations in currency exchange rates.***

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

***Enforcement of judgments in Bermuda may be difficult.***

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

enforcement of a foreign judgment. Court fees will be payable in connection with proceedings for enforcement.

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

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

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

For United States federal income tax purposes, the Company may be classified as a "passive foreign investment company" ("PFIC") and adverse tax consequences could apply to beneficial owners of Common Shares who are subject to United States federal income tax ("US Holders"). A US Holder may mitigate certain adverse tax consequences of the PFIC rules by filing an election to treat the Company as a qualified electing fund ("QEF") if the Company complies with certain information reporting requirements. If the Company were classified as a PFIC, the Company may, but it is not obliged to, provide to such owners the information that would be necessary in order for such persons to make such QEF election with respect to the Common Shares for any year in which the Company is a PFIC. Conversely, provided the Common Shares are "marketable stock" for purposes of the PFIC rules, in the event that the Company were a PFIC, a US Holder may mitigate certain adverse tax consequences of the PFIC rules by making an election to include gain or loss on its Common Shares in its United States federal taxable income under a mark-to-market method of accounting ("mark-to-market" election). A US Holder may not make a mark-to-market election with respect to any of the Company's subsidiaries that are PFICs to mitigate the adverse tax consequences applicable under the PFIC rules attributable to any such subsidiaries. US Holders or potential US Holders should consult their own tax advisers about the US federal income tax consequences of holding Common Shares.

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

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

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

## **RISKS RELATING TO THE OPEN OFFER**

***The market price for the Open Offer Shares may decline below the Offer Price.***

There is no assurance that the public trading market price of the Open Offer Shares will not decline below the Offer Price. Should that occur, relevant Shareholders will suffer an immediate loss as a result. Moreover, there can be no assurance that, following Shareholders' acquisition of New

Common Shares, Shareholders will be able to sell their New Common Shares at a price equal to or greater than the acquisition price for those shares.

***Shareholders who do not (or who are not permitted to) acquire New Common Shares in the Open Offer will experience further dilution in their ownership of the Company.***

Shareholders' proportionate ownership and voting interests in the Company will be reduced as a result of the Debt Equitisation and the Open Offer.

If Shareholders do not subscribe in full for their Open Offer Entitlements to New Common Shares under the Open Offer or are not eligible to participate in the Open Offer, their proportionate ownership and voting interests in the Company will be further reduced as a result of the Open Offer and the percentage that their Common Shares will represent of the total issued share capital of the Company will be reduced accordingly.

Qualifying Shareholders should note that even if they acquire New Common Shares in the Open Offer, their proportionate ownership and voting interest in the Common Shares will be diluted in any event as a result of the subsequent issues of New Common Shares as part of the Debt Equitisation.

***Ability of Shareholders outside of the UK to participate.***

Securities laws of certain jurisdictions may restrict the Company's ability to allow participation by Shareholders in the Open Offer.

In particular, the New Common Shares are not, and will not be, registered under the Securities Act, and subject to certain exceptions the Open Offer will only be made outside of the US in offshore transactions in reliance on Regulation S. Securities laws in certain other jurisdictions may restrict the Company's ability to allow participation by Shareholders in such jurisdictions in the Open Offer or any future issues of shares carried out by the Company. Such Shareholders are subject to certain risks, including dilution of ownership and voting interests. Qualifying Shareholders who have a registered address in or who are located or resident in, or who are citizens of, countries other than the UK, should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to receive New Common Shares.

***Admission of the New Common Shares may not occur when expected.***

Application for Admission is subject to the approval (subject to satisfaction of any conditions which such approval is expressed) of the UK Listing Authority and Admission will become effective as soon as a dealing notice has been issued by the UK Listing Authority and the London Stock Exchange has acknowledged that the New Common Shares will be admitted to trading. There can be no guarantee that any conditions to which Admission is subject will be met or that the UK Listing Authority will issue a dealing notice.

See the 'Expected Timetable of Principal Events' in Part 4 of this document for further information on the expected dates of these events.

## PART 3

### PRESENTATION OF FINANCIAL AND OTHER INFORMATION

#### 1 General

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

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

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

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

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

Investors should read this document in its entirety.

#### 2 Presentation of financial information

The financial information incorporated by reference in this document includes the audited consolidated financial information for the Group as at and for the years ended 31 December 2013, 2014 and 2015, in each case, prepared in accordance with IFRS as adopted by the European Union. Unless otherwise indicated, the financial information presented in this document has been prepared in accordance with IFRS as adopted by the European Union.

#### 3 Non-financial information operating data

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

#### 4 Currencies

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

The basis of translation of any foreign currency transactions and amounts in the financial information set out in Part 13 of this document: “*Historical Financial Information*”.

#### 5 Rounding

Percentages and certain amounts in this document, including financial, statistical and operating information, have been rounded to the nearest thousand whole number or single decimal place for ease of presentation. As a result, the figures shown as totals may not be the precise sum of the figures that precede them. In addition, certain percentages and amounts contained in this



document reflect calculations based on the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages or amounts that would be derived if the relevant calculations were based upon the rounded numbers.

## **6 Third party information**

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

## **7 Reserves and resources reporting – basis of preparation**

ERC Equipoise has reviewed the Reserves and resources statements compiled by the Company and has stated the Reserves and resources as set out in Part 21 of this document: “*Competent Person’s Report*” to be in compliance with the Prospectus Rules and recommendations of the European Securities Markets Authority (formerly known as the Committee of European Securities Regulators) and in accordance with the criteria for internationally recognised Reserve and resource categories as included in the PRMS. The Company has provided to ERC Equipoise raw data, analyses, interpretations and estimates in relation to the Reserves and resources. These estimates have been audited by ERC Equipoise and where relevant they have also provided their own analyses and estimates of volumes.

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

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

Statements relating to Reserves and resources are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the Reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future. The ERC Equipoise Report employs ERC Equipoise pricing assumptions and Channol Consulting Limited’s marketing differentials assumptions as at June 2016 and August 2016 respectively, which differ from the pricing and marketing differentials used in earlier reserves and resources evaluations.

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

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

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

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

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

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

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

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

The ERC Equipoise Report contains statements of the estimated oil and gas Reserves and resources attributed to the Group as at 30 June 2016. These estimates are based on technical information supplied by the Group to ERC Equipoise. The technical information supplied by the Group to ERC Equipoise was not independently verified by ERC Equipoise and is the responsibility of the management of the Group. In accordance with standard industry practice, all technical information that was obtained from the Group or from public sources was accepted without further investigation. It is ERC Equipoise's opinion that the technical information received from the Group was reasonable, based on similar evaluations prepared by ERC Equipoise.

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

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

For the purposes of Prospectus Rule 5.5.3R(2)(f) ERC accepts responsibility for the information contained in Part 21: “*Competent Person’s Report*” of this Prospectus and those other sections of the Prospectus which include references to information in Part 21. ERC declares that to the best of its knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained herein is in accordance with the facts and does not omit anything likely to affect the import of such information.

## **8 Forward-looking statements**

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

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

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

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Group, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could

cause actual results to differ materially from those projected in the forward-looking statements. In addition, even if the Group's results of operations and financial condition, and the development of the industry in which the Group operates, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

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

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

#### **9 No incorporation of website**

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

#### **10 Definitions and technical terms**

A list of defined terms and technical terms used in this document is set out in Part 19: "Definitions" and Part 20 of this document: "*Glossary of Technical Terms*".

## PART 4

### EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	Time and date (2016)
Announcement of the Restructuring	14 July
Announcement of the Open Offer	7:00am on 31 August
Publication of Prospectus	31 August
Record Date for entitlements under the Open Offer	5:00 pm on 30 August
Ex entitlement Date for the Open Offer	31 August
Open Offer Entitlements and Excess Open Offer Entitlements credited to stock accounts in CREST of Qualifying CREST Shareholders	8:00 am on 1 September
Latest recommended time and date for requesting withdrawal of Open Offer Entitlements and Excess Open Offer Entitlements from CREST	4:30 pm on 9 September
Latest recommended time and date for depositing Open Offer Entitlements and Excess Open Offer Entitlements into CREST	3:00 pm on 12 September
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims)	3:00pm on 13 September
<b>Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer or settlement of relevant CREST instructions (as appropriate)</b>	<b>11:00 am on 15 September</b>
Results of the Open Offer announced through an RIS	16 September
Admission and commencement of dealings in the New Common Shares expected to commence	On or around 14 October
CREST stock accounts expected to be credited for the New Common Shares as soon as practicable after	On or around 14 October

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- (1) Each of the times and dates in the above timetable, and mentioned elsewhere in this document, is subject to change, in which event details of the new times and/or dates will be notified to the FCA and the London Stock Exchange and, where appropriate, Qualifying Shareholders. Please note that any Existing Common Shares sold prior to close of business on 30 August 2016, the last date on which the Existing Common Shares trade with entitlement, will be sold to the purchaser with the right to receive Open Offer Entitlements.
- (2) If you have any queries on the procedure for acceptance and payment, you should contact Computershare Investor Services Plc on 0370 707 1016 or from outside the United Kingdom on +44 370 707 1016. Please note that Computershare Investor Services Plc cannot provide financial advice on the Open Offer or as to whether or not you should take up your rights under the Open Offer
- (3) Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Open Offer or give any financial, legal or tax advice.
- (4) All references to time in this document relate to London time.



### **Indicative Timetable of the Scheme**

Explanatory Statement sent to Scheme Creditors	On or about 2 September
Creditors' meetings to vote on the Scheme	On or about 22 September
Sanction Hearing	On or before 29 September
Expected Scheme Effective Date	On or before 14 October
Expected Settlement Date of the Scheme	Up to five business days after the Scheme Effective Date

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(1) Each of the dates in the above timetable is subject to change. The Scheme Effective Date is subject to a number of conditions, as described in paragraph 13 of Part 17 of this document.

### **Restructuring Statistics**

Number of Existing Common Shares in issue at the date of this document	1,032,433,052
Number of New Common Shares to be issued for the purposes of the Debt Equitisation	19,616,227,993
Maximum number of New Common Shares to be issued for the purposes of the Open Offer	2,294,295,672
Basis of Open Offer	20 New Common Shares for every 9 Existing Common Shares
Offer price per Open Offer Share	1.09 dollar cents
Estimated gross proceeds of the Open Offer	US\$25 million
New Common Shares to be issued for the purposes of the Debt Equitisation as a percentage of the Company's enlarged issued Share Capital immediately after the Restructuring (assuming full take up of the Open Offer)	85.5%
Maximum number of New Common Shares to be issued for the purposes of the Open Offer as a percentage of the Company's enlarged issued share capital immediately after the Restructuring	10.0%
Number of Common Shares in issue immediately following the Restructuring assuming the Open Offer is subscribed in full	22,942,956,717

## PART 5

### DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

<b>Directors</b>	Keith Lough Jón Ferrier Sami Zouari Philip Dimmock Cuth McDowell	<i>Non-Executive Chairman</i> <i>Chief Executive Officer</i> <i>Chief Financial Officer</i> <i>Non-Executive Director</i> <i>Non-Executive Director</i>
<b>Company Secretary</b>	Theresa Grant Coson Corporate Services Limited Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	
<b>Registered office and head office of the Company</b>	Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	
<b>Financial Adviser</b>	Perella Weinberg Partners UK LLP 20 Grafton Street London W1S 4DZ	
<b>English legal advisers to the Company</b>	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP Paul Hastings (Europe) LLP 10 Bishops Square 8th Floor London E1 6EG United Kingdom	
<b>Bermuda legal advisers to the Company</b>	Cox Hallett Wilkinson Limited Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	
<b>Auditors to the Company</b>	Deloitte LLP 2 New Street Square London EC4A 3BZ	
<b>Registrar</b>	Computershare Investor Services (Jersey) Limited c/o The Pavilions, Bridgwater Road Bristol BS99 6ZY	
<b>Receiving Agent</b>	Computershare Investor Services Plc Corporate Actions Projects Bristol BS99 6AH	

## PART 6

### LETTER FROM THE CHAIRMAN TO SHAREHOLDERS

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

Keith Lough *Non-Executive Chairman*  
Jón Ferrier *Chief Executive Officer*  
Sami Zouari *Chief Financial Officer*  
Philip Dimmock *Non-Executive Director*  
Cuth McDowell *Non-Executive Director*

31 August 2016

Dear Shareholders and, for information purposes only, holders of Warrants and options under the Share Scheme,

#### **Proposed Restructuring**

#### **Scheme of Arrangement in respect of the Debt Equitisation and Notes Reinstatement**

**Proposed Open Offer of up to 2,294,295,672 New Common Shares at 0.8314 pence per New Common Share to raise up to US\$25 million**

#### **1. Introduction**

I am writing to you on behalf of the Board to provide you with background and financial rationale for the proposed Restructuring the key features of which are:

- **Debt reduction:** Implementation of a new capital structure intended to strengthen the Company's balance sheet with a significant debt reduction from over US\$600 million to US\$100 million through the conversion of over US\$500 million of existing debt into equity of the Company by way of a UK scheme of arrangement among the Company, the Guaranteed Noteholders and the Convertible Bondholders.
- **Improved liquidity:** Through an equity raise of a minimum of US\$20 million under the Subscription to a maximum of US\$25 million through the Open Offer, a reduction of financing costs and the removal of the US\$32.5 million Debt Service Reserve Account. This increase in liquidity is designed to allow the Company to continue trading and developing the Shaikan field to unlock its potential as one of the most significant assets in Kurdistan. It is expected to allow the implementation of the Company's near-term investment plan to maintain production at 40,000 bopd with the potential to increase production to 55,000 bopd subject to MNR and MOL approvals, the continuation of the regular payment cycle from the MNR and a commercially acceptable investment environment.
- **Shareholder dilution and re-investment option:** Following the Debt Equitisation of over US\$500 million not including Qualifying Shareholders' rights to subscribe in the Open Offer, Shareholders' ownership of the Company will be diluted to 5%; however, Qualifying Shareholders to whom the Open Offer is made will have the ability participate in the Open Offer for 10% of GKP's equity at closing of the Restructuring.
- **Capital Subscription:** To the extent the Open Offer is not fully subscribed by Qualifying Shareholders, Capital has agreed to subscribe for up to US\$20 million of New Common Shares pursuant to the Second Subscription Agreement.
- **Pro forma capitalisation:** Upon completion of the Restructuring and assuming the Open Offer is fully subscribed, Guaranteed Noteholders will retain US\$100 million of Reinstated Notes and will receive New Common Shares representing 65.5% of the equity of GKP post-closing, and Convertible Bondholders will receive New Common Shares representing 20.0% of the equity of GKP post-closing. Assuming the Open Offer is fully subscribed, Shareholders will own up to 14.5% of the equity of GKP post-closing.

The terms of the Restructuring are summarised in paragraph 3: “*Overview of the Restructuring*” of this Part 6. In particular, your attention is drawn to paragraph 5: “*Consequences of failure to implement the Restructuring*” of this Part 6.

In the opinion of the Directors the Restructuring will:

- provide Qualifying Shareholders with an opportunity to participate in the Open Offer to increase their ownership position and participate in the future growth of the Company;
- improve the capital structure of the Company to provide it with the resources to implement its announced investment plan to maintain and grow Shaikan production; and
- prevent a formal insolvency filing, potentially leading to nil value for the Shareholders and the non-consenting Convertible Bondholders.

## **2. Background to, and reasons for, the Restructuring**

The Company’s Guaranteed Notes mature in April 2017 and the Convertible Bonds mature in October 2017.

The Company’s ability to service, repay and/or refinance those instruments on or before maturity has been severely and adversely affected by the general disruption in the oil and gas markets arising from the significant decline in oil prices in the second half of 2014 and during 2015 and the continued adverse effects of the geopolitics in the region.

The Company’s financial performance has also been negatively impacted by the historic lack of a regular payment cycle for export sales and disruption to supply. The liquidity available to the Group to finance continuing operations has been tight and there is limited ability to fund the capital expenditure necessary to implement the Company’s development plans or to ensure maintenance of current production levels over the medium term. Furthermore, even under a scenario of significantly higher oil prices and recovery of all arrears from the MNR, the Company does not expect to be able to refinance or repay its current financial indebtedness of over US\$600 million due in 2017.

To address these difficulties the Board instructed its advisors to explore all potential options. This included engaging in an M&A process, and the Company also engaged in discussions with potential strategic equity investors to seek funding as well as exploring capital markets options. However, none of these alternatives have resulted in a successful solution for GKP.

In the absence of deliverable M&A or equity fundraising options, the Company, having taken advice, concluded that it needs to put in place a sustainable and appropriate capital structure which will enable it to implement its business strategy and provide sufficient liquidity and funding for its operations and capital expenditure plans for the medium term. The Board concluded that such a restructuring would be the best route to ensure that the Group has a viable future and to create value for all stakeholders.

In order to put in place such a financial restructuring the Company and its advisors have engaged in a series of negotiations and discussions over the last few months and have: (i) sought and obtained a commitment from Capital to undertake the Subscription; and (ii) following engagement with the Committee, agreed the terms of the Restructuring.

This Prospectus is being issued to give effect to the successful outcome of those negotiations. The agreed terms of the Restructuring provide for an Open Offer to be made to Qualifying Shareholders to subscribe for New Common Shares of the Company at the Offer Price. The Open Offer described in this Prospectus forms a key part of the overall restructuring of the capital of the Company. It provides an opportunity for all Qualifying Shareholders to whom the Open Offer is made to participate to subscribe for New Common Shares. The Debt Equitisation will result in a substantial dilution of existing Shareholders but, by participating in the Open Offer, Qualifying Shareholders to whom the Open Offer is made and who wish to do so, can reduce their dilution and participate in the future of the Company.

The Board has been very mindful throughout the Restructuring negotiations of its obligations to stakeholders and the desire which Shareholders have expressed that they should to continue to have the opportunity to participate in the Group’s potential success. The Restructuring has been designed to address this by preserving a limited on-going portion of the equity for existing Shareholders notwithstanding the very substantial write-off of debt under the Debt Equitisation and by creating the opportunity for existing Qualifying Shareholders to participate in the Open Offer.

It has been made clear to the Board that each part of the Restructuring is conditional and each of the relevant transactions are inter-conditional (please see paragraph 5 below: ‘*Consequences of a failure to implement the Restructuring*’ for further information). Should the Restructuring not proceed, the Company’s future would entirely depend upon the position and action of its creditors. The Shareholders would be unlikely to receive any proceeds from the sale of the Group or the disposal of its assets or any other return of income or capital by the Company, and therefore the Shareholders would be unlikely to see any return of their current investment. In the Board’s opinion, the Restructuring therefore is best transaction possible for the Company and the Shareholders.

### ***2015 results and financial position of the Group***

At 31 December 2015, the Group had a consolidated cash position of US\$43.6 million and, as at the Last Practicable Date, the Group had a consolidated cash position of US\$70.4 million (which includes the unpaid interest amounts that were due under the Convertible Bonds and Guaranteed Notes in April 2016).

Available liquidity for this period was however significantly lower as a result of the restricted cash balance of US\$32.5 million placed in the Debt Service Reserve Account. The Company’s near term cash flow was also impacted by the historical lack of a regular payment cycle for export sales and interruptions in production due mainly to offtake and export pipeline infrastructure availability. In order to improve the Group’s cash position and to adapt to the lower oil price environment, since H2 2014 the Group has focused on managing expenditure in a responsible and prudent manner.

Despite the challenging macro-economic conditions during the year, the Group delivered full year 2015 gross production of approximately 11.1 million barrels of oil (2014: approximately 6.5 million barrels of oil). Full year 2015 revenue was US\$86.2 million (31 December 2014: US\$38.6 million).

In March 2015, the Company raised gross proceeds of US\$40,693,235 through a conditional placing of 85,900,000 new Common Shares of US\$0.01 each in the Company at a placing price of 32p per share. The net change in the Group’s cash position over the financial year ending 31 December 2015 was US\$45.0 million after taking into account the receipt of the proceeds of this conditional placing.

In July 2016 the Company and Capital entered into the First Subscription Agreement under which Capital subscribed for 54,294,991 Common Shares at a subscription price equal to the Offer Price of 1.09 dollar cents per Common Share raising US\$591,815.40. Further details of the First Subscription Agreement are set out in paragraph 13 of Part 17 of this document: “*Additional Information*”.

### ***Steps taken by the Board to conserve cash***

As a result of the need to preserve cash the Group has focused on managing expenditure in a prudent and disciplined manner and expenditures have been reduced across the organization. Action taken includes renegotiation of contracts for supply of goods and services, namely security, general services and catering. In addition the Erbil office rental was reduced and employee numbers were reduced through a redundancy programme. Remaining contracting staff have suffered a reduction in their billable rate. In addition, as a result of a detailed review of the Group’s portfolio with emphasis on capital discipline and focusing on Shaikan, the operated producing asset, the Group decided to relinquish its remaining non-core assets due to potential capital demands and performance risk.

The Company also considered carefully whether it was an appropriate use of its limited available cash to pay the approximately US\$10 million of interest due under its Convertible Bonds and the approximately US\$16 million of interest due under its Guaranteed Notes on 18 April 2016. The Company determined that whilst the Company had and has sufficient cash to pay the coupon in full, in light of the need to substantially restructure the Company’s balance sheet it was not in the best interest of the Company to pay those amounts. Certain members of the Committee agreed to enter into the Standstill before the expiry of the grace periods applicable to those payments. Under the Standstill the holders of the Convertible Bonds and Guaranteed Notes that were signatories thereof agreed to forbear from taking certain actions with regard to specified events of default under the Convertible Bonds and Guaranteed Notes, respectively, including, among others, to refrain from accelerating amounts owing under the Convertible Bonds or Guaranteed Notes and not to vote in favour of any resolution to instruct the relevant Trustee to do so. The Standstill expired on 1 July 2016. As a result of the non-payment of these coupons by the Company there is a continuing event of default under the Convertible Bonds and Guaranteed Notes, however under the Restructuring Agreement signatories have agreed, *inter alia*, to refrain from taking any action to enforce the Guaranteed Notes and/or the Convertible Bonds in respect of that default on the terms set out



therein. Further details of the Restructuring Agreement are set out in paragraph 13.3 of Part 17 of this document: “*Additional Information*”.

#### ***M&A process and solicitation of strategic investment***

Given the substantial constraints on the Group’s cash flow and in order to improve its near term liquidity position, in early 2015 the Board initiated engagement in discussions with a number of parties in relation to possible asset transactions or a sale of the Company. In this process, multiple parties have been in discussions about potential transactions ranging from farm-ins to corporate sale options with the Company. Although several non-binding proposals were received none of these has progressed to a formal proposal as a result of the unfavourable regional geopolitical climate and ongoing oil price uncertainties that have affected M&A activity in the oil & gas industry globally. As at the date of this Prospectus the Company is not in active negotiations with any third party with regard to any M&A process.

Although a number of parties expressed interest no credible party was willing to proceed before the successful conclusion of the restructuring of the Group’s capital and the Company believes that given the current sector dynamics (low and volatile oil prices and geo-political issues in the region), that position is not likely to change before the maturity of the Group’s debt.

In addition to the M&A process, the Company engaged in discussions with potential strategic equity investors to seek funding, including those with existing exposure to Kurdistan, as well as exploring capital markets options. However, none of these alternatives have resulted in a successful solution for GKP.

#### ***Engagement with stakeholders and agreement on terms of Restructuring***

In the absence of any credible option to repay or refinance the Guaranteed Notes and Convertible Bonds prior to their maturity, any capital restructuring of the Group needs to address the position of the holders of the Guaranteed Notes and Convertible Bonds. In any event, under the terms of the Guaranteed Note Trust Deed, in October 2015 the Group became obliged to engage with advisors to the Committee in discussions with respect to a strategic review of the Group and a medium to long term solution for the Group’s finances and that engagement was commenced in a timely manner.

In order to support these discussions, the Group prepared a detailed revised business plan. This focused on its core producing asset, Shaikan, in an environment which assumes a lower oil price prevailing for an extended period. The revised business plan was developed to bridge to and complement the revised Shaikan FDP, which was being reviewed by the Group’s partners at the time, and aims to maintain Shaikan production at 40,000 bopd with an option to increase production to 55,000 bopd. At the time, the revised business plan was expected to be executed within 12 months of committing to a gross Capex programme of either US\$71 million in order to maintain Shaikan production at around 40,000 bopd or US\$88 million for the option to increase production to 55,000 bopd, both including 30% Capex contingency.

Based on the revised business plan, the Board concluded that new funds would be required to meet working capital requirements and that significant amendment to the terms of the Convertible Bonds and Guaranteed Notes would be required in order for the Group’s capital structure to be sustainable.

In parallel with the exploration of its strategic options, GKPI has held extensive discussions with the MNR and MOL to clarify the terms of the Shaikan PSC and resolve certain legacy contractual issues. Agreements reached between the MNR and GKPI have since been reflected in the Bilateral MNR Agreement under which GKPI and the MNR have agreed (*inter alia*) to a reduction in GKPI’s capacity building value payments from 40% to 30%. GKPI continues to work with its counterparties under the Shaikan PSC, in order to incorporate these modifications into the Shaikan PSC via the Second Shaikan Amendment.

It is expected that any realisation of the Shaikan Third Party Option and/or the Shaikan Government Option under the Second Shaikan Amendment will also require changes to be made to the joint operating agreement entered into by all parties to the Shaikan PSC (except for the MNR).

It is a condition precedent to the Restructuring (*inter alia*) that the Company shall have agreed arrangements with the MNR which are reasonably satisfactory to both the MNR and the Majority Participating Holders regarding the modifications to be made to the Shaikan PSC as envisaged by the Bilateral MNR Agreement.

### ***Conclusion of negotiations***

Negotiations with the Committee and potential investors have now completed and the Restructuring described in this Prospectus is the result of these discussions. At all times throughout these negotiations the Board has continued to review the position to satisfy itself that no better credible option exists.

Having carefully considered all the facts and circumstances and the prospects for the Group, the Board concluded that the Restructuring on the agreed terms is the best available credible option and in the interests of the Company. Accordingly, the Company announced on 14 July 2016 that it had reached agreement on the terms of the Restructuring with the Committee pursuant to the Restructuring Agreement. As of the Last Practicable Date, Convertible Bondholders and Guaranteed Noteholders (including members of the Committee), who together constitute Guaranteed Noteholders representing that they hold approximately 84% of the outstanding principal amount of Guaranteed Notes and Convertible Bondholders representing that they hold approximately 83% of the outstanding principal amount of Convertible Bonds, are party to the Restructuring Agreement and have agreed to support the Restructuring described herein. Further details of the Restructuring Agreement are set out in paragraph 13.3 of Part 17 of this document: “*Additional Information*”.

The Restructuring will put the Company into a position where it is able to move forward and implement its business plan. The amount of debt going forward is sustainable and affordable and the new money expected to be raised pursuant to the Open Offer and/or Subscription meets the needs of that plan.

As I have made clear above, the Board, after exhaustive examination and exploration of all available credible options, do not consider that there is any credible consensual alternative to the Restructuring on these terms. It is clear to the Board that were the Restructuring to fail then the Company’s future would entirely depend upon the position and action of its creditors. The Shareholders would be unlikely to receive any proceeds from the sale of the Group or the disposal of the Company’s assets or any other return of income or capital by the Company, and therefore the Shareholders would be unlikely to see any return of their current investment.

### **3. Overview of the Restructuring**

#### *Objectives of the Restructuring*

The primary objectives of the Restructuring are to:

- address over US\$600 million of debt maturities;
- mitigate the risk of any member of the Group having to file for a formal insolvency process, as a result of which the recoveries for creditors would be materially lower than if the Restructuring were to be successfully completed and Shareholders would receive no return;
- implement a new capital structure so that the Group will possess a strengthened balance sheet and a more appropriate debt service and maturity profile in light of the ongoing difficult trading conditions in the global crude oil market; and
- ensure that the Group can service its general corporate and working capital obligations thereby allowing the Group to continue trading and allow the implementation of the Company’s near-term investment plan to maintain production at 40,000 bopd from the Shaikan Block with the potential to increase production to 55,000 bopd subject to MNR and MOL approvals, the continuation of the regular payment cycle from the MNR and a commercially acceptable investment environment.

#### *Restructuring Agreement*

The Company has reached an agreement with members of the Committee and certain other Convertible Bondholders and Guaranteed Noteholders, who, as of the Last Practicable Date, together constitute Guaranteed Noteholders representing that they hold approximately 84% of the outstanding principal amount of Guaranteed Notes and Convertible Bondholders representing that they hold approximately 83% of the outstanding principal amount of Convertible Bonds, pursuant to which such Participating Holders have agreed to support the Restructuring described herein on certain conditions. Further details of the Restructuring Agreement are set out in paragraph 13.3 of Part 17 of this document: “*Additional Information*”.

The principal components of the Restructuring comprise:

#### *Debt Equitisation and Notes Reinstatement*

The Debt Equitisation will reduce the Company's indebtedness through the full equitisation of the Convertible Bonds (including accrued interest thereon), and partial equitisation of the Guaranteed Notes (including accrued interest thereon) down to US\$100 million, and will be effected by way of a scheme of arrangement in the UK between the Company and the Scheme Creditors.

As part of the Scheme, Guaranteed Noteholders will have the option to elect to: (i) reinstate all or part of their claims with respect to the Guaranteed Notes into US\$100 million aggregate principal amount of Reinstated Notes; and/or (ii) convert all or part of their claims into equity. In the event elections for Reinstated Notes exceed US\$100 million, the amount elected by Guaranteed Noteholders will be scaled back *pro rata* so that the principal amount of the Reinstated Notes will be limited to US\$100 million. In the event elections for Reinstated Notes are less than US\$100 million, the Guaranteed Noteholders subject to Debt Equitisation will be allocated Reinstated Notes on a *pro rata* basis to make up the shortfall. The Debt Equitisation will result in the Convertible Bondholders and Guaranteed Noteholders holding up to 20.0% and 65.5% (respectively) of the increased share capital of the Company immediately following such conversion, assuming the Open Offer is fully subscribed.

#### *Reinstated Notes*

As part of the Scheme, US\$100.0 million aggregate principal amount of Reinstated Notes will be issued by the Company. The Reinstated Notes will be guaranteed by GKPI and their terms will be the same as the existing Guaranteed Notes, subject to the following amendments:

- Maturity: 18 October 2021. At any time prior to maturity, the Reinstated Notes are redeemable at par and can therefore be refinanced without any prepayment penalty;
- Interest: from the date of issuance to 18 October 2018, the Company will have the option to pay interest either (a) on a PIK basis at 13% or (b) in cash at 10%. From 19 October 2018 onwards, interest will be payable in cash at 10%;
- Additional debt basket: pursuant to the Super Senior Basket the Company will be permitted to raise up to US\$25 million of additional indebtedness at any time on market terms to fund capital expenditure and operating expenses post-Restructuring. This additional indebtedness may be incurred as: (i) a Tap Issuance; or (ii) super senior credit facility indebtedness ranking ahead of the Reinstated Notes.
- Certain other amendments including, *inter alia*, the removal of security (such that the Reinstated Notes will be unsecured), the removal of the Debt Service Reserve Account and the extension of the grace periods in respect of certain events of default under the Reinstated Notes.

#### *Open Offer*

The Company intends to raise up to US\$25 million (prior to deduction of commissions, fees and expenses) through the Open Offer of up to 2,294,295,672 New Common Shares at the Offer Price, equivalent (if fully subscribed) to 10% of the *pro forma* equity of the Company post-Restructuring.

The Offer Price represents a discount of 3.87 pence (82%) to the closing price of 4.70 pence per Existing Common Share on the London Stock Exchange on 13 July 2016 (being the last trading day prior to the announcement of the Open Offer).

Qualifying Shareholders are being given the opportunity to apply for the Open Offer Shares at the Offer Price on and subject to the terms and conditions of the Open Offer, up to a maximum of their *pro rata* entitlement (on the Record Date) which shall be calculated on the basis of:

#### **20 New Common Shares for every 9 Existing Common Shares**

Accordingly, Qualifying Shareholders with fewer than 9 Existing Common Shares will not have the opportunity to participate in the Open Offer.

The Open Offer is conditional upon the implementation of the Debt Equitisation and Notes Reinstatement on or before 14 October 2016 (or such later date as the Company, and other relevant parties to the Restructuring Agreement may agree, being not later than 15 December 2016).

The Open Offer will include an Excess Application Facility, which will allow Qualifying Shareholders to subscribe for additional Open Offer Shares. The maximum number of New Common Shares available under the Excess Application Facility will be up to the full number of Open Offer Shares. If applications for additional Open Offer Shares under the Excess Application Facility exceed the aggregate number of Excess Application Shares, subscriptions will be scaled back (i) firstly, by

reference to each applicant's *pro rata* holding of Common Shares, and (ii) secondly, at the discretion of the Company, by reference to the amount of each applicant's tendered applications under the Excess Application Facility. Capital has undertaken not to participate in the Open offer which will allow its basic entitlement to be available to satisfy applications under the Excess Application Facility.

To the extent the Open Offer is not fully subscribed, the Company's current largest Shareholder, Capital, has agreed pursuant to the Second Subscription Agreement to subscribe for up to US\$20 million of New Common Shares at the Offer Price. If subscriptions from other Qualifying Shareholders under the Open Offer exceed US\$5 million then the amount to be subscribed for by Capital will reduce dollar for dollar by the amount of the excess so that the full US\$25 million is available to Qualifying Shareholders to whom the Open Offer is made other than Capital. Capital has undertaken not to participate in the Open Offer. Further details of the Second Subscription Agreement are set out in paragraph 13 of Part 17 of this document: "*Additional Information*".

Qualifying Shareholders with holdings of Existing Common Shares in both certificated and uncertificated form will be treated as having separate holdings for the purpose of calculating their Open Offer Entitlements.

Application will be made for the Open Offer Entitlements to be admitted to CREST. It is expected that the Open Offer Entitlements will be admitted to CREST at 8.00 a.m. on 1 September 2016, and that the Open Offer Entitlements will also be enabled for settlement in CREST at 8.00 a.m. on 1 September 2016.

The Open Offer is not a rights issue. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear's claims processing unit. Qualifying Non-CREST Shareholders should note that the Application Form is not a negotiable document and cannot be traded. Qualifying Shareholders should be aware that in the Open Offer, unlike in a rights issue, any Open Offer Shares not applied for will not be sold in the market or placed for the benefit of Qualifying Shareholders who do not apply under the Open Offer.

Further information on the Open Offer and the terms and conditions, including the procedure for application and payment in the Open Offer, are set out in Part 10 of this document: "*Questions and Answers about the Open Offer*" and Part 11 of this document: "*Terms and Conditions of the Open Offer*" and, where relevant, in the Application Form.

If any of the conditions are not satisfied the Open Offer will not proceed, any Open Offer Entitlements admitted to CREST will thereafter be disabled and application monies received under the Open Offer will be refunded to the applicants, by cheque (at the applicant's risk) in the case of Qualifying Non-CREST Shareholders and by way of a CREST payment in the case of Qualifying CREST Shareholders, without interest, as soon as practicable thereafter.

#### **4. Restructuring Arrangements**

##### *Conditionality of the Restructuring*

The Open Offer, Debt Equitisation and Notes Reinstatement are each inter-conditional. In addition, under the Restructuring Agreement, in order for the Restructuring to be implemented there are a number of conditions that need to be fulfilled, which may be waived by the Majority Participating Holders, including:

- the Company having confirmed that the Scheme Shares to be issued in the Debt Equitisation will be admitted to trading on the London Stock Exchange promptly after the Scheme Effective Date;
- the Company having confirmed that it has advised the Committee Advisors of any material changes to the Company's Capex Plan;
- the Company having confirmed that it has not spent any Capex other than Capex relating to production maintenance;
- satisfaction that any new Board member(s) selected and approved by the Majority Participating Holders and notified to the Company prior to the Scheme Effective Date will be appointed to the Board on or promptly after the Scheme Effective Date; and



- the Company having agreed arrangements with the MNR reasonably satisfactory to both it and to the Majority Participating Holders regarding (a) the implementation of the Bilateral MNR Agreement, (b) the future marketing of the Group's oil until a formal audit has been carried out and (c) the predictability of future payments including recovery of past costs and receivables.

In addition, consummation of the Open Offer will be conditional on implementation of the Debt Equitisation and the Notes Reinstatement.

A full description of the conditions to the Restructuring is set out in paragraph 13 of Part 17 of this document: "*Additional Information*".

#### *Open Offer Process*

The Open Offer is being conducted pursuant to the terms and conditions set out in Part 11 of this document: "*Terms and Conditions of the Open Offer*". The proceeds from the Open Offer will be paid into a separate bank account pending the Open Offer becoming unconditional. In the event that it does not become unconditional on or around 14 October 2016 or such later time as the Company shall determine (being no later than 15 December 2016) the Open Offer will lapse and application monies will be returned to the applicants.

#### *Scheme Process*

The Debt Equitisation and Notes Reinstatement will be effected via the Scheme.

On 25 July 2016, the Company made an application to the Court for a hearing for an order granting the Company certain directions in relation to the Scheme, including permission to convene meetings of the Scheme Creditors for the purpose of considering and, if thought fit, approving the Scheme (the "**Scheme Directions Hearing**"). The Scheme will require the consent of not less than 75% (by value), and a majority in number, of each of the Guaranteed Noteholders and Convertible Bondholders that attend and vote at each of the Scheme Meetings.

The Scheme Directions Hearing is expected to be held on 1 September 2016, and the Scheme Meetings are expected to be convened for 22 September 2016.

The Company will file the results of the Scheme Meetings with the Court within five business days. If the Scheme is approved by both Convertible Bondholders and Guaranteed Noteholders at the Scheme Meetings, the Company will seek to obtain a Sanction Order from the Court with respect to the Scheme following such filing. The Company will then file the Sanction Order with the Registrar of Companies, on which date the Scheme will become effective in accordance with its terms. On the Scheme Effective Date, the Debt Equitisation and Notes Reinstatement will be effected the Open Offer Shares will be allotted and it is expected that dealing will commence on or around 14 October 2016.

A full description of the Scheme is set out in paragraph 13 of Part 17 of this document: "*Additional Information*".

### **5. Consequences of a failure to implement the Restructuring**

If any of the inter-conditional requirements or conditions to the Restructuring are not satisfied (or where possible waived) the Restructuring will not be implemented and in such circumstances:

- the Company will face the prospect of insolvency because it will not be able to refinance the Guaranteed Notes or Convertible Bonds when they fall due for repayment next year or earlier if they are accelerated by reason of the ongoing default described below;
- the Company will be in continuing default under the Guaranteed Notes and the Convertible Bonds. In the light of the need to substantially restructure the Company's balance sheet, the Company determined it was not in the best interest of the Company for it to make payment of the most recent interest coupon on its Guaranteed Notes and Convertible Bonds due in April 2016. That default has not been cured or waived. If the Restructuring were not to proceed, for any reason, then the Company's expectation, is that, given the prospect of insolvency, it would not be in the best interest of the creditors for the Company to cure the default by paying the coupon. Payment would provide no significant protection as the next coupon falls due on 18 October 2016 and the Company does not anticipate that it will have sufficient cash to cure the April 2016 coupon payments and to make the October 2016 payments without being in breach of the debt service reserve covenant. Further, using cash to make these payments would diminish the prospects of the Company being able to successfully conclude a balance sheet restructuring in the future;



- the Company may become subject to enforcement action or insolvency before the maturity of the Guaranteed Notes and the Convertible Bonds. The existence of the continuing payment default exposes the Company to the ongoing risk of acceleration and/or enforcement. Under the Restructuring Agreement the signatories have agreed to forbear from taking any action to enforce the Guaranteed Notes and/or the Convertible Bonds in respect of that default. However, if the Restructuring is not implemented then enforcement steps could be taken either as part of an alternative restructuring or following the termination of the Restructuring Agreement. Holders of not less than one-quarter of the principal amount of each of the Convertible Bonds and the Guaranteed Notes can request that the relevant trustee declares that the Convertible Bonds and/ or the Guaranteed Notes, as applicable, are immediately due and repayable at their principal amount together with accrued interest;
- in light of the prospect of insolvency, the Company would have to prioritise the interests of its creditors and, in particular, seek to minimise their losses, and this would take precedence over the interests of Shareholders. In an insolvency of the Company, the existence of the guarantee from GKPI that supports the Guaranteed Notes would entitle Guaranteed Noteholders to look to GKPI and its assets, which represent most of the economic value of the Group, for recovery of their claims;
- accordingly, the Company has concluded that, if the Restructuring fails, in order to preserve the business and operations of Gulf Keystone, the Company would seek to implement an alternative restructuring transaction which would be preferable for its creditors to a liquidation;
- in order to achieve this, under the Restructuring Agreement, if the Restructuring is not implemented, in certain circumstances the Company has agreed to work with the Participating Holders to seek to effect an alternative restructuring of the Company's balance sheet capital structure. This alternative would involve the transfer of the Company's business and operations to the Guaranteed Noteholders, and also those Convertible Bondholders who have entered into the Restructuring Agreement by 1 August 2016. In such event, Shareholders, and those Convertible Bondholders who have not entered into the Restructuring Agreement by 1 August 2016, are likely to receive nil consideration or recovery with respect to their current investment in the Company. If the Company were not to cooperate in such an alternative restructuring, then it would remain open for the Guaranteed Noteholders to seek to effectively implement such a transaction regardless and without the co-operation of the Company but potentially with a worse outcome for creditors;
- in such an alternative restructuring, Shareholders are very unlikely to have the opportunity to invest in the Company; and
- if an alternative restructuring cannot be implemented for any reason, then it is highly likely that the Group would become subject to an insolvency process with a material and adverse impact on its position as operator of the Shaikan block. The Company has been advised that the distributions arising from insolvency may not be sufficient to repay its creditors in full, and therefore in that event there would be no return to Shareholders.

In these circumstances, the Directors consider that the Company's future would entirely depend upon the position and action of its creditors. The Shareholders would be unlikely to receive any proceeds from the sale of the Group or the disposal of the Company's assets or any other return of income or capital by the Company, and therefore the Shareholders would be unlikely to see any return of their current investment.

For further information please see the Risk Factors *"If the Restructuring is not implemented it is highly likely that there will be no value returned to Shareholders"*; *"The Restructuring is subject to conditions; failure to fulfil any one of these conditions will result in the Restructuring not proceeding"*; and *"The Company will have insufficient working capital for its present purposes"* set out in Part 2 of this document: *"Risk Factors"*

## 6. Use of proceeds of the Open Offer

Pursuant to the Open Offer and/or the Subscription, the Company is expected to raise up to US\$25 million of cash which will be applied as follows:

- the cash proceeds of US\$25 million received pursuant to the Open Offer and/or Subscription will be retained for the operation of the Company and funding the Company's interim investment plan to maintain production at 40,000 bopd.

## 7. Dilution

The Restructuring will result in substantial dilution for existing Shareholders in their interests in the Company. Following the implementation of the Restructuring and, assuming that the Open Offer is subscribed in full by all Qualifying Shareholders, the existing Shareholders, in aggregate, will own up to approximately 14.5% of the share capital in the Company.

Pursuant to the Debt Equitisation, the Guaranteed Noteholders and Convertible Bondholders, in aggregate, will own approximately 85.5% of the pro-forma share capital in the Company following the completion of the Restructuring, assuming the Open Offer is subscribed in full.

The total number of Common Shares in issue immediately prior to the Restructuring will represent between approximately 4.5% and 4.6% of the total number of Common Shares in issue immediately following completion of the Restructuring on an equity raise of a minimum of US\$20 million to a maximum of US\$25 million through the Open Offer and/or the Subscription. The new equity issued through the Debt Equity and the Open Offer will therefore be represented by between approximately 95.4% and 95.5% of the total number of Common Shares in issue immediately following completion of the Restructuring.

If you decide to not take up some or all of your Open Offer Entitlements, the proportion of the Company you will own will be significantly smaller once the Restructuring has been completed, as New Common Shares are being issued for the purposes of the Restructuring. In these circumstances your interest in the Company will be diluted further and the maximum dilution you would suffer immediately following completion of the Restructuring in the event that you do not take up any of your Open Offer Entitlements would be 95.5%.

The following table shows the *pro forma* equity share capital of the Company post Restructuring both including the Open Offer (assuming it is fully subscribed) and excluding the Open Offer, including the equity allocation to Guaranteed Noteholders and Convertible Bondholders and the dilutive effect for Shareholders:

	Post-Debt Equitisation / Excluding Open Offer		Post-Debt Equitisation and Open Offer fully Subscribed	
	Ownership (%)	Ownership (Common Shares)	Ownership (%)	Ownership (Common Shares)
Guaranteed Noteholders	72.8	15,031,035,606	65.5	15,031,035,606
Convertible Bondholders	22.2	4,585,192,387	20.0	4,585,192,387
Existing Shareholders Pre-Restructuring equity	5.0	1,032,433,052	4.5	1,032,433,052
Existing Shareholders subscribing to the Open Offer	—	—	10.0	2,294,295,672
<b>Total Post-Open Offer</b>	<b>100.0</b>	<b>20,648,661,045</b>	<b>100.0</b>	<b>22,942,956,717</b>

## 8. Financial effects of the Restructuring

The Board cannot give any assurance (even if the Restructuring is successfully completed) that the Company's business will be successful in the future. Even if the Restructuring does proceed, the ability of the Company to be in a position to return value to Shareholders (either through an increased share price or payment of dividends or a return of capital in the longer term) for their investment is highly dependent on the ability of the Company to deliver on its announced interim investment plans and the field development plan in a challenging geopolitical environment.

The Company's financial performance will be dependent on the prevailing market oil price, even though it has focused on managing expenditure in a prudent and disciplined manner which should allow the business to be more sustainable in a lower oil price environment. The Company aims to ensure that its business is in a strong position to sustain operations at current and lower oil price levels.

The Company's financial performance will also be dependent on the geopolitical situation in the region and regularity of MNR payment cycles. Historically, the Company's financial performance has been negatively impacted by the lack of a regular payment cycle for export sales. In August 2015, the MNR announced that it would allocate, on a monthly basis, a portion of the revenue from direct crude oil sales to the producing international oil companies. In February 2016, the MNR announced that, from 1 January 2016, monthly payments to each international oil company in Kurdistan for crude oil sold in the previous month will be based on the contractual production entitlements under its relevant PSC and that the MNR would make a further payment, equivalent to 5% of the respective monthly netback revenue derived from each PSC, towards the recovery of the outstanding arrears for crude oil sales. From September 2015 to date, the Company has received US\$142.5 million gross under this arrangement.

The Bilateral MNR Agreement was entered into on 16 March 2016 by MNR and GKPI (and thus binds these two parties alone). It has two principal purposes, namely to:

1. record the agreement and mutual understanding of MNR and GKPI in relation to certain aspects of the Shaikan PSC, including (*inter alia*):
  - (a) MNR's approval of the proposed assignment and transfer to GKPI of the entire 5% participating interest in the Shaikan PSC currently held by Texas; and
  - (b) MNR and GKPI's intention to implement the Shaikan Third Party Option so that (i) a 7.5% participating interest in the Shaikan PSC in aggregate shall be allocated in favour of GKPI and MOL *pro rata* to their respective participating interests; and (ii) a 7.5% carried interest in the Shaikan PSC shall be allocated to MNR;
  - (c) MNR and GKPI's intention, subject to the satisfaction of certain conditions (including the payment by MNR of certain Capex, opex and other back-costs attributable to its Shaikan Government Option) to recognise the allocation to MNR of the Shaikan Government Option with effect from 1 August 2012;
  - (d) the basis in due course for (i) the calculation; and (ii) payment on a monthly basis until satisfied in full, of the back-costs referred to in sub-paragraph 2(c) above;
  - (e) the reduction in the capacity building value charge to be paid per month by GKPI under the Shaikan PSC from 40% to 30% of sales of GKPI's Profit Petroleum (as defined in the Shaikan PSC);
  - (f) the commitment of each of MNR and GKPI to enter into the Second Shaikan Amendment for the purposes of giving effect to each of the objectives listed at sub-paragraph 2 (a) through to 2 (e) above; and
2. finalise the terms of relinquishment and termination by the Group of its rights and obligations under the Sheikh Adi PSC, which has been completed in accordance with the executed Relinquishment and Termination Agreement attached to the Bilateral MNR Agreement.

The Company continues to progress the draft Second Shaikan Amendment implementing the terms of the Bilateral MNR Agreement and thereby consolidating the MNR payment of past costs and arrears and the Group's entitlement under the Shaikan PSC.

Currently, the Company's outstanding aggregate debt obligation under the Guaranteed Notes and Convertible Bonds, including accrued and unpaid interest, is over US\$600 million. Immediately following the completion of the Restructuring, the Company's financial indebtedness under the Guaranteed Notes and Convertible Bonds will be cancelled and replaced with US\$100 million of Reinstated Notes with the option to elect PIK interest for two years. Further, the Company will have additional capacity under the terms of the Reinstated Notes via the Super Senior Basket and the General Debt Basket to incur up to US\$45 million (in aggregate) of additional debt, which can be raised at any time to fund capital expenditure and operating expenses.

## 9. Current trading and future prospects

At 31 December 2015, the Group had a consolidated cash position of US\$43.6 million and, as at the Last Practicable Date, the Group had a consolidated cash position of US\$70.4 million (which includes the unpaid interest amounts that were due under the Convertible Bonds and Guaranteed Notes in April 2016).

Available liquidity for this period was however significantly lower as a result of the restricted cash balance of US\$32.5 million placed in the Debt Service Reserve Account. The Company's near term

cash flow was also impacted by the historical lack of a regular payment cycle for export sales and interruptions in production due mainly to offtake and export pipeline infrastructure availability.

The Group will make its 2016 Half Year Results Announcement on 22 September 2016. There has been no significant change to the financial condition and operating results of the Group since 31 December 2015, the date on which the last financial information on the Group was published.

## **10. Risk Factors**

Part 2 of this document: “*Risk Factors*” sets out a number of risks and other factors that should be carefully considered when deciding on what action to take in relation to the Restructuring, and whether or not to subscribe for Open Offer Shares. They are based on information known as at the date of this document which the Board considers to be material. Additional risks and uncertainties not presently known to the Company or the Directors, or that the Company or the Directors currently consider to be immaterial, may also have a material adverse effect on the Group’s business, results of operations, financial condition and prospects. If any or a combination of these risks occurs, the market price of the Common Shares could decline and investors may lose all or part of their investment.

## **11. Taxation**

Information on UK taxation with regard to the Open Offer is set out in the sections entitled “*UK taxation*” of Part 16 of this document: “*Taxation*”. This information is intended only as a general guide to the current UK tax position. If you are in any doubt as to your own tax position, or are subject to tax in a jurisdiction other than the UK you should consult your own independent professional adviser without delay.

## **12. Outstanding awards under the Share Scheme**

Appropriate adjustments may be made to outstanding awards (including options) granted under the Share Scheme in accordance with the rules of the relevant Share Scheme, in order to compensate the holders of such outstanding awards for any reduction in the value of their awards resulting from the Open Offer.

Any such adjustments:

- will be made after completion of the Open Offer by the Remuneration Committee;
- may include adjustment of the number of shares subject to awards and, in the case of options, the exercise price; and
- will not require Shareholder approval.

The holders of outstanding awards under the Share Scheme will be contacted separately with further information on how their awards will be affected by the Open Offer. Descriptions of the Share Scheme appear in the paragraph entitled “*Incentive plans*” of Part 17 of this document: “*Additional Information*”.

## **13. Overseas Shareholders**

Qualifying Shareholders who have registered addresses, or who are resident or located in or are citizens or nationals of any country outside the United Kingdom and persons who hold Existing Common Shares for the account or benefit of any such person or who have a contractual or other legal obligation to forward this document, or an Application Form if and when received, or any other document relevant to the Open Offer, to a jurisdiction outside the United Kingdom should refer to the section entitled “*Overseas Shareholders*” in paragraph 6 of Part 11 of this document: “*Terms and Conditions of the Open Offer*”.

Common Shares will be provisionally allotted to all Qualifying Shareholders, including Overseas Shareholders. However, Application Forms will not be sent to Qualifying non-CREST Shareholders with registered addresses in the United States or any of the Excluded Territories, nor will the CREST stock account of Qualifying CREST Shareholders with registered addresses in the United States or any of the Excluded Territories be credited except where the Company is satisfied, at its sole and absolute discretion, that such action would not result in the contravention of any registration or other legal requirement in the relevant jurisdiction.

#### **14. Action to be taken in respect of the Open Offer**

If you are a Qualifying non-CREST Shareholder, unless you are a Qualifying non-CREST Shareholder with a registered address in certain countries outside the UK, you will be sent an Application Form. This will show the number of Existing Common Shares that you hold and the number of Open Offer Shares that you are entitled to take up and will contain full details regarding the procedure for acceptance and payment, renunciation, splitting and registration in respect of the Open Offer Shares.

If you sell or otherwise transfer all your Existing Common Shares before 31 August 2016 (the date on which the Common Shares start trading without the right to participate in the Open Offer), you will not be entitled to participate in the Open Offer. However, the purchaser or transferee of your Common Shares may be entitled to participate in the Open Offer in your place. In this case, please send this document to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was made, for delivery to the purchaser or transferee.

If you are a Qualifying CREST Shareholder, no Application Form will be sent to you and, unless you are a Qualifying CREST Shareholder with a registered address in the United States or an Excluded Territory, you will receive a credit to your appropriate stock account in CREST in respect of the Open Offer Entitlements to which you are entitled. If you are a Qualifying CREST Shareholder with a registered address in the United States or an Excluded Territory, no Open Offer Entitlements will be credited to your stock account. Qualifying Shareholders who are resident or located in any jurisdiction outside the UK should refer to the section entitled “*Overseas Shareholders*” in paragraph 6 of Part 11 of this document: “*Terms and Conditions of the Open Offer*”.

The latest time and date for acceptance and payment in full in respect of the Open Offer by Qualifying Shareholders under the Open Offer is 11.00 a.m. (London time) on 15 September 2016, unless otherwise announced by the Company. The procedure for acceptance and payment is set out in Part 11 of this document: “*Terms and Conditions of the Open Offer*”. Further details also appear in the Application Form which will be sent to all Qualifying non-CREST Shareholders (other than, subject to certain exceptions, those Qualifying non-CREST Shareholders with a registered address in the United States or any of the Excluded Territories).

If you are in any doubt as to what action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised under the Financial Services and Markets Act 2000 who specialises in advice on the acquisition of shares and other securities if you are resident in the United Kingdom or, if not, from another appropriately authorised independent adviser.

#### **15. Further information**

Your attention is drawn to Part 18 of this document: “*Documents Incorporated by Reference*”. You should read all the information contained in, or incorporated by reference into, this document before deciding whether to participate in the Open Offer.

Part 10 of this document: “*Questions and answers about the Open Offer*” answers some of the questions most often asked by Shareholders about the Open Offer and the procedure for acceptance and payment and sets out further information on the Open Offer.

#### **16. Financial Advice**

The Board has received financial advice from Perella Weinberg Partners in relation to the Restructuring. In providing advice to the Board, Perella Weinberg Partners has relied upon the Directors’ commercial assessments of the Restructuring



## **17. Recommendation**

The Directors will use the authority granted at the Special General Meeting to allot New Common Shares pursuant to the Restructuring.

If the Restructuring does not proceed, the Directors believe that the Company's future would entirely depend upon the position and action of its creditors. The Shareholders would be unlikely to receive any proceeds from the sale of the Group or the disposal of the Company's assets or any other return of income or capital by the Company, and therefore the Shareholders would be unlikely to see any return of their current investment.

For further information please see paragraph 5 above: *"Consequences of a failure to implement the Restructuring"* and the Risk Factors *"If the Restructuring is not implemented it is highly likely that there will be no value returned to Shareholders"*; *"The Restructuring is subject to conditions; failure to fulfil any one of these conditions will result in the Restructuring not proceeding"*; and *"The Company will have insufficient working capital for its present purposes"* set out in Part 2 of this document: *"Risk Factors"*.

In the Board's opinion, the Restructuring is in the best interests of the Company and the Shareholders taken as a whole.

Yours faithfully,

Keith Lough  
**Chairman**

## PART 7

### IRAQ AND KURDISTAN

#### Section A: Information on Iraq and Kurdistan

##### 1. Introduction and brief history of Kurdistan

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

Until recently, the history of the region has been defined by cycles of ethnic and political conflict. Initial calls for an independent Kurdish province in northern Iraq began in the 1920s when Kurdish leaders clashed with the British authorities in the region over the establishment of a united and independent region. Following a series of revolts, the region was ultimately incorporated within the new state of Iraq with a limited level of autonomy. A new series of revolts against the Iraqi Government were launched in the 1960s with the aim of securing Kurdish autonomy. A peace plan was announced in March 1970 and provided for broader Kurdish autonomy, establishing the Kurdish Autonomous Region. Despite this, the Ba'athist government in Baghdad, headed by Saddam Hussein, took an aggressive position against the Kurdish population, which continued until 1991, when, following the first Gulf War, the United Nations Security Council designated the region a safe haven and the Iraqi Government withdrew its military from the region. The region gained de facto autonomy but suffered hardships from embargos imposed by both the United Nations on Iraq and by Saddam Hussein on the region. In 2003, Kurdish troops fought alongside foreign military powers overthrowing Saddam Hussein's regime. The invasion of Iraq in 2003 allowed Kurdistan to consolidate its position as an autonomous political entity. The Iraqi Constitution granted Kurdistan executive, legislative and judicial powers, as well as authority over the region's administrative requirements. Kurdistan now functions as an autonomous region with its own flag, military force (the Peshmerga) and international border controls. Broadly, under the Iraqi Constitution, the Iraqi Government has exclusive competency over certain matters, the KRG has joint competency with the Iraqi Government over certain matters and the KRG has sole competency over all matters which are not either exclusively reserved to the Iraqi Government or the subject of the joint competency between the Iraqi Government and the KRG. See Section B of this Part 7 – "*The Iraqi and Kurdistan oil and gas industry*" for a discussion regarding competency in relation to oil and gas matters.

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

##### 2. Geography and population

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

The population of Iraq is approximately 37 million people, with Arabs forming between 75% and 80% of the country's population and Kurds forming between 15% and 20% (source: CIA World Factbook: 2015).

Kurdistan is, in principle, made up of the three governorates of Duhok, Erbil and Sulaimaniyah but, as defined by the Iraqi Constitution and retained articles from the antecedent Transitional Administrative Law of 2004, comprises all areas of Iraq under the jurisdiction of the KRG on 19 March 2003. As referred to below, the boundaries of the region are a matter of dispute, including,

particularly, whether the Tamim governorate, including the Kirkuk area, forms part of Kurdistan. The region itself covers approximately 40,000km<sup>2</sup> – approximately twice the size of Wales and larger than the Netherlands. Kurdistan is geographically diverse, with its terrain ranging from hot plains to cooler mountainous areas. Currently, Kurdistan has a population of around 5.2 million people made up of several different ethnic groups, such as the Kurds, Assyrians, Chaldeans, Turkmen, Armenians and Arabs. The Kurdish language is in the family of Iranian languages, such as Persian and Pashto. There are two main dialects, Sarani and Kurmanji.

### **3. Governance of Iraq and Kurdistan**

Iraq is a parliamentary democracy with a federal system of government. The Iraqi Constitution guarantees all Iraqis basic rights in many areas. The executive branch consists of the Presidency Council and a Council of Ministers (the “**Iraqi Cabinet**”). The President is the head of state, protecting the Iraqi Constitution and representing the sovereignty and unity of the state, while the Prime Minister is the direct executive authority and commander-in-chief. The current President and Prime Minister of Iraq are Fuad Massoum and Haider al-Abadi, respectively.

The Council of Representatives is Iraq’s legislature (the “**Iraqi Parliament**”). The Iraqi Parliament currently has 328 elected members. The most recent elections for the Iraqi Parliament were held on 30 April 2014. In contrast to the December 2005 elections, which operated a closed regional party list electoral system, the 2014 and 2010 elections were conducted under the open regional party list electoral system. Broadly, this allowed voters not only to cast a vote for a party, but also to indicate their preference for particular candidates on the regional party list.

In the 2014 elections, the three main Kurdish parties obtained more than 50 seats with the Kurdistan Democratic Party (the “**KDP**”) allocated 25 seats, the Gorran (Change) Movement allocated 9 seats and the Patriotic Union of Kurdistan allocated 21 seats.

Kurdish political leaders initially stated that they would not participate in the newly formed government until Haider al-Abadi granted key policy concessions. The key Kurdish demands were:

- the holding of a referendum on the status of disputed territories;
- granting the KRG full control of its airspace;
- immediate payment of 2014 budget arrears;
- federal funding for the Kurdish security forces; and
- the federal government’s removal of legal challenges to the KRG’s ability to export crude oil.

In October 2014, both the Kurds and Sunnis agreed to join the government without prior agreement to their political demands. Due to the ongoing regional conflict with Daesh, the KRG has postponed negotiations and put a referendum on independence on hold as it works with the Iraqi Government on an approach to defeat Daesh. In January 2016 the Kurdish President, Massoud Barzani, called again for a non-binding referendum on the independence of Kurdistan.

Kurdistan’s legislature is the Kurdistan Parliament, a unicameral parliament with 111 seats. The executive body of Kurdistan is the KRG. The KRG cabinet and Prime Minister are selected by the majority party or list in the assembly. The President of Kurdistan is directly elected by the electorate.

Kurdistan has been experiencing a period of political stalemate since August 2015. There has been internal tension and division amongst the region’s political parties concerning the legitimacy of the presidency and the presidential term and the composition of the government which is a government of national unity. This political stalemate is still to be resolved.

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

### **4. Kurdistan’s relationship with Turkey**

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

In the spring of 2013, the PKK announced that it would cease its armed uprising against the Turkish government and withdraw its armed fighters from Turkey to northern Iraq. The ceasefire between the

Turkish government and the PKK collapsed in July 2015, when Turkey launched air strikes against the PKK camps in Northern Iraq. Though the PKK and Turkish state forces continue their armed struggle, the PKK leadership committed in August 2015 to refrain from striking the Kurdistan oil export pipeline that transits Turkey.

An improving relationship between Kurdistan and Turkey has opened up commercial opportunities for both parties. Turkish investment in Kurdistan is considerable and there exist close business and cultural relationships between the two. The KRG and Turkey signed an Energy Framework Agreement in March 2013. Since the signing of the agreement:

- a Turkish state-backed energy company has entered the upstream market in Kurdistan, signing six PSCs with the KRG and partnering with Exxon in a number of licences;
- final completion of the independent oil export pipeline infrastructure from Kurdistan to Turkey occurred at the beginning of 2014 and on 8 January 2014, the MNR announced the commencement of the sale of its first shipment of crude oil exported via the regional pipeline to the international market through its own marketing firm, KOMO;
- Turkey and the KRG have agreed a fifty-year framework for the export of Kurdistan gas to the Turkish gas market; and
- the KRG's relationship with Turkey was further strengthened when the KRG and the Iraqi Government agreed for Iraq to export up to 300,000 bbl/d of Kirkuk crude through KRG's pipeline to Ceyhan, Turkey. For further information see paragraph 3 of this Section B: "*Export Payments*" below.

Since January 2014 the KRG has been exporting oil produced in Kurdistan to the international market directly to Turkey through the regional pipeline infrastructure from Kurdistan to Turkey. The revenue from these sales is remitted directly to the KRG and, although this is below Kurdistan's 17% share of the federal budget, it is significantly higher than the amounts the Iraqi federal government was able to allocate to the KRG on a monthly basis prior to such sales commencing. These revenues are used to help meet Kurdistan's governmental salaries, maintain vital government services, and to pay the Peshmerga and other security forces who are fighting Daesh.

On 17 February 2016 export through the international pipeline was suspended due to security measures, re-opening on 11 March 2016 during which period oil exports fell by nearly a half from 601,811 bopd in January to 350,067 bopd in February.

## **5. Iraq and Kurdistan's economy**

Since May 2003, there has been significant post-war economic and financial recovery and the gross domestic product of Iraq as a whole has rebounded quickly following the conflict. Real GDP in Iraq is estimated to have grown by 13.9% in 2012, compared to 2011, but slowed down subsequently by 6.6% in 2013, before decreasing again by 2.1% in 2014. Data shows that the Iraqi real GDP grew by 2.4% in 2015 and the IMF expects new growth of 7.2% in 2016, 3.3% in 2017, and 4.8% in 2018. (Source: IMF, 2016).

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

In response to steeply lowered global oil prices the KRG has embarked on a major austerity program that is quickly restoring the economic balance of the country. Whereas the KRG had a monthly deficit of US\$405 million in December 2015, Kurdistan reduced this amount to a US\$100 million month deficit by April 2016. These changes were supported by the Kurdish people and the budget deficit will be eliminated completely before 2018 through a combination of growing non-oil revenues, rising oil prices and further cuts to government subsidies. Throughout this austerity program the KRG has continued to pay full PSC entitlements to producing IOCs.

## **Section B: The Iraqi and Kurdistan oil and gas industry**

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

The economies of Iraq and Kurdistan are highly dependent on the development, production and export of oil and gas. The oil sector currently provides Iraq with about 80% of its foreign exchange earnings and 90% of government revenue (source: CIA World Factbook – January 2016). Iraq has an estimated 144.2 billion barrels of Proved Reserves of oil and 3.158 trillion cubic metres of Proved Reserves of gas (source: CIA World Factbook – January 2015 estimate). The US Geological Survey estimates that Kurdistan holds as yet undiscovered hydrocarbons of approximately 40 billion barrels of oil and 60 trillion cubic feet of gas and that Iraq holds the world's fourth largest oil Reserves.

Iraq's high dependency on oil makes the economy vulnerable to fluctuations in the oil price and also to sabotage attacks on the oil infrastructure. There has been an increasing threat from Daesh, which has led to increased security threats and operations have been suspended temporarily by a number of international companies. For further information, see paragraph 4: "*Impact of Daesh on Iraq's and Kurdistan's Oil Sector*" below.

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

The next post-invasion phase in the development of oil and gas in Kurdistan followed the enactment of the Kurdistan Oil and Gas Law, when seven new PSCs were issued, with Gulf Keystone, OMV Group, MOL, Heritage Oil and Reliance Industries Limited taking the bulk of the exploration acreage. Since 2007, a number of international oil companies have operated under PSCs in Kurdistan, including Marathon Oil Corporation, Murphy Oil Corporation, Talisman Energy Inc., Sterling Energy, Korea National Oil Corporation, Sinopec International Petroleum Exploration and Production Corp., US-based Hunt Oil Company, Longford Energy, ShaMaran Petroleum, Oil Search Limited and Dana Gas. More recently, other large international oil companies, including Exxon Mobil, Total, Chevron, Gazprom, Hess Corporation, Repsol YPF and Maersk Oil have entered into PSCs in Kurdistan. This influx of foreign investment is in line with the policy of the Department of Foreign Relations in Kurdistan. This department, established in September 2006, is responsible for promoting the KRG's foreign relations policy and the stimulation of foreign investment.

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

The Iraqi Constitution came into force in 2006 and contains a list of those powers which are reserved exclusively for the Iraqi Government and a list of those powers which are shared by the Iraqi Government and the governments of the Iraqi regions. Jurisdiction over matters that are not within the exclusive powers granted to the Iraqi Government resides with the Iraqi regions and governorates. With regard to powers shared by the Iraqi Government and the Iraqi regional governments, priority is given to the laws of the regions and the governorates in the event of a dispute. Since jurisdiction over the awarding of oil and gas production agreements and management of oil and gas resources is not reserved exclusively to the Iraqi Government nor included in the list of matters in relation to which power is to be shared by the Iraqi Government and the Iraqi regions, the KRG contends that jurisdiction over oil and gas matters in Kurdistan falls under the KRG's jurisdiction. However, in relation to oil and gas, the Iraqi Constitution provides, amongst other things, that the "*management of oil and gas extracted from present fields*" is to be undertaken jointly between the Iraqi Government and the producing governorates and regional governments. What this means is debatable, as the Iraqi Constitution does not define the term "*present fields*", oil and gas extracted from which would be subject to joint management, and the Iraqi Constitution does not clarify what joint management would involve. Since joint management applies to oil and gas "*extracted*" from present fields, it would, arguably, apply only to fields that were producing at the time the Iraqi Constitution came into effect.

Accordingly, such fields in Kurdistan could arguably be excluded from the meaning of "*present fields*" in the Iraqi Constitution and, therefore, not be subject to the provision requiring joint management between the KRG and the Iraqi Government. As a result, the KRG contends that control over such fields lies with the KRG exclusively, rather than being subject to joint management or exclusive Iraqi Government control. With regard to GKP, the Shaikan Block was not producing at the date the Iraqi Constitution came into force.



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

On the basis that the KRG has jurisdiction over oil and gas matters and the Kurdistan Oil and Gas Law is a valid law under the Iraqi Constitution, the Directors believe, based on Iraqi legal advice, that the PSCs entered into by the KRG. In addition, Article 141 of the Iraqi Constitution provides that, amongst other things, any contracts signed before the date of the Iraqi Constitution are valid, unless amended or annulled by a competent authority in Kurdistan or such contracts contradict the Iraqi Constitution. Accordingly, the Directors believe, based on Iraqi legal advice, that PSCs entered into prior to the date of the Iraqi Constitution are also valid under this express grandfathering provision, provided that they have been ratified or affirmed pursuant to the Kurdistan Oil and Gas Law.

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

### **3. Export payments**

Under the PSCs granted by the KRG, oil contractors, such as the Group, are entitled to a share of production. The contractors are entitled to sell their share of production. Such sales may be to local purchasers in Kurdistan and/or international export sales with the approval of the MNR. The Group's oil produced from the Shaikan Block is currently trucked to the DNO facilities at Fishkhabour where it is injected into the export pipeline for international sale facilitated by the MNR. Historically, all export sales in Iraq, including in Kurdistan, have been conducted by the Iraqi federal SOMO using pipeline infrastructure controlled by the Iraqi federal authorities. The proceeds of such sales were received by the Iraqi Government, which, in turn, was required to pass on oil contractors' entitlements to the KRG for onward payment to the relevant contractors.

At the start of 2015 the KRG reached a deal with the Iraqi Government to, *inter alia*, export crude oil in exchange for regular payments of the region's 17% share of Iraq's federal budget, which was subsequently codified in the Budget Law. Whilst both the KRG and the Iraq Ministry of Oil have confirmed that Kurdistan fulfilled its obligations of exporting oil in accordance with the Budget Law, the Iraq Government, due to a number of factors, has to date, been unable to meet, in full, Kurdistan's monthly budgetary dues.

Since January 2014 the KRG has been exporting oil produced in Kurdistan to the international market via Turkey through the regional pipeline infrastructure to help meet Kurdistan's governmental salaries, maintain vital government services, and pay the Peshmerga and other security forces who are fighting Daesh. The revenue from these sales is remitted directly to the KRG and although this is below Kurdistan's 17% share of the federal budget, it is significantly higher than the amount the Iraqi Government was able to allocate to the KRG on a monthly basis prior to such sales commencing. As a result of the KRG not receiving payments in accordance with Budget Law, payments from the KRG to oil and gas operators in Kurdistan, including the Company, have been irregular and, as at 30 June 2016, the Company is owed approximately US\$ 28 million (net of payables outstanding to the MNR and excluding June 2016 and May 2016 revenue receivable) for historical oil production sold for export.

On 3 August 2015 the KRG acknowledged the impact that the lack of historical payment for crude oil production was having on oil companies in the region and announced that, from September 2015 onwards, it would allocate, on a monthly basis, a portion of the revenue from direct crude oil sales to the producing oil companies, to cover their ongoing expenses. Furthermore, as exports rose in

early 2016, the KRG announced its intention to make monthly payments based on the contractual production entitlements under relevant PSCs, and to make additional revenue available to enable oil companies to begin to catch up on the past receivables due under their PSCs.

Whilst the KRG has reaffirmed its efforts to continue to seek solutions to these financial issues through negotiations and dialogue with the Iraqi Government, there can be no certainty in relation to the agreement between the KRG and the Iraqi Government in respect of the payment mechanics for oil exports and negotiations surrounding the resumption of payments and satisfaction of monies owed are continuing at the date of this document.

Notwithstanding the content of the KRG's announcements in August 2015, and subsequently in February 2016, and the consistent receipt by the Group of payments to date, there can be no certainty that such payments will continue to be received or that they will be sufficient to cover ongoing expenses or address money owed for historical production. As at the date of this document the Group has received aggregate payments of US\$142.5 million gross from September 2015 to date.

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

The Iraqi Government continues to oppose unilateral oil exports by the KRG and has publicly stated that it will take action against any company that facilitates any such sales. Since May 2014 the Iraqi Government also has pending arbitration against Turkey at the International Chamber of Commerce in relation to such exports.

#### **4. Impact of Daesh on Iraq's and Kurdistan's Oil Sector**

During the last two years there has been an increased but manageable threat from Daesh which has resulted in an increased security threat in Iraq and Kurdistan. For further information, see Part 2 of this document: "*Risk Factors*". In early June 2014 Daesh launched an attack in Iraq, taking over Mosul, the second largest city in Iraq, after Baghdad, and subsequently other nearby towns. Though Daesh affected northern Iraq production and refinery operations, Daesh did not significantly affect current production in the KRG, although fighting came close to the Khurmala Dome and around ten miles south of Shaikan, although Daesh did not attempt to come closer to the latter field, which is well-screened by terrain and Kurdish defences.

Out of an abundance of caution, some oil companies were forced to temporarily abandon exploration projects but have since resumed operations. Daesh also initially took over some smaller northern Iraqi oil fields outside of the Kurdistan Region, including Ajeel, Hamrin, Qayara, Balad, Ain Zalah, Batma, and Najma, but Daesh later lost control of some of those fields following the US led air strikes that began in early August 2014. Though Daesh has continually probed the Kurdish frontline this defensive line has proven very firm, repelling numerous attacks through a combination of the US-led coalition's airpower and the Kurdish Peshmerga forces (now armed by the international community).

During the second half of June 2014, Daesh attacked Baiji, Iraq's largest oil refinery, causing the refinery to halt operations. The Iraqi Government regained control of Baiji refinery and town but both have been extensively damaged and may not be rebuilt. The closure of the Baiji refinery caused a near halt to commercial production in northern Iraq (not including the Kurdistan Region). The Iraq portion of the Iraq Turkey pipeline ("ITP") had already been severely damaged after being sabotaged by militants, and it has not operated since March 2014. Therefore, with the closure of both the Baiji refinery and the Iraq portion of the ITP, northern Iraqi oil production (the Kirkuk and Bai Hassan fields) lacked a significant commercial outlet for several months.

A direct impact of the Daesh invasion and the fleeing of the Iraqi army was that the Kurds have expanded their sphere of influence, gaining control of the Bai Hassan field and the Avana Dome in the Kirkuk field in Northern Iraq. Also included under KRG's protection are the North Oil Company (a state oil company within the Ministry of Oil of Iraq which oversees production of Iraq's northern oil fields) ("NOC") operated fields of Jambur, Khabbaz and the Baba Dome. In early 2014,

the KRG was reportedly liaising with NOC officials to link the Bai Hassan field and the Avana and Baba domes of the Kirkuk oil field to the Kurdistan Region-Turkey pipeline at Khurmala Dome, with the intention of freeing trapped crude production. After skirmishes between Daesh and KRG forces around the Kirkuk and Bai Hassan fields, the KRG took over operations at the Avana Dome, a part of the Kirkuk field, and Bai Hassan in July 2014. For most of the time since June 2014 the Kirkuk and Bai Hassan fields have exported crude to Turkey via the Kurdistan oil export pipeline. Some Kirkuk production has been suspended since the temporary 23-day closure of the pipeline in February-March 2016.

## PART 8

### THE BUSINESS

*Investors should read this Part 8 “The Business” in conjunction with the more detailed information contained in this document, including the financial and other information appearing in Part 14 of this document: “Operating and Financial Review”.*

#### 1. Business overview

##### **Introduction**

The Company is an independent oil and gas exploration, development and production company with operations in Kurdistan.

The Group’s principal asset, the Shaikan Block, is held through the Company’s wholly owned subsidiary, Gulf Keystone Petroleum International Limited, which is also the operator.

First commercial production commenced from the Shaikan field in July 2013 and in December 2013 crude oil exports began. A Field Development Plan was approved by the MNR for the Shaikan field in June 2013 and was revised in December 2015. A summary of the terms of the Shaikan FDP is set out in paragraph 13 of Part 17 of this document: “*Additional Information*”.

In early 2014 Shaikan PF-1 achieved stable production levels of 10,000 bopd and together with PF -2 achieved production of 40,000 bopd in December 2014. Trucking exports of the Shaikan crude oil to the Turkish coast for injection into the international pipeline commenced in mid-2015 and remains the Company’s current marketing route for its crude oil.

In order to focus on the funding and effective management of its core assets, the Company announced in January 2016 that MOL in agreement with GKPI and the MNR has agreed to relinquish the Akri-Bijeel PSC and subsequently in March 2016 the Company announced that GKPI, under the terms of the Bilateral MNR Agreement, had agreed to relinquish and terminate the Sheikh Adi PSC in accordance with the executed Relinquishment and Termination Agreement attached to the Bilateral MNR Agreement. Discussions with the MNR in relation to the Group’s possible relinquishment and termination of the Ber Bahr PSC are ongoing. The Ber Bahr Relinquishment and Termination Agreement has been circulated to key departments within the MNR and the MNR are checking the inventory in the field for transfer to the MNR.

In August 2009, the Group announced its intention to exit Algeria in order to focus on exploration, appraisal and production opportunities in Kurdistan and is in the process of negotiating an orderly exit from the Ferkane PSC, its last remaining link to its historic operations in Algeria.

##### **Key events in the Company’s history**

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

##### **2001**

October	Company incorporated. Group begins operating in the Republic of Algeria.
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##### **2004**

September	Company’s shares admitted to trading on AIM.
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##### **2007**

November	GKPI awarded its first two PSCs for the Shaikan and Akri-Bijeel Blocks by the KRG.
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##### **2009**

March	Ber Bahr PSC awarded by the KRG.
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April	Shaikan-1, the Company’s first exploration well in Kurdistan, spudded.
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July	Sheikh Adi PSC awarded by the KRG. Group announced intention to exit Algeria.
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August	Significant discovery made on the Shaikan Block.
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**2010**

October Commencement of the Shaikan EWT early production operations.

**2011**

January-December 5-well appraisal campaign for the Shaikan discovery.

Summer Work on the Shaikan FDP commenced.

**2012**

April Construction of the first Shaikan PF-1 commenced.

August Submitted a declaration of Commercial Discovery to the Shaikan Block Management Committee.

First post-appraisal well on the Shaikan Block spudded.

September Submission of the Shaikan Appraisal Report to the MNR.

October Commencement of the trial in the English Commercial Court of claim asserted by Excalibur.

Placement of the US\$275 million of Convertible Bonds.

**2013**

January Submitted the Shaikan FDP to the MNR.

June Approval of the Shaikan FDP.

Completed the construction of Shaikan PF-1. Spudded Shaikan-7 (first deep exploration well).

July Commencement of commercial production from the Shaikan Block.

September Dismissal of all claims asserted by Excalibur against the Group and Texas.

October Completion of Shaikan-10 (first development well).  
Placement of New Convertible Bonds.

December Handing down of the full judgment of the Excalibur claim and confirmation of no further appeal by Excalibur.

Commencement of the first tendered crude oil exports from the Shaikan Block by truck.

**2014**

January Commencement of the sale of crude oil exported via truck and the regional pipeline through Turkey to the port of Ceyhan.

Application made under section 51 of the Senior Courts Act 1981 against Excalibur's funders to recover costs to the Excalibur proceedings.

March Admission, with a Standard Listing, to the Official List and to trading on the Main Market.

April Issuance of Guaranteed Notes.

May Payment of US\$13.3 million gross for Shaikan crude export.

June Shaikan PF – 2 fully commission and production operations commenced.

Payment of US\$6.9 million gross for Shaikan crude export.

December Payment of US\$15 million gross for Shaikan crude export sales.  
Shaikan – 11 spudded.

The Company reached the target of 40,000 bopd.



## **2015**

January	Sami Zouari appointed as Chief Financial Officer.
February	<p>Payment of US\$26 million gross received as pre-payment of Shaikan crude oil sales in February 2015.</p> <p>The Group was requested to stop production and trucking from the Shaikan Block pending renegotiation of the trucking costs and quality discount due to the Company from the KRG for oil produced and sold both by the KRG and Iraq, resuming in March 2015.</p>
March	Shaikan – 11 completed.
April	<p>Placing of 85,900,000 new Common Shares completed, raising US\$41 million.</p> <p>Consent solicitation to remove Book Equity Ratio covenant from Guaranteed Notes terms and conditions.</p> <p>Interest payments of US\$26.4 million (in aggregate) made in respect of Guaranteed Notes and Convertible Bonds.</p>
June	<p>CEO Jón Ferrier appointed.</p> <p>Completion of consent solicitation process in connection with Guaranteed Notes.</p>
July	Agreement reached with MNR to access export pipeline at Fishkhabour.
August	KRG announced that from September 2015 onwards, it would allocate, on a monthly basis, a portion of the revenue from direct crude oil sales to the producing oil companies comprising DNO, Genel and Gulf Keystone, to cover their ongoing expenses.
September	KRG make first payment of US\$15 million gross to the Company pursuant to August 2015 announcement.
October	<p>KRG makes second payment of US\$15 million to the Company.</p> <p>Interest payments of US\$26.4 million (in aggregate) made in respect of Guaranteed Notes and Convertible Bonds.</p>
December	<p>KRG makes third payment of US\$15 million to the Company.</p> <p>Appointments of Cuth McDowell and Keith Lough, Non-Executive Directors.</p> <p>Revised Shaikan FDP submitted to the MNR for review.</p> <p>MOL, in agreement with the Company and the MNR confirm their decision to relinquish the Akri-Bijeel Block.</p>

## **2016**

January	<p>KRG makes fourth payment of US\$15 million to the Company.</p> <p>Announcement of the relinquishment of the Sheikh Adi and Ber Bahr Blocks.</p>
February	<p>KRG announces monthly payments to the producing IOCs based on the contractual entitlements under the relevant PSCs governing each license, replacing the interim payment arrangements in place since September 2015.</p> <p>In addition KRG announces a further payment, equivalent to five percent of the respective monthly netback revenue derived from each field, to the IOCs towards the recovery of their outstanding entitlements.</p>
March	<p>KRG makes fifth payment of US\$15 million to the Company.</p> <p>KRG makes sixth payment of US\$7.5 million to the Company.</p> <p>Execution of the Bilateral MNR Agreement</p>

April	<p>KRG makes seventh payment of US\$15 million to the Company.</p> <p>Company announces stakeholder discussions on the Company's need for near-term fundraising, upcoming debt obligations and possible restructuring of the Company's balance sheet, utilisation of grace periods for April coupon payments on Guaranteed Notes and Convertible Bonds, and subsequently with Standstill until 20 May 2016.</p>
May	Company announces extension of Standstill to 31 May 2016.
June	<p>Company announces new Standstill until 13 June 2016 and extension until 1 July 2016.</p> <p>KRG makes eighth and ninth payments of \$15m respectively to the Company.</p> <p>Company announces production milestone of 25 million barrels has been reached, triggering a production bonus of US\$10 million.</p>
July	<p>Company announces expiry of Standstill.</p> <p>Company announces Restructuring.</p> <p>Resignation of Andrew Simon and appointment of Keith Lough as Chairman of the Company.</p> <p>DNO announces the terms of the DNO Takeover Offer.</p>
August	<p>Signatories to the Restructuring Agreement reach approximately 84% of the aggregate principal amount of the Guaranteed Notes and approximately 83% of the aggregate principal amount of the Convertible Bonds.</p> <p>Company announces results of Special General Meeting held in Geneva, at which the resolution that the authorised share capital of the Company be increased by US\$219,105,237 from US\$73,000,000 by the creation of 21,910,523,665 new Common Shares is passed with 94.85% of votes in favour.</p> <p>KRG makes tenth payment of \$15m to the Company.</p>

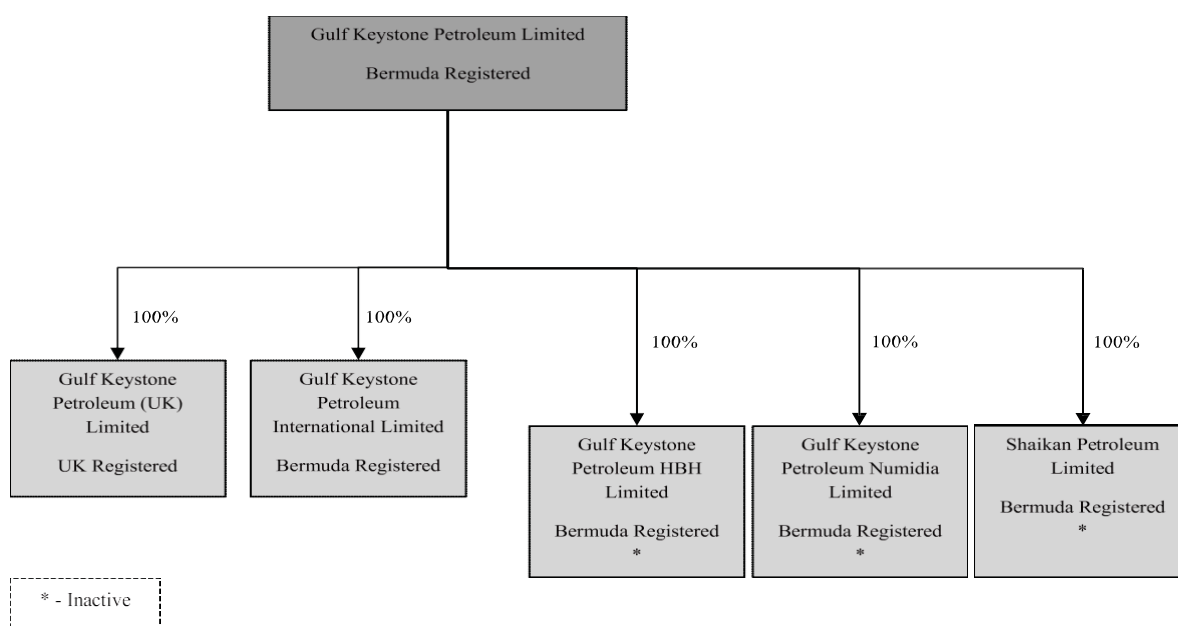
#### ***Group structure***

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

<b>Name of Subsidiary</b>	<b>Place of incorporation and registered office</b>	<b>Issued share capital and proportion of ownership interest (%)</b>	<b>Principal activity</b>
<b><i>Active Subsidiaries</i></b>			
Gulf Keystone Petroleum (UK) Limited	England & Wales 6 Floor, New Fetter Place New Fetter Lane London EC4A 1AZ	100 £2 (2 £1 Shares)	Geological, geophysical and engineering services and administration
Gulf Keystone Petroleum International Limited	Bermuda Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	100 US\$10,000 (10,000 US\$1 Shares)	Exploration, evaluation, development and production activities

Name of Subsidiary	Place of incorporation and registered office	Issued share capital and proportion of ownership interest (%)	Principal activity
<b>Inactive Subsidiaries</b>			
Gulf Keystone Petroleum HBH Limited	Bermuda Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	100 US\$10,000 (10,000 US\$1 Shares)	Exploration and evaluation activities
Gulf Keystone Petroleum Numidia Limited	Bermuda Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	100 US\$10,000 (10,000 US\$1 Shares)	Exploration and evaluation activities
Shaikan Petroleum Limited	Bermuda Cumberland House 9th Floor 1 Victoria Street Hamilton HM11 Bermuda	100 US\$10,000 (10,000 US\$1 Shares)	Exploration and evaluation activities

**Group structure diagram**



## 2. Key Strengths

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

***Operator of one of the world's largest independent onshore developments***

The Company's current focus is on safe and reliable production and on the further development of the Shaikan Field. The Shaikan Field was discovered by the Group in 2009, and commerciality declared in 2012.

With the Shaikan Commercial Discovery, the Group has one of the world's largest onshore conventional oil and gas developments with 622 MMstb of gross Proved plus Probable Reserves (2P) and 239 MMstb gross Proved and Probable Contingent Resources (2C).

The Shaikan Field contains considerable upside via further developments of producing horizons and exploration and development of prospective deeper reservoirs (Triassic and Permian) and the shallow Cretaceous potential.

### ***Demonstrable field development, production and sales growth at Shaikan***

Significant and rapid operational progress has been made at the Shaikan field since the Shaikan discovery in 2009. Commercial production from the Shaikan Block commenced in July 2013 and sales and production capacity reached 40,000 bopd in December 2014 (being the cumulative production from PF-1 and PF-2). In January 2014 the Company began exporting Shaikan crude oil by truck to Turkey, and over the course of 2014, the average daily production from Shaikan was 18,000 bopd. In 2015 the average gross daily production rate from Shaikan was 30,500 bopd, which figure reflects restrictions by off-taker limitations as plant availability has remained above 95% all year. As at 1 August 2016, export deliveries in 2016 totaled nearly 7.2 million barrels, equating to a daily average of over 34,000 bopd.

Shaikan is producing black oil and the observed pressure reduction is in line with predicted field performance and consistent with the CPR reserves and resources. This decline does not affect the 2P reserve estimate but will require intervention to maintain current production levels. In the near term the Group is focused on stabilising production at 40,000 bopd with a potential move to increase production to 55,000 bopd in the event that additional funding is available (which is principally expected to be through the establishment of a regular payment cycle from the MNR and a stabilisation of oil prices at a commercial level).

The Group retains significant remaining exploration potential, as demonstrated by the prospective deeper reservoirs (Triassic and Permian) and the shallow Cretaceous potential in Shaikan.

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

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

The Group seeks to employ Kurdistan nationals where practicable and has significantly increased its training initiatives for national staff, who now account for over 80% of the Group's workforce. The Group also maintains good relations with local communities. For example, the Group spends time working with local communities and their leaders to understand where the Group's assistance is most needed as well as providing local employment and training initiatives. Approximately 45% of the Company's expenditure represents business done with local vendors.

The Company has also contributed to the humanitarian relief efforts in Kurdistan, with the ongoing regional conflict with Daesh. During the summer of 2014, the Company provided basic food staples and essential items to the internally displaced persons in and around the Group's operational areas, distributing over 300 family food parcels as well as clothing and sanitation products in one week alone and covering 24 villages. During the winter months the Company engaged in a scheme which supplied families with food, bedding, clothes and heaters. The Company's engagement with the local community is ongoing.

The Company has developed robust processes and procedures, as well as a HSSE training programme to ensure health and safety practices. The Company has also established a Health, Safety, Security, Environment and CSR Committee to develop policies and guidelines for the management of health, safety, security, environmental risks and corporate social responsibility within the Group's operations. The Company has been committed to ensuring the safety of its staff, and has when necessary temporarily withdrawn all non-essential staff from Kurdistan.

Localisation is a key driver for the Company and its sustainability in Kurdistan. GKPI has over 80% local employment, one of the highest in the Kurdistan industry and plans to increase this further. To accompany and achieve this, the Company has implemented a Competency Based Framework programme ("CBF"). This seeks to screen and measure all local operational employees and identify key talent for training and promotion. The CBF developed by the Group has received recognition from the MNR and has been adopted as the country standard to which other operators in Kurdistan are encouraged to adopt.

The Company has also adopted a number of environmental improvement programmes, including its waste management, bio-remediation, evaporation and de-watering systems that meet international standards and benefit surrounding communities. Recent activities have included the supply of water wells to local villages and engagement with the mayors and community leaders to share ideas and initiatives. The Group is also a leader among oil and gas operators in Kurdistan in the area of waste disposal, having developed a waste management initiative across the Shaikan Block. The Group purchased and installed an industrial incinerator which meets European Union guidelines for air emissions, giving the Company the ability to monitor and control the disposal of all solid waste.

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

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

The Company's Senior Managers and other senior operational staff have extensive combined technical knowledge and geoscience expertise gained by working for a diverse range of oil and gas companies, including major operators and service companies in a range of onshore and offshore environments including Syria, an extension of the Kurdistan geological trend. The Company's Senior Management also has a strong understanding of the oil and gas industry in Kurdistan and, more broadly, in Iraq. The Directors believe the Company has strong geology and geoscience teams that have been able to provide a competitive advantage to prospect selection resulting in efficient de-risking of frontier acreage and their history of operating in the region, and in these particular petroleum fields have given them an in-depth technical understanding of the particular technical challenges that they face in further developing their petroleum assets in Kurdistan.

### **3. Strategy**

The Company's intention is to become a leading independent oil producer. The Directors believe that Shaikan offers significant near-term production and medium-term exploration opportunities with significant resource potential, while revenues generated through increased production will be re-invested to grow the operations in Kurdistan and seek attractive business development opportunities internationally. The Directors believe that the Group's existing asset base and senior management team will contribute significantly to value growth for Shareholders. The key elements of the Company's strategy for achieving this goal are set out below.

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

The Company is seeking to implement a large-scale, phased development of the Shaikan Block over the next five years. The production capacity of the Shaikan PF-1 and PF-2 reached 40,000 bopd in December 2014, and the Company has maintained a stable production and sales capacity of 40,000 bopd through 2015 to date, however, due to local offtake restrictions and export line availability average liftings were 30,500 bopd. Year to date daily average production for 2016 (up to 1 August) is 34,000 bopd, which reflects the impact of the pipeline outage from 17 February – 11 March 2016. Shaikan is producing dry oil and the observed pressure reduction is in line with predicted field performance and consistent with the CPR reserves and resources. This decline does not affect the 2P reserve estimate but will require intervention to maintain current production levels. In the near term the Group is focused on stabilising production at 40,000 bopd with a potential move to increase production to 55,000 bopd in the event that additional funding is available (principally through the establishment of a regular payment cycle from the MNR and a stabilisation of oil prices at a commercial level). Management continues to refine the scope of each of the projects to achieve the initial stabilisation at 40,000 bopd and the subsequent potential increase to 55,000 bopd. Since preliminary project estimates were announced in March 2016, additional scope has been identified that will minimise risk and maximise successful delivery of the projects. Any additional associated costs are consistent with preliminary Capex contingencies announced by the Company.

As a consequence of continued production and pressure data gathering, and an improved understanding of the recovery mechanism, the Company has been able to revise the Shaikan FDP with a reduced well count. An updated draft of the Shaikan FDP, which includes a production target of 110,000 bopd and the development of the Jurassic reservoirs, was submitted to the MNR for approval in December 2015.

As part of the Shaikan FDP, the Company is in continuing negotiations with the MNR over the development of a spur pipeline connecting the Shaikan Block to the export market via the international pipeline which would enable it to lower transportation costs, increase production capacity and improve HSSE performance, whilst maintaining steady sales in the international market.

Since mid-September 2015 the Company has delivered all Shaikan production to Fishkhabour by truck for injection into the international pipeline. The Company believes that access to the export pipeline is critical to ensure the Group's long-term ability to maximise its revenue due to the cost, safety and environmental issues of transporting oil by truck and the limited capacity of available



infrastructure to absorb any significant increase in oil production beyond the Group's current levels of production.

***Become a cash generating business and achieve financial strength***

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

Specifically the Company's goal is to finance its near-term investment plan to maintain production at 40,000 bopd with the potential to increase production to 55,000 bopd, subject to MNR and MOL approvals in full from revenues generated as a result of increasing production from the Shaikan Block, and steady oil sales to the international markets.

Prior to September 2015, payments from the KRG to oil and gas operators in Kurdistan, including the Company, were irregular. In August 2015 the KRG announced that from September 2015, it would allocate, on a monthly basis, a portion of the revenue from direct crude oil sales to the producing oil companies to cover their ongoing expenses. The Company received gross payments of US\$60 million for its oil sales between September and December 2015. In February 2016, the KRG announced that, from 1 January 2016, monthly payments to the producing international oil companies would be based on the contractual entitlements under the relevant PSCs and that the KRG would make a further payment, equivalent to 5% of the respective monthly netback revenue derived from each field, towards the recovery of the outstanding revenue arrears. Between January 2016 and the Last Practicable Date, the Company has received US\$82.5 million. As at 30 June 2016, the Company is owed approximately US\$28 million (net of payables outstanding to the MNR and excluding June 2016 and May 2016 revenue receivable) for historical oil production.

As part of the Bilateral MNR Agreement, MNR and GKPI expressed their intention, subject to the satisfaction of certain conditions (including the payment by MNR of certain Capex, opex and other back-costs attributable to its Shaikan Government Option, and the execution of the Second Shaikan Amendment) to recognise the exercise by the MNR of the Shaikan Government Option with effect from 1 August 2012.

As at 30 June 2016, the Group estimates that net receivables from MNR to GKPI for such past petroleum costs would be approximately US\$61 million.

***Increase Reserves and production through further exploration and appraisal***

In the longer term, the Company remains committed to explore the deeper potential of the Shaikan field in the Triassic Geli Khana and Permian Zia Ziara Formations, both of which have proved to be hydrocarbon bearing elsewhere in the region and remain attractive exploration targets.

***Focus on core asset***

In order to focus on the funding and effective management of its core asset, the Company announced in January 2016 that MOL, in agreement with the Company and the MNR, has agreed to relinquish the Akri-Bijeel Block and in March 2016, that the Company announced that it had agreed to relinquish the Sheikh Adi and Ber Bahr Blocks. Summaries of the terms of the Akri-Bijeel and Sheikh Adi relinquishments are set out in paragraph 13 of Part 17 of this document: "*Additional Information*".

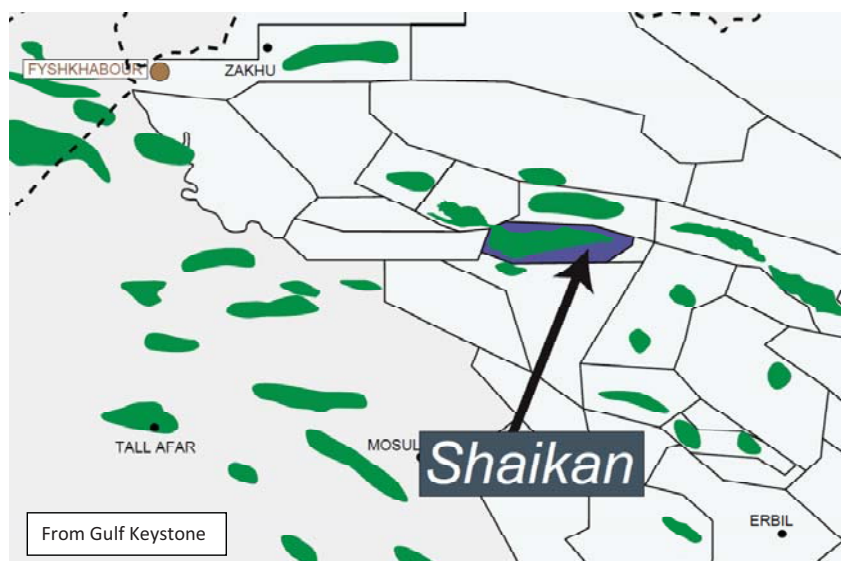
The Company is seeking an orderly exit from its obligations under the Ferkane PSC in Algeria and continues the discussions with Sonatrach in this regard.

**4. Summary of key asset and operations**

The Group is focused on oil exploration and production in Kurdistan, where a Commercial Discovery was made on the Company's Shaikan Block in 2012. The Shaikan FDP was approved on 25 June 2013, and a revision was submitted to the MNR for review in December 2015.

Taking into account current resource estimates for the Shaikan discovery the Group has a share of gross mean oil-in-place resources of up to 7.3 billion barrels in one of the last frontier oil provinces in the world.

The following map shows the location of the Shaikan Block:



The table below summarises details of the Shaikan Block and the Group's ownership interest in it:

Party	Diluted Working Interest (%)	Capacity Building Charge (%)	Undiluted working interest (%)
GKPI	54.4	40.0	80.0
MOL	13.6	—	20.0
KRG	20.0	—	—
STPI	12.0	—	—
<b>TOTAL</b>	<b>100</b>	<b>—</b>	<b>100</b>

Following the execution of the Second Shaikan Amendment the ownership of the Shaikan Block will be as follows:

Party	Diluted Working Interest (%)	Capacity Building Charge (%)	Costs Exposure (%)
GKPI	58.0	30.0	64.0
MOL	14.5	—	16.0
KRG	27.5	—	20.0
<b>TOTAL</b>	<b>100.0</b>	<b>—</b>	<b>100.0</b>

## Shaikan Block

### Overview

The Shaikan Block is located some 60km north of Erbil in Northern Kurdistan, covering an area of 283km<sup>2</sup>. The Shaikan PSC was awarded in November 2007. Since its discovery in 2009, the estimated size of the Shaikan field has significantly increased and now stands at Proved plus Probable (2P) gross field oil Reserves of 622 MMstb.

### Geology

The Shaikan field is an anticline sitting at the north-west end of the Zagros Foldbelt, extending 30km from east to west and 10km from north to south. To date, the discovery well and five further appraisal wells have identified six oil-bearing reservoirs in the Cretaceous, Jurassic and Triassic, of which the most significant is the Jurassic reservoir with approximately 76% of the estimated 2P+2C reserves and resources.

The Jurassic consists of an upper zone comprising the Sargelu-Alan-Mus and a lower interval termed the Butmah reservoir. GKPI intends to concentrate initially on producing from the Jurassic reservoirs. Shaikan-1 and Shaikan-3, were originally connected to an EWT facility and produced from October 2010 until early May 2012 and from October 2012 until January 2013. The EWT facility was replaced by Shaikan PF-1 and PF-2 being installed to the east as noted below. Currently 7 wells are producing from the upper reservoir (as 1 well is currently shut in) and one (SH-7) from the lower.

In the Cretaceous interval, the oil is very heavy or bituminous in nature and no pressure volume temperature experiment analysis has been reported. In the Jurassic interval the oil is medium to heavy with a gravity of between 14 and 20° API and relatively high in-situ viscosity. In the Triassic interval, hydrocarbons are light oil and gas, with a gravity of between 38 and 43° API. Associated gas contained within all intervals of the field has a high content of H<sub>2</sub>S and CO<sub>2</sub>.

### ***Interest***

The PSC between: (i) the KRG; and (ii) GKPI, Texas and MOL in respect of the Shaikan Block became effective on 6 November 2007 and was amended pursuant to the First Shaikan Amendment on 1 August 2010. Subject to the execution of the Second Shaikan Amendment the Shaikan PSC will be further amended to reflect the terms of the Bilateral MNR Agreement.

The Bilateral MNR Agreement was entered into on 16 March 2016 by MNR and GKPI (and thus binds these two parties alone). It has two principal purposes, namely to:

1. record the agreement and mutual understanding of MNR and GKPI in relation to certain aspects of the Shaikan PSC, including (*inter alia*):
  - (a) MNR's approval of the proposed assignment and transfer to GKPI of the entire 5% participating interest in the Shaikan PSC currently held by Texas; and
  - (b) MNR and GKPI's intention to implement the Shaikan Third Party Option so that (i) a 7.5% participating interest in the Shaikan PSC in aggregate shall be allocated in favour of GKPI, MOL and Texas *pro rata* to their respective participating interests; and (ii) a 7.5% carried interest in the Shaikan PSC shall be allocated to MNR;
  - (c) MNR and GKPI's intention, subject to the satisfaction of certain conditions (including the payment by MNR of certain Capex, opex and other back-costs attributable to its Shaikan Government Option) to recognise the allocation to MNR of the Shaikan Government Option with effect from 1 August 2012;
  - (d) the basis in due course for (i) the calculation; and (ii) payment on a monthly basis until satisfied in full, of the back-costs referred to in sub-paragraph 2(c) above;
  - (e) the reduction in the capacity building value charge to be paid per month by GKPI under the Shaikan PSC from 40% to 30% of sales of GKPI's Profit Petroleum (as defined in the Shaikan PSC);
  - (f) the commitment of each of MNR and GKPI to enter into the Second Shaikan Amendment for the purposes of giving effect to each of the objectives listed at sub-paragraph 2 (a) through to 2 (e) above; and
2. finalise the terms of relinquishment and termination by the Group of its rights and obligations under the Sheikh Adi PSC, which has been completed in accordance with the executed Relinquishment and Termination Agreement attached to the Bilateral MNR Agreement.

The full implementation of the terms of the Bilateral MNR Agreement is subject to the formal execution of the Second Shaikan Amendment.

As described in greater detail in paragraph 13.2 of Part 17: “*Additional Information*”, a Commercial Discovery was announced by the Company in August 2012 and therefore GKPI and MOL, as contractors, have the exclusive right to develop and produce the Commercial Discovery for a period of 20 years from the date of discovery, with an automatic right to extend for an additional period of five years and an optional further five year extension. In their modelling ERC Equipoise have assumed a licence expiry of 2043, representing a 30 year production window for the PSC. Note there remain considerable recoverable resources (150MMstb) in the production profile after this date but these have not been allocated to Reserves or Contingent Resources at this stage, as the Company cannot yet demonstrate precedent for licence extension in this area, within the context of the CPR these volumes are termed Technically Recoverable Resources.

### ***Development and forward plan***

Following approval of the Shaikan FDP, GKPI commenced commercial production operations and subsequently crude oil sales, hitting its 40,000 bopd target in December 2014. In the near term the Group is focused on stabilising production at 40,000 bopd with a potential move to increase production to 55,000 bopd in the event that additional funding is available (principally through the establishment of a regular payment cycle from the MNR and a stabilisation of oil prices at a commercial level).

The Company has produced 25 million barrels up to 30 June 2016, and has 622MMstb remaining gross Shaikan 2P reserves.

The Shaikan PF-1 was commissioned in July 2013 to a nameplate capacity 20,000 bopd. This has now been successfully debottlenecked to achieve daily rate of over 24,000 bopd. Shaikan PF-1 is connected to wells Shaikan-1B, Shaikan-3, Shaikan-4, and Shaikan-7 and -8. Production levels at Shaikan PF-1 are stable at around 22,000 bopd although a maximum throughput of over 25,000 bopd was achieved in April 2016.

Shaikan PF-2 was commissioned in June 2014 and is capable of producing 20,000 bopd. Shaikan PF-2 was initially tied into Shaikan-2 and Shaikan- 5 wells in June 2014. In December 2014 following the excavation of, an 11 km trench well Shaikan-10 was brought online to achieve a total combined daily production of 40,000 bopd for the first time. Four months later Shaikan-11 was tied in to provide additional well capacity and redundancy. These wells were connected to Shaikan PF-2 via an 11km trench into which four flowlines and an umbilical were laid. GKPI has completed the first phase of debottlenecking on both plants, increasing their daily throughput capacity by 16% to 20%. Further optimisation and improvements are ongoing including increased monitoring and instrumentation, improved flare performance and fire protection.

As a consequence of continued production and pressure data gathering, and an improved understanding of the field recovery drive mechanism, the Company has been able to revise its field development plan with a reduced well count. An updated draft of the Shaikan FDP based on these revisions, which includes a production target of 110,000 bopd and the development of the Jurassic reservoirs, was submitted to the MNR for approval in December 2015. In parallel, a plan for the bridge to the Shaikan FDP (a potential move to increase production to 55,000 bopd in the event that additional funding is available).

### ***Crude oil export deliveries***

The Group began exporting crude oil by truck from the Shaikan Block in December 2013 and, in 2014 export deliveries from Shaikan totaled 6.0 million bbls. During 2015 the Group's export deliveries from Shaikan totaled 8.6 million barrels, with average gross daily production rates of 30,500 bopd. In the 2016 calendar year to date 1 August, the Group exported 7.2 million barrels from Shaikan, with average production rates of 34,000 bopd. This minor reduction versus target was due to external market factors not related to the plant or its operation. Over the year to date plant availability was above 95%.

See Part 3 of this document: "*Presentation of Financial and Other Information – Reserves and resources reporting – basis of preparation*" and "*Summary of key information from the ERC Equipose Report*" in this Part 8 together with Part 21 of this document: "*Competent Person's Report*".

### ***Export infrastructure***

The Group continues to rely on transportation of oil for export by truck to Fiskhabour for injection into the international pipeline. However, this is more expensive and in the longer term is a less safe, secure and environmentally sound transportation channel than transport by pipeline. Transportation by truck also has a more limited capacity than transport via a pipeline, although the Group currently operates effectively by this method, and has recorded days with over 320 trucks (equating to over 62,000 bopd) being loaded and safely delivered. The Group began exporting crude oil by truck from the Shaikan Block in December 2013 and, to 1 August 2016, a total of 26 million barrels have been delivered from PF-1 and PF-2.

The KRG has constructed an independent oil export pipeline to the border with Turkey, which was completed at the beginning of 2014. According to the KRG, in July 2016 457,314 barrels of oil per day were transported through the pipeline and delivered to Ceyhan in Turkey. The Company reached an agreement with the MNR to truck its oil for export to Fiskhabour where the export pipeline is accessed, and began exporting Shaikan crude via this route in July 2015. Since September 2015 and

to date, 100% of Shaikan crude oil is trucked a distance of 120 km to Fishkhabour on the Turkish border for injection into the international export pipeline, which runs to the port of Ceyhan on the Turkish coast. The Company believes that access to the international export pipeline through the planned construction of a pipeline connecting the Shaikan Block to the export market would enable it to increase production, lower transportation costs improve HSSE performance and effectively develop production operations for future Shaikan targets. The Company maintains a regular dialogue with its host government and other parties on this topic.

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

## **5. Shaikan PSC**

See paragraph 13 of Part 17 of this document: “*Additional Information*” for detail on the contractual terms of the Shaikan PSC.

The Shaikan PSC sets forth mechanisms and formulae for the KRG to participate in exploration and exploitation activities, the royalties payable to the KRG and the profit-sharing formula between the contractors and the KRG (further details of which are set out in paragraph 13 of Part 17 of this document: “*Additional Information*”).

The Shaikan FDP was approved on 25 June 2013, permitting GKPI to move into the first phase of field development for the Shaikan Block. As a consequence of continued production and data gathering the Company has been able to revise its field development plan appreciating the optimum recovery drive mechanism and reducing well count. An updated draft of the Shaikan FDP based on these revisions, which includes a production target of 110,000 bopd and the development of the Jurassic reservoirs, was submitted to the MNR for approval in December 2015. In parallel a plan for the bridge to the Shaikan FDP (a potential move to increase production to 55,000 bopd in the event that additional funding is available) has been produced.

See also the Risk Factor entitled “*The Group cannot completely protect itself against legal risks relating to disputes regarding title or exploration and production rights*” in Part 2 of this document: “*Risk Factors*”.

## **6. Algeria**

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

The Group is currently seeking an orderly exit from its obligations under the Ferkane PSC.

## **7. Summary of key information from the ERC Equipoise Report**

In February 2016, the Company commissioned an updated independent competent persons report on its oil and gas assets by ERC Equipoise in respect of the Shaikan Block. The full report is set out in Part 21 of this document: “*Competent Person’s Report*”.

The summary tables below have been extracted without material adjustments from the ERC Equipoise Report. The following information does not purport to be complete and is derived from, qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing in Part 21 of this document: “*Competent Person’s Report*”.

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

### ***Reserves, Contingent Resources and Prospective Resources***

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations. Reserves must further satisfy four criteria: they



must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development projects applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates as: Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P).

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

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

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

The following tables use pricing and other assumptions based on “Chapter 4: Evaluation Basis” of the ERC Equipose Report which can be found at Part 21 of this document: “Competent Person's Report”.

#### **Summary table of oil classified as Reserves**

Field	Formation	Gross Field Oil Reserves (MMstb)			GKP WI (%)	GKP Working Interest Oil Reserves (MMstb)			GKP Net Entitlement Oil Reserves (MMstb)		
		1P	2P	3P		1P	2P	3P	1P	2P	3P
Shaikan	Cretaceous	1	3	4	58.0	1	2	2			
Shaikan	Jurassic	219	575	883	58.0	127	333	512	79	161	203
Shaikan	Triassic	18	44	63	58.0	10	25	37			
Shaikan	<b>Total</b>	<b>238</b>	<b>622</b>	<b>951</b>	<b>58.0</b>	<b>138</b>	<b>360</b>	<b>551</b>	<b>79</b>	<b>161</b>	<b>203</b>

#### **Notes**

- 1) “Gross Field Reserves” are 100% of the volumes estimated to be economically recoverable from the fields from 30 June 2016 onwards, up to the expiry of the PSC licence on 30 June 2043.
- 2) GKP “Working Interest (WI) Reserves” are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs this asset.
- 3) GKP “Net Entitlement Reserves” are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan.
- 4) GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments.
- 5) The evaluation of Net Entitlement Barrels includes an additional entitlement from “Tax Barrels” arising from the deemed Corporate Income Tax under the PSC paid on GKP's behalf from the Government's share of Profit Petroleum.
- 6) The working interest used in this report for the Shaikan PSC is 58.0%.

## **8. Anti-corruption policies**

Due to the nature of the industry sector and the regions in which the Group operates, the Group is potentially exposed to accusations of poor practice when it comes to the requirements introduced by the UK Bribery Act 2010. Violations of this Act may result in a criminal case against the Company, GKPI and/or the Company's employees, leading to reputational damage, possible imprisonment and fines. The Group believes that it has appropriate procedures in place to mitigate the risk of bribery and that all employees, agents and other associated persons are made fully aware of the Group's policies and procedures with regard to ethical behavior, business conduct and transparency.

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

## 9. Health, safety, security and the environment

The safety of the Company's employees, contractors and those in the local communities in which it operates is critical to the effective running of its operations. The Company has developed processes and procedures, as well as a HSSE training programme and a Health, Safety, Security, Environment and CSR Committee to ensure health and safety practices are of a high standard. A new HSSE management programme is being rolled out during 2016 as a part of the Company's ongoing improvement plans.

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

## 10. Competition

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

## 11. Corporate social responsibility

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

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

## 12. Insurance

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

## 13. Employees

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

Category of activity	2013	2014	2015
Office and management	78	87	89
Technical and operational	109	167	222
<b>Total</b>	<b>187</b>	<b>254</b>	<b>311</b>

As at the Last Practicable Date, the number of employees of the Group in: (i) office and management and (ii) technical and operational roles was 73 and 217 respectively.

## 14. Properties, leases, plant and drilling equipment

The Group's material assets are its exploration and exploitation claims, licences and permits, further details of which are contained in this Part 8 and in paragraph 13 of Part 17 of this document: "*Additional Information*".

## 15. Tax

Further details relating to taxation are set out in Part 16 of this document: "*Taxation*".

## 16. Working Capital

**The Company is of the opinion that, taking into account the proceeds of the Restructuring, as at the date of this document the Group does not have sufficient working capital for its present requirements, that is, for at least the 12 months following the date of this document.**

The Company has reviewed its working capital requirements, which it has drawn up in accordance with the ESMA guidance, in the event that: (i) the Restructuring is not implemented; and (ii) the Restructuring is completed.

### *Restructuring is not implemented*

In order for the Restructuring to be implemented it must be approved by Guaranteed Noteholders and Convertible Bondholders at the Creditor Meetings, and the Scheme must be sanctioned by the Court. The Scheme will require the consent of not less than 75% (by value), and a majority in number, of each of the Guaranteed Noteholders and Convertible Bondholders that attend and vote at each of the Creditor Meetings. In addition, there are a number of conditions that need to be satisfied, including, *inter alia*:

- the Company having confirmed that the Scheme Shares to be issued in the Debt Equitisation will be admitted to trading on the London Stock Exchange promptly after the Scheme Effective Date;
- the Company having confirmed that it has advised the Committee Advisors of any material changes to the Company's Capex Plan;
- the Company having confirmed that it has not spent any Capex other than Capex relating to production maintenance;
- satisfaction that any new Board member(s) selected and approved by the Majority Participating Holders and notified to the Company prior to the Scheme Effective Date will be appointed to the Board on or promptly after the Scheme Effective Date; and
- the Company having agreed arrangements with the MNR reasonably satisfactory to both it and to the Majority Participating Holders regarding (a) the implementation of the Bilateral MNR Agreement, (b) the future marketing of the Group's oil until a formal audit has been carried out and (c) the predictability of future payments including recovery of past costs and receivables.

If the Restructuring is not implemented:

- the Debt Equitisation will not take place and the entire principal amount of Convertible Bonds and Guaranteed Notes, together with accrued and unpaid interest, including the interest that was due on 18 April 2016, will remain outstanding; and
- an event of default will be continuing under both the Convertible Bond Trust Deed and the Guaranteed Note Trust Deed unless and until the Company pays the interest amounts that were due to Convertible Bondholders and Guaranteed Noteholders on 18 April 2016. While such events of default are continuing, the Convertible Bondholders and Guaranteed Noteholders could request the relevant trustee to declare the debt under the Convertible Bonds and Guaranteed Notes, as applicable, immediately due and repayable at the principal amount together with accrued and unpaid interest, however signatories to the Restructuring Agreement cannot take action to accelerate prior to the termination date under the Restructuring Agreement or in connection with the alternative restructuring.

If the Restructuring is not implemented then there may be an alternative restructuring which will result in no value being returned to Shareholders. In such an event the Company, and GKPI have agreed under the Restructuring Agreement to work co-operatively and in good faith with the signatories to the Restructuring Agreement to implement an alternative restructuring. The general principles of the alternative restructuring would provide for a restructuring of the liabilities of the Group but neither the Shareholders nor Convertible Bondholders who have not entered into the Restructuring Agreement by 1 August 2016 will participate in any value preserved or created through the alternative restructuring. It is most likely that an alternative restructuring will result in a liquidation of the Company and the Company does not anticipate that there will be any value returned to Shareholders through that liquidation.

The Company considers that should the Restructuring not proceed then the alternative restructuring contemplated in the Restructuring Agreement would offer a better return to creditors than liquidation but would not return any value to Shareholders.

If the Restructuring is not implemented and there is no alternative restructuring, the Directors believe that the Group will be unable to service its debt and/or meet its repayment obligations and would become subject to applicable insolvency processes, among other consequences, with immediate effect and:

- the Company would cease trading and GKPI and other members of the Group would become subject to applicable insolvency processes; and/or
- the Noteholders would be able to enforce their claim against GKPI under its guarantee of the Guaranteed Notes; and/or
- the Noteholders would be able to instruct the Guaranteed Note Trustee to enforce the security over the shares in GKPI, in which case, pursuant to the Intercreditor Agreement, the Noteholders and Bondholders could acquire the Group's interest in the Shaikan Block; and/or
- an acceleration of the Guaranteed Note Debt by the Noteholders would result in an event of default under the Convertible Bond Trust Deed as a result of the Convertible Bond cross-acceleration event of default provision, and vice versa; and/or
- the MNR could have cause to revoke GKPI's operatorship of the Shaikan Block and could have cause to terminate its participation in the Shaikan PSC.

***If the Restructuring is implemented***

In accordance with ESMA guidance, the Directors have made the working capital statement after considering a reasonable worst case scenario, applying a number of adverse sensitivities reflecting key financial risks to the Group offset by mitigating actions available to management, principally the impact of inconsistent or delayed payments from the KRG for the company's exports from the Shaikan Block for an extended period of time in light of the fact that prior to September 2015 the Company had not received regular payments from the KRG for export sales. However, from September 2015 to June 2016, the Company has received regular monthly payments from the KRG for export sales.

In order to meet its future working capital requirements the Group is dependent both on its cash surplus (approximately US\$96 million following completion of the Restructuring) and on receipt of monthly payments from the KRG for export sales.

Based on the working capital assessment under the Reasonable Worst Case Scenario, following the implementation of the Restructuring a deficit, of approximately US\$0.4 million is forecast to occur in August 2017 increasing to a maximum cash deficit of US\$8.0 million occurring in September 2017 of the 12 month period.

The Directors will continue to monitor the receipt of sale proceeds from the KRG and its working capital requirements. If the cash deficit projected under the Reasonable Worst Case Scenario is anticipated the Directors would seek to respond in a timely manner ahead of such deficit arising through the application of one, all, or a combination of the following (in order of the Company's confidence of their likelihood of success):

- application of funds received from Qualifying Shareholders that participate in the Open Offer which may provide up to a further US\$5 million in cash proceeds (in addition to the Subscription). Based on the indications received to date, the Company is confident that such funds will be available upon completion of the Restructuring; and/or
- the use of the General Debt Basket and/or the Super Senior Basket permitting the incurrence of (in aggregate) an additional US\$45 million indebtedness in funding. The Company is confident that it will be able to secure such financing under the General Debt Basket and/or the Super Senior Basket within the time frame required to address the cash deficit; and/or
- execution of the Second Shaikan Amendment on terms materially identical to those set out in the Bilateral MNR Agreement, pursuant to which it can be expected that the MNR will pay its 20% share of costs as a result of any implementation of the Shaikan Government Option, thereby reducing the paying interest of GKPI from 80% to 64%. The execution of the Second Shaikan Amendment on such terms would bring an overall net benefit to the Company's cash flow. The Company is currently negotiating the execution of the Second Shaikan Amendment and will only execute the Second Shaikan Amendment if the terms are aligned with the best interests of the Group; and/or

- deferral of planned capital expenditures on the Shaikan Block, which may have a short term adverse impact on the Shaikan Block's production profile, until funds to undertake such work could be secured. GKPI is operator of the Shaikan Block and as such is able to propose such deferrals, subject to required approvals from MOL and the MNR; and/or
- in addition to any agreed repayments of revenue arrears and back-costs attributable to the Shaikan Government Option which may be set out in the Bilateral MNR Agreement, seek an accelerated recovery of such arrears due to the Group by the KRG. The Company believes that based on the Company's longstanding constructive relationship with the KRG negotiations with the KRG on this point would have a positive outcome.

If the Directors were, in such circumstances, unable to implement any of the mitigating actions set out above, it is likely that the Company would be forced into an insolvency process (be that administration or liquidation) shortly thereafter.

#### **17. Dividend Policy**

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



## PART 9

### DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

#### 1. Directors

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

Name	Age	Position	Appointed
Jón Ferrier	58	Chief Executive Officer	2015
Keith Lough	57	Non-Executive Chairman	2015
Sami Zouari	44	Chief Financial Officer	2015
Philip Dimmock	69	Non-Executive Director	2013
Cuth McDowell	59	Non-Executive Director	2015

#### **Jón Ferrier** (*Chief Executive Officer*)

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

Mr Ferrier has considerable international experience, including in the Kurdistan Region of Iraq and has successfully led the delivery of complex projects on time and within budget in the Middle East. His most recent roles have had a strong external orientation and have seen him working effectively with all stakeholders, including host governments. Prior to Maersk Oil, Mr Ferrier's oil & gas experience was gained with ConocoPhillips, Paladin Resources Plc, Petro-Canada/Suncor, in a number of regions.

#### **Keith Lough** (*Non-Executive Chairman*)

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

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

#### **Sami Zouari** (*Chief Financial Officer*)

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

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

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

Mr Zouari holds a BA in Economics from Columbia University (New York, NY), and a Masters from Harvard University (Cambridge, MA).

**Philip Dimmock** (*Non-Executive Director*)

Philip Dimmock has over 40 years' experience in upstream oil and gas, both in the UK and internationally, and is currently a consultant to various oil and gas companies, including Equator Exploration Ltd where he was Chief Operating Officer. Mr Dimmock spent a significant part of his career at BP in a wide variety of senior positions, including manager of the Forties oil field, and at Ranger Oil where he also held the post of Vice President of the international division, and served as Chairman. He has also been an executive officer of the UK Offshore Operators Association. He was a Non-Executive Director of Nautical Petroleum Plc until its acquisition by Cairn Energy in 2012. Between 2005 and 2012, he served as Chairman of the Remuneration, Nomination and Strategy Committees and was a member of the Audit Committee. He holds an MA in Physics from the University of Oxford where he was an Open Scholar at Pembroke College.

**Cuth McDowell** (*Non-Executive Director*)

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

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

## **2. Senior Managers**

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

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointed to current position</b>
Tony Peart	65	Legal and Commercial Director and Business Development Officer	2009
John Stafford	55	Vice President Operations	2009
Umur Eminkahyagil	47	Country Manager, Kurdistan	2012
Mohamed Messaoudi	61	Country Manager, Algeria	2007
Nadhim Zahawi	49	Chief Strategy Officer	2015

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

Tony Peart joined the Company in 2008 as a consultant and was appointed to his current position in 2009. Tony has over 32 years of legal, commercial and management experience in the oil and gas industry. From 2006 to 2008, he was Legal and Commercial Director of African Arabian Petroleum Limited, an Emirati-owned oil company holding exploration and production interests in North and West Africa. From 2000 to 2005, he was Senior Vice President, General Counsel and Corporate Secretary of Petrokazakhstan Inc. which was acquired by the Chinese National Petroleum Corporation (CNPC). He was previously Managing Director of Bula Resources Plc and MMS Petroleum Plc and has held senior management positions at Lasmo Plc, Ultramar Exploration Limited and Veba Oil and Gas Limited. He is an attorney, holds a Master's degree in General Management from the Vlerick Leuven Gent Management School and has completed the Programme for Management Development at the Harvard Business School.

**Nadhim Zahawi** (*Chief Strategy Officer*)

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

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

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

**John Stafford** (*Vice President Operations*)

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

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

Joining the industry in 1982 Mr Stafford gained experience with several service companies including ECL, Schlumberger and PGS running projects in integrated field management and all aspect of reserves certification and reporting including defence documents and competent person's reports. As manager of a six field integrated project development he gained experience of fractured reservoir development in the Zagros trend prior to acting as a Risk Board advisor to PGS.

**Umur Eminkahyagil** (*Country Manager, Kurdistan*)

Umur Eminkahyagil received his BSc in Petroleum and Natural Gas Engineering from Middle East Technical University, Ankara, Turkey, with High Honours in 1991. He spent the first 11 years of his career holding various reservoir engineering positions with Shell, mainly in Turkey and Thailand. He joined the Expro Group in 2002 and held progressively more challenging roles within the group, spanning Malaysia, South East Asia, and finally Angola in West Africa, where he worked as General Manager. In 2007, he became Vice President for MB Petroleum Services, responsible for international business, a position he held for a number of years before joining the Company in March 2012. He initially joined the Company as Development and Production Manager and has subsequently been appointed, as of 1 September 2012, the Company's Country Manager for Kurdistan, Iraq.

**Mohamed Messaoudi** (*Country Manager, Algeria*)

Mohamed Messaoudi is a petroleum geologist with 34 years of experience in the oil and gas industry in Algeria. Mr Messaoudi joined Sonatrach, the Algerian National Oil Enterprise in 1979, becoming Chief Geologist for the Hassi Messaoud Basin in 1996 and then the Regional Exploration Manager of the North Algeria Area/Onshore and Offshore Basins. Prior to Mr Messaoudi's retirement from Sonatrach, he held the position of Regional Exploration Manager for the South East Algeria Region, Algeria's most important hydrocarbon area containing the Hassi Messaoud, Berkine, Illizi and Oued Mya basins.

### **3. Corporate Governance**

**Board of Directors**

The Board currently comprises two Executive Directors and three Non-Executive Directors (including the Chairman). The Company regards all three of the Non-Executive Directors as independent.

The Board has a written schedule of reserved matters for which it is responsible. They cover the key strategic, financial and operational issues facing the Group and include:

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

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

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

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

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

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

The Company's Board committees are constituted as follows:

	<b>Chairman</b>	<b>Members</b>
<b>Audit and Risk Committee</b>	Philip Dimmock	Keith Lough, Cuth McDowell
<b>Remuneration Committee</b>	Keith Lough	Philip Dimmock, Cuth McDowell
<b>Nomination Committee</b>	Keith Lough	Philip Dimmock, Cuth McDowell
<b>Health, Safety, Security, Environment and CSR Committee</b>	Philip Dimmock	Jón Ferrier, John Stafford
<b>Finance Committee</b>	Keith Lough	Cuth McDowell, Jón Ferrier, Sami Zouari

#### *The Audit and Risk Committee*

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

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

#### *The Remuneration Committee*

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

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

#### *The Nomination Committee*

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

- to review the structure, size and compensation composition required of the Board and the balance of skills, experience, independence and knowledge;
- to oversee executive succession planning, taking into account challenges and opportunities facing the Group;

- to identify and nominate for the approval of the Board candidates to fill Board vacancies as and when they arise;
- to make recommendations to the Board concerning the continuation in office of any Director, including suspension and termination of service of an Executive Director;
- to appoint external search consultants to assist with appointments as required; and
- to determine skills and capabilities required for new appointments.

#### *The Health, Safety, Security, Environment and CSR Committee*

The Health, Safety, Security, Environment and CSR Committee currently comprises one Non-Executive Director and one Executive Director and the Vice President of Operations. The key governance mandates of the committee are as follows:

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

#### *The Finance Committee*

The Finance Committee currently comprises two Non-Executive Directors and two Executive Directors.

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

In accordance with its terms of reference, the Finance Committee meets bi-monthly, or more often if considered necessary or expedient.

#### *Corporate governance regime*

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

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

The Company intends to voluntarily observe all of the requirements of the Code.

#### **4. Conflicts of interest**

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



## PART 10

### QUESTIONS AND ANSWERS ABOUT THE OPEN OFFER

*The questions and answers set out in this Part 10 are intended to be in general terms only and, as such, you should read Part 11 of this document “Terms and Conditions of the Open Offer” of this document for full details of what action you should take. If you are in any doubt as to what action you should take, you are recommended to immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser, duly authorised under the FCA, if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.*

*This Part 10 deals with general questions relating to the Open Offer and more specific questions relating to Shareholders resident in the United Kingdom who hold their Common Shares in certificated form only. If you are an Overseas Shareholder, you should read paragraph 6 “Overseas Shareholders” of Part 11 of this document “Terms and Conditions of the Open Offer” and you should take professional advice as to whether you are eligible and/or you need to observe any formalities to enable you to take up your rights. If you hold your Common Shares in uncertificated form (that is, through CREST), you should read Part 11 of this document “Terms and Conditions of the Open Offer” for full details of what action you should take. If you are a CREST-sponsored member, you should also consult your CREST Sponsor. If you do not know whether your Common Shares are in certificated or uncertificated form, please call the Shareholder helpline between 8.30 a.m. and 5.30 p.m. on any Business Day on 0370 707 1016 (from inside the UK) or +44 370 707 1016 (from outside the UK). Calls may be recorded and randomly monitored for security and training purposes.*

*Please note that the Shareholder helpline cannot provide comments on the merits of the Open Offer, or legal, financial or taxation advice.*

*The contents of this document should not be construed as legal, business, accounting, tax, investment or other professional advice. Each prospective investor should consult his, her or its own appropriate professional advisers for advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action.*

Timetable dates in this Part 10 have been included on the basis of the expected timetable set out on page 47.

#### **1. What is an Open Offer**

An open offer is a way for companies to raise money. Companies usually do this by giving their existing shareholders a pre-emptive right to acquire further shares at a fixed price in proportion to their existing shareholdings.

The Open Offer is an invitation by the Company to Qualifying Shareholders to apply to acquire 20 Open Offer Shares for every 9 Existing Common Shares at the Offer Price. In this document, this is referred to as your “*Open Offer Entitlement*”. If you hold Common Shares on the Record Date or have a *bona fide* market claim, other than, subject to certain exceptions, where you are a Shareholder either located, resident or with a registered address in, the United States or an Excluded Territory, you will be entitled to buy Open Offer Shares under the Open Offer.

The Open Offer is being made on the basis of 20 Open Offer Shares for every 9 Existing Common Shares held by Qualifying Shareholders on the Record Date. If you hold fewer than 9 Existing Common Shares, you will not receive an Open Offer Entitlement.

Applications by Qualifying Shareholders will be satisfied in full up to the amount of their Open Offer Entitlement.

**Qualifying Shareholders should be aware that the Open Offer is not a rights issue. Qualifying non-CREST Shareholders should also note that their Application Forms are not negotiable documents and cannot be traded. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements and Excess Open Offer Entitlements will be credited to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements and Excess Open Offer Entitlements may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear’s Claims Processing Unit. Open Offer Shares not applied for under the Open Offer will not be sold in the market for the benefit of those**

**who do not apply to take up their Open Offer Entitlements and Excess Open Offer Entitlements. Qualifying Shareholders who do not apply to take up Open Offer Shares will have no rights under the Open Offer.**

**2. I hold my Existing Common Shares in certificated form. How do I know whether I am eligible to participate in the Open Offer?**

If you receive an Application Form and are not a Shareholder either located in, resident in, or with a registered address in the United States or an Excluded Territory, then you should be eligible to participate in the Open Offer as long as you have not sold all of your Existing Common Shares before 8.00 a.m. on 31 August 2016 (the time when the Existing Common Shares were marked “*ex-entitlement*” by the London Stock Exchange).

**3. I hold my Existing Common Shares in certificated form. How do I know how many Open Offer Shares and Excess Shares I am entitled to take up?**

If you hold your Existing Common Shares in certificated form and do not have a registered address and are not located or resident in the United States or any Excluded Territory, you will be sent an Application Form that shows:

- how many Existing Common Shares you held at the close of business on the Record Date (Box A of your Application Form);
- how many Open Offer Shares are comprised in your Open Offer Entitlement (Box B of your Application Form); and
- how much you need to pay if you want to take up your right to buy the maximum number of Open Offer Shares under your Open Offer Entitlement (Box C of your Application Form).

If you would like to apply for any of or all of the Open Offer Shares comprised in your Open Offer Entitlement, you should complete the Application Form in accordance with the instructions printed on it and the information provided in this document. Completed Application Forms should be posted, along with a cheque or banker’s draft drawn in the appropriate form, in the accompanying pre-paid envelope or returned by post or by hand (during normal office hours only), to Computershare Investor Services Plc (who will act as Receiving Agent in relation to the Open Offer) so as to be received by the Receiving Agent by no later than 11:00 a.m. on 15 September 2016, after which time Application Forms will not be valid.

**4. I hold my Existing Common Shares in certificated form and am eligible to receive a Non-CREST Application Form. What are my choices in relation to the Open Offer?**

***(a) if you do not want to take up your Open Offer Entitlement***

If you do not want to take up your Open Offer Entitlement, you do not need to do anything. In these circumstances, you will not receive any Open Offer Shares. You will also not receive any money if the Open Offer Shares you could have taken up are allotted under the Excess Application Facility, as would happen under a rights issue. You cannot sell your Non-CREST Application Form or your Open Offer Entitlement to anyone else.

If you do not take up your Open Offer Entitlement then following the issue of the New Common Shares pursuant to the Restructuring, your interest in the Company will be diluted by up to 87% (depending on the level of take up by other Shareholders in the Open Offer).

***(b) If you want to take up some but not all of the Open Offer Shares under your Open Offer Entitlement***

If you want to take up some but not all of the Open Offer Shares under your Open Offer Entitlement, you should write the number of Open Offer Shares you want to take up in Box D of your Application Form; for example, if you are entitled to take up 50 Open Offer Shares but you only want to take up 25 Open Offer Shares, then you should write “25” in Box D. To work out how much you need to pay for the Open Offer Shares, you need to multiply the number of Open Offer Shares you want (in this example, “25”) by 0.8314, which is the price in pence sterling of each Open Offer Share (giving you an amount of 20.785 pence sterling in this example). You should write this total sum in Box

G, rounding down to the nearest whole pence and this should be the amount your cheque or banker's draft is made out for. You should then return the completed Application Form, together with a cheque or banker's draft for that amount, to Computershare Investor Services Plc (who will act as Receiving Agent in relation to the Open Offer), in the accompanying pre-paid envelope to Computershare Investor Services Plc, Corporate Actions Projects, Bristol BS99 6AH or by hand (during normal business hours only), to Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol BS13 8AE so as to be received by the Receiving Agent by no later than 11:00 a.m. on 15 September 2016, after which time Application Forms will not be valid.

All payments must be in pounds sterling and made by cheque or banker's draft made payable to "*CIS Plc re: Gulf Keystone Petroleum Limited Open Offer A/C*" and crossed "*A/C Payee Only*". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the United Kingdom or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application. Third-party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the back of the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct the Receiving Agent to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be paid on payments. It is a term of the Open Offer that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

A definitive share certificate will then be sent to you for the Open Offer Shares that you take up. Your definitive share certificate for Open Offer Shares is expected to be despatched to you by no later than 28 October 2016.

**(c) *If you want to take up all of the Open Offer Shares under your Open Offer Entitlement***

If you want to take up all of the Open Offer Shares under your Open Offer Entitlement you need to send the Application Form, together with your cheque or banker's draft for the full amount (as indicated in Box G of your Application Form), payable to "*CIS Plc re: Gulf Keystone Petroleum Limited Open Offer A/C*" and crossed "*A/C payee only*", to Computershare Investor Services Plc (who will act as Receiving Agent in relation to the Open Offer), in the accompanying pre-paid envelope to Computershare Investor Services Plc, Corporate Actions Projects, Bristol BS99 6AH or by hand (during normal business hours only), to Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol BS13 8AE so as to be received by the Receiving Agent by no later than 11:00 a.m. on 15 September 2016, after which time Non-CREST Application Forms will not be valid. If you post your Non-CREST Application Form by first-class post, you should allow at least four Business Days for delivery.

All payments must be in pounds sterling and made by cheque or banker's draft made payable to "*CIS Plc re: Gulf Keystone Petroleum Limited Open Offer A/C*" and crossed "*A/C Payee Only*". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the United Kingdom or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Third-party cheques will not be accepted, with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account

holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the back of the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

A definitive share certificate will then be sent to you for the Open Offer Shares that you take up. Your definitive share certificate for Open Offer Shares is expected to be despatched to you by no later than 28 October 2016.

Qualifying Shareholders who take up their full entitlements and do not make an excess application or receive Excess Shares under the Open Offer will still suffer a dilution of approximately 85.5% to their interests in the Company, due to the issue of New Common Shares pursuant to the Restructuring.

**5. I hold my Existing Common Shares in uncertificated form in CREST. What do I need to do in relation to the Open Offer?**

CREST members should follow the instructions set out in Part 11 of this document “*Terms and Conditions of the Open Offer*”. Persons who hold Existing Common Shares through a CREST member should be informed by the CREST member through which they hold their Existing Common Shares of the number of Open Offer Shares that they are entitled to acquire under the Open Offer and should contact them should they not receive this information.

**6. I acquired my Existing Common Shares prior to the Record Date and hold my Existing Common Shares in certificated form. What if I do not receive an Application Form or I have lost my Application Form?**

If you do not receive an Application Form, this probably means that you are not eligible to participate in the Open Offer. Some non-CREST Shareholders, however, will not receive an Application Form but may still be eligible to participate in the Open Offer, namely:

- Qualifying CREST Shareholders who held their Existing Common Shares in uncertificated form on 30 August 2016 and who have converted them to certificated form;
- Qualifying non-CREST Shareholders who bought Existing Common Shares before 8.00 a.m. on 31 August 2016 but were not registered as the holders of those shares at the close of business on 30 August 2016; and
- certain Overseas Shareholders.

If you do not receive an Application Form but think that you should have received one or you have lost your Application Form or if you have any questions relating to this document, and the completion and return of the Application Form, please contact the Shareholder helpline operated by the Receiving Agent on 0370 707 1016 (from inside the United Kingdom) or +44 370 707 1016 (from outside the United Kingdom) between 8.30 a.m. and 5.30 p.m. on any Business Day. Calls may be recorded and randomly monitored for security and training purposes. Lines are open from 8.30 a.m. until 5.30 p.m. (London time) Monday to Friday (excluding UK public holidays).

Please note that the Shareholder helpline cannot provide comments on the merits of the Open Offer, or legal, financial or taxation advice.

**7. I am a Qualifying Shareholder, do I have to apply for all the Open Offer Shares I am entitled to apply for? Can I apply for more?**

You can take up any number of the Open Offer Shares allocated to you under your Open Offer Entitlement and Excess Offer Entitlement. Your maximum Open Offer Entitlement and Excess Offer Entitlement is shown on your Application Form. Any applications by a Qualifying Shareholder for a number of Open Offer Shares which is equal to or less than that person's Open Offer Entitlement will be satisfied, subject to the Open Offer becoming unconditional. If you decide not to take up all of the Open Offer Shares comprised in your Open Offer Entitlement then your proportion of the ownership and voting interest in the Company will be diluted (and thereby reduced).

The maximum number of New Common Shares available under the Excess Offer Entitlement will be up to the full number of Open Offer Shares. Excess applications will be satisfied only to the extent that corresponding applications by other Qualifying Shareholders are not made or are made for less than their *pro rata* entitlements. If there is an oversubscription resulting from



excess applications, allocations in respect of such excess applications will be scaled down (i) firstly, by reference to each applicant's *pro rata* holding of Common Shares, and (ii) secondly, at the discretion of the Company, by reference to the amount of each applicant's tendered applications under the Excess Application Facility.

**8. What if I change my mind?**

If you are a Qualifying Shareholder, once you have sent your Application Form and payment to the Receiving Agent, you cannot withdraw your application or change the number of Open Offer Shares for which you have applied, except in very limited circumstances, entirely at the Company's discretion.

**9. I hold my Existing Common Shares in certificated form. What should I do if I want to spend more or less than the amount set out in Box C of the Application Form?**

If you want to spend less than the amount set out in Box C, you should divide the amount you want to spend by 0.8314 (being the price, in pence Sterling, of each Open Offer Share under the Open Offer). This will give you the number of Open Offer Shares you should apply for. You can only apply for a whole number of Open Offer Shares. For example, if you want to spend £100, you should divide £100 by 0.008314. You should round that down to the nearest whole number, to give you the number of Open Offer Shares you want to take up. Write that number (in this example, 12,027) in Box D. To then get an accurate amount to put on your cheque or banker's draft, you should multiply the whole number of Open Offer Shares you want to apply for (in this example, 12,027) by 0.008314 and then fill in that amount rounded down to the nearest whole pence (in this example, being to the nearest whole pence, £99.99) in Box G and on your cheque or banker's draft accordingly.

**10. What if I hold options and awards under the Share Scheme?**

In accordance with the rules of each plan and if applicable, the number or exercise prices of options and awards under the Share Scheme may be adjusted to take account of the Open Offer. If this is the case, participants will be contacted separately.

**11. I hold my Existing Common Shares in certificated form. What should I do if I have sold some or all of my Existing Common Shares?**

If you hold Common Shares directly and you have sold some or all of your Existing Common Shares before 31 August 2016, you should contact the buyer or the person/company through whom you sell your shares. The buyer may be entitled to apply for Open Offer Shares under the Open Offer. If you sell any of your Existing Common Shares on or after 31 August 2016, you may still take up and apply for the Open Offer Shares as set out on your Application Form.

**12. I hold my Existing Common Shares in certificated form. How do I pay?**

Completed Application Forms should be returned with a cheque or banker's draft drawn in the appropriate form. All payments must be in pounds sterling and made by cheque or banker's draft made payable to "*CIS Plc re: Gulf Keystone Petroleum Limited Open Offer A/C*" and crossed "*A/C Payee Only*". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the United Kingdom or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Third-party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the back of the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.



**13. Will the Existing Common Shares that I hold now be affected by the Open Offer?**

If you decide not to apply for any Open Offer Shares under your Open Offer Entitlement or Excess Open Offer Entitlement or only apply for a proportion of the Open Offer Shares under your Open Offer Entitlement or Excess Open Offer Entitlement, your proportionate ownership and voting interest in the Company will be diluted (and thereby reduced). Furthermore, even if the Open Offer is fully subscribed, Qualifying Shareholders will still suffer a dilution of 85.5% to their interests in the Company (which will be greater if the level of take up in the Open Offer is lower), due to the issue of New Common Shares pursuant to the Restructuring.

**14. I hold my Existing Common Shares in certificated form. Where do I send my Application Form?**

You should send your completed Application Form to Computershare Investor Services Plc (who will act as Receiving Agent in relation to the Open Offer), in the accompanying pre-paid envelope to Computershare Investor Services Plc, Corporate Actions Projects, Bristol BS99 6AH or by hand (during normal business hours only), to Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol BS13 8AE. If you post your Application Form by first-class post, you should allow at least four Business Days for delivery.

If you do not want to take up or apply for any Open Offer Shares, then you need take no further action.

**15. I hold my Existing Common Shares in certificated form. When do I have to decide if I want to apply for Open Offer Shares?**

The Receiving Agent must receive the Application Form by no later than 11:00 a.m. on 15 September 2016, after which time Application Forms will not be valid. If an Application Form is being sent by first-class post in the United Kingdom, Qualifying Shareholders are recommended to allow at least four Business Days for delivery.

**16. I hold my Existing Common Shares in certificated form. When will I receive my new share certificate?**

It is expected that Computershare will post all new share certificates by 28 October 2016.

**17. What should I do if I live outside the United Kingdom?**

Your ability to apply to acquire Open Offer Shares may be affected by the laws of the country in which you live and you should take professional advice as to whether you require any governmental or other consents or need to observe any other formalities to enable you to take up Open Offer Shares under your Open Offer Entitlement or Excess Offer Entitlement. For further information, see paragraph 6 “*Overseas Shareholders*” of Part 11 of this document “*Terms and Conditions of the Open Offer*”.

**18. Further assistance**

Should you require further assistance, please call the Shareholder helpline on 0370 707 1016 from within the UK or on +44 (0)370 707 1016 from outside the UK, which is available between the hours of 8.30 a.m. and 5.30 p.m. on any Business Day. Please note that, for legal reasons, the Shareholder helpline is only able to provide information contained in this document and information relating to the Company’s register of members and is unable to give advice on the merits of the Open Offer or to provide legal, business, accounting, tax, investment or other professional advice.

## PART 11

### TERMS AND CONDITIONS OF THE OPEN OFFER

#### TERMS AND CONDITIONS OF THE OPEN OFFER

##### 1. Introduction

As explained in Part 6 of this document “*Letter from the Chairman to Shareholders*”, the Company proposes to raise up to US\$25 million by way of the Open Offer by the issue of up to 2,294,295,672 New Common Shares at the Offer Price.

The Open Offer is conditional upon the implementation of the Debt Equitisation and Notes Reinstatement on or before 14 October 2016 (or such later date as the Company, and other relevant parties to the Restructuring Agreement may agree, being not later than 15 December 2016).

A Qualifying non-CREST Shareholder who has sold or transferred all or part of his holding of Existing Common Shares prior to 31 August 2016, being the last date upon which the Existing Common Shares were marked “*ex*” the entitlement to the Open Offer by the London Stock Exchange, should consult his broker or other professional adviser as soon as possible, as the invitation to acquire Open Offer Shares under the Open Offer may be a benefit which may be claimed by the transferee from his counterparty pursuant to the rules of the London Stock Exchange.

A summary of the arrangements relating to the Open Offer is set out below. This document and, for Qualifying non-CREST Shareholders only, the accompanying Application Form contain the formal terms and conditions of the Open Offer.

##### 2. The Open Offer

Subject to the terms and conditions set out below and, in the case of Qualifying non-CREST Shareholders, in the Application Form, the Company hereby invites Qualifying Shareholders to apply for Open Offer Shares at the Offer Price, payable in full on application, free of all expenses, up to a maximum of their *pro rata* entitlement, which shall be calculated on the basis of:

#### **20 Open Offer Shares for every 9 Existing Common Shares**

held by them and registered in their names at 5.00 p.m. on the Record Date and so in proportion for any other number of Existing Common Shares then held. Shareholders holding fewer than 9 Existing Common Shares will have no entitlement to subscribe under the Open Offer. The aggregate number of Open Offer Shares available for subscription is up to 2,294,295,672 New Common Shares.

**Holdings of Existing Common Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating Qualifying Shareholders’ entitlements under the Open Offer, as will holdings under different designations and in different accounts.**

Qualifying Shareholders may apply for any whole number of Open Offer Shares up to and including their maximum entitlement which, in the case of Qualifying non-CREST Shareholders, is equal to the number of Open Offer Entitlements and Excess Open Offer Entitlements as shown on their Application Form or, in the case of Qualifying CREST Shareholders, is equal to the number of Open Offer Entitlements and Excess Open Offer Entitlements standing to the credit of their stock account in CREST. The maximum number of New Common Shares available under the Excess Application Facility will be up to the full number of Open Offer Shares. If there is an oversubscription resulting from excess applications, allocations in respect of such excess applications will be scaled down (i) firstly, by reference to each applicant’s *pro rata* holding of Common Shares, and (ii) secondly, at the discretion of the Company, by reference to the amount of each applicant’s tendered applications under the Excess Application Facility.

If a Qualifying Shareholder does not take up any of his entitlement under the Open Offer, his shareholding will be diluted by up to 87% by the issue of the New Common Shares in the Restructuring. Qualifying Shareholders who take up their full entitlements under the Open Offer will still suffer a dilution of approximately 85.5% to their interests in the Company, due to the issue of New Common Shares pursuant to the Restructuring.

The action to be taken in relation to the Open Offer depends on whether, at the time at which application and payment is made, a Qualifying Shareholder has an Application Form in respect of his entitlement under the Open Offer or has Open Offer Entitlements and Excess Open Offer Entitlements credited to his stock account in CREST in respect of such entitlement:

- (a) A Qualifying Shareholder who has received an Application Form with this document should refer to paragraph 4 “*Procedure for Application and Payment*” and paragraphs 5 “*Money Laundering Regulations*” to 10 “*Times and Dates*” of this Part 11.
- (b) A Qualifying Shareholder who holds his Existing Common Shares in CREST and has received a credit of Open Offer Entitlements and Excess Open Offer Entitlements to his CREST stock account should refer to paragraph 4 “*Procedure for Application and Payment*” and paragraphs 5 “*Money Laundering Regulations*” to 10 “*Times and Dates*” of this Part 11 and also to the CREST Manual for further information on the CREST procedures referred to below.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements and Excess Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear’s Claims Processing Unit. Qualifying non-CREST Shareholders should note that the Application Form is not a negotiable document and cannot be traded. Qualifying Shareholders should be aware that in the Open Offer, unlike in a rights issue, any Open Offer Shares not applied for will not be sold in the market or placed for the benefit of Qualifying Shareholders who do not apply under the Open Offer, and Qualifying Shareholders who do not apply to take up Open Offer Shares will have no rights under the Open Offer.

Before making any decision to acquire Open Offer Shares, a Qualifying Shareholder should read and carefully consider all the information in this document, including, in particular, the important information set out in Part 6 of this document “*Letter from the Chairman to Shareholders*”, as well as this paragraph 2 “*The Open Offer*” of this Part 11 “*Terms and Conditions of the Open Offer*” and Part 2 of this document “*Risk Factors*”. Shareholders who do not participate in the Open Offer will experience dilution of their shareholdings. The material terms of the Open Offer are contained in this document.

The Existing Common Shares are already admitted to CREST. No further application for admission to CREST is accordingly required for the Open Offer Shares; all such shares, when issued and fully paid, may be held and transferred by means of CREST.

Application will be made for the Open Offer Entitlements and Excess Open Offer Entitlements to be admitted to CREST. The Open Offer Entitlements are expected to be admitted to CREST with effect from 1 September 2016.

### ***General***

The Open Offer Shares will, when issued and fully paid, be identical to and rank in full for all dividends or other distributions declared, made or paid after Admission and in all other respects will rank *pari passu* with the Existing Common Shares in issue. No temporary documents of title will be issued. Further details of the rights attaching to the Common Shares are set out in paragraph 4.4 of Part 17 of this document: “*Additional Information*”.

The Existing Common Shares are listed on the standard segment of the Official List and traded on the London Stock Exchange’s Main Market for listed securities. Application has been made to the FCA and to the London Stock Exchange for the New Common Shares to be issued pursuant to the Open Offer to be admitted to the standard segment of the Official List and to trading on the London Stock Exchange’s Main Market for listed securities, respectively. It is expected that Admission will become effective on or around 14 October 2016 and that dealings for normal settlement in the Open Offer Shares will commence at 8.00 a.m. on the same day. The Open Offer Shares and the Existing Common Shares are in registered form and can be held in certificated and uncertificated form.

The ISIN for the Open Offer Shares will be the same as that of the Existing Common Shares being BMG4209G1087.

If, for any reason, it becomes necessary to adjust the expected timetable as set out in this document, the Company will make an appropriate announcement to a Regulatory Information Service giving details of the revised dates.

### **3. Conditions and Further Terms of the Open Offer**

The Open Offer is conditional upon the implementation of the Debt Equitisation and Notes Reinstatement on or before 14 October 2016 (or such later date as the Company and the Majority Participating Holders may agree, being not later than 15 December 2016). The Restructuring Agreement is conditional, *inter alia*, upon:

- the Company having confirmed that the Scheme Shares to be issued in the Debt Equitisation will be admitted to trading on the London Stock Exchange promptly after the Scheme Effective Date;
- the Company having confirmed that it has advised the Committee Advisors of any material changes to the Company's Capex Plan;
- the Company having confirmed that it has not spent any Capex other than Capex relating to production maintenance;
- satisfaction that any new Board member(s) selected and approved by the Majority Participating Holders and notified to the Company prior to the Scheme Effective Date will be appointed to the Board on or promptly after the Scheme Effective Date; and
- the Company having agreed arrangements with the MNR reasonably satisfactory to both it and to the Majority Participating Holders regarding (a) the implementation of the Bilateral MNR Agreement, (b) the future marketing of the Group's oil until a formal audit has been carried out and (c) the predictability of future payments including recovery of past costs and receivables.

A full description of the conditions to the Restructuring is set out in paragraph 13 of Part 17 of this document: "*Additional Information*".

It is expected that all these conditions will be satisfied by 14 October 2016, that Admission will become effective at 8.00 a.m. on or around 14 October 2016, and that dealings in the Open Offer Shares will commence at 8.00 a.m. on or around 14 October 2016. Definitive certificates in respect of Open Offer Shares will be prepared and are expected to be posted to those allottees who have validly elected to hold their Common Shares in certificated form by 28 October 2016. In respect of those allottees who have validly elected to hold their Common Shares in uncertificated form, the Open Offer Shares are expected to be credited to their accounts maintained in the CREST system as soon as practicable after 8.00 a.m. on the day of Admission.

No temporary documents of title will be issued in respect of Open Offer Shares held in uncertificated form. Definitive certificates in respect of New Common Shares taken up under the Open Offer are expected to be posted to those Qualifying Shareholders who have validly elected to hold their Open Offer Shares in certificated form by 28 October 2016. In respect of those Qualifying Shareholders who have validly elected to hold their Open Offer Shares in uncertificated form, the Open Offer Shares are expected to be credited to their stock accounts maintained in CREST as soon as practicable after 8.00 a.m. on or around 14 October 2016.

### **4. Procedure for Application and Payment**

The action to be taken by Qualifying Shareholders in respect of the Open Offer depends on whether, at the relevant time, the Qualifying Shareholder is a Qualifying non-CREST Shareholder who has an Application Form in respect of his entitlement under the Open Offer or, in the case of a Qualifying CREST Shareholder, if he has Open Offer Entitlements credited to his CREST stock account in respect of such entitlement.

Subject to the provisions of paragraph 9 "*Listing, settlement, dealings and publication*" of this Part 11, Qualifying Shareholders who hold their Existing Common Shares in certificated form will be allotted Open Offer Shares in certificated form to the extent that their entitlement to the Open Offer Shares arises as a result of holding Existing Common Shares in certificated form. Qualifying Shareholders who hold their Existing Common Shares in uncertificated form will be

allotted Open Offer Shares in uncertificated form to the extent that their entitlement to the Open Offer Shares arises as a result of holding Existing Common Shares in uncertificated form. However, it will be possible to deposit Open Offer Entitlements into, and withdraw them from, CREST. Further information on deposit and withdrawal is set out in this paragraph 4 “*Procedure for Application and Payment*” of this Part 11.

CREST-Sponsored members should refer to their CREST Sponsor, as only their CREST Sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements of such members held in CREST. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

If a Qualifying Shareholder does not wish to apply to acquire Open Offer Shares, he should not complete or return the Application Form or submit an unmatched stock event (“USE”) instruction (as applicable).

**(a) If a Qualifying Shareholder has an Application Form in respect of his entitlement under the Open Offer**

*(i) General*

Subject as provided in paragraph 6 “*Overseas Shareholders*” of this Part 11 in relation to certain Overseas Shareholders, Qualifying non-CREST Shareholders will have received an Application Form enclosed with this document. The Application Form shows the number of Existing Common Shares registered in the name of the corresponding Qualifying Shareholder at 5.00 p.m. on the Record Date. It also shows the maximum number of Open Offer Shares for which such Qualifying Shareholder is entitled to apply under the Open Offer on the basis set out in paragraph 2 “*The Open Offer*” of this Part 11, as shown by the total number of Open Offer Entitlements. Qualifying non-CREST Shareholders can also apply for more than their Open Offer Entitlement up to the 2,294,295,672 Open Offer Shares available minus their Open Offer Entitlements. Shareholders holding fewer than 9 Existing Common Shares will have no entitlement to subscribe under the Open Offer. The aggregate number of Open Offer Shares available for subscription pursuant to the Open Offer is up to 2,294,295,672 New Common Shares in aggregate for all Qualifying Shareholders. A Qualifying Shareholder may apply for less than his maximum entitlement should he wish to do so. A Qualifying Shareholder may also hold such an Application Form by virtue of a *bona fide* market claim.

The instructions and other terms set out in the Application Form form part of the terms of the Open Offer. Subject to certain exceptions, the Application Form has not been, and will not be, sent to Overseas Shareholders in, or with registered addresses in, the United States or any of the Excluded Territories and brokers, banks and other agents may not send an Application Form to, or submit Application Forms on behalf of, Overseas Shareholders in, or with addresses in any of these countries or a person (including, without limitation, stockbrokers, banks or other agents) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom.

*(ii) Market claims*

Applications to acquire Open Offer Shares may only be made on the Application Form and may only be made by the Qualifying non-CREST Shareholder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Existing Common Shares through the market prior to the date upon which the Existing Common Shares were marked “*ex*” the entitlement to the Open Offer by the London Stock Exchange, which is expected to be 31 August 2016. Application Forms may be split up to 3.00 p.m. on 13 September 2016. The Application Form is not a negotiable document and cannot be separately traded. A Qualifying non-CREST Shareholder who has sold or transferred all or part of his holding of Existing Common Shares prior to 31 August 2016, being the last date upon which the Existing Common Shares are expected to be marked “*ex*” the entitlement to the Open Offer by the London Stock Exchange, should consult his



broker or other professional adviser as soon as possible, as the invitation to acquire Open Offer Shares may be a benefit which may be claimed by the transferee from his counterparty pursuant to the rules of the London Stock Exchange. Qualifying non-CREST Shareholders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box K on the Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Application Form should not, however, be forwarded to or transmitted in or into the United States (subject to certain exceptions) or any of the Excluded Territories.

If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the accompanying Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedures set out in this paragraph 4 “*Procedure for Application and Payment*” of this Part 11.

The Open Offer Entitlements and Excess Open Offer Entitlements will constitute a separate security for the purposes of CREST. Although Open Offer Entitlements Excess Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements and Excess Open Offer Entitlements may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim transaction. Transactions identified by the CREST Claims Processing Unit as “*cum*” the Open Offer Entitlements and Excess Open Offer Entitlements will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) and Excess Open Offer Entitlements will thereafter be transferred accordingly.

(iii) *Excess Application Facility*

Qualifying non-CREST Shareholder who have taken up their Open Offer Entitlements in full may apply to acquire Excess Shares using the Excess Application Facility, should they wish. The Excess Application Facility enables Qualifying non-CREST Shareholders to apply for Excess Shares in excess of their Open Offer Entitlement up to a maximum aggregate number of Excess Shares not exceeding 2,294,295,672 Open Offer Shares. Excess applications will be satisfied only to the extent that corresponding applications by other Qualifying Shareholders are not made, or are made for less than their *pro rata* entitlements. Qualifying non-CREST Shareholders should not make an application under the Excess Application Facility unless such Qualifying non-CREST Shareholder has applied for his Open Offer Entitlements in full.

An Excess Open Offer Entitlement may not be sold or otherwise transferred. Neither the Open Offer Entitlements nor the Excess Open Offer Entitlements will be tradeable or listed and applications in respect of the Open Offer may only be made by the Qualifying Shareholders originally entitled or by a person entitled by virtue of a *bona fide* market claim.

To apply for Excess Shares pursuant to the Open Offer, Qualifying non-CREST Shareholders should follow the instructions on the Application Form.

The total number of Open Offer Shares is fixed and will not be increased in response to any applications under the Excess Application Facility. Applications under the Excess Application Facility will therefore only be satisfied to the extent that other Qualifying Shareholders do not apply for their Open Offer Entitlements in full.

If there is an oversubscription resulting from excess applications, allocations in respect of such excess applications will be scaled down (i) firstly, by reference to each applicant’s *pro rata* holding of Common Shares, and (ii) secondly, at the discretion of the Company, by reference to the amount of each applicant’s tendered applications under the Excess Application Facility. No assurance can be given that the applications by Qualifying Shareholders will be met in full or in part or at all. Excess monies in respect of applications which are not met in full will be returned to the applicant (at the applicant’s risk) without interest within 14 days thereafter, by way of cheque.

All written enquiries in relation to the procedure for application and completion of applications for Excess Open Offer Entitlements should be addressed to Computershare Investor Services Plc, Corporate Actions Projects, The Pavilions, Bridgwater Road, Bristol BS99 6AH, United Kingdom. Alternatively please contact the Shareholder helpline on 0370 707 1016 from within the UK or on +44 (0)370 707 1016 if calling from outside the UK).

Calls may be recorded and randomly monitored for security and training purposes. Lines are open from 8.30 a.m. until 5.30 p.m. (London time) Monday to Friday (excluding UK public holidays).

Please note that the Shareholder helpline cannot provide comments on the merits of the Open Offer, or legal, financial or taxation advice.

(iv) *Application procedures*

If a Qualifying non-CREST Shareholder wishes to apply for all or some of his entitlement to Open Offer Shares he should complete and sign the Application Form in accordance with the instructions printed on it and send it, together with the appropriate remittance and in accordance with the instructions in this paragraph 4 “*Procedure for Application and Payment*” of this Part 11 to Computershare Investor Services Plc (who will act as Receiving Agent in relation to the Open Offer), in the accompanying pre-paid envelope to Computershare Investor Services Plc, Corporate Actions Projects, Bristol BS99 6AH or by hand (during normal business hours only), to Computershare Investor Services Plc, The Pavilions, Bridgwater Road, Bristol BS13 8AE.

Qualifying non-CREST Shareholders should note that Computershare Investor Services Plc cannot provide financial advice on the merits of the Open Offer or as to whether or not a Qualifying non-CREST Shareholder should take up his entitlement to Open Offer Shares. If any Application Form is sent by first-class post within the United Kingdom, Qualifying non-CREST Shareholders are recommended to allow at least four Business Days for delivery.

(v) *Payments*

All payments must be in pounds sterling and cheques or banker’s drafts should be made payable to “*CIS Plc Re: Gulf Keystone Open Offer A/C*” and crossed “*A/C payee only*”. Cheques or banker’s drafts must be drawn on an account at a branch of a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which is a member of either of the Committees of Scottish or Belfast clearing houses or which has arranged for its cheques and banker’s drafts to be cleared through the facilities provided by any of those companies or committees. Such cheques or banker’s drafts must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application.

Cheques must be drawn on the personal account of the individual investor where they have sole or joint title to the funds. Third-party cheques will not be accepted with the exception of building society cheques or banker’s drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the back of the building society cheque or banker’s draft to such effect. The account name should be the same as that shown on the application.

Cheques or banker’s drafts will be presented for payment upon receipt. Post-dated cheques will not be accepted. The Company reserves the right to instruct the Receiving Agent to seek special clearance of cheques and banker’s drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be payable on payments. It is a term of the Open Offer that cheques shall be honoured on first presentation, and the Company may elect, in its absolute discretion, to treat cheques not so honoured as invalid acceptances.

Application monies will be paid into a separate bank account pending the Open Offer becoming unconditional. In the event that it does not become unconditional by 8.00 a.m. on or around 14 October 2016 or such later time and date as the Company

shall determine (being not later than 15 December 2016), the Open Offer will lapse and application monies will be returned by post to applicants, at the applicants' risk and without interest, to the address set out on the Application Form, within 14 days thereafter.

(vi) *Effect of application*

All documents and remittances sent by post by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk. By completing and delivering an Application Form, the applicant:

- (A) represents and warrants that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations, under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares or acting on behalf of any such person on a non-discretionary basis;
- (B) agrees that all applications, and contracts resulting therefrom, under the Open Offer shall be governed by, and construed in accordance with, the laws of England and Wales;
- (C) confirms that in making the application he is not relying on any information or representation in relation to the Group other than that contained in this document, and he accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all information contained in this document (including information incorporated by reference);
- (D) represents and warrants that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlement or, if he has received any Open Offer Entitlements from a person other than the Company, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (E) requests that the Open Offer Shares to which he will become entitled be issued to him on the terms set out in this document and the Application Form and subject to the Articles;
- (F) represents and warrants that he is not a person, and is not applying on behalf of any such person, who by virtue of being located or resident in or a citizen of any country outside the United Kingdom, or a corporation, partnership or other entity created or organised outside the United Kingdom is prevented by the law of any relevant jurisdiction from lawfully applying for Open Offer Shares;
- (G) represents and warrants that: (i) he is not located in the United States (including delivery of an investor letter pursuant to paragraph 6 below) or any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares or to use the Application Form in any manner in which he has used or will use it; (ii) he is not acting for the account or benefit of a person located within the United States or any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares and was not acting for the account or benefit of such a person at the time the instruction to apply for the Open Offer Shares was given; and (iii) he is not acquiring Open Offer Shares with a view to the offer, sale, resale, delivery or transfer, directly or indirectly, of any such Open Offer Shares into the United States or any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares, in each case, except where the requirement to make such representation and warranty

has been waived by the Company and proof satisfactory to the Company has been given that he is entitled to take up his entitlement without any breach of applicable law; and

- (H) represents and warrants that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986.

Further representations and warranties are included in the Application Form.

If a Qualifying non-CREST Shareholder is in doubt as to whether or not he should apply for any of the Open Offer Shares under the Open Offer, he should consult his independent financial adviser immediately. All written enquiries in relation to the procedure for application for Qualifying non-CREST Shareholders under the Open Offer should be addressed to Computershare Investor Services Plc, Corporate Actions Projects, Bristol BS99 6AH or by telephone on 0370 707 1016 or, if telephoning from outside the UK, on +44 370 707 1016. Calls may be recorded and randomly monitored for security and training purposes. Lines are open from 8.30 a.m. until 5.30 p.m. (London time) Monday to Friday (excluding UK public holidays).

Please note that the Shareholder helpline cannot provide comments on the merits of the Open Offer, or legal, financial or taxation advice.

If a Qualifying non-CREST Shareholder does not wish to apply for any of the Open Offer Shares to which he is entitled, he should not complete or return the Application Form.

**(b) If a Qualifying Shareholder has Open Offer Entitlements credited to his stock account in CREST in respect of his entitlement under the Open Offer**

*(i) General*

Subject as provided in paragraph 6 “*Overseas Shareholders*” of this Part 11 in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of his Open Offer Entitlements equal to the maximum number of Open Offer Shares for which he is entitled to apply to together with a credit of Excess CREST Open Offer Entitlements equal to 20 times his Record Date balance of Ordinary Shares. Qualifying CREST Shareholders should note that this is not a cap on the maximum number of Excess Shares they can apply for and if they wish to apply for more Excess Shares than the Excess CREST Open Offer Entitlements they have been credited then they should contact the Shareholder helpline on 0370 707 1016 (or +44 370 707 1016 if calling from outside of the United Kingdom) to request an increased credit, ensuring to leave sufficient time for the additional Excess CREST Open Offer Entitlements to be credited to their account and for an application to be made in respect of those Excess CREST Open Offer Entitlements before the application deadline.

The CREST stock account to be credited will be an account under the CREST participant ID and CREST member account ID that apply to the Existing Common Shares held on the Record Date by the Qualifying CREST Shareholder in respect of which the Open Offer Entitlements have been allocated.

If, for any reason, the Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts of Qualifying CREST Shareholders cannot be credited by, 4.30 p.m. on 1 September 2016 or such later time as the Company may decide, an Application Form will be sent out to each Qualifying CREST Shareholder in substitution for the Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Qualifying non-CREST Shareholders with Application Forms will apply to Qualifying CREST Shareholders who receive Application Forms.

CREST members who wish to apply for some or all of their entitlements to Open Offer Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should a Qualifying CREST Shareholder need

advice with regard to these procedures, he should contact the Shareholder helpline on 0370 707 1016 or, if telephoning from outside the UK, on +44 370 707 1016. Calls may be recorded and randomly monitored for security and training purposes. Lines are open from 8.30 a.m. until 5.30 p.m. (London time) Monday to Friday (excluding UK public holidays).

Please note that the Shareholder helpline cannot provide comments on the merits of the Open Offer, or legal, financial or taxation advice.

If a Qualifying CREST Shareholder is a CREST-sponsored member he should consult his CREST sponsor if he wishes to apply for Open Offer Shares as only that CREST sponsor will be able to take the necessary action to make this application in CREST.

(ii) *Market claims*

The Open Offer Entitlements and Excess CREST Open Offer Entitlements will constitute a separate security for the purposes of CREST. Although Open Offer Entitlements and Excess CREST Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements and Excess CREST Open Offer Entitlements may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim transaction. Transactions identified by the CREST Claims Processing Unit as “cum” the Open Offer Entitlements and Excess CREST Open Offer Entitlements will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) and Excess CREST Open Offer Entitlements will thereafter be transferred accordingly.

(iii) *Excess Application Facility*

Qualifying Shareholders who have taken up their Open Offer Entitlements in full may apply to acquire Excess Shares using the Excess Application Facility, should they wish. The Excess Application Facility enables Qualifying Shareholders to apply for Excess Shares in excess of their Open Offer Entitlement up to a maximum aggregate number of Excess Shares not exceeding 2,294,295,672 Offer Shares in aggregate for all Qualifying Shareholders. Excess applications will be satisfied only to the extent that corresponding applications by other Qualifying Shareholders are not made or are made for less than their *pro rata* entitlements. Qualifying Shareholders should not make an application under the Excess Application Facility unless such Qualifying Shareholder has applied for his Open Offer Entitlements in full.

An Excess Open Offer Entitlement may not be sold or otherwise transferred. Subject as provided in paragraph 6 in relation to Overseas Shareholders, the CREST accounts of Qualifying CREST Shareholders will be credited with an Excess Open Offer Entitlement in order for any applications for Excess Shares to be settled through CREST. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements and the Excess Open Offer Entitlements will be admitted to CREST, they will have limited settlement capabilities (for the purposes of *bona fide* market claims only). Neither the Open Offer Entitlements nor the Excess Open Offer Entitlements will be tradeable or listed and applications in respect of the Open Offer may only be made by the Qualifying Shareholders originally entitled or by a person entitled by virtue of a *bona fide* market claim.

To apply for Excess Shares pursuant to the Open Offer, Qualifying Shareholders should follow the instructions in paragraph (vi) below and must not return a paper form and cheque. Should a transaction be identified by the CREST Claims Processing Unit as “cum” the Open Offer Entitlement and the relevant Open Offer Entitlement is transferred, the Excess Open Offer Entitlements will not transfer with the Open Offer Entitlement claim, but will be transferred as a separate claim. Should a Qualifying CREST Shareholder cease to hold all of his Existing Shares as a result of one or more *bona fide* market claims, the Excess Open Offer Entitlement credited to CREST and allocated to the relevant Qualifying Shareholder will be transferred to the purchaser. **Please note that a separate USE Instruction must be sent in respect of any application under the Excess Open Offer Entitlement.**



The total number of Open Offer Shares is fixed and will not be increased in response to any applications under the Excess Application Facility. Applications under the Excess Application Facility will therefore only be satisfied to the extent that other Qualifying Shareholders do not apply for their Open Offer Entitlements in full.

If there is an oversubscription resulting from excess applications, allocations in respect of such excess applications will be scaled down (i) firstly, by reference to each applicant's *pro rata* holding of Common Shares, and (ii) secondly, at the discretion of the Company, by reference to the amount of each applicant's tendered applications under the Excess Application Facility. No assurance can be given that the applications by Qualifying Shareholders will be met in full or in part or at all.

Excess monies in respect of applications which are not met in full will be returned to the applicant (at the applicant's risk) without interest within 14 days thereafter, by way of cheque or CREST payment, as appropriate.

All enquiries in relation to the procedure for application and completion of applications for Excess Open Offer Entitlements should be addressed to Computershare Investor Services Plc, Corporate Actions Projects, The Pavilions, Bridgwater Road, Bristol BS99 6AH, United Kingdom. (Telephone Computershare on 0370 889 3176 from within the UK or on +44 (0)370 889 3176 if calling from outside the UK). Calls from landline providers typically cost up to 12 pence per minute. From mobile networks calls cost between 5 pence and 40 pence per minute.

Calls from outside the UK are chargeable at applicable international rates. Calls may be recorded and randomly monitored for security and training purposes. Lines are open from 8.30 a.m. until 5.30 p.m. (London time) Monday to Friday (excluding UK public holidays).

Please note that the Shareholder helpline cannot provide comments on the merits of the Open Offer, or legal, financial or taxation advice.

(iv) *USE instructions*

CREST members who wish to apply for Open Offer Shares in respect of all or some of their Open Offer Entitlements and their Excess Open Offer Entitlements in CREST must send (or, if they are a CREST-sponsored member, procure that their CREST sponsor sends) a USE instruction to Euroclear which, on its settlement, will have the following effect:

- (A) the crediting of a stock account of the Receiving Agent under the CREST participant ID and CREST member account ID specified below, with a number of Open Offer Entitlements or Excess Open Offer Entitlements corresponding to the number of New Common Shares applied for; and
- (B) the creation of a CREST payment, in accordance with the CREST payment arrangements, in favour of the payment bank of the Receiving Agent in respect of the amount specified in the USE instruction which must be the full amount payable on application for the number of Open Offer Shares referred to in subparagraph (a) above.

(v) *Content of USE instructions*

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (A) the number of Open Offer Shares for which application is being made (and hence the number of the Open Offer Entitlement(s) being delivered to the Receiving Agent);
- (B) the ISIN (BMG4209G1244) of the Open Offer Entitlements and, if applicable, the ISIN (BMG4209G1327) of the Excess Open Offer Entitlements;
- (C) the CREST member account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;
- (D) the CREST participant ID of the accepting CREST Member;

- (E) the CREST participant ID of Computershare, in its capacity as a CREST receiving agent. This is 3RA23;
- (F) the CREST member account ID of the Company, in its capacity as a CREST receiving agent. This is GULFOO;
- (G) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in sub-paragraph (A) above;
- (H) the intended settlement date. This must be on or before 11.00 a.m. on 15 September 2016; and
- (I) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 15 September 2016.

In order to assist prompt settlement of the USE instruction, CREST members may consider adding the following non-mandatory fields to the USE instruction:

- (A) a contact name and telephone number (in the free-format shared note field); and
- (B) a priority of at least 80.

CREST members and, in the case of CREST-sponsored members, their CREST Sponsors should note that the last time at which a USE instruction may settle on 15 September 2016 in order to be valid is 11.00 a.m. on that day.

In the event that the Open Offer does not become unconditional by 8.00 a.m. on 14 October 2016 or such later time and date as the Company shall determine (being no later than 15 December 2016), the Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and Computershare will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, within 14 days thereafter.

(vi) *Content of USE Instruction in respect of Excess Open Offer Entitlements*

The USE Instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (A) the number of Open Offer Shares for which the application is being made (and hence the number of the Excess Open Offer Entitlement(s) being delivered to the Receiving Agent);
- (B) the ISIN of the Excess Open Offer Entitlement. This is BMG4209G1327;
- (C) the Member Account ID of the accepting CREST member from which the Excess Open Offer Entitlements are to be debited;
- (D) the participant ID of the accepting CREST member;
- (E) the CREST participant ID of Computershare, in its capacity as CREST receiving agent. This is 3RA23;
- (F) the Member Account ID of Computershare, in its capacity as CREST receiving agent. This is GULFOO;
- (G) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in paragraph (A) above;
- (H) the intended settlement date. This must be on or before 11.00 a.m. on 15 September 2016; and
- (I) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for the application in respect of an Excess Open Offer Entitlement under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on

15 September 2016. In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) should add the following non-mandatory fields to the USE instruction:

(cc) a contact name and telephone number (in the free format shared note field); and

(dd) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 15 September 2016 in order to be valid is 11.00 a.m. on that day.

In the event that the Debt Equitisation and Notes Reinstatement are not implemented on or before 14 October 2016 or such later time and date as the Company and the Majority Participating Holders shall agree (being no later than 15 December 2016), the Restructuring will lapse, the Open Offer Entitlements and the Excess Open Offer Entitlements admitted to CREST will be disabled and Computershare will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, within 14 days thereafter.

*(vii) Deposit of Open Offer Entitlements and Excess Open Offer Entitlements into, and withdrawal from, CREST*

A Qualifying non-CREST Shareholder's entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Application Form may be deposited into CREST (either into the account of the Qualifying Shareholder named in the Application Form or into the name of a person entitled by virtue of a *bona fide* market claim). Similarly, Open Offer Entitlements and Excess Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlement under the Open Offer is reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) as set out in the Application Form.

A holder of an Application Form who is proposing to deposit the entitlement set out in such form is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements and Excess Open Offer Entitlements following their deposit into CREST to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 15 September 2016.

In particular, having regard to normal processing times in CREST and on the part of Computershare, the recommended latest time for depositing an Application Form with the CCSS, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Application Form as Open Offer Entitlements and Excess Open Offer Entitlements in CREST, is 3.00 p.m. on 12 September 2016, and the recommended latest time for receipt by Euroclear of a dematerialised instruction requesting withdrawal of Open Offer Entitlements and Excess Open Offer Entitlements from CREST is 4.30 p.m. on 9 September 2016, in either case, so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements and Excess Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements and Excess Open Offer Entitlements prior to 11.00 a.m. on 15 September 2016.

Delivery of an Application Form with the CREST Deposit Form duly completed, whether in respect of a deposit into the account of the Qualifying Shareholder named in the Application Form or into the name of another person, shall constitute a representation and warranty to the Company and Computershare Investor Services Plc by the relevant CREST members that (A) he is not located in the United States, any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares; (B) he is not acting for the account or benefit of a person who is located within the United States, any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares and was not acting for the account or

benefit of such a person at the time the instruction to apply for the Open Offer Shares was given; and (C) he is not acquiring the Open Offer Shares with a view to the offer, sale, resale, delivery or transfer, directly or indirectly, of any such Open Offer Shares into the United States, any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares, in each case, except where the requirement to make such representation and warranty has been waived by the Company and proof satisfactory to the Company has been given that he is entitled to take up his entitlement without breach of applicable law; and, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

*(viii) Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 15 September 2016 will constitute a valid application under the Open Offer.

*(ix) CREST procedures and timings*

CREST members and (where applicable) their CREST Sponsors should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST-sponsored member, to procure that his CREST Sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 15 September 2016. In this connection, CREST members and (where applicable) their CREST Sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

*(x) Incorrect or incomplete applications*

If a USE instruction includes a CREST payment for an incorrect sum, the Company through the Receiving Agent reserves the right:

- (A) to reject the application in full and refund the payment to the CREST member in question;
- (B) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of Open Offer Shares as would be able to be applied for with that payment at the Offer Price, refunding any unutilised sum to the CREST member in question; or
- (C) in the case that an excess sum is paid, to treat the application as a valid application for all the Open Offer Shares referred to in the USE instruction refunding any unutilised sum to the CREST member in question.

*(xi) Effect of valid application*

A CREST member who makes or is treated as making a valid application in accordance with the above procedures thereby:

- (A) represents and warrants that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations, under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares or acting on behalf of any person on a non-discretionary basis;
- (B) agrees to pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to the Receiving Agent's payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to the Company the amount payable on application);

- (C) requests that the Open Offer Shares to which he will become entitled be issued to him on the terms set out in this document and subject to the Articles;
- (D) agrees that all applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, the laws of England and Wales;
- (E) represents and warrants that he is not a person, and is not applying on behalf of any such person, who by virtue of being located or resident in or a citizen of any country outside the United Kingdom, or a corporation, partnership or other entity created or organised outside the United Kingdom is prevented by the law of any relevant jurisdiction from lawfully applying for Open Offer Shares;
- (F) represents and warrants that (i) he is not located in the United States, any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares; (ii) he is not acting for the account or benefit of a person located within the United States or any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares and he was not acting for the account or benefit of such a person at the time the instruction to apply for the Open Offer Shares was given; and (iii) he is not acquiring Open Offer Shares with a view to the offer, sale, resale, delivery or transfer, directly or indirectly, of any such Open Offer Shares into the United States, any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for Open Offer Shares, in each case, except where the requirement to make such representation and warranty has been waived by the Company and proof satisfactory to the Company has been given that he is entitled to take up his entitlement without breach of applicable law;
- (G) represents and warrants that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (Depository receipts) or section 96 (Clearance services) of the Finance Act 1986;
- (H) confirms that, in making such application, he is not relying on any information or representation in relation to the Company other than that contained in this document and he accordingly agrees that no person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all the information contained in this document (including information incorporated by reference); and
- (I) represents and warrants that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements and Excess Open Offer Entitlements or that he has received such Open Offer Entitlements and Excess Open Offer Entitlements by virtue of a *bona fide* market claim.

(xii) *The Company's discretion as to rejection and validity of applications*

The Company may, in its sole discretion:

- (A) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part 11;
- (B) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
- (C) treat a properly authenticated dematerialised instruction (in this sub—paragraph, the “*first instruction*”) as not constituting a valid application if, at the time at which the Receiving Agent receives a properly authenticated dematerialised



instruction giving details of the first instruction or thereafter, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and

- (D) accept an alternative instruction or notification from a CREST member or CREST-sponsored member or (where applicable) a CREST Sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST— sponsored member or (where applicable) CREST Sponsor, the CREST member or CREST-sponsored member is unable validly to apply for Open Offer Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

## **5. Money Laundering Regulations**

### **(a) Holders of Application Forms**

It is a term of the Open Offer that, to ensure compliance with the Money Laundering Regulations, the Company may require, in its absolute discretion, verification of the identity of the person by whom or on whose behalf an Application Form is lodged with payment (which requirements are referred to below as the “*verification of identity requirements*”).

The person(s) (the “*applicant*”) who, by lodging an Application Form with payment, and in accordance with the other terms as described above, accept(s) the Open Offer in respect of the Open Offer Shares (the “*relevant shares*”) comprised in such Application Form shall thereby be deemed to agree to provide Computershare Investor Services Plc with such information and other evidence as it may require to satisfy the verification of identity requirements.

The Company may therefore undertake electronic searches for the purposes of verifying identity. To do so, the Company may verify the details against the applicant’s identity, but also may request further proof of identity.

If the Company determines that the verification of identity requirements apply to any applicant or application, the relevant shares (notwithstanding any other term of the Open Offer) will not be issued to the applicant unless and until the verification of identity requirements have been satisfied in respect of that application. The Company is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any applicant or application and whether such requirements have been satisfied, and the Company will not be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of such discretion.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in delays in the despatch of share certificates or in crediting CREST accounts. If, within a reasonable period of time and in any event by not later than 15 September 2016, following a request for verification of identity, the Company has not received evidence satisfactory to it as aforesaid, the Company may, in its absolute discretion, terminate the contract of allotment in which event the monies payable on acceptance of the Open Offer will be returned at the applicant’s risk and without interest to the account of the bank from which such monies were originally debited (without prejudice to the right of the Company to take proceedings to recover the amount by which the net proceeds of sale of the relevant Open Offer Shares fall short of the amount payable thereon).

Submission of an Application Form with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.

The verification of identity requirements will not usually apply:

- (i) if the applicant is an organisation required to comply with the Money Laundering Directive (the Council Directive on the prevention of the use of the financial system for the purpose of money laundering (no. 911308/EEQ); or
- (ii) if the applicant is a regulated United Kingdom broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (iii) if the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the name of such applicant; or
- (iv) if the aggregate subscription price for the relevant shares is less than the sterling equivalent of €15,000 (currently approximately £12,500).

In other cases, the verification of identity requirements may apply. The following guidance is provided in order to assist in satisfying the verification of identity requirements and to reduce the likelihood of difficulties or delays and potential rejection of an application (but does not limit the right of the Company to require verification of identity as stated above). Satisfaction of the verification of identity requirements may be facilitated in the following ways:

- (i) if payment is made by building society cheque (not being a cheque drawn on an account of the applicant) or banker's draft, by the building society or bank endorsing on the cheque or draft the applicant's name and the number of an account held in the applicant's name at such building society or bank, such endorsement being validated by a stamp and an authorised signature by the building society or bank on the reverse of the cheque or banker's draft;
- (ii) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the current non-EU members of which are Argentina, Australia, Brazil, Canada, Hong Kong, Iceland, India, Japan, Mexico, New Zealand, Norway, People's Republic of China, Republic of Korea, Russia, Singapore, South Africa, Switzerland, Turkey, the United States of America and, by virtue of their membership of the Gulf Co-operation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide written confirmation that it has that status with the Application Form and written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will, on demand, make such evidence available to Computershare Investor Services Plc or the relevant authority. In order to confirm the acceptability of any written assurance referred to in subparagraph (B) above or any other case, the applicant should contact the Company; or
- (iii) if (an) Application Form(s) is/are in respect of relevant shares with an aggregate subscription price of the sterling equivalent of €15,000 (currently approximately £12,500, ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and evidence of his address.

Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the back of the building society cheque or banker's draft to such effect. The account name should be the same as that shown on the application.

If a Qualifying Shareholder delivers an Application Form by hand, he should ensure that he has with him evidence of identity bearing his photograph (for example, a passport). If, within a reasonable period of time following a request for verification of identity, and in any case by no later than 11.00 a.m. on 15 September 2016, the Company has not received evidence satisfactory to it as aforesaid, the Company may, at its discretion, as agent of the Company, reject the relevant application, in which event the monies submitted in respect of that application will be returned without interest to the account at the drawee bank from which such monies were originally debited (without prejudice to the rights of the Company to undertake proceedings to receive monies in respect of the loss suffered by it as a result of the failure to produce satisfactory evidence as aforesaid).

**(b) Open Offer Entitlements and Excess Open Offer Entitlements in CREST**

If a Qualifying Shareholder holds his Open Offer Entitlements and Excess Open Offer Entitlements in CREST and applies for Open Offer Shares in respect of all or some of his Open Offer Entitlements and Excess Open Offer Entitlements as agent for one or more persons and he is not a UK or EU regulated person or institution (for example, a UK financial institution), irrespective of the value of the application, the Company is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is being made. Such Qualifying Shareholder must therefore contact the Company before sending any USE instruction or other instruction so that appropriate measures may be taken.

Submission of a USE instruction which, on its settlement, constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Company such information as may be specified by the Company as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to the Company as to identity, the Company may, in its absolute discretion, take, or omit to take, such action as it may determine to prevent or delay issue of the Open Offer Shares concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the Open Offer Shares represented by the USE instruction will not be valid. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

**6. Overseas Shareholders**

**(a) General**

The making of the Open Offer to Overseas Shareholders may be affected by the laws or regulatory requirements of the relevant jurisdiction. Overseas Shareholders who are in any doubt in this respect should consult their professional advisers without delay.

**Qualifying Shareholders who have registered addresses outside the United Kingdom, or who are located or resident in, or citizens of, countries other than the United Kingdom, may not be entitled to participate in the Open Offer and the ability of those persons to take up their allocations may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to all legal, regulatory or other formalities required to enable them to take up their allocations, including whether they require any governmental or other consents or need to observe any other formalities in such territory including paying any issue, transfer or other taxes. The comments set out in paragraph 6 “Overseas Shareholders” of this Part 11 are intended as a general guide only and any Overseas Shareholder should seek professional advice without delay.**

No action has been or will be taken by the Company or any other person to permit a public offering or distribution of this document or the Application Form in any jurisdiction where action for that purpose may be required, other than in the United Kingdom.

No person receiving a copy of this document and/or an Application Form and/or receiving a credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form or credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST, unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form or credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST could lawfully be used without contravention of any legislation or other local regulatory requirements. Receipt of this document and/or an Application Form or the crediting of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST does not constitute an invitation or offer to Overseas Shareholders in the territories in which it would be unlawful to make an invitation or offer and, in such circumstances, this document and/or any Application Forms are sent for information only. It is the responsibility of any Qualifying Shareholder receiving a copy of this document and/or an Application Form and/or receiving a credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST outside the United Kingdom and wishing

to make an application for any Open Offer Shares to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such other territory.

Due to restrictions under the securities laws of the United States and the Excluded Territories and certain commercial considerations, Application Forms will not be sent to, and Open Offer Entitlements and/or Excess Open Offer Entitlements will not be credited to stock accounts in CREST of, Shareholders with a registered address in the United States or any of the Excluded Territories or their agents or intermediaries, except where the Company is satisfied, at its sole and absolute discretion, that such action would not result in the contravention of any registration or other legal requirement in the relevant jurisdiction.

Persons (including, without limitation, stockbrokers, banks and other agents) receiving an Application Form and/or receiving a credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST should not, in connection with the Open Offer, distribute or send the Application Form or transfer the Open Offer Entitlements and/or Excess Open Offer Entitlements into any jurisdiction where to do so would or might contravene local securities laws or regulations.

If an Application Form or a credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST is received by any person in any such jurisdiction or by the stockbrokers, banks and other agents or nominees of such person, he must not seek to take up the Open Offer Shares except pursuant to an express agreement with the Company. Any person who does forward an Application Form or transfer the Open Offer Entitlements and/or Excess Open Offer Entitlements into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph. The Company reserves the right to reject an Application Form or transfer of Open Offer Entitlements and/or Excess Open Offer Entitlements from or in favour of Shareholders in any such jurisdiction or persons who are acquiring Open Offer Shares for resale in any such jurisdiction.

The Company reserves the right, in its absolute discretion, to treat as invalid any application for Open Offer Shares under the Open Offer, and the Company will not be bound to allot or issue any Open Offer Shares in respect of any acceptance or purported acceptance of the offer of Open Offer Shares, if it appears to the Company or its agents that such application or acceptance thereof may involve a breach of the laws or regulations of any jurisdiction or if in respect of such application the Company has not been given the relevant warranty concerning overseas jurisdictions set out in the Application Form or in this document, as appropriate. All payments under the Open Offer must be made in pounds sterling.

The Company is not making any representation to any offeree or purchaser of Open Offer Shares regarding the legality of an investment in the Open Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

**(b) United States and Excluded Territories**

*(i) United States*

The Open Offer Shares have not been and will not be registered under the Securities Act or under securities laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Subject to certain exceptions at the Company's sole discretion, the New Common Shares made available under the Open Offer are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S. Accordingly, no action has been or will be taken by the Company or any other person to permit a public offering or distribution of this document or the Application

Form in the United States. Subject to certain exceptions, neither this Prospectus nor an Application Form will be sent to, and no Open Offer Entitlements will be credited to, a stock account in CREST with a bank or financial institution of any person with a registered address in the United States.

Subject to certain exceptions, any person who acquires Open Offer Shares will be deemed to have declared, warranted and agreed, by accepting delivery of this Prospectus or the Application form or by applying for Open Offer Shares in respect of Open Offer Entitlements credited to a stock account in CREST, and delivery of the Open Offer Shares, to the effect set out in paragraphs 4(b)(xi)(F) and 4(a)(v)(G) above, as applicable.

The Company reserves the right to reject any Application Form or USE Instruction if it has reason to believe such representation and warranties cannot be given. The Company also reserves the right to treat as invalid any Application Form that appears to the Company or its agents to have been executed in or despatched from the United States, or that provides an address in the United States for the acceptance of the Open Offer Shares, or where the Company believes acceptance of such Application Form may infringe applicable legal or regulatory requirements.

In addition, any person applying for Open Offer Shares must make the representations and warranties set out in paragraphs 4(b)(xi)(F) and 4(a)(v)(G) above, as appropriate. Accordingly the Company reserves the right to treat as invalid (i) any USE instruction that does make representations and warranties set out in paragraph 4(b)(xi)(F) above and (ii) any Application Form that does not make representations and warranties set out in paragraph 4(a)(v)(G) above. **The attention of persons holding for account of persons located or resident in the United States or any of the Excluded Territories is directed to such paragraphs.**

No representation has been, or will be, made by the Company as to the availability of Rule 144 or any other exemption under the Securities Act or any state securities laws for the re-offer, sale, pledge or transfer of the Open Offer Shares by any investor.

*(ii) Excluded Territories*

Due to the restrictions under the securities laws of the Excluded Territories, Shareholders who have registered addresses in or who are located, resident or ordinarily resident in, or citizens of, any Excluded Territories will not qualify to participate in the Open Offer and will not be sent an Application Form and no Open Offer Entitlements and/or Excess Open Offer Entitlements will be credited to their CREST stock accounts.

The Open Offer Shares have not been and will not be registered under the relevant laws of any of the Excluded Territories or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly, in or into any of the Excluded Territories or to, or for the account or benefit of, any person with a registered address in, or who is located, resident or ordinarily resident in, or a citizen of, any Excluded Territories except pursuant to an applicable exemption.

**(c) Representation and warranties relating to Overseas Shareholders**

*(i) Qualifying non-CREST Shareholders*

Any person completing and returning an Application Form or requesting registration of the Open Offer Shares comprised therein represents and warrants to the Company and the Registrar that, except where proof has been provided to the Company's satisfaction that such person's use of the Application Form will not result in the contravention of any applicable legal requirements in any jurisdiction: (A) such person is not requesting registration of the relevant Open Offer Shares from within the United States or any Excluded Territory; (B) such person is not in any territory in which it is unlawful to make or accept an offer to acquire Open Offer Shares or to use the Application Form in any manner in which such person has used or will use it; (C) such person is not acting on a non-discretionary basis for a person located within the United States any Excluded Territory or any territory referred to in (B)



above at the time the instruction to accept was given; and (D) such person is not acquiring Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into the United States, any Excluded Territory or any territory referred to in (B) above. The Company and/or the Registrar may treat as invalid any acceptance or purported acceptance of the allotment of Open Offer Shares comprised in an Application Form if it: (I) appears to the Company or its agents to have been executed, effected or dispatched from the United States or an Excluded Territory or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; (II) provides an address in the United States or an Excluded Territory for delivery of the share certificates of Open Offer Shares (or any other jurisdiction outside the UK in which it would be unlawful to deliver such share certificates); or (III) purports to exclude the representation and warranty required by this subparagraph (i).

(ii) *Qualifying CREST Shareholders*

A CREST member or CREST-sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part 11 represents and warrants to the Company that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction: (A) neither it nor its client is within the United States or any Excluded Territory; (B) neither it nor its client is in any territory in which it is unlawful to make or accept an offer to acquire Open Offer Shares; (C) it is not accepting on a non-discretionary basis for a person located within the United States any Excluded Territory or any territory referred to in (B) above at the time the instruction to accept was given; and (D) neither it nor its client is acquiring any Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into the United States, any Excluded Territories or any territory referred to in (B) above. A CREST member or CREST-sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part 11 also represents and warrants that it is making an application for Open Offer Shares for its own long-term investment and will not sell, dispose of or transfer the Open Offer Shares allocated to it as part of the Open Offer within a period of six months from the date of allotment of such Open Offer Shares.

(d) **Waiver**

The provisions of paragraph 6 "*Overseas Shareholders*" of this Part 11 and of any other terms of the Open Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company, in its absolute discretion. Subject to this, the provisions of paragraph 6 "*Overseas Shareholders*" of this Part 11 supersede any terms of the Open Offer inconsistent herewith. References in paragraph 6 "*Overseas Shareholders*" of this Part 11 to Shareholders shall include references to the person or persons executing an Application Form and, in the event of more than one person executing an Application Form, the provisions of paragraph 6 "*Overseas Shareholders*" of this Part 11 shall apply to them jointly and to each of them.

**7. Withdrawal Rights**

Qualifying Shareholders wishing to exercise or direct the exercise of statutory withdrawal rights pursuant to section 87Q(4) of the FSMA after the issue by the Company of a prospectus supplementing this document must do so by lodging a written notice of withdrawal, which must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the CREST participant ID and the CREST member account ID of such CREST member with Computershare so as to be received by no later than two Business Days after the date on which the supplementary prospectus is published, withdrawal being effective as at posting of the written notice of withdrawal. Notice of withdrawal given by any other means or which is deposited with or received by Computershare after expiry of such period will not constitute a valid withdrawal, provided that the Company

will not permit the exercise of withdrawal rights after payment by the relevant Qualifying Shareholder of its subscription in full and the allotment of Open Offer Shares to such Qualifying Shareholder becoming unconditional, save to the extent required by statute. In such event, Shareholders are advised to seek independent legal advice.

## **8. Taxation**

Information regarding the United Kingdom in respect of the Open Offer Shares and the Open Offer is set out in Part 16 of this document “*Taxation*”. If a Qualifying Shareholder is in any doubt about his tax position or is subject to tax in a jurisdiction other than the United Kingdom, he should consult his professional advisers without delay.

## **9. Listing, settlement, dealings and publication**

Applications will be made to the FCA for the Open Offer Shares to be admitted to the standard segment of the Official List and to the London Stock Exchange for them to be admitted to trading on its Main Market for listed securities, subject to the fulfilment of the conditions of the Open Offer. Subject to the Open Offer becoming unconditional in all respects (save only as to Admission), it is expected that admission of the Open Offer Shares to the standard segment of the Official List and to trading on the London Stock Exchange will become effective and that dealings therein for normal settlement will commence on or around 14 October 2016.

Open Offer Entitlements and/or Excess Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11.00 a.m. on 15 September 2016 (the latest date for applications under the Open Offer). If the conditions to the Open Offer described above are satisfied, Open Offer Shares will be issued in uncertificated form to those persons who submitted a valid application for Open Offer Shares by utilising the CREST application procedures and whose applications have been accepted by the Company on the day on which such conditions are satisfied (expected to be on or around 14 October 2016). On this day, the Receiving Agent will instruct Euroclear to credit the appropriate stock accounts of such persons with such persons’ entitlement to Open Offer Shares with effect from Admission (expected to be on or around 14 October 2016). The stock accounts to be credited will be the accounts under the same participant IDs and member account IDs in respect of which the USE instruction was given.

Notwithstanding any other provision of this document, the Company reserves the right to send Qualifying CREST Shareholders an Application Form instead of crediting the relevant stock account with Open Offer Entitlements and/or Excess Open Offer Entitlements, and to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST), or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

For Qualifying non-CREST Shareholders who have applied by using an Application Form, definitive share certificates in respect of the Open Offer Shares validly applied for are expected to be despatched by post on approximately 28 October 2016. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers of the Open Offer Shares by Qualifying non-CREST Shareholders will be certified against the Share Register. All documents or remittances sent by or to applicants, or as they may direct, will be sent through the post at their own risk. For further information as to the procedure for application, Qualifying non-CREST Shareholders are referred to the Application Form.

Qualifying CREST Shareholders should note that they will be sent no confirmation of the credit of the Open Offer Shares to their CREST stock account or any other written communication by the Company in respect of the issue of the Open Offer Shares.

The completion and results of the Open Offer will be announced and made public through an announcement on a Regulatory Information Service as soon as possible after the results are known on 16 September 2016.

#### **10. Times and Dates**

The Company shall be entitled to amend the dates on which Application Forms are despatched or amend or extend the latest date for acceptance under the Open Offer and all related dates set out in this document and in such circumstances shall notify the FCA, and make an announcement on a Regulatory Information Service and, if appropriate, to Shareholders, but Qualifying Shareholders may not receive any further written communication.

If a supplementary prospectus is published by the Company two or fewer Business Days prior to the latest time and date for acceptance and payment in full under the Open Offer specified in this document, the latest date for acceptance under the Open Offer shall be extended to the date that is at least three Business Days after the date of publication of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

#### **11. Governing law and jurisdiction**

The terms and conditions of the Open Offer as set out in this document, the Application Form and any non-contractual obligation related thereto shall be governed by, and construed in accordance with, the laws of England and Wales. The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Open Offer, this document or the Application Form including, without limitation, disputes relating to any non-contractual obligations arising out of or in connection with the Open Offer, this document or the Application Form. By taking up Open Offer Shares under the Open Offer in accordance with the instructions set out in this document and, where applicable, the Application Form, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

#### **12. Further Information**

The attention of Qualifying Shareholders is drawn to Part 6 of this document “*Letter from the Chairman to Shareholders*” and to the further information set out in Part 2 of this document “*Risk Factors*” and Part 17 of this document “*Additional Information*” and also, where relevant, to the terms, conditions and other information printed on the accompanying Application Form.

## PART 12

### SELECTED FINANCIAL INFORMATION

The selected financial information set forth below as at and for the years ended 31 December 2015, 2014 and 2013 has been extracted without material adjustment from the audited Financial Statements included in or incorporated by reference into this document.

Tables 1, 2 and 3 below set out summary financial information of the Group for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 which has been extracted without material adjustment from the audited financial statements incorporated by reference into this document. The selected financial information below should be read in conjunction with the whole of this document.

**Table 1**

	Year ended 31 December		
	2015	2014	2013
	US\$'000	US\$'000	US\$'000
<b>Consolidated Income Statement:</b>			
<b>Continuing operations</b>			
Revenue	86,165	38,560	6,696
Cost of Sales	(136,872)	(81,845)	(11,950)
<b>Gross profit/(loss)</b>	(50,707)	(43,285)	(5,254)
Other operating expenses			
Impairment expense	(3,609)	(144,119)	
General and administrative expenses	(30,990)	(39,034)	(15,843)
<b>Loss from operations</b>	(85,306)	(226,438)	(21,097)
Other gains and (losses)	3,051	73	(1,186)
Interest revenue	42	103	828
Finance costs	(52,075)	(19,812)	(10,392)
<b>Loss before tax</b>	(134,288)	(246,074)	(31,847)
Tax charge	(689)	(2,129)	(118)
<b>Loss after tax for the year</b>	(134,977)	(248,203)	(31,965)
<b>Loss per share (cents)</b>			
Basis	(14.41)	(28.51)	(3.69)
Diluted	(14.41)	(28.51)	(3.69)
<b>Condensed Consolidated Statement of Comprehensive Income</b>			
Loss for the year	(134,977)	(248,203)	(31,965)
Exchange differences on translation of foreign operation	(1,139)	(987)	279
<b>Total comprehensive loss for the year</b>	(136,116)	(249,190)	(31,686)

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

The Group's revenue increased by US\$79.5 million from the year ended 31 December 2013 to 31 December 2015, reflecting the ramp up of operations from the commencement of commercial production in July 2013 to the end of 2015. Cash receipts in respect of sales to the KRG have not followed the terms of the Shaikan PSC and therefore, revenue has been recognised when cash was received for 2013 and 2014, and when the receipt of cash was assured for 2015 (reflecting the partial improvement in the pattern and reliability of receipts in 2015). Following a review of receivables due from the MNR in early 2016, the Group has estimated unrecognised revenue arrears of US\$93 million net to Gulf Keystone, as at 31 December 2015 on a diluted basis (based on the Shaikan Government

Option). Revenue for the Group during the period was adversely impacted by the significant decline in oil prices since 2013 with the Brent crude oil price declining from an average of US\$109/bbl in 2013 to US\$53/bbl towards the end of 2015.

Cost of sales increased by US\$124.9 million during the period which offset the increase in revenue and resulted in an increase in the gross loss of US\$45.5 million. Cost of sales include operating costs and depreciation, depletion and amortization, both of which were calculated based on total production including production volumes associated with unrecognised export revenue.

An impairment charge of US\$144.1 million was recognised on Akri Bijel following an economic assessment of the block in 2014. In January 2016, the Group announced its intention to relinquish the block and recognised an impairment of US\$3.6 million in the 31 December 2015 financial statements to write off the remaining balance on the asset.

General and administration costs increased by US\$23.2 million from 2013 to 2014. 2013 general and administration costs included a net credit of US\$19.0 million related to the Excalibur litigation compared to a credit of US\$2.1 million in 2014. Additional general and administration costs in 2014 included US\$3 million relating to the impairment of the Group's Algerian asset, the cost of raising US\$250 million additional debt finance in connection with the issuance of the Guaranteed Notes, advisors fees relating to the move from an AIM to a Main Market listing and the costs of a community relations initiative to assist the KRG in the humanitarian relief effort, partially offset by savings in staff costs. General and administration costs decreased by US\$8 million from 2014 to 2015 mainly as a result of the additional costs in 2014 listed above and a reduction in share-based payments in 2015.

Finance costs increased by US\$41.7 million from 2013 to 2015. Costs include interest payable in respect of the Convertible Bonds of US\$27.5 million (2014: US\$26.9 million; 2013: US\$23.4 million); interest payable on the Guaranteed Notes of US\$42.6 million (2014: US\$29.1 million; 2013: US\$Nil) and the accretion charge on the decommissioning provision of US\$0.8 million (2014: US\$0.5 million; 2013: US\$0.4 million). In 2015, interest expense of US\$18.8 million (2014: US\$36.7 million; 2013: US\$13.4 million) was capitalised within tangible and intangible fixed assets.

**Table 2**

	Year ended 31 December		
	2015 US\$'000	2014 US\$'000	2013 US\$'000
<b>Condensed Cash Flow Statement</b>			
Net cash used in operating activities	(32,198)	(37,430)	(42,107)
Net cash used in investing activities	(52,149)	(197,445)	(182,252)
Net cash from financing activities	39,379	240,114	53,937
<b>Cash and cash equivalents at the end of the period</b>	<b>43,641</b>	<b>87,835</b>	<b>81,972</b>

Net cash used in operations decreased from US\$42.1 million for the year ended 31 December 2013 to US\$32.2 million for the year ended 31 December 2015. The loss from operations before non-cash charges and loan interest payments decreased from US\$8.1 million to US\$4.4 million during the period, mainly reflecting the ramp-up in production and liftings over the period partially offset by an increase in unrecognised revenue arrears from the KRG. Loan interest payments increased during the period by US\$35.7 million due to the issue of US\$50.0 million of Convertible Bonds in November 2013 and the Guaranteed Notes in April 2014. Net working capital adjustments resulted in an increase in cash of US\$24.5 million in 2015 compared to a decrease of US\$17.0 million in 2013. Working capital adjustments throughout the period were generally in line with the level of the Group's activities during the period except for an increase in receivables in 2013 related to the Excalibur litigation which was reversed in 2014 as the cash was received. The net cash outflow from tax payments/refunds decreased by US\$1.2 million between 2013 and 2015 and cash inflows from interest received decreased by US\$0.8 million.

Net cash used in investing activities increased by US\$15.2 million between 2013 and 2014 reflecting higher spending on exploration and development assets in 2014 and a reduction in liquid investments of US\$8.6 million in 2013. Net cash used in investing activities decreased by US\$145.3 million from



2014 to 2015 reflecting the Group's strategic decision to limit spending on capital activities in light of the payment cycle from the KRG and the outstanding entitlements under the Shaikan PSC.

Net cash from financing activities totalled US\$333.4 million during the period covered by the historical financial information. The cash inflow in 2013 was primarily from the issue of US\$50 million Convertible Bonds in November 2013. The cash inflow in 2014 of US\$240.1 million was generated primarily from the issue of US\$250 million Guaranteed Notes in April 2014, net of costs. In 2015, the cash inflow of US\$39.4 million was generated from the proceeds of a placing of 85,900,000 new Common Shares, at a placing price of 32 pence per share, net of issue costs. Further details of financing activities can be found in section 7 of Part 14 of this document "*Operating and Financial Review*".

There has been no significant change to the financial condition and operating results of the Group since 31 December 2015, the date on which the last financial information on the Group was published.

**Table 3**

	Years ended 31 December		
	2015 US\$'000	2014 US\$'000	2013 US\$'000
<b>Condensed Consolidated Balance Sheet:</b>			
<b>Non-current assets</b>			
Intangible assets	314,696	276,290	220,963
Property, plant and equipment	562,178	593,604	516,437
Deferred tax asset	483	732	3,680
	877,357	870,626	741,080
<b>Current assets</b>			
Assets classified as held for sale	—	8,587	103,086
Inventories	18,544	22,854	20,654
Trade and other receivables	16,527	16,380	34,023
Cash and cash equivalents	43,641	87,835	81,972
<b>Total assets</b>	956,069	1,006,282	980,815
<b>Current liabilities</b>			
Trade and other payables	(127,399)	(103,985)	(100,795)
Provisions	(11,151)	(7,197)	(4,185)
Liabilities directly associated with assets classified as held for sale	—	(8,587)	(1,378)
<b>Non-current liabilities</b>			
Convertible bonds	(310,444)	(303,278)	(296,725)
Other borrowings	(234,094)	(224,071)	—
Provisions	(27,333)	(19,559)	(15,365)
<b>Total Liabilities</b>	(710,421)	(666,677)	(418,448)
<b>Net assets</b>	245,648	339,605	562,367
<b>Equity</b>			
Share capital	9,781	8,922	7,975
Share premium account	834,619	796,099	796,099
Share option reserve	47,085	51,017	33,486
Convertible bond reserve	10,179	15,834	21,488
Exchange translation reserve	(1,398)	(259)	728
Accumulated losses	(654,618)	(532,008)	(297,409)
<b>Total Equity</b>	245,648	339,605	562,367

## PART 13

### HISTORICAL FINANCIAL INFORMATION

*The following documents, which have been previously published and filed with the FCA and which are available for inspection in accordance with Part 18 of this document “Documents Incorporated by Reference”, contain information which is relevant to this document: the Company’s Annual Reports for the years ended 31 December 2015, 2014 and 2013.*

*The table below sets out the sections of the above documents, which contain information incorporated by reference into, and forming part of this document. Only information in the parts of the above documents identified in the list below is incorporated into and forms part of this document. Information in other parts of the above documents is either covered elsewhere in this document or is not relevant to an investor’s assessment of the assets and liabilities, financial position, profit and losses and prospects of the Group.*

#### **31 December 2015**

#### **Pages**

*Consolidated financial statements of the Group including consolidated income statement, consolidated balance sheet, the consolidated statement of recognised income and expense, the reconciliation of equity, the consolidated cash flow statement, the analysis of movement in net debt and the notes to the financial statements and the independent auditors report thereon by Deloitte LLP* 86-103 of the Company’s Annual Report 2015

#### **31 December 2014**

*Consolidated financial statements of the Group including consolidated income statement, consolidated balance sheet, the consolidated statement of recognised income and expense, the reconciliation of equity, the consolidated cash flow statement, the analysis of movement in net debt and the notes to the financial statements and the independent auditors report thereon by Deloitte LLP* 74-92 of the Company’s Annual Report 2014

#### **31 December 2013**

*Consolidated financial statements of the Group including consolidated income statement, consolidated balance sheet, the consolidated statement of recognised income and expense, the reconciliation of equity, the consolidated cash flow statement, the analysis of movement in net debt and the notes to the financial statements and the independent auditors report thereon by Deloitte LLP* 83-100 of the Company’s Annual Report 2013

*To the extent that any information incorporated by reference itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this document for the purposes of the Prospectus Rules, except where such information is stated within this document as specifically being incorporated by reference or where this document is specifically defined as including such information.*

*Any statement which is deemed to be incorporated by reference into this document shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained in this document (or in a later document which is incorporated by reference into this document) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.*

*Except as set forth above, no other portion of these documents is incorporated by reference into this document and those portions which are not specifically incorporated by reference in this document are*

*either not relevant for prospective investors or the relevant information is included elsewhere in this document.*

*Deloitte LLP, of 2 New Street Square, London, EC4A 38Z, Chartered Accountants regulated by the ICAEW has issued unqualified audit opinion in respect of the years ended 31 December 2013, 2014 and 2015.*

*The financial statements for the years ended 31 December 2013, 2014 and 2015 were prepared in accordance with IFRS as adopted by the European Union.*

## PART 14

### OPERATING AND FINANCIAL REVIEW

*This Part 14 summarises the significant factors and events affecting the results of operations and financial condition of the Group for 2015, 2014 and 2013. You should read this Part 14 in conjunction with Part 3 of this document: “Presentation of Financial and Other Information”, Part 8 of this document: “The Business” together with the Company’s audited consolidated financial statements for 2015, 2014 and 2013, including the notes thereto, as well as the other financial information incorporated by reference in this Prospectus. A summary of the critical accounting policies that have been applied to these financial statements is set out under the section entitled “Critical accounting estimates and judgments” in this Part 14.*

The following discussion of the Group’s results of operations and financial condition contains forward-looking statements that reflect the current view of the Group’s management. The Group’s actual results could differ materially from those anticipated in any forward-looking statements as a result of the factors discussed below and elsewhere in this Prospectus, particularly under Part 2 of this document: “Risk Factors”.

Investors should carefully consider the following information, together with the other information contained in this Prospectus.

#### 1. Overview

Gulf Keystone Petroleum Limited is the holding Company of the Group, which is engaged in oil and gas exploration and production. The Company’s Common Shares are admitted to the standard segment of the Official List and to the London Stock Exchange’s Main Market for listed securities (LSE:GKP).

The Group is a leading operator and producer in Kurdistan, where it operates the Shaikan field. Previously, the Group also had a portfolio of exploration assets in Kurdistan which, in addition to the Shaikan Block, comprised the Sheikh Adi Block, the Ber Bahr Block and the Akri Bijel Block. The Group, as a result of a detailed review of the Group’s portfolio and, in agreement with its relevant co-venturers decided to relinquish and terminate its non-core rights and obligations in the Akri Bijel PSC (effective 31 December 2015), the Sheikh Adi PSC (effective 16 March 2016) and the Ber Bahr PSC (currently being finalised with the MNR). The Group has one remaining historical asset in Algeria (the GKN/GKS oilfields in Block 126a) from which it is in the process of seeking an orderly exit.

The Shaikan Block is held through the Company’s wholly owned subsidiary, Gulf Keystone Petroleum International Limited. GKPI is the operator of the Shaikan Block and was, prior to its relinquishment, the operator of the Sheikh Adi Block. The Ber Bahr and Akri-Bijel Blocks were operated by Genel and MOL, respectively.

#### The Shaikan Block

The Shaikan Block was declared a Commercial Discovery in August 2012 and the Shaikan FDP was approved in June 2013, following which the Group commenced commercial production and crude oil sales from the field. Gross daily production rates averaged 30,500 bopd in 2015 and the Group achieved production rates of over 45,000 bopd at times during the year.

The observed pressure reduction is in line with predicted field performance and consistent with the CPR reserves and resources. This pressure decline does not affect the 2P reserve estimate but will require intervention to maintain current production levels. In the near term the Group is focused on stabilising production at 40,000 bopd with a potential move to increase production to 55,000 bopd. Lack of further investment in the Shaikan Block will result in losing wells in the next two years either by gassing out, thus requiring a new production well, or by ceasing to flow naturally and requiring artificial life via an electric submersible pump (ESP). In either circumstance, early investment will prevent this and allow all facilities to operate at full capacity.

As a consequence of continued production and pressure data gathering the Company has been able to revise its field development plan adopting an optimal recovery drive mechanism and reducing well count. An updated draft of the Shaikan FDP based on these revisions, which includes a production target of 110,000 bopd and the development of the Jurassic reservoirs, was submitted to the MNR for approval in December 2015.

As at 31 December 2015, the Group had a 75% working interest in the Shaikan block with 20% being held by MOL. Texas held a 5% interest in trust for GKPI pending transfer of its interest to GKPI. On 16 March 2016, GKPI and MNR entered into the Bilateral MNR Agreement (as between those two parties only) which addresses, *inter alia*, the Group's position regarding the MNR's proposed exercise of the Shaikan Government Option and the settlement of the associated past costs together with the reduction of the capacity building charge from 40% to 30% of GKPI's entitlement to profit oil, the MNR and GKPI's intention to implement the Shaikan Third Party Option, and the MNR's approval of the proposed assignment and transfer to GKPI of the entire 5% participating interest in the Shaikan PSC currently held by Texas. Save for the reduction of the capacity building charge, the implementation of the above terms is subject to the execution of the Second Shaikan Amendment.

The reduction of the capacity building charge is an important change that will bring the Shaikan PSC closer in line with the PSCs of the Group's peers in Kurdistan and will improve the economic value of the Shaikan Block to the Group.

As part of the Bilateral MNR Agreement, the MNR and GKPI expressed their intention, subject to the satisfaction of certain conditions (including the payment by MNR of certain Capex, opex and other back-costs attributable to its Shaikan Government Option) to recognise the allocation to MNR of the Shaikan Government Option with effect from 1 August 2012. As at 31 December 2015, the Group estimates unrecognised receivables from the MNR of approximately US\$85 million net to GKP (less a US\$10 million reduction reflecting other payables to the MNR) for back-costs associated with the Shaikan Government Option. To address these back-costs, the MNR committed to top up the payment of monthly PSC revenue entitlements and revenue arrears repayments (as per 1 February 2016 MNR announcement) to US\$15 million starting from 16 March 2016 until payment of the full amount of the back-costs. As at 30 June 2016, the Group estimates receivables from the MNR of US\$61 million net to GKP for back-costs associated with the Shaikan Government Option. As a result of any implementation of the Shaikan Government Option (and assuming that it shall be implemented in accordance with the Bilateral MNR Agreement), it can be expected that the MNR will become obliged to pay the 20% share of costs incurred under the Shaikan PSC that are attributable to the Shaikan Government Option, thereby reducing the paying interest of GKPI from 80% to 64%.

GKPI and the MNR have (as between those two parties only) confirmed in the MNR Agreement their intention to implement the Shaikan Third Party Option, whereby the 15% Shaikan Third Party Option interest shall be split equally under the Second Shaikan Amendment between MNR and the other parties to the Shaikan PSC (excluding MNR) (the "**Shaikan Contractor**") with: (i) the 7.5% interest being allocated to the MNR and carried by the Contractor; and (ii) the 7.5% interest of the Shaikan Contractor being allocated as participating interests to GKPI and MOL *pro rata* to their respective existing participating interests. As a result of this arrangement, it is expected that the Group will, upon execution of the Second Shaikan Amendment, increase its fully diluted interest in the Shaikan PSC from a 54.4% to 58% working interest. In addition, the Bilateral MNR Agreement sets out the Group's position regarding the proposed exercise of the Shaikan Government Option in favour of the MNR with effect from 1 August 2012.

### Sheikh Adi

In November 2012, Gulf Keystone made a discovery on the Sheikh Adi Block, located immediately to the west of Shaikan. The Group held an 80% working interest in the Sheikh Adi Block with the KRG holding a 20% carried interest. On 16 March 2016, as part of the Group's strategy to focus on its core assets and manage its capital obligations, the decision was made to relinquish the Sheikh Adi Block and terminate the Sheikh Adi PSC (further terms of which are set out in paragraph 13 of Part 17 of this document: "*Additional Information*"). To address the outstanding contractual obligation of US\$20 million related to the PSC bonuses due on the Declaration of Commerciality, the Group negotiated a 50% reduction to the amount with the remaining US\$10 million to be offset against the past costs associated with the Shaikan Government Option. No further liabilities in relation to the Sheikh Adi relinquishment are payable by the Group to the MNR.

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

The results of the Group's operations and financial condition have been, and will continue to be, affected by many factors, some of which are beyond the Group's control. This section sets out certain



key factors that have affected the Group's results of operations and financial condition in the periods under review or which could affect its results of operations and financial condition in the future.

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

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

- oil prices;
- access to market;
- production volumes and costs;
- the ability to receive payments for export sales in line with the terms of the Shaikan PSC;
- Reserves;
- availability of financing and other forms of funding; and
- foreign exchange rates.

### ***Oil prices***

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

The Group's production is sold under its oil export arrangements with the KRG at a field-specific quality discount to the price of Brent crude oil. Any decline in the price of Brent would result in a reduction in or restriction on revenues and profitability and could also impair the Group's ability to make planned capital expenditure and its willingness to incur costs necessary for the development of the Group's assets. As part of its longer-term strategy, the Group intends to use cash flows generated by the sale of oil to further develop the Shaikan Block. The long-term success of the Group will depend on its ability to continue to develop and produce oil reserves commercially, and the Group's future profitability will be determined in large part by the difference between the income received for the oil the Group sells and its operating costs. Currently, the Group does not intend to hedge against its exposure to oil prices.

Brent prices have decreased significantly over the period under review. The average Brent crude oil price for 2013 was US\$109/bbl. In 2014, Brent daily spot crude prices fell from in excess of US\$100/bbl to US\$53/bbl towards the end of the year, with the downward trend continuing in 2015 and the beginning of 2016 to a low of US\$28/bbl in January 2016. The fall in prices was affected by, among other things, reduced global demand, particularly from emerging markets, and increased US production. Prices have also been significantly affected by OPEC's decision not to reduce global production levels. Changes in oil prices will directly affect the Group's revenue and net income.

### ***Access to market***

Initial sales by the Group were to the domestic market and later to the export market.

Since mid-September 2015, the Company has delivered all Shaikan production to Fishkhabour by truck for injection into the international pipeline. This marketing route is expected to continue in the future as it generates better returns to the Group, attracts regular payments from the KRG and is consistent with the MNR's stated export strategy.

Trucking is more expensive and in the long term is a less safe, secure and environmentally sound transportation channel than transport by pipeline. Transportation by truck also has more limited capacity than transport via a pipeline, although the Group anticipates that the available capacity to export oil by truck to the international pipeline will be sufficient to absorb the output of Shaikan PF-1 and PF-2 of 55,000 bopd under the bridge to the Shaikan FDP investment option. The Group's long term aim under the Shaikan FDP is to reach an agreement with the MNR to build a spur pipeline and blending facilities to connect the Shaikan Block to the export oil pipeline.

The Company believes that access to the international pipeline via a spur pipeline from the Shaikan Block would enable it to lower transportation costs, increase production capacity and enhance HSSE performance whilst maintaining steady sales in the international market.

Pending the construction and commissioning of the connecting spur pipeline and the blending facilities oil production will be restricted to the extent that production from Shaikan exceeds truck capacity as the Group will have no other means to transport oil and cannot, under the current Shaikan FDP, store significant quantities of oil on-site.

### ***Production volumes and costs***

Production volumes and costs directly impact the Group's revenue and profitability. Any interruption in production, constraint on production rates or material increase in production costs could have a significant adverse impact on the Group's profitability, cash flow and future prospects. In addition, a decline in oil prices may reduce the amount of oil that the Group is able to produce economically or may reduce the viability of production levels of specific wells or of projects planned or in development to the extent that production costs exceed anticipated income from such production. The Group's ability to maintain or increase its production and control its costs will depend on many factors, including operational efficiency, downtime or shut-ins at the production facility, security threats, compliance with government and environmental regulations, available trucking and export capacity, well decline rates, and changes to production costs, royalties and other payments.

In February 2015, the Group was requested to stop production and trucking from the Shaikan Block pending renegotiation of the trucking costs and quality discount due to the Company from the KRG for oil produced and sold both by the KRG and Iraq. In addition, on 17 February 2016 export through the international pipeline was suspended due to security measures, re-opening on 11 March 2016 during which period oil exports fell by nearly a half from 601,811 bopd in January to 350,067 bopd in February.

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

The Group's gross and working interest production for the years ended 31 December 2015, 2014 and 2013 was as follows:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Barrels	11.1	6.5	0.5 <sup>1</sup>
Gross bopd	30,500	18,000	1,361

1. The 2013 volumes include test production prior to the start of commercial operations. Commercial production from the Shaikan Block commenced in July 2013.

### ***The ability to receive payments for export sales in line with the terms of the PSC***

During the period covered by the historical financial information the Group has made sales to both the domestic and export markets since achieving commercial production.

Since mid-September 2015 and, as at the date of this document, all of the Group's sales are made to the export market as these generate better netbacks than domestic sales. However, prior to September 2015 the Company had not received regular payments from the KRG for export sales and prior to January 2016 cash payments received from the KRG for export sales have not followed the strict terms of the Shaikan PSC as a result of the KRG not receiving payments in accordance with the Budget Law, payments from the KRG to oil and gas operators in Kurdistan have been irregular. On 3 August 2015 the KRG acknowledged the impact that the lack of payment for crude oil production was having on oil companies in the region and announced that from September 2015 onwards, it would allocate, on a monthly basis, a portion of the revenue from direct crude oil sales to the producing oil companies, to cover their ongoing expenses. Furthermore, as exports rose in early 2016, the KRG announced its intention to make additional revenue available to enable oil companies to begin to catch up on the past receivables due under their PSCs. To date, the Group has received its tenth consecutive monthly payment. As at the date of this document the Group has received aggregate payments of US\$142.5 million gross from September 2015 to date.

The Group has, therefore, only recognised export sales revenue when the cash was received for 2013 and 2014, and when the cash receipt was assured for 2015 reflecting a partial improvement in the pattern and reliability of receipts that occurred during 2015. Until mid-September 2015 the Group

also made sales to the domestic market, and revenue from domestic sales was recognised on an accruals basis. The revenue recognition policy will be re-assessed going forward following the new arrangement with the KRG. Operating costs and depreciation, depletion and amortization costs have been recognized on a production entitlements basis resulting in operating losses since commencing commercial operations.

To address these back-costs, the MNR committed to top up the payment of monthly Shaikan PSC revenue entitlements and revenue arrears repayments (as per 1 February 2016 MNR announcement) to US\$15 million starting from 16 March 2016 until payment of the full amount of the back-costs. As at 30 June 2016, the Group estimates receivables from the MNR of US\$61 million net to GKP for back-costs associated with the Shaikan Government Option. As a result of the implementation of the Shaikan Government Option (and assuming that it shall be implemented as envisaged by the Bilateral MNR Agreement), it can be expected that the MNR will become obliged to pay the 20% share of petroleum costs incurred under the Shaikan PSC that are attributable to the Shaikan Government Option, thereby reducing the paying interest of GKPI from 80% to 64%.

On 1 February 2016, the KRG announced its intention to apply the PSC terms and make additional revenue available to enable oil companies to begin to catch up on the past receivables due under their PSCs. As part of its dialogue with the MNR, the Group made a significant effort to reconcile the outstanding revenue receivables due from the MNR under arrangements through which GKPI's entitlements to crude oil under the Shaikan PSC are currently sold by the KRG on its behalf as well as payables due to the KRG in relation to the Shaikan Block. Following this review, the Group has estimated unrecognised revenue arrears of US\$93 million net to Gulf Keystone as at 31 December 2015 on a diluted basis (based on the implementation of the Shaikan Government Option in the manner envisaged by the Bilateral MNR Agreement). As at 31 December 2015, the Group also estimated its payables to the MNR in respect of the Shaikan Block at US\$49 million, subject to reconciliation. This amount includes Shaikan capacity building payments, security invoices, PSC charges, Shaikan production bonuses and MNR royalty and profit oil due on pre-2015 sales to domestic offtakers and has remained unpaid due to the lack of revenue receipts from the MNR. In addition, the Group has a contingent liability of US\$27 million (net to GKP) in relation to the sale of test production in the period prior to the approval of the Shaikan FDP as described in note 27 to the 2015 financial statements. Pursuant to the amendment to the Shaikan PSC the Group is offsetting the payables against the revenue arrears, as permitted by the Shaikan PSC. As at 30 June 2016, the Company is owed approximately US\$28 million (net of payables outstanding to the MNR and excluding June 2016 and May 2016 revenue receivable) for historical oil production sold via the export route.

A failure by the KRG to maintain a regular payment cycle for export sales in the future could impact the Group's ability to sustain operations or to progress its development plans.

### **Reserves**

Estimates of economically recoverable oil reserves depend on a number of assumptions some of which are inherently uncertain. Any changes to these assumptions could have a material impact on the measurement of the Group's reserves. A significant reduction in reserves could lead to an impairment charge in the income statement from a decrease in asset values below their net book value. The volume of reserves will also affect the amounts charged to the income statement for depreciation, depletion and amortisation. The cost of developing a field is spread over the life of the field based on the proportion of production in the period to the total estimated reserves. Any change in total reserves will have an impact on the depreciation, depletion and amortisation cost per barrel and therefore the charge to the income statement.

A summary of the key points of the CPR is shown below:

#### **Shaikan key metrics**

- Gross 2P Reserves 622 MMstb
- Gross 2C Resources 239 MMstb
- 150 MMstb recognised beyond the term of the PSC

#### **Shaikan development and economics**

- Greatly improved reservoir understanding and confidence in future behaviour
- Fewer wells and facilities now required for development
- Reserves per well are higher than previous estimate

- Project substantially de-risked

#### *Availability of financing and other forms of funding*

The Group has been reliant on its ability to raise funds through equity capital markets transactions and through the issue of debt (see paragraph 8 ‘*Financing*’ below). Following commercial production the Group had expected to fund working capital and future developments through cash flow from oil sales but this has historically been restricted by the lack of a regular payment cycle for export sales and the low oil price environment. However, the KRG acknowledged the impact that the lack of payment for crude oil production was having on oil companies in the region and, since September 2015, the Group has received regular payments for its export sales. The receipt of regular payments under the Shaikan PSC together with the KRG’s stated intention to address the payment of export revenue arrears is expected to result in an improvement in the liquidity of the Group, particularly when combined with the expected reduction of debt and interest costs following completion of the Restructuring.

Further funds may become available to the Group on the implementation of the Shaikan Government Option and the resulting payment by the MNR of the associated back-costs. As at 30 June 2016, the Group estimates that net receivables from MNR to GKPI for such past petroleum costs would be approximately US\$61 million.

#### *Foreign exchange*

Foreign exchange gains have had a limited impact on the Group’s results of operations in the periods under review. For a description of the Group’s accounting policies in respect of foreign currency translation, see the Summary of Significant Accounting Policies included in the audited consolidated financial statements of the Company included in the Company’s Annual Reports for each of the years ended 31 December 2015, 2014 and 2013. The Group currently minimises its exposure to foreign exchange fluctuations by holding a substantial part of its financial assets and liabilities in US dollars (the currency in which the majority of the income generated by Group entities is denominated).

### **3. Recent Developments**

Set out below are certain developments that have occurred since 31 December 2015 and which may be relevant to the Group’s results of operations in the future.

On 14 July 2016 Capital undertook a subscription for 54,294,991 Common Shares at the Offer Price pursuant to the terms of the First Subscription Agreement.

Under the Bilateral MNR Agreement, GKPI and the MNR have (as between those two parties only) confirmed their intention to implement the Shaikan Third Party Option, whereby the 15% Shaikan Third Party Option interest shall be split equally under the Second Shaikan Amendment between MNR and the other parties to the Shaikan PSC (excluding MNR) (the “**Shaikan Contractor**”) with the 7.5% interest being allocated to the MNR and carried by the Shaikan Contractor and the 7.5% interest of the Shaikan Contractor being allocated as participating interests to GKPI and MOL *pro rata* to their respective existing participating interests. As a result of this arrangement, the completion of the transfer of the 5% Texas interest to GKPI, and the implementation of the Shaikan Government Option, it is expected that the Group will, upon execution of the Second Shaikan Amendment, increase its fully diluted interest in the Shaikan PSC from a 54.4% to 58% working interest. Upon the implementation of the Shaikan Government Option (and assuming that it shall be implemented as envisaged by the Bilateral MNR Agreement), the MNR will become obliged to pay the 20% share of costs incurred with effect from 1 August 2012 under the Shaikan PSC, that are attributable to the Shaikan Government Option, thereby reducing the paying interest of GKPI from 80% to 64%.

As a result of the need to preserve cash the Group has focused on managing expenditure in a prudent and disciplined manner and expenditures have been reduced across the organization. In addition, as a result of a detailed review of the Group’s portfolio with emphasis on capital discipline and focusing on Shaikan, the operated producing asset, the Group decided to relinquish its remaining non-core assets due to potential capital demands and performance risk.

The Company also considered carefully whether it was an appropriate use of its limited available cash to pay the approximately US\$10 million of interest due under its Convertible Bonds and the approximately US\$16 million of interest due under its Guaranteed Notes on 18 April 2016. The Company decided that whilst the Company had and has sufficient cash to pay the coupon in full, making such a payment, coupled with its other obligations under the Convertible Bonds and

Guaranteed Notes, would leave the Company with insufficient operating cash whilst maintaining the required balance in the reserve account and therefore decided that it was in the best interest of the Company not to pay those amounts. The Company was supported in this decision by the members of the Committee entering into the Standstill before the expiry of the grace period applicable to those payments.

As a result of a detailed review of the Group's portfolio with emphasis on capital discipline and focusing on Shaikan, the operated producing asset, the Group decided to relinquish the Sheikh Adi Block given the project's potential capital demands and performance risk of the development.

#### *Relinquishment of Ber Bahr*

Discussions with the MNR in relation to the Group's possible relinquishment and termination of the Ber Bahr PSC are ongoing. The Ber Bahr Relinquishment and Termination Agreement has been circulated to key departments within the MNR and the MNR are checking the inventory in the field for transfer to the MNR.

#### **4. Selected Consolidated Financial Information**

A summary of financial information as at and for the three years ended 31 December 2015, 2014 and 2013 is set out in Part 12 of this document: "*Selected Financial Information*".

#### **5. Results of Operations**

##### **Year ended 31 December 2015 compared to year ended 31 December 2014**

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	86,165	38,560
Production costs	(62,822)	(41,784)
Royalty costs	—	(1,671)
Depreciation of oil and gas properties	(74,050)	(38,390)
Gross Loss	(50,707)	(43,285)

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

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

Revenue recognised for the period was US\$86.2 million (2014: US\$38.6 million), of which US\$68.8 million arose from export sales (2014: US\$28.2 million) and US\$17.4 million from sales to a



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

The Group’s production is sold under its oil export arrangements with the KRG at a field-specific quality discount to the price of Brent crude oil and after transportation costs. Sales of production to a domestic offtaker were made under a separate contract and attracted a further discounted price. In 2015, the decline in Brent prices continued. The realised gross price for the sales to a domestic offtaker was US\$18/bbl (2014:US\$43/bbl). The Group has been involved in discussions with the MNR to review the Shaikan quality discount and transportation costs on the Group’s export sales to date. Based on these discussions, the realised price for 2015 export sales is estimated at US\$22/bbl. The realised prices on export sales remain subject to audit and the establishment of a retroactive quality bank for Kurdistan crude exports delivered through the international pipeline to Turkey.

***Loss after tax for the year***

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>US\$’000</i>	<i>US\$’000</i>
Gross loss	(50,707)	(43,285)
Impairment expense	(3,609)	(144,119)
Credit in relation to Excalibur litigation	—	2,138
Other general and administrative expenses	(30,990)	(41,172)
Loss from operations	(85,306)	(226,438)
Other gains and losses	3,051	73
Interest revenue	42	103
Finance costs	(52,075)	(19,812)
Loss before tax	(134,288)	(246,074)
Tax charge	(689)	(2,129)
Loss after tax	<u>(134,977)</u>	<u>(248,203)</u>

In January 2016, the Group announced its intention, along with partner and operator MOL, to relinquish the Akri-Bijeel Block effective 31 December 2015. An impairment of US\$3.6 million (2014: US\$144.1 million) has been recognised during the year to write off the asset held for sale balance and the associated liabilities as at 31 December 2014 together with the additions to the decommissioning asset during 2015.

General and administrative expenses for 2015 were US\$31.0 million (2014: US\$39.0 million), a decrease of US\$8.0 million. The reduction in costs was due to lower listing and advisors fees as 2014 included the cost of raising additional debt finance through the issuance of the Guaranteed Notes, and costs related to the move from an AIM to a Main Market listing. General and administrative expenses for 2014 also included costs of a community relations initiative whereby Gulf Keystone pledged US\$1 for each barrel of oil produced in the year from September 2013 to assist the KRG in the humanitarian relief effort. Costs associated with the share bonus awards and the options awarded under the Share Scheme decreased from US\$4.0 million in 2014 to US\$2.5 million in 2015, reflecting the fact that a number of options became fully vested in 2014 and early 2015. Of these costs, US\$0.2 million has been capitalised in intangible assets and property plant and equipment (2014:

US\$0.9 million), as these employment costs are directly attributable to technical staff working on capital oil and gas projects.

Other gains for 2015 of US\$3.1 million (2014: US\$0.1 million) comprise foreign exchange gains, primarily realised gains generated on the translation of sterling funds to USD following the 31 March 2015 fundraise through a placing of 85,900,000 new Common Shares, and unrealised gains on the re-translation of sterling denominated monetary assets and liabilities.

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

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

#### *Review of impairment*

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

In accordance with the Company's accounting policies as described in the "*Summary of Significant Accounting Policies*" in the 2015 financial statements, any unsuccessful exploration and evaluation costs are retained within intangible non-current assets and are depreciated by reference to the commercial reserves of the wider geographic cost pool. As a result, the exploration and evaluation costs of US\$79 million relating to the Ber Bahr Block will be depleted prospectively on a unit-of-production basis based on the wider Kurdistan pool of commercial reserves and production.

Year ended 31 December 2014 compared to year ended 31 December 2013

**Gross Profit/(Loss)**

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	38,560	6,696
Production costs	(41,784)	(8,685)
Royalty costs	(1,671)	(888)
Depreciation of oil and gas properties	(38,390)	(2,377)
Gross Loss	(43,285)	(5,254)

The Shaikan FDP was approved in June 2013 and the Group commenced commercial production in July 2013. Gross production for 2014 totalled 6.5 million barrels of oil (2013: 0.5 million barrels of oil) as the Group continued to ramp up its operations. Production averaged 18,000 bopd (2013: 1,361 bopd), reaching 40,000 gross bopd in late December 2014.

Gross liftings were 6.5 million barrels of oil (2013: 0.5 million barrels of oil). Of these liftings 6 million barrels were lifted for the export market and 0.5 million barrels for the domestic market. Revenue realised for the period was US\$38.6 million (2013: US\$6.7 million), of which US\$28.2 million arose from export sales (2013: US\$Nil) and US\$10.4 million from domestic sales (2013: US\$6.7 million).

In 2014, the Group recognised revenue on a cash receipts basis for sales to the export market and revenue from domestic sales on an accruals basis. The payment mechanism for sales to the export market was developing within Kurdistan prior to 2015 and revenue could be only reliably measured at the point of cash receipt. The gross realised price for domestic sales in 2014 was US\$43/bbl (2013: US\$41/bbl) and in accordance with the terms of the Shaikan PSC, domestic sales were recognised gross of royalty.

Export sales for the period were recognised net of royalty, with the KRG deemed to have taken the royalty “*in-kind*”. This was based on the Group’s working interest and its associated 42% entitlement (i.e. excluding royalty) to gross oil sales. Further details on revenue, and the related judgments and assumptions, for 2014 and 2013 can be found in the section on Critical Accounting Policies and in the Group’s Annual Reports for the respective years which can be found on the Group’s website at [www.gulfkeystone.com](http://www.gulfkeystone.com)

Operating costs on a per barrel basis, excluding royalty, inventory movements, and DD&A costs were US\$11.8 per barrel on an entitlement basis (2013: US\$27.2 per barrel). The higher cost in 2013 reflects the lack of consistent production throughout the period as the Group ramped up production.

The unit of production method, based on entitlement production, reserves and costs for the Shaikan development, was used to calculate the DD&A charge. Production volumes associated with unrecognised export revenue were included in the DD&A calculation. The DD&A charge for 2014 was US\$38.4 million (2013: US\$2.4 million). The DD&A charge in 2013 was lower due to the lower production volumes in that year. See notes 3 and 11 to the 2014 consolidated financial statements for further details.

The Gross loss for the year was US\$43.3 million (2013: US\$5.3 million). The increased loss in 2014 compared to 2013 was driven by the disparity between recognising export revenue on a cash receipt basis and expenses on a full production basis, partially offset by higher production cost in 2013 due to the lack of consistent production. Sales in 2013 were made primarily to the domestic market.

*Loss after tax for the year*

	Year ended 31 December (audited)	
	2014 US\$'000	2013 US\$'000
Gross loss	(43,285)	(5,254)
Impairment expense	(144,119)	—
Credit in relation to Excalibur litigation	2,138	18,973
Other general and administrative expenses	(41,172)	(34,816)
Loss from operations	(226,438)	(21,097)
Other gains and losses	73	(1,186)
Interest revenue	103	828
Finance costs	(19,812)	(10,392)
Loss before tax	(246,074)	(31,847)
Tax charge	(2,129)	(118)
Loss after tax	(248,203)	(31,965)

*Impairment expense*

Following an economic assessment of the Akri-Bijeel Block, an impairment charge of US\$144.1 million was recognised in 2014 (2013: US\$Nil) to reduce the carrying value of the asset to the Group's best estimate of its fair value less costs to sell.

*Credit in relation to Excalibur litigation*

On 13 December 2013, the English Commercial Court (the “**Commercial Court**”) handed down its full judgment dismissing all the claims asserted by Excalibur Ventures LLC (“**Excalibur**”) and deciding all issues in favour of the Group and Texas (the “**Defendants**”). The Commercial Court ordered that the full sum paid into the Commercial Court as security for the Defendant's costs be paid out to the Defendants and the amount received by the Company (£17.5 million, net of outstanding legal fees of £0.6 million) was credited against 2013 administrative expenses. The Company received this amount in January 2014. The Company was awarded a further £3.2 million to be recovered from Excalibur and their financial backers, following an assessment of costs on an indemnity basis, of which £1.4 million was recognised in 2014, which was received in full in 2015.

*Other general and administrative expenses*

Other general and administrative expenses for 2014 were US\$41.2 million (2013: US\$34.8 million), an increase of US\$6.4 million. This can be primarily attributed to an increase in the decommissioning provision for the Company's Algerian asset (US\$3.0 million), the cost of raising additional debt finance through the issuance of the Guaranteed Notes, and higher advisors costs and listing fees related to the move from an AIM to a Main Market listing. Also, as part of a community relations initiative, Gulf Keystone pledged US\$1 per barrel produced in the year from September 2013 to assist the KRG in the humanitarian relief effort. These additional costs were partially offset by savings in staff costs. The costs associated with the share bonus awards and the options awarded under the Share Scheme decreased from US\$12.6 million in 2013 to US\$4.9 million, reflecting no new grants during the year. Of these costs, US\$0.9 million was included within intangible assets and property plant and equipment (2013: US\$2.9 million), as these employment costs are directly attributable to technical staff working on capital oil and gas projects. Cash bonuses for senior management reduced by US\$4.6 million to US\$3.0 million (2013: US\$7.6 million), in line with Group remuneration policy with no new awards granted to Executive Management for the year ended 31 December 2014.

*Finance costs*

Finance costs of US\$19.8 million (2013: US\$10.4 million) were made up of the accretion charge on the decommissioning provision of US\$0.5 million (2013: US\$0.4 million), interest payable in respect of the Convertible Bonds of US\$26.9 million (2013: US\$23.4 million) and interest payable on the Guaranteed Notes issued during the year of US\$29.1 million. Of the interest expense on both the

Convertible Bonds and Guaranteed Notes, US\$36.7 million (2013: US\$13.4 million) was capitalised within tangible and intangible assets.

### ***Tax charge***

The tax cost for 2014 was US\$2.1 million (2013: US\$0.1 million) and arose on UK activities. No tax cost was recognised for operations in Kurdistan as, under the terms of the Shaikan PSC, the KRG will settle Iraq tax obligations out of its share of profit oil.

The increased loss after tax for 2014 of US\$248.2 million (2013: US\$32.0 million) reflects the impairment recognised on the Akri-Bijeel Block, the inability to recognise revenue on export sales due to the lack of a regular payment cycle, and the increased operations and its funding needs.

## **6. Liquidity and Capital Resources**

The Group has been reliant on its ability to raise funds through equity capital markets transactions and through the issue of debt (see paragraph 7 ‘*financing*’ below). Following commercial production the Group had expected to fund working capital and future developments through cash flow from oil sales but this has historically been restricted by the lack of a regular payment cycle for export sales and the low oil price environment. The January 2016 announcement from the KRG regarding its intention to make payment in accordance with the PSC terms and receipt of regular payments under the Shaikan PSC together with the KRG’s stated intention to address the payment of arrears and past costs under the agreement signed by the Group with the MNR on 16 March 2016 is expected to result in an improvement in the liquidity of the Group. (see the paragraphs headed ‘*Receipts from the KRG for oil sales and share of costs*’ and ‘*Future Developments*’ above for details).

## **7. Cash flows**

The following table shows the Group’s cash flows for the years ended 31 December 2015, 2014 and 2013.

	<b>Years ended 31 December (audited)</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Cash generated/(used) in operations	20,064	(760)	(25,072)
Tax paid	599	(210)	(675)
Interest received	42	103	828
Bond coupon payments	(52,903)	(36,563)	(17,188)
Cash flows from operating activities	(32,198)	(37,430)	(42,107)
Cash flows from investing activities	(52,149)	(197,445)	(182,252)
Cash flows from financing activities	39,379	240,114	53,937
Net increase/(decrease) in cash and cash equivalents	(44,968)	5,239	(170,422)
Cash and cash equivalents at the beginning of the year	87,835	81,972	253,713
Effect of foreign exchange rate changes	774	624	(1,319)
Cash and cash equivalents at the end of the year <sup>(1)</sup>	43,641	87,835	81,972

(1) Cash and cash equivalents at 31 December 2015 and 2014 include US\$32.5 million held within a Debt Service Reserve Account as stipulated under the terms and conditions of the Guaranteed Notes.

Cash and cash equivalents totalled US\$43.6 million at 31 December 2015 (2014: US\$87.8 million; 2013: US\$82.0 million).

Net cash inflow from oil and gas operations after operational and administrative expenses was US\$20.1 million (2014: outflow of US\$0.8 million; 2013: outflow of US\$25.1 million). The loss from operations of US\$85.3 million (2014: US\$226.4 million; 2013: US\$21.1 million) was adjusted for non-cash charges of US\$80.9 million (2014: US\$190.2 million; 2013: US\$13.0 million), that includes share-based payment expense, impairment charges and DD&A costs. Non-cash expenditure in 2015 compared to 2014 was reduced by a decrease in the Akri-Bijeel impairment expense of US\$140.5 million, and no decommissioning provision related to assets for sale in 2015 (2014: US\$3.0 million),



offset by an increase in DD&A of US\$35.7 million. Non-cash expenditure in 2014 compared to 2013 was reduced by a decrease in share-based payment expense from US\$9.8 million to US\$4.0 million, offset by an increase in depreciation to US\$39.0 million (2013: US\$3.0 million), including the charge to the Shaikan oil and gas assets, and an impairment charge of US\$144.0 million relating to the Akri-Bijeel Block.

Working capital adjustments result in a US\$24.5 million cash inflow (2014: US\$35.4 million cash inflow; 2013: US\$17.0 million outflow) reducing operational cash outflow relative to accounting loss from operations. The movements in inventories, payables and receivables were generally in line with the level of the Group's activities during the periods. The significant decrease in receivables in 2014 resulted from the receipt of the outstanding Excalibur court costs in the year.

Guaranteed Note and Convertible Bond debt coupon payments of US\$52.9 million were made during 2015 (2014: US\$36.6 million; 2013: US\$17.2 million) and are included within cash used in operating activities.

Tax refunded in 2015 was US\$0.6 million (2014: US\$0.2 million paid; 2013: US\$0.7 million paid) and interest received was US\$0.04 million (2014: US\$0.1 million; 2013: US\$0.8 million). Net cash outflow from operating activities after tax and interest in 2015 was US\$32.2 million (2014: US\$37.4 million; 2013: US\$42.1 million).

Cash used in investing activities in 2015 totalled US\$52.1 million (2014: US\$197.4 million; 2013: US\$182.3 million), which comprises US\$5.6 million spent on intangible assets (2014: US\$86.8 million; 2013: US\$131.8 million) and US\$46.5 million (2014: US\$110.6 million; 2013: US\$59.0 million) spent on property, plant and equipment with no movement in liquid investments (2014: US\$Nil; 2013: US\$8.6 million decrease). Expenditure on property, plant and equipment decreased in 2015 as the development phase of the Shaikan project was substantially complete and primarily related to the costs of drilling an additional development well and the costs of three additional flowlines. Expenditure on property, plant and equipment in 2014 and 2013, following the transfer of the Shaikan assets from intangible assets to property, plant and equipment at 30 June 2013, included the costs of the production facilities, drilling of development wells and the tie in to the production facilities. The majority of expenditure on intangible assets relates to the Group's exploration activities in Kurdistan, including the drilling, testing and workovers of wells on the Sheikh Adi, Ber Bahr and Akri-Bijeel Blocks as well as expenditure on the Shaikan Block in the first half of 2013.

Cash generated by financing activities in 2015 amounted to US\$39.4 million from the proceeds of placing of 85,900,000 new Common Shares of US\$0.01 each in the Company, at a placing price of 32p per Common Share, net of issue costs of US\$1.3 million. Cash from financing activities in 2014 was US\$240.1 million (2013: US\$53.9 million) and primarily results from the issuance of US\$250 million of Guaranteed Notes in April 2014. In 2013, significant funds were raised through the "tap" issue of the US\$50 million of Convertible Bonds in November 2013.

The net overall decrease in cash and cash equivalents during 2015 was US\$45.0 million (2014: US\$5.2 million increase; 2013: US\$170.4 million decrease).

## **8. Financing**

As noted above, the Company's liquidity requirements arise principally from the Company's capital expenditure and working capital requirements. For the periods presented, the Company met its working capital requirements primarily from the proceeds of debt and equity financings. The following is a summary of significant financings undertaken by the Group during the period under review.

### ***Debt financing***

Total gross debt as at 31 December 2015 comprising principal and interest, based on undiscounted cash flows at the maturity date of the Guaranteed Notes and Convertible Bonds, amounted to US\$664.4 million, reflecting a US\$52.8 million decrease over total gross debt as at 31 December 2014. The following table presents information on the Company's borrowings as at 31 December 2015.

	<b>As at 31 December 2015 (US\$ million)</b>
Convertible Bonds	365.6
Guaranteed Notes	298.8
<b>Total</b>	<b>664.4</b>

### ***Guaranteed Notes due 2017***

On 17 April 2014, the Group issued debt securities consisting of US\$250 million guaranteed notes due 2017 carrying a coupon of 13% per annum payable on a bi-annual basis and freely tradeable and detachable warrants relating to 40 million Common Shares. The Guaranteed Notes are guaranteed by GKPI and have a maturity date of 18 April 2017. Each Warrant entitles the holder, subject to certain conditions, to purchase a Common Share on payment of the exercise price, which is currently US\$1.68. The Warrants expire on 18 April 2017. The Guaranteed Notes and Warrants have been listed on the Luxembourg Stock Exchange. The Warrants are recorded within equity at their fair value at the date of issuance of US\$22.2 million and the remaining proceeds of the Guaranteed Notes, net of additional issue costs, are recorded as a non-current liability.

At 31 December 2014, the Guaranteed Notes included a Book Equity Ratio ("BER") Put Option. The BER was the ratio of Group equity to total assets. Under the terms of this Put Option if the BER was below 0.4 for 60 days following the date the Company released its annual accounts, the Company was required to make an offer to purchase the Guaranteed Notes. At 31 December 2014 the BER was below 0.4, which led the Company to commence discussions with the Guaranteed Noteholders, seeking to remove the BER Put Option. On 8 April 2015, the Company announced that it had successfully completed the consent solicitation to remove the BER Put Option covenant from the Trust Deed constituting the Guaranteed Notes and from the conditions contained therein. Guaranteed Noteholders representing over 89% of the principal amount of the Guaranteed Notes outstanding participated in the consent solicitation, with over 99% of votes cast in favour of the amendments. The Extraordinary Resolution was passed at the Noteholder meeting which took place on 7 April 2015, and the proposed amendments were implemented.

In addition, the Company agreed to the following terms: (i) retaining the Company's Debt Service Reserve Account at one year of scheduled interest payments for the Guaranteed Notes (instead of stepping down to six months of interest payments in October 2015); (ii) granting a security interest in favour of the Guaranteed Noteholders and Convertible Bondholders over the shares of GKPI; (iii) reducing certain of the Company's grace periods under the Guaranteed Note Trust Deed for certain events of default and including additional notifications to the Trustee; and (iv) beginning a dialogue with a committee of Guaranteed Noteholders if and when the Company's cash balance drops below US\$50 million (including amounts in the Debt Service Reserve Account) for a period of five consecutive business days.

If the Restructuring is consummated, the entire aggregate principal amount of the Guaranteed Notes will be cancelled pursuant to the Debt Equitisation as described in paragraph 13 in Part 17 of this document: "*Additional Information*".

### ***Convertible Bonds***

On 18 October 2012, the Company issued US\$275 million of Convertible Bonds due 2017. On 6 November 2013, the Company issued a further US\$50 million of Convertible Bonds which were consolidated with the Convertible Bonds issued in 2012 to form a single series of Convertible Bonds.

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

The Convertible Bonds are convertible into Common Shares of the Company at the option of the Convertible Bondholders at any time until 10 days prior to the Convertible Bond Maturity Date. At

the initial conversion price of US\$4.39 per Common Share and subject to the Company's cash settlement option, the Convertible Bonds were convertible into an aggregate of 63,400,576 Common Shares. On the issue date of the Convertible Bonds, this represented 7.1% of the Company's issued share capital (on a fully diluted basis). The conversion price was adjusted following the placing of 85,900,000 new Common Shares completed in April 2015.

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

Assuming that the Convertible Bonds and the Guaranteed Notes are not purchased and cancelled, redeemed or converted prior to their respective maturity dates, the Group's remaining contractual liability comprising principal and interest, based on undiscounted cash flows at the maturity date of the bonds, was as follows as at 31 December 2015, 2014 and 2013:

	2015 US\$'000	2014 US\$'000	2013 US\$'000
Within one year	52,813	52,813	20,313
Within two to five years	611,562	664,375	385,937
	<u>664,375</u>	<u>717,188</u>	<u>406,250</u>

If the Restructuring is consummated, the entire aggregate principal amount of Convertible Bonds and Guaranteed Notes will be cancelled pursuant to the Debt Equitisation, and US\$100 million aggregate principal amount of Reinstated Notes will be issued in the Notes Reinstatement. See paragraph 13 in Part 17 of this document: "*Additional Information*" for further information.

#### ***Issued and outstanding Common Shares***

The details of the Company's material equity fund raisings in the period under review are set out below. In addition to the equity issues set out below and the issue of the Convertible Bonds referred to above, the Company has issued further Common Shares in transactions not primarily related to financing the operations of the Group. For a complete description of the Company's changes in issued share capital during the period under review, see paragraph 2 in Part 17 of this document: "*Additional Information*".

On 31 March 2015, the Company raised gross proceeds of US\$40,693,235 through a placing of 85,900,000 new Common Shares of US\$0.01 each in the Company at a placing price of 32p per Common Share. The placing became unconditional on 8 April 2015 following the successful consent solicitation in respect of the Guaranteed Notes described above.

The Common Shares issued in connection with the March 2015 placing represented 8.78% of the enlarged issued share capital of the Company, were fully paid, and rank *pari passu* in all respects with the existing Common Shares including the right to receive all dividends and other distributions declared, made or paid after the date of issue.

On 14 July 2016, Capital subscribed for 54,294,991 Common Shares at the Offer Price pursuant to the terms of the First Subscription Agreement.

## 9. Capitalisation and Indebtedness

### Capitalisation

The following table sets out the capitalisation of the Group at 31 December 2015

	As at 31 December 2015 US\$'000
<b>Shareholders' equity</b>	
Share capital	9,781
Share premium	834,619
Convertible bond reserve	10,179
Other reserves	45,687
Accumulated (loss)/profit	(654,618)
	<u>245,648</u>

There has been no material change in the capitalisation of the Group since 31 December 2015.

### Indebtedness

The following table sets out the gross and net indebtedness of the Group at 31 December 2015.

	As at 31 December 2015 US\$'000
<b>Gross financial indebtedness</b>	
<b>Total current debt</b>	
Secured	(4,176)
Guaranteed and secured	(6,660)
	<u>(10,836)</u>
<b>Total non-current debt (excluding current portion of long-term debt)</b>	
Secured	(310,444)
Guaranteed and secured	(234,094)
	<u>(544,538)</u>
<b>Net financial indebtedness</b>	
Cash and cash equivalents	43,641
<b>Total liquidity</b>	43,641
<b>Current portion of non-current debt</b>	(10,836)
<b>Net current financial indebtedness</b>	32,805
<b>Non-current financial indebtedness</b>	(544,538)
<b>Net financial indebtedness</b>	<u>(511,733)</u>

The Group has no indirect or contingent indebtedness as at 31 December 2015 other than as summarised in this Part 14 “*Operating and Financial Review*”.

## 10. Capital Expenditures

### Historical

The nature of the Group's business is capital intensive, both in terms of the initial costs associated with establishing the necessary facilities and infrastructure to support commercial production of oil and the ongoing costs associated with exploration, drilling and production.

The following table sets out the Group's capital expenditures for the years ended 31 December 2015, 2014 and 2013.

	Years ended 31 December		
	2015 US\$'000	2014 US\$'000	2013 US\$'000
<i>Intangible assets</i>			
Shaikan <sup>(1)</sup>	—	—	85,756
Sheikh Adi	33,613	42,414	22,413
Ber Bahr	4,826	13,073	10,117
Computer software additions/(disposals)	2	(45)	110
	<u>38,441</u>	<u>55,442</u>	<u>118,396</u>
<i>Assets held for sale<sup>(2)</sup></i>			
Akri-Bijeel	—	56,700	37,289
	<u>—</u>	<u>56,700</u>	<u>37,289</u>
<i>Property, plant and equipment</i>			
Shaikan	42,953	115,684	73,545
Fixtures and equipment additions/(disposals)	261	547	118
	<u>43,214</u>	<u>116,231</u>	<u>73,663</u>

1) Capital expenditure on the Shaikan Block was classified as an intangible asset until the end of June 2013 when the FDP was approved. Total capital expenditure for Shaikan at that date was transferred to property, plant and equipment. Subsequent capital expenditure was classified as property, plant and equipment.

2) The Akri-Bijeel asset was reclassified as an asset held for sale as at 31 December 2011, following the Board's resolution to dispose of the Group's 20% working interest in the block. However, the Company received limited enquiries from interested parties during 2015 relating to the sale of Akri-Bijeel. In December 2015, the Group, in agreement with its partners MOL and the MNR, decided to relinquish the Akri-Bijeel Block and signed a relinquishment agreement to that effect. As a result, an impairment of US\$3.6 million (2014: US\$144.1 million) was recognised in 2015 associated with the write off of the remaining intangible asset as at 31 December 2014 and additions to the decommissioning provision during 2015.

### 2015

Expenditure on the Shaikan asset included costs for drilling the SH-11 development well, automation of three additional flowlines, the revision to the Shaikan FDP, the FEED (Front End Engineering and Design) of the central processing facility, and workover and de-bottlenecking activity. The majority of the cash spent on intangible assets relates to the drilling, testing and workovers of wells on the Sheikh Adi Block together with the capitalization of interest and overhead costs on the Ber Bahr Block.

### 2014

The additions to oil and gas exploration and evaluation costs in the year included the acquisition and processing of 2-D seismic data on the Sheikh Adi Block, and the commencement of drilling Sheikh Adi-3, as well as the drilling and side-tracking of the Ber Bahr exploration well.

The additions to Akri-Bijeel in the year include the drilling and testing of exploration and appraisal wells, which included Bakrman-1, Bijell -2, -4, -7 as well as the workover and side-track of Bijell-1, the construction of the Akri-Bijeel Extended Well Test Facility and the acquisition and processing of seismic data.

The additions to the Shaikan block in the year included the construction of the Shaikan production facilities, PF-1 and PF-2, the drilling of Shaikan -7 and -10, workovers of Shaikan -2 and -4 and work associated with tie-in of the Shaikan -2, -4 and -5 wells to PF-1 and PF-2.



## **2013**

The additions to oil and gas exploration and evaluation costs in the year include the drilling of Sheikh Adi-3 and acquisition and processing of 3D seismic data on the Ber Bahr Block

The additions to the Shaikan Block in the year include continued construction of the second Shaikan production facility PF-2, the drilling of Shaikan -7 and -11 and the tie in of the Shaikan -2, -4, -5, -7, -8, -9 and -10 wells to PF-1 and PF-2.

The Akri-Bijeel additions in the year include the drilling of the Bakrman-2, Bijell-2, Bijell-4 and Bijell-6 wells, the workovers of Bijeel-1, as well as seismic processing and geological studies and the construction of surface facilities.

## ***Future***

Given the current oil price environment and the geo-political challenges affecting Gulf Keystone and Kurdistan, the Group's immediate focus is on ensuring safe and reliable operations and stabilising production at 40,000 bopd with a potential move to increase production to 55,000 bopd in the event that additional funding is available (principally through the establishment of a regular payment cycle from the MNR and a stabilisation of oil prices at a commercial level).

## **11. Balance Sheet**

The discussion below summarises movements in selected line items from the Group's balance sheets as at 31 December 2015, 2014 and 2013.

### ***Non-current assets***

#### **Intangible assets**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Sheikh Adi	235,673	202,060	159,646
Ber Bahr	79,009	74,183	61,110
Computer software	14	47	207
	<u>314,696</u>	<u>276,290</u>	<u>220,963</u>

As at 31 December 2015, the net book value of the Group's exploration and evaluation assets totalled US\$314.7 million compared to US\$276.3 million as at 31 December 2014 (2013: US\$221.0 million). Details of the movements for each of the years are given in the historical capital expenditure section above.

#### **Property, plant and equipment**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Shaikan Block</b>			
Opening net book value at 1 January	591,932	514,638	—
Transfer from intangible asset	—	—	443,470
Additions	42,953	115,684	73,545
Depreciation charge	(74,050)	(38,390)	(2,377)
Closing net book value at 31 December	<u>560,835</u>	<u>591,932</u>	<u>514,638</u>
Fixtures and equipment – net book value at 31 December	<u>1,343</u>	<u>1,672</u>	<u>1,799</u>
	<u>562,178</u>	<u>593,604</u>	<u>516,437</u>

Property, plant and equipment comprised primarily expenditure on exploration, development and production facilities at the Shaikan Block, net of depreciation. Capital expenditure on the Shaikan Block was classified as an intangible asset until the end of June 2013 when the Shaikan FDP was approved. Total capital expenditure for the Shaikan Block at that date was transferred to property, plant and equipment and subsequent capital expenditure was classified as property, plant and

equipment. Details of additions during the period are shown in the historical capital expenditure section above.

### ***Current assets***

The Group relinquished the Akri-Bijeel Block with effect from 31 December 2015. The asset had previously been classified as an asset held for sale following the Board's resolution to dispose of the Group's 20% working interest in the Akri-Bijeel Block in 2011. Impairments of US\$3.6 million and US\$144.1 million were recognised in 2015 and 2014, respectively reducing the balance on the intangible asset to US\$Nil at 31 December 2015. Discussions are ongoing with MOL over the 2014 and 2015 Akri-Bijeel work programme and budget and there is an amount of US\$39.9 million, which represents part of 2014 and 2015 billed expenditure, which the Group considers it is not obliged to pay. Accordingly, this amount has not been recognised in the financial statements. As at 31 December 2015, current liabilities include a decommissioning provision of US\$3.7 million relating to the Akri-Bijeel project. The asset had a book value of US\$8.6 million at 31 December 2014 (2013: US\$103.1 million). The decrease in value from 2013 to 2014 primarily reflects the impairment in 2014.

Other current assets include inventories (comprising exploration and production materials and crude oil), receivables and cash and cash equivalents consistent with the level of operational activity.

### ***Current liabilities***

Current liabilities include the amounts due in less than one year in respect of interest payments (see the financing section below), decommission provisions, and amounts due for trade purchases and other ongoing costs.

### ***Non-current liabilities***

Non-current liabilities include the non-current portion of amounts due in respect of the Convertible Bonds, the Guaranteed Notes and the decommissioning provisions.

## **12. Future Commitments and Contingencies**

A revision to the Shaikan FDP was submitted for approval in December 2015. As disclosed in the Overview section above, the Sheikh Adi Block was relinquished in 2016, the Akri-Bijeel Block was relinquished in 2015 and the discussions with the MNR in relation to the Group's relinquishment of the Ber Bahr Block are ongoing. To address the outstanding contractual obligation of US\$20 million related to the Sheikh Adi PSC bonuses due on the Declaration of Commerciality, the Group negotiated a 50% reduction to the amount with the remaining US\$10 million to be offset against the past costs associated with the Shaikan Government Option. No further liabilities in relation to the Sheikh Adi or Akri-Bijeel relinquishment are payable by the Group to the MNR.

Discussions with the MNR in relation to the Group's possible relinquishment and termination of the Ber Bahr PSC are ongoing. The Ber Bahr Relinquishment and Termination Agreement has been circulated to key departments within the MNR and the MNR are checking the inventory in the field for transfer to the MNR.

The following is a summary of the Group's contractual obligations as at 31 December 2015:

<b>Contractual obligations</b>	<b>Under</b>				<b>Total</b>
	<b>1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>+5 years</b>	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Convertible Bonds <sup>(1)</sup>	20,313	345,312	—	—	365,625
Guaranteed Notes <sup>(1)</sup>	32,500	266,250	—	—	298,750
Operating lease payments	2,100	2,572	—	—	4,672

1. Assumes the Convertible Bonds and the Guaranteed Notes are not purchased and cancelled, redeemed or converted prior to maturity. The obligation includes the Group's remaining contractual liability comprising principal and interest, based on undiscounted cash flows at the maturity date of the Convertible Bonds and the Guaranteed Notes. If the Restructuring is consummated, the entire aggregate principal amount of Convertible Bonds and Guaranteed Notes will be cancelled in connection with the Debt Equitisation and US\$100 million aggregate principal amount of Reinstated Notes will be issued in the Notes Reinstatement with the terms and conditions as described in paragraph 13 of Part 17 of this document: "Additional Information".

### **13. Disclosure about market risk**

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

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

#### ***Currency risk management***

Group's exposure to currency risk is low as the Convertible Bonds and Guaranteed Notes are denominated in USD, which is the main currency for the Group's transactions, and following the utilisation of sterling funds from previous equity raises.

During 2015, the majority of funds raised in the 2015 GBP equity issue were converted to USD at the spot rate, with a small balance being held in GBP to meet GBP denominated expenditure. Previously, currency hedges were entered into to address foreign currency risk arising when entering into funding transactions in GBP, however, the Group currently has no hedges against currency or financial risks as the benefit of entering into such agreements is not considered to be significant enough as to outweigh the significant cost and administrative burden associated with such hedging contracts.

#### ***Currency sensitivity analysis***

At 31 December 2015, a 10% weakening or strengthening of the US dollar against the other currencies in which the Group's monetary assets and monetary liabilities are denominated would not have a material effect on the Group's net current assets or loss before tax.

The Group does not use derivative financial instruments for speculative purposes.

As at 31 December 2015, there had been no changes to the Group's exposure to other market risks or any changes to the manner in which the Group manages and measures the risk. The Group does not hedge against the effects of movement in oil prices. The risks are monitored by the Board on a regular basis.

#### ***Interest rate risk management***

The Group's policy on interest rate management is agreed at the Board level and is reviewed on an ongoing basis. The current policy is to maintain a certain amount of funds in the form of cash for short-term liabilities and have the rest on relatively short-term deposits, usually one month's notice to maximise returns and accessibility. The Group pays fixed coupon interest rates on the Convertible Bonds and Guaranteed Notes and has no floating rate financial liabilities.

#### ***Interest rate sensitivity analysis***

Based on the exposure to the interest rates for cash and cash equivalents at the balance sheet date, a 0.5% increase or decrease in interest rates would not have had a material impact on the Group's loss for the year or the previous year. A rate of 0.5% is used as it represents management's assessment of the reasonably possible changes in interest rates.

#### ***Credit risk management***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2015, the maximum exposure to credit risk from a trade receivable outstanding from one customer is US\$12 million.

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

#### ***Liquidity risk management***

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

#### 14. Critical accounting estimates and judgments

In the application of the Group's accounting policies, the Directors are required to make judgments, 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, including information and financial data that may change in future periods. As a result, actual results may differ from these estimates. Different assumptions or judgments could lead to materially different results.

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

##### *Carrying value of intangible exploration and evaluation assets*

The outcome of ongoing exploration, and therefore the recoverability of the carrying value of intangible exploration and evaluation assets, is inherently uncertain. Management makes the judgments necessary to implement the Group's policy with respect to exploration and evaluation assets and considers these assets for impairment at least annually with reference to indicators in IFRS 6.

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

##### *Carrying value of producing assets*

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

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

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

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

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

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

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

The Company also assessed the likelihood of achieving a sale of its Akri-Bijeel asset. Having received limited enquiries from interested parties and taking into consideration the US\$144.1 million impairment recorded at 31 December 2014, a prolonged period of lower oil prices and the on-going

challenges faced by the Kurdistan Region of Iraq, an impairment was recognised to write off the remaining intangible asset.

#### *Decommissioning costs*

The cost of decommissioning is estimated by reference to the Group's experience, with key judgments including the application of local laws and regulations, estimates of the related costs, inflation and discount rates.

#### *Depreciation, Depletion and Amortisation*

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

#### *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 DD&A charges, as well as impairment assessments.

#### *Revenue*

The recognition of revenue, particularly the recognition of revenue from exports, is considered to be a key accounting judgment. The Group began commercial production from the Shaikan Block in July 2013 as at the date of this document, all sales are made solely to the export market. Pending the establishment of a regular payment cycle for such sales the Group considers that revenue can be only reliably measured when the cash receipt is assured. This represents an amendment to the approach adopted in previous years, when revenue for export deliveries was only recorded at the point of cash receipt as opposed to when such receipt was assured, and reflects a partial improvement in the pattern and reliability of receipts that occurred during 2015. This change in accounting estimate has resulted in an additional US\$12 million being recognised as revenue in 2015. It is not possible to quantify the effect on future periods as it will depend on the timing and amount of invoices issued around subsequent year ends.

#### *Capitalisation of borrowing costs*

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



## PART 15

### CREST AND DEPOSITARY ARRANGEMENTS

#### 1 CREST and Depositary Arrangements

The Company has established arrangements to enable investors to settle interests in the Common Shares through the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK companies, such as the Company, cannot be held or transferred electronically in the CREST system. However, depositary interests allow such securities to be dematerialised and settled electronically through CREST. Where investors choose to settle interests in the Common Shares through the CREST system, and pursuant to depositary arrangements established by the Company, Computershare Investor Services Plc will hold the Common Shares and issue dematerialised depositary interests representing the underlying Common Shares, which will be held on trust for the holders of the Depositary Interests. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system. Investors should note that it is the Depositary Interests which will be admitted to and settled through CREST and not the Common Shares.

The Bye-laws are consistent with CREST membership in respect of Depositary Interests and the holding and transfer of Depositary Interests in uncertified form. Under the Companies Act (Bermuda), companies are not prohibited from issuing shares in book-entry form but shareholders have the right to require the companies to issue physical certificates. The Board has passed a resolution authorising the issuance of shares in book-entry form.

The Company and the Depositary entered into a depositary agreement on 24 August 2004, the principal terms of which are summarised below.

The Depositary Interests have been created pursuant to and issued on the terms of a deed poll executed on 24 August 2004 by the Depositary in favour of the holders of the Depositary Interests from time to time. Holders of Depositary Interests should note that they will have no rights against Euroclear UK and Ireland (the operators of CREST) or its subsidiaries in respect of the underlying Common Shares or the Depositary Interests representing them.

If a holder of Common Shares so requests, its Common Shares will be transferred to an account of the Depositary or its nominated custodian and the Depositary will issue Depositary Interests to participating CREST members. Each Depositary Interest will be treated as one Common Share for the purposes of determining, for example, eligibility for any dividends. The Depositary will pass on to holders of Depositary Interests any stock or cash benefits received by it as holder of Common Shares on trust for such Depositary Interest holder. Depositary Interest holders, through the Depositary, will also be able to receive notices of meetings of holders of Common Shares and other notices issued by the Company to its Shareholders.

The Depositary Interests have the same security code (ISIN) as the underlying Common Shares and will not require a separate admission to the London Stock Exchange's Main Market for listed securities. The Depositary Interests can then be traded and settlement will be within the CREST system in the same way as any other CREST securities. Application will be made for the Depositary Interests to be admitted to CREST with effect from Admission.

If a holder wishes to cancel its Depositary Interest, it will either directly or through its broker instruct the applicable CREST participant to initiate a CREST withdrawal (where such withdrawal is sent to the Depositary) for the name that appears on the Register. The Depositary Interest will then be cancelled by the Depositary and the related Common Shares will be credited to the account on the Register by the Registrar. The Registrar will then send the holder a new Common Share certificate.

The information included within this Part 15 relating to the obtaining and cancellation of Depositary Interests by a holder is intended to be a summary only and is not to be construed as legal, business or tax advice. Each investor should consult his or her own lawyer, financial adviser, broker or tax adviser for legal, financial or tax advice in relation to Depositary Interests.

In addition to the Depositary Interests, the Company has established arrangements to enable investors to hold interests in the Common Shares through American Depositary Shares (“ADSs”) issued under a deposit agreement between the Company, The Bank of New York Mellon, and all registered holders and beneficial owners of the ADSs. The ADSs are traded on the over-the-counter market in the United States. As at the Last Practicable Date, 88,469 ADSs were outstanding.

Each ADS represents 20 Common Shares deposited with the principal London office of The Bank of New York Mellon, as custodian for The Bank of New York Mellon. A copy of the deposit agreement is available for inspection at The Bank of New York Mellon’s office in New York City and at the London office of The Bank of New York Mellon.

## **2 Deed Poll**

The Deed Poll was executed on 24 August 2004 by the Depositary and contains the following provisions:

- 2.1 The Depositary will hold (itself or through the Custodian), as bare trustee, the underlying Common Shares and all and any rights and other securities, property and cash attributable to the underlying Common Shares pertaining to the Depositary Interests for the benefit of the holders of the relevant Depositary Interests as tenants in common. The Depositary will re-allocate securities or Depositary Interests distributions allocated to the Depositary or Custodian *pro rata* to the Common Shares held for the respective accounts of the holders of Depositary Interests, but will not be required to account for fractional entitlements arising from such re-allocation.
- 2.2 Holders of Depositary Interests agree to give such warranties and certifications to the Depositary as the Depositary may reasonably require. In particular, holders of Depositary Interests warrant, *inter alia*, that the securities in the Company transferred or issued to the Depositary or Custodian on behalf of the Depositary for the account of the Depositary Interest holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company’s constitutional documents or any contractual obligation, or applicable law or regulation binding or affecting such holder, and holders of Depositary Interests agree to indemnify the Depositary against any liability incurred as a result of any breach of such warranty.
- 2.3 The Depositary and any Custodian shall pass on to the Depositary Interest holders and, so far as they are reasonably able, exercise on behalf of the Depositary Interest holders all rights and entitlements received or to which they are entitled in respect of the underlying Common Shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received, together with amendments and additional documentation necessary to effect such passing-on, or, as the case may be, exercised in accordance with the Deed Poll. If arrangements are made which allow a holder to take up rights in the Company’s securities requiring further payment, the holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.
- 2.4 The Depositary will be entitled to cancel Depositary Interests and treat the holders thereof as having requested a withdrawal of the underlying securities in certain circumstances, including where a Depositary Interest holder fails to furnish to the Depositary with such certificates or representations as to material matters of fact, including his identity, as the Depositary deems appropriate.
- 2.5 The Depositary warrants that it is an authorised person under the FSMA and is duly authorised to carry out custodian and other activities under the Deed Poll. It also undertakes to maintain that status and authorisation.
- 2.6 The Deed Poll contains provisions excluding and limiting the Depositary’s liability. For example, the Depositary shall not be liable to any Depositary Interest holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian

or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Except in the case of personal injury or death, any liability incurred by the Depositary to a holder under the Deed Poll is limited to the lesser of:

- (a) the value of the Common Shares that would have been properly attributable to the Depositary Interests to which the liability relates; and
- (b) that proportion of £5 million which corresponds to the portion which the amount the Depositary would otherwise be liable to pay to the holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission or event which gave rise to such liability or, if there are no such amounts, £5 million.

- 2.7 The Depositary is entitled to charge holders of Depositary Interests fees and expenses for the provision of its services under the Deed Poll.
- 2.8 Each holder of Depositary Interests is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees), and hold each of them harmless, from and against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of that holder, other than those caused by or resulting from the wilful default, negligence or fraud of: (i) the Depositary; or (ii) the Custodian or any agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.
- 2.9 The Depositary is entitled to make deductions from the deposited property or any income or capital arising therefrom, or to sell such deposited property and make deductions from the sale proceeds thereof, in order to discharge the indemnification obligations of Depositary Interest holders.
- 2.10 The Depositary may terminate the Deed Poll by giving not less than 90 days' notice. During such notice period, Depositary Interest holders may cancel their Depositary Interests and withdraw their deposited property and, if any Depositary Interests remain outstanding after termination, the Depositary shall, as soon as reasonably practicable and amongst other things: (i) deliver the deposited property in respect of the Depositary Interests to the relevant Depositary Interest holder; or at the Depositary's discretion; (ii) sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll, *pro rata* to the Depositary Interest holders in respect of their Depositary Interests.
- 2.11 The Depositary or the Company may require from any holder: (i) information as to the capacity in which Depositary Interests are owned or held by such holders and the identity of any other person with any interest of any kind in such Depositary Interests or the underlying Common Shares and the nature and amounts of such interests; (ii) evidence or declaration of nationality or residence of the legal or beneficial owner(s) of Depositary Interests and such information as is required to transfer the relevant Depositary Interests or Common Shares to the holder; and (iii) such information as is necessary or desirable for the purposes of the Deed Poll or CREST system, and holders are bound to provide such information requested. The holders of Depositary Interests consent to the disclosure of such information by the Depositary, Custodian or Company to the extent necessary or desirable to comply with their respective legal or regulatory obligations.
- 2.12 Furthermore, to the extent that the Company's constitutional documents, applicable laws or regulations, the Ground Rules for the Management of the FTSE UK Index Series (if applicable), or any court or legal or regulatory authority may require or the Company deems it necessary or desirable in connection therewith (including in response to requests for information), the disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever in the Company's securities, the Depositary Interest holders are to comply with such provisions and with the Company's instructions with respect thereto, and consent to the disclosure of such information for such purposes.

It should also be noted that holders of Depositary Interests may not have the opportunity to exercise all of the rights and entitlements available to holders of Common Shares, including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of Depositary Interests to give prompt instructions to the Registrar or its nominated Custodian, in accordance with any voting arrangements made available to them, to vote the underlying Common Shares on their behalf or, to the extent possible, to take advantage of any arrangements enabling holders of Depositary Interests to vote such Common Shares as a proxy of the Registrar or its nominated Custodian.

### **3 Depositary Agreement**

The Depositary Agreement was entered into between the Company and the Depositary on 12 March 2014 and contains the following provisions:

- 3.1 Under the Depositary Agreement, the Company appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll, a series of Depositary Interests representing Common Shares and to provide certain other services (including depositary services, custody services and dividend services) in connection with such Depositary Interests.
- 3.2 The Depositary agrees that it will comply with the terms of the Deed Poll and that it will perform its obligations with reasonable skill and care. The Depositary assumes certain specific obligations, including, for example, to arrange for the Depositary Interests to be admitted to CREST as participating securities and provide copies of, and access to, the register of Depositary Interests.
- 3.3 The Company acknowledges that it shall be its responsibility and undertakes to advise the Depositary promptly of any securities laws or other applicable laws, rules or regulations in Bermuda with which the Depositary must comply in providing the services.
- 3.4 The Company agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing its duties, responsibilities and obligations under the Depositary Agreement.
- 3.5 The Depositary is to indemnify the Company and its officers and employees from and against any loss (excluding indirect, consequential or special loss) which any of them may incur in any way as a result of or in connection with the fraud, negligence or wilful default of the Depositary (or its officers, employees, agents or sub-contractors).
- 3.6 Subject to earlier termination, the appointment of the Depositary shall continue until terminated in accordance with the terms of the Depositary Agreement. Should the Depositary Agreement be terminated for any reason, other than arising from the Depositary's fraud, negligence, wilful default or material breach of a term of the Depositary Agreement, the Company shall within 30 days of termination pay to the Depositary the Depositary's reasonable costs and expenses of transferring the Depositary Interest register to its new registrar. Either party may terminate the Depositary Agreement by giving not less than six months' notice in writing. Either party may terminate the Depositary Agreement with immediate effect by notice in writing if the other party: (i) shall be in persistent or material breach of any material term (of the Depositary Agreement) and such breach is not remedied within 21 days of a request for such remedy; (ii) goes into insolvency or liquidation or administration or a receiver is appointed over any part of its undertaking or assets, subject to certain provisos; or (iii) shall cease to have the appropriate authorisations which permit it lawfully to perform its obligations under the Depositary Agreement.
- 3.7 The Depositary will be entitled to employ agents for the purposes of carrying out certain of its obligations under the Depositary Agreement which the Depositary reasonably considers to be of a specialist nature.
- 3.8 The Company is to pay to the Depositary an annual fee for the services. The Company shall pay a fixed fee for the deposit, cancellation and transfer of the Depositary Interests and the compilation of the initial Depositary Interests register. The Company shall in addition reimburse the Depositary within 30 days of the Depositary's invoice for all network charges, CREST charges, money transmission and banking charges and other out-of-pocket expenses incurred by it in connection with the provision of the services under the Depositary Agreement.

- 3.9 The Company will indemnify the Depositary from and against all loss suffered by the Depositary as a result of or in connection with the performance of its obligations under the Depositary Agreement.
- 3.10 The aggregate liability of the Depositary to the Company over any 12-month period under the Depositary Agreement will not exceed twice the amount of the Fees (as defined in the Depositary Agreement) payable in any 12-month period in respect of a single claim or in the aggregate.



## PART 16

### TAXATION

#### 1 United Kingdom taxation

The following statements are intended only as a general guide to current UK tax legislation and to the current practice of HMRC and may not apply to certain shareholders in the Company, such as dealers in securities, insurance companies and collective investment schemes. They relate (except where stated otherwise) to persons who are resident and ordinarily resident in the UK for UK tax purposes, who are beneficial owners of Common Shares (and any dividends paid on them) and who hold their Common Shares as an investment (and not as employment-related securities and other than via an individual savings account). They are based on current UK legislation and what is understood to be the current practice of HMRC as at the date of this document, both of which may change, possibly with retroactive effect. The tax position of certain categories of shareholders who are subject to special rules (such as persons acquiring their Common Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes or those who hold 10% or more of the Common Shares) is not considered.

**Any person who is in any doubt as to his or her tax position, or who is subject to taxation in any jurisdiction other than that of the UK, should consult his or her own professional advisers immediately.**

#### 2 Taxation of dividends

Under UK tax legislation, the Company is not required to withhold tax at source from dividend payments it makes.

For the tax year 2016-17, the rate of income tax applied to dividends received by individual Shareholders is as follows:

- liable to income tax at the basic rate: 7.5%.
- liable to income tax at the higher rate: 32.5%
- liable to income tax at the additional rate: 38.1%

From April 2016, the 10% Dividend Tax Credit has been replaced by a new tax-free Dividend Allowance of £5,000. This is available irrespective of a shareholder's non-dividend income. Dividends within the allowance will still count towards a shareholder's basic, higher and additional rate bands, and may therefore affect the rate of tax payable on dividends in excess of the £5,000 allowance.

Dividends paid by the Company to UK resident corporate Shareholders are generally be exempt, provided certain anti-avoidance provisions are not triggered.

To the extent that dividends are not exempt, UK resident corporate Shareholders may be able to obtain credit for withholding tax and underlying tax paid by the Company, subject to certain conditions. The UK has complex double tax relief where UK resident companies receive dividends from non-UK resident companies. UK resident corporate Shareholders should seek further advice on these issues.

Trustees have a basic rate band of up to £1,000. This is reduced *pro rata* if a settlor has created more than one trust. A minimum band of £200 applies. Trustees pay tax on dividend income within the trust's basic rate band at 7.5%. For dividend income over the trust's basic rate band, trustees pay tax at 38.1%.

It should be noted that other sources of trust income are taxed at higher rates. This note applies only to UK resident trusts. Non-UK resident trustees should take their own advice.

United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive.

**All shareholders, and particularly those who are not resident in the UK, for tax purposes should consult their own advisers concerning their tax liabilities on dividends received.**

### **3 Chargeable gains**

Shareholders who are resident or ordinarily resident in the UK for tax purposes and who dispose of their Common Shares at a gain will ordinarily be liable to UK taxation on chargeable gains, subject to any available exemptions or reliefs. The gain will be calculated as the difference between the sale proceeds and any allowable costs and expenses, including the original acquisition cost of the Common Shares.

Shareholders who are neither resident nor ordinarily resident in the UK for tax purposes but who carry on a trade, profession or vocation in the UK through a branch, agency or fixed place of business in the UK may be liable to UK taxation on chargeable gains on any gain on a disposal of their Common Shares, if those shares are or have been held, used or acquired for the purposes of that trade, profession or vocation or for the purposes of that branch, agency or fixed place of business.

If an individual Shareholder ceases to be resident or ordinarily resident in the UK and subsequently disposes of Common Shares, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that Shareholder becoming once again resident or ordinarily resident in the UK.

### **4 Stamp duty and Stamp Duty Reserve Tax (“SDRT”)**

The statements below are intended as a general guide to the current position under UK tax law. They do not apply to certain intermediaries who may be eligible for relief from stamp duty or SDRT, or to persons connected with depositary arrangements or clearance services (or, in either case, their nominees or agents), who may be liable to stamp duty or SDRT at a higher rate.

Admission of the Common Shares to the standard segment of the Official List will not give rise to a liability to stamp duty or SDRT on the basis that the Admission does not involve a change in title to the Common Shares for consideration. (The definition of consideration for stamp duty purposes is restricted to consideration in the form of cash, shares or debt. However, the definition for SDRT purposes is broader and will include anything in money or money’s worth).

The Company intends to continue to manage its affairs such that the central management and control of the Company takes place outside the UK. The Shareholders’ Register is maintained outside the UK and the underlying Common Shares are listed on a recognised stock exchange. So long as this remains the case, any transfer of Depositary Interests representing the Common Shares will not attract SDRT.

Provided that the Register continues to be maintained outside the UK, there will be no SDRT on any agreement to transfer the Common Shares themselves. However, any document transferring title to the Common Shares will attract stamp duty at the rate of 0.5% (rounded to the nearest £5 if necessary) if it is executed in the UK or relates (wheresoever executed) to any matter or thing done or to be done in the UK.

Where a document transfers title to non-UK shares, but the transfer has such a UK nexus, it may not be relied upon as evidence in civil proceedings within the UK unless it is exempt or has been duly stamped by the UK tax authorities.

### **5 Inheritance Tax**

If any individual Shareholder is regarded as domiciled in the UK for inheritance tax purposes, inheritance tax may be payable in respect of the Common Shares on the death of the Shareholder or on certain gifts of the Common Shares during their lifetime, subject to any allowances, exemptions or reliefs. This is the case regardless of their residence status. In the case of an individual shareholder who is not regarded as domiciled in the UK for inheritance tax purposes at the date of death or gift, their liability is limited to assets situated in the UK.

Non-UK domiciled individual shareholders may be regarded as deemed domiciled for inheritance tax purposes after residence in the UK in 17 out of the last 20 years on a rolling basis (proposed to reduce to 15 out of 20 years in 2017). The concept of deemed domicile currently only applies for inheritance tax purposes although this is also proposed to change in 2017.

The situs of shares of inheritance tax purposes is a complex matter governed by case law.

In general, the situs of shares is determined by the location of the share registry. The share register for the common shares is presently located in Jersey.

This means that the Common Shares are currently likely to be considered as non-UK for inheritance tax purposes. The actual position would need full review to be certain and on the occasion of any possible tax charge.

Common Shares trading on the official list generally do not qualify for inheritance tax business property relief. If an individual shareholder has a controlling shareholding, they should take further advice on the position.

**UK inheritance tax is a complex issue; these comments are general in nature, and individual shareholders should obtain their own advice**

## **6 Bermuda Tax**

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by holders of Common Shares of exempt companies. The Group entities incorporated in Bermuda have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until 31 March 2035, be applicable to such entities or to any of their operations or to their shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by such entities in respect of real property owned or leased by us in Bermuda.

## PART 17

### ADDITIONAL INFORMATION

#### 1 The Company

The Company was incorporated and registered in Bermuda on 29 October 2001 under the Companies Act (Bermuda) and the regulations made thereunder as an exempted company limited by shares with the name Gulf Keystone Petroleum Algeria, Ltd and with registered number 31165. Pursuant to a Shareholders' resolution dated 18 May 2004, the Company's name was changed to Gulf Keystone Petroleum Limited on 20 May 2004 and its Common Shares were admitted to trading on AIM on 8 September 2004. On 25 March 2014 the Company's AIM admission was cancelled and its Common Shares were admitted to trading on the London Stock Exchange's Main Market for listed securities.

The Company is domiciled in Bermuda. The registered office of the Company and business address for all the Directors and Senior Managers, as at the date of this document, is at Cumberland House, 9th Floor, 1 Victoria Street, Hamilton HMTX, Bermuda (telephone number +1 441 295 4630). The principal legislation under which the Company operates is the Companies Act (Bermuda). The liability of the Shareholders of the Company is limited.

#### 2 Share capital of the Company

2.1 As at the Last Practicable Date, the Company has:

- (a) an authorised share capital of US\$292,105,237 divided into 23,160,523,665 Common Shares of par value US\$0.01 each, 50,000,000 non-voting common shares of par value US\$0.01 each, 20,000 Preferred Shares of par value US\$1,000.00 each and 40,000 Series A Preferred Shares of par value US\$1,000.00 each; and
- (b) an issued share capital of US\$10,324,331, comprising 1,032,433,052 Common Shares.

2.2 The issued share capital of the Company immediately after Admission is expected to be up to a maximum of 22,942,956,717 Common Shares, assuming the Open Offer is taken up in full.

2.3 During the period of the historical financial information incorporated by reference into this document, there have been the following changes in the issued and authorised share capital of the Company:

- (a) on 25 February 2013, the Company issued and allotted 7,125,837 Common Shares pursuant to the 2010 Executive Bonus Scheme and 2011 Executive Bonus Scheme;
- (b) on 25 February 2013, the Company issued and allotted 4,129,500 Common Shares following an exercise of options at an exercise price of 30 pence per Common Share;
- (c) on 25 February 2013, the Company issued and allotted 250,000 Common Shares following an exercise of options at an exercise price of 80.75 pence per Common Share;
- (d) on 15 September 2013, the Company issued and allotted 475,350 Common Shares following an exercise of warrants by Mirabaud Securities LLP, at an exercise price of 140 pence per Common Share;
- (e) on 20 September 2013, the Company issued and allotted 20,750 Common Shares following an exercise of options at an exercise price of 30 pence per Common Share;
- (f) on 23 September 2013, the Company issued and allotted 500,000 Common Shares following an exercise of warrants by Mirabaud Securities LLP, at an exercise price of 140 pence per Common Share;
- (g) on 12 December 2013, the Company issued and allotted 250,000 Common Shares following an exercise of options at an exercise price of 80.75 pence per Common Share;
- (h) on 22 December 2014, the Company issued and allotted 3,305,004 Common Shares pursuant to the 2011 Executive Bonus Scheme;
- (i) on 31 March 2015, the Company issued and allotted 85,900,000 Common Shares following a placing of new Common Shares, at a placing price of 32 pence per Common Share.

- 2.4 Following the period of the historical financial information incorporated by reference into this document, on 13 July 2016 the Company issued and allotted 54,294,991 Common Shares at a placing price of 1.09 dollar cents.
- 2.5 The principal legislation under which the issued Common Shares have been and will be created is the Companies Act (Bermuda). The Common Shares were issued in United States Dollars and have a par value of US\$0.01 each.
- 2.6 Application has been made for all of the New Common Shares to be admitted to trading on the London Stock Exchange's Main Market for listed securities and the Company's International Securities Identification Number (ISIN) number for the Common Shares is BMG4209G1087 and the trading symbol for the Common Shares will remain GKP
- 2.7 On 29 July 2016 DNO announced the terms of the DNO Takeover Offer. The Company announced in response on 29 July 2016 that completion of the Restructuring best serves the Company's stakeholders and it would not engage in any additional process that causes the Company to be distracted from that objective. Other than the DNO Takeover Offer there have been no public takeover bids by third parties in respect of the share capital within the last financial year or in the current financial year as at the Last Practicable Date.
- 2.8 Subject to Admission, the New Common Shares will be issued with a par value of US\$0.01 each. This will result in an issued share capital of the Company increasing by approximately 21,910,523,665 shares.
- 2.9 The Directors intend to use the authorities granted at the General Meeting to allot New Common Shares pursuant to the Open Offer and/or Subscription and the Debt Equitisation.

### 3 Takeover Code

- 3.1 As the Company is incorporated in Bermuda, it is subject to Bermuda law. The Takeover Code will not apply to the Company and Bermuda law does not contain any provisions similar to those applicable in the UK which are designed to regulate the way in which takeovers are conducted.
- 3.2 However, the Company's Bye-laws incorporate the material Takeover Code protections appropriate for a company to whom the Takeover Code does not apply and which is admitted to the standard segment of the Official List and to trading on the Main Market. The relevant provisions of the Bye-laws are summarised in paragraph 4.7 "*Takeover offers*" of this Part 17.
- 3.3 The following provisions of the Companies Act (Bermuda) apply in relation to the acquisition of 90% or 95% of the shares of a Bermuda company:
  - (a) broadly, section 102 of the Companies Act (Bermuda) provides that, where a scheme or contract involving the transfer of shares to another company is approved by the holders of 90% in value of the shares which are the subject of the offer, the offeror can compulsorily acquire the shares of dissentient shareholders. Shares owned by the offeror or its subsidiary or their nominees at the date of the offer do not, however, count towards the 90%. If the offeror or any of its subsidiaries or any nominee of the offeror or any of its subsidiaries together already own more than 10% of the shares in the subject company at the date of the offer, the offeror must offer the same terms to all holders of the same class and the holders who accept the offer, besides holding not less than 90% in value of the shares, must also represent not less than 75% in number of the holders of those shares, although these additional restrictions should not apply if the offer is made by a subsidiary of a parent (where the subsidiary does not own more than 10% of the shares of the subject company) even where the parent owns more than 10% of the shares of the subject company, provided that the subsidiary and the parent are not nominees. The 90% must be obtained within four months of the making of the offer and, once obtained, the compulsory acquisition may be commenced within two months of the acquisition of 90%. Dissentient shareholders do not have express appraisal rights but are entitled to seek relief (within one month of the compulsory acquisition notice) from the Supreme Court of Bermuda which has power to make such orders as it thinks fit; and



- (b) under section 103 of the Companies Act (Bermuda), a holder of 95% of the shares of a Bermuda company can, on giving notice to the minority shareholders, force them to sell their interest to the 95% shareholders, provided that the terms offered are the same for all of the holders of the shares whose acquisition is involved. Dissentient shareholders have a right to apply to the Supreme Court within one month of the compulsory acquisition notice to have the value of their shares appraised by the Supreme Court. If one dissentient shareholder applies to the Supreme Court and is successful in obtaining a higher valuation, that valuation must be paid to all shareholders being squeezed out.
- 3.4 The following provisions of the Companies Act (Bermuda) apply in relation to acquisition of the shares of a Bermuda company by way of a scheme of arrangement, an amalgamation or a merger:
- (a) Section 99 of the Companies Act (Bermuda) deals with court approved schemes of arrangement. Scheme may be transfer schemes or cancellation schemes. In either case, dissentient shareholders do not have express statutory appraisal rights but the Supreme Court will only sanction a scheme if it is fair. Shares owned by the offeror can be voted to approve the scheme but the Supreme Court will be concerned to see that the shareholders approving the scheme are fairly representative of the general body of shareholders. Any scheme must be approved by a majority in number representing three quarters in value of the shareholders present and voting either in person or by proxy at the requisite special general meeting. If there are dissentient shareholders who hold more than 10% of the shares, the Supreme Court might be persuaded not to exercise its discretion to sanction the scheme on the ground that the scheme constitutes a takeover within section 102 of the Companies Act (Bermuda) and requires a 90% acceptance.
  - (b) Under sections 104 to 109 of the Companies Act (Bermuda), two or more companies may amalgamate or merge and continue as one company. In the case of an amalgamation, whilst the separate corporate existence of each of the amalgamating companies ceases, all the amalgamating companies continue their existence as constituent parts of the amalgamated company (no one amalgamating company can be said to be the sole survivor, although the amalgamated company is the only resulting entity). In practical terms, the effect of an amalgamation is that the assets and liabilities of the amalgamating companies become the assets and liabilities of the amalgamated company. In the case of a merger, the separate corporate existence of one of the merging companies ceases as it is absorbed into the other merging company and the effect of the merger is that all the assets and liabilities of the company that cease to exist become the assets and liabilities of the surviving company.

The statutory threshold for approval of an amalgamation or merger is 75% of shareholders voting at the special general meeting at which a quorum of at least two persons holding or representing by proxy more than one third of the issued shares are present. Under Bermuda law, this statutory threshold may be altered by providing otherwise in the bye-laws of the amalgamating/merging company. The Bye-laws provide that an amalgamation requires the approval of a simple majority of shareholders present and voting at the meeting at which at least two shareholders are present. There is no equivalent provision in relation to a merger.

The Bye-laws provide that they may be amended by a majority of not less than three-quarters of the shareholders present and voting at the requisite meeting.

Dissentient shareholders may apply to the Supreme Court within one month of the notice convening the special general meeting to approve the amalgamation or merger to have the Supreme Court appraise the fair value of their shares.

## **4 Bye-laws of the Company**

The following summarises certain provisions in respect of the amended and restated bye-laws of the Company. This summary of the Bye-laws does not purport to be complete and is subject to and is qualified in its entirety by references to the Bye-laws. The Bye-laws are available for inspection at the Company's registered office at the address given in paragraph 1 "*The Company*" of this Part 17.

### **4.1 Objects**

The Memorandum of Association provides that the Company's principle objects include the carrying on of a business of a holding company. The objects of the Company are set out in full in clause 7 of its Memorandum of Association, which is available for inspection as set out in paragraph 21 "*Documents available for inspection*" of this Part 17.

### **4.2 Directors**

#### *Number of Directors*

The number of Directors shall not be less than three and not more than such number as the Board may from time to time decide.

#### *Power of Directors to appoint Directors*

The Directors shall have power at any time to appoint any person as a director to fill any casual vacancy. Any person so appointed shall hold his office up to the date of the next annual general meeting but shall be eligible for re-election at such meeting.

#### *Annual election*

At each annual general meeting of the Company, all Directors shall retire and stand for re-election.

#### *Removal of Directors*

The Company may by resolution at any special general meeting remove any Director before the expiry of his period of office. Notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director not less than 14 days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for such Director's removal.

#### *Directors' fees*

The amount of any fees payable to Directors shall be determined by the Board. The Directors are also entitled to be repaid all expenses properly and reasonably incurred by them respectively in the conduct of the Company's business or in the discharge of their duties as Directors.

#### *Directors' additional benefits*

The Board may provide additional benefits to any past or present Director or employee of the Group or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

### **4.3 Proceedings of the Board**

#### *Borrowing powers*

The Board may exercise all powers of the Company to borrow money and to mortgage or charge or otherwise grant a security interest in its undertaking, property and assets (present or future) and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as security for debt, liability or obligation of the Company or any third party.

#### *Meetings of Directors*

The Directors may meet together as a Board for the transaction of business, and adjourn and otherwise regulate their meetings as they see fit.

### *Notices of the Board Meeting*

A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Board. Notice of the meeting shall be deemed to be given to a Director if it is given to him personally or, *inter alia*, by word of mouth, in writing by post or email.

### *Quorum*

The quorum for a board meeting shall be fixed by the Board and unless determined at any other number shall be two Directors.

### *Chairman*

The chairman, if there is one, shall act as chairman at all meetings of the Board at which such person is present. In their absence, a chairman shall be appointed or elected by the Directors present at the meeting.

### *Voting*

Questions arising at any meeting of the Board shall be decided by a majority of votes and, in case of any equality of votes, the chairman shall have a second or casting vote.

### *Disclosure of interests*

Any Director who is, either directly or indirectly, concerned or interested in a contract or arrangement entered into by or on behalf of the Company should disclose the nature of his concern or interest to the Board at the first opportunity.

Any Director who is, either directly or indirectly, concerned or interested in a proposed contract to be entered into by or on behalf of the Company should disclose the nature of his interest during a meeting of the Directors, at which the question of entering into the contract is first taken into consideration. If the Director is not aware of the existence of such interest at such time, he should disclose such interest at the next meeting of Directors.

Such an interested Director is not entitled to vote at the board meeting at which the contract is considered and will not count towards the quorum. A Director who is interested in an actual or proposed transaction or arrangement with the Company shall be entitled to vote on and be counted in the quorum in relation to any resolution where the Directors' conflict of interest arises from a permitted matter under Bye-Law 104.1. The following are permitted matters:

- (a) any transaction or arrangement in which he is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;
- (b) the giving of any guarantee, security or indemnity in respect of:
- (c) money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries; or
- (d) any obligation of the Company or any of its subsidiaries for which he has assumed responsibility under a guarantee or indemnity or by the giving of security;
- (e) any subscription or purchase by him of shares, debentures or other securities of the Company pursuant to an offer or invitation to shareholders or debenture holders of the Company, or any class of them, or to the public or any section of the public;
- (f) becoming a participant in the underwriting or sub-underwriting of an offer of any shares, debentures or other securities of the Company or any of its subsidiaries for subscription, purchase or exchange;
- (g) any transaction or arrangement concerning any other company in which he is interested, directly or indirectly, as a shareholder, officer, creditor or otherwise, provided he is not the holder of or beneficially interested in 1% or more of any class of shares in the capital of that company or of the voting rights available;
- (h) a retirement benefits scheme which has been approved, or is conditional upon approval, by the authorities of any country for tax purposes;

- (i) any contract or arrangement for the benefit of employees of the Company or any of its subsidiaries which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and
- (j) the purchase or maintenance of insurance for the benefit of Directors or for the benefit of persons including Directors.

For the purpose of the Bye-laws, an interest of a person who is connected with the Director shall be treated as an interest of the Director.

#### *Indemnity*

To the extent permitted by the Companies Act (Bermuda), the Bye-laws permit the Company to indemnify any Director or other officer of the Company against any liability which is incurred or suffered by him by or by reason of any act done, conceived or omitted in the conduct of the Company's business or in the discharge of his duties.

### **4.4 *Rights attaching to shares***

#### *Allotments*

Subject to the provisions of the Bye-laws, the unissued shares shall be at the disposal of the Board of the Company from time to time which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may determine.

In addition to the Series A Preferred Shares, the Board shall be authorised to issue other Preferred Shares from time to time, in one or more series with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as may be designed by the Board prior to the issuance of such series, and the Board is hereby expressly authorised to fix by resolution or resolutions prior to such issuance such designations, preferences and relative, participating, optional or other special rights, or qualifications, limitations or restrictions.

#### *Pre-emption rights*

Shareholders do not have pre-emption rights under the Bye-laws or the Companies Act (Bermuda) over further issues of any class of shares in the Company.

#### *Voting rights*

Subject to any rights or restrictions attached to any shares, on a show of hands every shareholder who is present in person shall have one vote and on a poll every shareholder present in person or by proxy shall have one vote for every share of which he is the holder.

Unless the Board otherwise determines no shareholder shall be entitled to vote at any general meeting unless all monies presently payable by him in respect of the shares have been paid.

#### *Dividends and other distributions*

Subject to the provisions of the Companies Act (Bermuda), the Company may by resolution declare dividends in accordance with the respective rights of the shareholders and their interest in the profit available for distribution, but no dividend shall exceed the amount recommended by the Board.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide:

- (a) all dividends or distributions out of contributed surplus may be declared and paid according to the amounts paid up on the shares in respect of which the dividend or distribution is paid, and an amount paid up on a share in advance of calls may be treated as paid up on the share; and dividends or distributions out of contributed surplus may be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend or distribution is paid.

Subject to the provisions of the Companies Act (Bermuda), the Board may pay interim dividends if it appears to the Board that they are justified by the distributable profits available to the Company.

If the share capital is divided into different classes, the Board may resolve to pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividends, as well as on shares which confer preferential rights with regard to dividends, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears.

The Board may also pay, at intervals determined by it, any dividend at a fixed rate if it appears to the Board that the profits available for distribution justify the payment. If the Board acts in good faith, it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

No dividend, distribution or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Board may, if authorised by a resolution of the Company, offer any holder of Common Shares the right to elect to receive in respect of all or part of their holdings of Common Shares additional Common Shares by way of scrip dividend instead of cash in respect of the whole (or some part and on such terms as may be specified in the ordinary resolution or determined by the Board) of any dividend.

Any dividend which has remained unclaimed for six years from the date when it became due for payment shall be forfeited and shall revert to the Company and the payment by the Board of any unclaimed dividend, distribution, interest or other sum payable on or in respect of the share into a separate account shall not constitute the Company a trustee in respect thereof.

#### *Winding-up*

Holders of Common Shares shall, in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for a reorganisation or otherwise or upon distribution of capital, be entitled to receive the amount of capital paid up on their Common Shares and to participate further in the surplus assets of the Company only after payment of an aggregate amount equal to US\$1,000.00 in cash per Series A Preferred Share or, if the net assets of the Company shall be insufficient to pay the holders of all outstanding Series A Preferred Shares the full amounts to which they respectively shall be entitled, such assets, or the proceeds thereof, shall be distributed rateably among the holders of the Series A Preferred Shares.

#### *Modification of rights*

Rights attached to any class of shares may be varied or abrogated with the written consent of the holders of 75% of the issued shares of the class, or the sanction of a resolution passed at a separate general meeting of the holders of the shares of the class.

#### *Lien and forfeiture*

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all monies payable to it (whether presently or not) in respect of that share. The Company may sell any share on which it has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share demanding payment and stating that if the notice is not complied with the share may be sold. The Board may from time to time make calls on the shareholders in respect of any monies unpaid on their shares. Each shareholder shall (subject to receiving at least 14 days' notice) pay to the Company the amount called on his shares. If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the Board may give the person from whom it is due not less than 30 days' notice requiring payment of the amount unpaid, together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that, if the notice is not complied with, the shares in respect of which the call was made will be liable to be forfeited.



#### *Transfer of shares*

Subject to the Companies Act (Bermuda), any holder of Common Shares may transfer all or any of his Common Shares by an instrument of transfer in the usual common form or in any other form which the Board may approve.

The instrument of transfer shall be signed by or on behalf of the transferor and, unless the Common Share is fully paid, by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the Common Share until the name of the transferee is entered in the Register of Shareholders in respect thereof. All instruments of transfer when registered may be retained by the Company. The Board may, in its absolute discretion and without assigning any reason therefor, decline to register any transfer of any Common Share which is not a fully paid Common Share.

The Board may also decline to register any transfer in respect of shares in certificated form unless:

- (a) the instrument of transfer is duly stamped (if required by law) and lodged with the Company, accompanied by the certificate for the shares (if any has been issued) to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is in favour of less than five persons jointly; and
- (d) it is satisfied that all applicable consents, authorisations, permissions or approvals of any governmental body or agency in Bermuda or any other applicable jurisdiction required to be obtained under relevant law prior to such transfer have been obtained.

In the case of Common Shares for the time being in uncertificated form, transfers shall be registered only in accordance with the terms of the Uncertificated Securities Regulations, but so that the Board may refuse to register a transfer which would require Common Shares to be held jointly by more than four persons.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share or otherwise making an entry in the Register, except that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed on it in connection with such transfer or entry.

#### *Notification of voting rights*

At any time that the Company shall have any of its shares admitted to trading on the Main Market of the LSE, the provisions of Chapter 5 of the Disclosure and Transparency Rules (as amended from time to time) of the UK Financial Conduct Authority Handbook relating to the disclosure of voting rights shall apply to the Company, its shares and persons interested in those shares

### **4.5 *Changes in share capital***

#### *Increase, consolidation, sub-division, cancellation and reduction*

The Company may, if authorised by a resolution of the Board and if authorised by a resolution of the members, increase, divide, consolidate, subdivide, change the currency denomination of, diminish or otherwise alter or reduce its share capital in any manner permitted by the Companies Act (Bermuda).

#### *Purchase of own shares*

The Board may exercise all the powers of the Company to purchase its own shares in accordance with the Companies Act (Bermuda).

### **4.6 *Annual and special general meetings***

#### *Annual general meetings*

Annual general meetings shall be held in each year at such time and place as the Board shall appoint.

### *Special general meetings*

The Directors may proceed to convene a special general meeting whenever they think such a meeting is necessary. A special general meeting may also be convened on the requisition of the members holding not less than 1/10th of the paid-up share capital of the Company.

### *Notice of general meetings*

An annual general meeting of the Company may be called by giving not less than 21 clear days' notice in writing.

A special general meeting of the Company may be called by giving not less than 14 clear days' notice in writing.

A general meeting may be called after giving a shorter notice than that specified above if consent is accorded thereto:

- (a) in the case of an annual general meeting, by all the members entitled to vote; and
- (b) in the case of any other meeting, by a majority in number of the members of the Company holding not less than 95% in nominal value of the shares giving a right to vote at the meeting.

### *Quorum at general meetings*

No business of the Company shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. The quorum shall be at least two members present in person or by proxy and entitled to vote.

### *If quorum is not present*

If within five minutes (or such longer time as the chairman shall determine) of the time appointed for the meeting a quorum is not present, then, in the case of a meeting convened on a requisition, the meeting shall be deemed cancelled and, in any other case, the meeting shall stand adjourned to such other day and such other time and place as the chairman of the meeting may determine. The Company shall give not less than five clear days' notice of any meeting adjourned. If at an adjourned meeting a quorum is not present within 15 minutes of the time appointed for holding the meeting, the meeting shall be dissolved.

### *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person (whether a member or not) as his proxy to attend and vote in his place. The appointment of proxy instrument must be received by the Company at its registered office or such other place or in such other manner as is specified in the notice convening the meeting or in any instrument of proxy sent out by the Company in relation to the meeting not less than 48 hours or such other period determined by the Board.

### *Voting*

All resolutions shall be carried by a simple majority of votes cast except where a different majority is required by the Bye-laws or the Companies Act (Bermuda).

### *Chairman of general meeting*

Unless otherwise agreed by a majority of those attending and entitled to vote at the general meeting, the Chairman, if there is one, shall act as chairman at all general meetings at which he is present. In his absence a chairman shall be appointed by the Board.

## **4.7 Takeover offers**

The provisions of the Bye-laws relating to takeover offers shall apply to the Company unless the Takeover Panel has advised the Company that the Company is subject to the Takeover Code.

Except with the consent of a resolution of shareholders other than the offeror (and any persons acting in concert with it), when:

- (a) any shareholder (or person acting in concert with such shareholder) acquires, whether in a single transaction or by a series of transactions over a period of time, an interest in shares which (taken together with shares in which such shareholder or persons acting in concert with such shareholder are interested) carry 30% or more of the voting rights of the Company; or
- (b) any shareholder, together with persons acting in concert with such shareholder, is interested in shares which in the aggregate carry not less than 30% of the voting rights of the Company but does not hold shares carrying more than 50% of such voting rights and such shareholder, or any person acting in concert with such shareholder, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested,

such offeror shall extend an offer on the basis set out in the Bye-laws to the holders of all the issued (and to be issued) shares in the Company, conditional only (save with the consent of the Board) upon the offeror having received acceptances in respect of shares which, together with shares acquired or agreed to be acquired before or during the offer, will result in the offeror and any person acting in concert with it holding shares carrying more than 50% of the voting rights of the Company.

When such an offer is made and the Company has convertible securities outstanding, the offeror must make an appropriate offer or proposal, on terms equivalent to the offer made for shares, to the holders of such convertible securities to ensure that their interests are safeguarded.

#### 4.8 *Uncertificated securities*

The Company, through the Registrar, has established a depository facility whereby Depositary Interests, representing the Common Shares, are issued to Shareholders who wish to hold their Common Shares in uncertificated electronic form in CREST. Accordingly, settlement of transactions in the Common Shares following Admission may continue to take place within the CREST system, if the relevant Shareholders so wish.

## 5 **Information on the Directors and Senior Managers**

- 5.1 The Directors and Senior Managers, their functions within the Group and brief biographies are set out in Part 9 of this document: “*Directors, Senior Management and Corporate Governance*”.
- 5.2 Details of the names of companies and partnerships (excluding directorships in the Group) of which the Directors and Senior Managers are or have been members of the administrative, management or supervisory bodies or partners at any time in the five years preceding the date of this document are set out below:

<b>Name</b>	<b>Current directorships/partnerships</b>	<b>Past directorships/ partnerships</b>
<b>Jón Ferrier</b>	The Friends of Music in Winchester MacArtney A/S	None
<b>Sami Zouari</b>	None	None
<b>Philip Dimmock</b>	Georgian Energy Ltd Nor Energy AS	Africa Oil Exploration Ltd <sup>1</sup> Nautical Petroleum Plc Equator Exploration Limited
<b>Cuth McDowell</b>	IGas Plc Quotall Limited	Pitkin Petroleum Limited Pitkin Petroleum Plc
<b>Keith Lough</b>	Rockhopper Exploration Plc Cairn Energy Plc Papua Mining Plc UK Gas and Electricity Markets Authority Rock Solid Images Inc.	Maxwell Energy Limited <sup>1</sup> Loughside Consulting Ltd <sup>1</sup> I M Power Developments Limited Hutton Energy Limited Rigdown Limited <sup>1</sup>
<b>John Stafford</b>	None	None

<b>Name</b>	<b>Current directorships/partnerships</b>	<b>Past directorships/ partnerships</b>
<b>Tony Peart</b>	None	None
<b>Umur Eminkahyagil</b>	None	None
<b>Mohamed Messaoudi</b>	None	None
<b>Nadhim Zahawi</b>	Sthree	None

1 Dissolved

5.3 Save as set out above, none of the Directors or Senior Managers:

- (a) has any convictions in relation to fraudulent offences for at least the previous five years; or
- (b) has been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of a senior manager of any company for at least the previous five years; or
- (c) has been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including designated professional bodies) or has ever been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company for at least the previous five years.

5.4 There are no family relationships between any of the Directors or Senior Managers.

5.5 There are no potential or actual conflicts of interest between any duties owed by the Directors and the Senior Managers to the Company and their private interests and/or other duties, save for their interest as holders of securities in the Company.

## 6 Directors', Senior Managers' and others' interests

6.1 As at the Last Practicable Date, the interests (all of which are beneficial unless otherwise stated) of the Directors and Senior Managers in the Company's issued share capital are as follows:

<b>Director/Senior Manager</b>	<b>Number of Common Shares<sup>(1)</sup></b>	<b>% of the share capital</b>
Jón Ferrier	—	—
Keith Lough	—	—
Sami Zouari	—	—
Philip Dimmock	—	—
Cuth McDowell	—	—
Keith Lough	—	—
Nadhim Zahawi	—	—
Tony Peart	3,272,702	0.32
Umur Eminkahyagil	—	—
Mohamed Messaoudi	—	—
John Stafford	407,659	0.04

Notes:

- (1) Includes Common Shares held directly, by family members and through the Gulf Keystone EBT which are held to the discretion of the EBT Trustee (Appleby Trust (Jersey) Limited).

- 6.2 As at the Last Practicable Date, under the Share Scheme, the Directors and Senior Managers will have the following options and rights over Common Shares:

Director/Senior Manager	Number of Common Shares	Option exercise price £	Option expiration date
Jón Ferrier	nil	n/a	n/a
	1,500,000 (only 1,000,000 of these have vested)		
Sami Zouari	nil	0.55	22 January 2022
Philip Dimmock	nil	n/a	n/a
Cuth McDowell	nil	n/a	n/a
Keith Lough	nil	n/a	n/a
Nadhim Zahawi	nil	n/a	n/a
Tony Peart	1,627,746	0.75	23 June 2020
	839,000	1.75	6 February 2021
	1,000,000	0.30	30 July 2019
Umur Eminkahyagil	350,000	1.9450	20 March 2022
Mohamed Messaoudi	350,000	0.30	31 December 2018
John Stafford	250,000	1.75	6 February 2021
	250,000	0.30	31 December 2018

## 7 Major Shareholders

- 7.1 Save as set out below, as at the Last Practicable Date, the Company is not aware of any person who, directly or indirectly, was interested in 3% or more of the Company's capital or voting rights:

Name of Shareholder	Number of Common Shares	% the share capital
Capital	123,891,966	12.00
TD Direct Investing	95,535,614	9.25
Hargreaves Lansdown Asset Mgt	87,200,759	8.45
Barclays Wealth	69,767,558	6.76
Halifax Share Dealing	68,032,012	6.59
Interactive Investor	42,635,802	4.13
HSBC Stockbroker Services	37,282,641	3.61

- 7.2 None of the Company's major Shareholders has different voting rights from other Shareholders.
- 7.3 The Company is not aware of any person who, directly or indirectly, owns or controls the Company. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

## 8 Directors' and Senior Managers' service agreements

The remuneration and benefits received by each of the Directors and Senior Managers for the year ended 31 December 2015 is summarised at paragraph 9 "*Summary of remuneration and benefits*" below. In addition to this, certain of the Directors and Senior Managers have other entitlements (including on termination of their employment) as set out in their respective service agreement or letter of appointment.

### 8.1 Executive Directors

#### *Jón Ferrier*

Jón Ferrier is employed by the Company as Chief Executive Officer and his terms and conditions are set out in a service agreement dated 5 June 2015. His employment commenced on 29 May 2015 and is terminable on 12 months' written notice on either side. Mr Ferrier is entitled to a salary of £450,000 per annum. He is entitled to participate in the Company's discretionary bonus scheme.



#### *Sami Zouari*

Sami Zouari is employed by the Company as Chief Financial Officer and his terms and conditions are set out in a service agreement dated 22 January 2015 and is terminable on six months' written notice on either side. Mr Zouari is entitled to a salary of £350,000 per annum. He is entitled to participate in the Company's discretionary bonus scheme.

### **8.2 *Non-Executive Directors***

#### *Philip Dimmock*

Philip Dimmock entered into a letter of appointment with the Company dated 4 November 2013 to act as Non-Executive Director. His appointment commenced on 25 July 2013 for a term of 36 months (subject to the Bye-laws) terminable by Mr Dimmock at any time on one month's written notice. Under the terms of his appointment letter, Mr Dimmock is entitled to a fee of £70,000 per annum, plus an additional annual fee of £10,000 per annum for each committee he chairs.

#### *Cuth McDowell*

Cuth McDowell entered into a letter of appointment with the Company dated 8 December 2015 to act as Non-Executive Director. His appointment commenced on 8 December 2015 for a term of 36 months terminable (subject to the Bye-laws) at any time on one month's written notice on either side. Under the terms of his appointment letter, Mr McDowell is entitled to a fee of £70,000 per annum, plus an additional fee of £10,000 per annum for each committee he chairs.

#### *Keith Lough*

Keith Lough entered into a letter of appointment with the Company dated 8 December 2015 to act as Non-Executive Director. His appointment commenced on 8 December 2015 for a term of 36 months terminable (subject to the Bye-laws) at any time on one month's written notice on either side. With effect from 14 July 2016, Mr Lough is entitled to the Chairman's fee of £180,000 per annum, plus an additional fee of £10,000 per annum for each committee he chairs.

### **8.3 *Senior Managers***

#### *Tony Peart*

Tony Peart is employed by GKP (UK) Ltd to act as Legal and Commercial Director and his terms and conditions are set out in an agreement dated 27 July 2009. His employment commenced on 27 July 2009 and is terminable on six months' written notice on either side, save that his employment will automatically terminate upon Mr Peart reaching his 70th birthday. Mr Peart is entitled to a salary of £350,000 per annum. He is entitled to participate in a stakeholder pension plan to which no contribution is made by the Group and private medical insurance.

#### *Umur Eminkahyagil*

Umur Eminkahyagil was employed as Development and Production Manager in Kurdistan, Iraq as of 1 March 2012. He was subsequently appointed s Country Manager in Kurdistan, Iraq as of 1 September 2012. Under the terms of his agreement dated 1 January 2015, his employment is terminable on three months' written notice on either side, save that his employment will automatically terminate upon Mr Eminkahyagil reaching his 70th birthday. Mr Eminkahyagil is entitled to a salary of US\$290,000 per annum. He also receives private medical insurance and an additional US\$130,500 per annum in respect of a living allowance.

#### *Mohamed Messaoudi*

Mohamed Messaoudi is employed by the Company as Country Manager, Algeria and his terms and conditions are set out in an agreement dated 11 January 2007. His employment commenced on 1 February 2007 and is terminable on three months' written notice on either side, save that his employment will automatically terminate upon Mr Messaoudi reaching his 65th birthday. Mr Messaoudi is entitled to a salary of US\$72,000 per annum plus £36,000 per annum, being equivalent to US\$72,000 using the exchange rate of £1 to US\$2.

### *Nadhim Zahawi*

Nadhim Zahawi is employed by GKP to act as Chief Strategy Officer and his terms and conditions are set out in an agreement dated 15 July 2015 and is terminable on six months' written notice on either side, save that his employment will automatically terminate upon Mr Zahawi reaching his 70th birthday. Mr Zahawi is entitled to a salary of £210,000 per annum. GKP shall make a contribution of 15% of Mr Zahawi's base salary into a pension scheme designated by Mr Zahawi.

### *John Stafford*

John Stafford is employed by GKP (UK) Ltd to act as Vice President of Operations and his terms and conditions are set out in an agreement dated 9 February 2009 and is terminable on three months' written notice on either side, save that his employment will automatically terminate upon Mr Stafford reaching his 65th birthday. Mr Stafford is entitled to a salary of £180,000 per annum. He is entitled to participate in a stakeholder pension plan to which no contribution is made by the Group and private medical insurance.

Save as disclosed above, there are no existing or proposed service agreements between any of the Directors and the Group providing for benefits upon termination of employment.

## **9 Summary of remuneration and benefits**

A summary of the amount of remuneration paid by the Group to the Directors and Senior Managers (including any contingent or deferred compensation) and benefits in kind for the financial year ended 31 December 2015 for their services, in all capabilities, to the Group is set out below:

Name	Basic Salary (US\$000)	Pension Allowance (US\$000)	Directors' Fees (US\$000)	Benefit in kind Health Care (US\$000)	Allowances (US\$000)	Share bonus (US\$000)	Cash bonus (US\$000)	Total (US\$000)
Philip Dimmock	—	—	209	—	—	—	—	209
Cuth McDowell <sup>(1)</sup>	—	—	7	—	—	—	—	7
Keith Lough <sup>(1)</sup>	—	—	8	—	—	—	—	8
Jón Ferrier <sup>(2)</sup>	406	61	—	—	23	—	313	803
Sami Zouari <sup>(3)</sup>	505	76	—	—	—	—	489	1070
Tony Peart	535	80	—	4	—	—	153	772
Umur Eminkahyagil	421	—	—	23	—	—	126	570
Mohamed Messaoudi	96	—	—	—	—	—	—	96
Nadhim Zahawi <sup>(4)</sup>	150	22	—	—	—	—	120	292
John Stafford	316	41	—	4	—	—	153	514

(1) Cuth McDowell and Keith Lough were appointed as Directors on 8 December 2015

(2) Jon Ferrier was appointed as CEO on 5 June 2015 and as a Director on 8 December 2015

(3) Sami Zouari was appointed as a Director and as CFO on 22 January 2015

(4) Nadhim Zahawi was appointed as Chief Strategy Officer on 15 July 2015

## **10 Pension arrangements**

The Group does not provide pension, retirement or similar benefits to the Directors or Senior Managers.

## **11 Options and Incentives**

The Company has the following share-based incentive schemes for the purposes of rewarding its executives and employees and aligning their interests with those of the Company:

### **11.1 Share Option Plan**

The Board adopted the Share Option Plan on 20 August 2004, which was amended in April 2006, July 2006 and September 2012, under which options may be granted to eligible participants. Under the rules of the Share Option Plan, the following provisions apply:

- the Board may select from time to time in its absolute discretion any persons who are at the intended date of grant eligible participants, being any director or employee of the Company (or any company under its control) or any other individual

providing services to the Company (or any company under its control) under any arrangements, and grant options to them subject to the rules and any necessary approval of the Bermuda Monetary Authority;

- (b) the number of options which may be granted (excluding options which have lapsed or been surrendered) shall not exceed 10% of the issued share capital of the Company from time to time;
- (c) the exercise period runs from the date of grant of an option and ends on the day prior to the 10th anniversary of the date of grant;
- (d) the price at which each share subject to an option may be acquired on exercise shall be not less than the higher of the nominal value of the share and the market value of the shares;
- (e) the exercise of an option shall, save in certain circumstances, be subject to the satisfaction of performance conditions which the Board shall specify at the date of grant;
- (f) it is a condition of a grant of the option that the option holder agrees to indemnify the Company for any income tax and/or national insurance contributions (or equivalent charges which may arise in territories other than the UK) on the grant, exercise, disposal or release of an option and that the option holder enters into a deed of indemnity relating thereto;
- (g) each option shall be exercisable only by the option holder to whom it was granted (or his personal representative) and may not be transferred, assigned or charged and any purported transfer, assignment or charge shall result in the option lapsing;
- (h) if an option holder dies, then the unvested option may be exercised within the period ending on the earlier of the expiry of the period of 12 months after the date of death and the expiry of the exercise period. If an option holder ceases to be engaged by the Company, then any option not exercised by the time of such cessation shall remain exercisable until the expiry of the exercise period unless, within three months of cessation of employment, the Board in its absolute discretion shall determine that the option shall (in whole or in part) cease to be exercisable on a specified date within the exercise period;
- (i) in the event of a takeover or winding-up of the Company or the making of one or more agreements for an acquisition of the share capital of the Company or there is a court sanctioned compromise or arrangement which, in either case, would give rise to a change of control of the Company, or in the event an unconditional agreement is entered into for the sale of the whole of the business or assets of the Company, the option holders may be allowed to exercise their options notwithstanding any performance conditions, but such exercise must be effected within a certain time period;
- (j) in the event of a capitalisation or rights issue or sub-division or consolidation or reduction or otherwise, the Board (with confirmation from the auditors that it is just and reasonable) may make appropriate adjustments to the number of shares under option and the price at which shares may be acquired on exercise;
- (k) the Board may make alterations to the rules which it thinks fit, save for any change to the plan limit. However, no alteration can be made which would materially increase the liability of any option holder or materially decrease the value of subsisting rights attached to any option without the option holder's prior consent, save where such alteration is necessary to comply with or to take account of any applicable legislation or maintain favourable tax treatment for the Company;
- (l) participation in the Share Option Plan by an option holder shall not form part of his entitlement to remuneration or benefit pursuant to his contract of employment; and
- (m) shares issued on exercise of the options shall rank *pari passu* with the Common Shares from the date of exercise.

As at the Last Practicable Date, the following options are currently outstanding under the Share Option Plan:

<b>Award Description</b>	<b>No. of Common Shares under Share Option Plan</b>	<b>Grant Date</b>	<b>Expiry Date</b>	<b>Exercise Price</b>	<b>% of share capital</b>
New Joiner Options	1,100,000	14/02/2008	13/02/2018	30	0.11
New Joiner Options	2,000,000	25/09/2008	09/07/2018	30	0.19
New Joiner Options	6,250	25/09/2008	24/09/2018	30	n/a
New Joiner Options	1,344,500	16/03/2009	31/12/2018	30	0.13
New Joiner Options	250,000	16/03/2009	15/03/2019	30	0.02
New Joiner Options	1,000,000	31/07/2009	30/07/2019	30	0.1
New Joiner Options	1,500,000	22/01/2015	23/01/2022	55	0.15
2009 LTIP Options	1,627,746	25/06/2010	09/07/2018	75	0.16
New Joiner Options	13,998,610	25/06/2010	23/06/2020	75	1.36
New Joiner Options	250,000	25/04/2014	24/04/2024	99.75	0.02
New Joiner Options	550,000	20/06/2011	19/06/2021	146.25	0.05
New Joiner Options	250,000	08/07/2011	07/07/2021	146.25	0.02
New Joiner Options	250,000	15/07/2011	14/07/2021	146.25	0.02
New Joiner Options	500,000	22/07/2011	21/07/2021	146.25	0.05
New Joiner Options	250,000	27/10/2011	26/10/2021	146.25	0.02
New Joiner Options	250,000	23/09/2010	22/09/2020	147.5	0.02
New Joiner Options	250,000	20/09/2011	19/09/2021	152.5	0.02
New Joiner Options	250,000	09/07/2013	08/07/2023	158.75	0.02
New Joiner Options	250,000	11/10/2010	06/02/2021	175	0.02
2010 LTIP Options	9,440,000	07/02/2011	06/02/2021	175	0.91
New Joiner Options	400,000	21/03/2012	20/03/2022	194.5	0.04
New Joiner Options	250,000	21/03/2012	25/11/2021	250	0.02
	<b>35,967,106</b>				

## 11.2 *Executive Bonus Scheme*

- (a) The Remuneration Committee has discretion to recommend to the Board that awards of bonus shares are made to employees, officers and directors of the Company (or any company under its control) pursuant to the Executive Bonus Scheme. The awards are in the form of bonus awards of Common Shares. Membership of the Executive Bonus Scheme is by invitation and is reserved for senior staff.
- (b) Bonus share awards are made at no cost to the participants (either when the award is made or on any subsequent vesting).
- (c) Awards under the Executive Bonus Scheme are made to reward participants for their performance in the previous financial year. The Remuneration Committee review corporate performance against budget and plans each year to set the size of the bonus pot.
- (d) Any bonus award is expressed in monetary value but is generally payable in Common Shares. One third of the shares may be issued to the eligible participants immediately on award. A further one third will not, subject as noted below, become available to the participants until the financial year following the award and the final one third until the second financial year after the award. Vesting is subject to: (i) the eligible participant remaining an employee, officer or director of the Company (or of any company under its control) and (ii) the discretion of the board.
- (e) The second and third tranches of the bonus award shares will vest (if not already vested) on the first to occur of:
  - (i) a change of control of the Company;
  - (ii) a person becoming bound or entitled to acquire the Common Shares in circumstances which are equivalent to those set out under sections 979 to 982 of the 2006 Act (squeeze out provisions);

- (iii) a court sanctioning a compromise or arrangement in connection with a reconstruction of the Company or its amalgamation with any other company or companies;
  - (iv) an unconditional agreement being entered into for the sale of the whole or a substantial proportion of the business or assets of the Company; and
  - (v) a winding-up of the Company.
- (f) Any unvested bonus award shares lapse on the 10th anniversary of the date of award.
  - (g) If a participant dies before a bonus award (or part of a bonus award) has vested, his personal representative may receive the bonus shares so long as: (i) the personal representative notifies the Company within 12 months of the date of death that they wish the bonus shares to be released to them and (ii) the participant was an employee, officer or director of the company at the date of their death.
  - (h) No rights under the Executive Bonus Scheme may be transferred, assigned or charged and any purported transfer, assignment or charge shall result in the option lapsing.
  - (i) Any rights pursuant to the Executive Bonus Scheme shall not form part of the participant's entitlement to remuneration or benefit pursuant to his contract of employment.
  - (j) The participant agrees to indemnify the Company for any income tax and/or national insurance contributions (or equivalent charges which may arise in territories other than the UK) on the release or vesting of Common Shares pursuant to the Executive Bonus Scheme.
  - (k) If the participant ceases to be an eligible participant (other than on death), then his rights will not lapse as a result of the cessation (but may lapse for any of the other reasons specified under the Executive Bonus Scheme), but the Board can exercise its discretion within three months of the date of cessation to determine that the participant's rights under the Executive Bonus Scheme cease in whole or in part on a specified date.

As at the Last Practicable Date all bonus award shares under the Executive Bonus Scheme have now vested. The vested shares have been issued and are held in the Gulf Keystone EBT. The number of Common Shares held in the Gulf Keystone EBT is 3,598,612.

### 11.3 *Exit Award Scheme*

The Company has entered into a series of share award agreements with certain Executive Directors and employees of the Company which are conditional on an exit event of the Company ("**Exit Awards**"). Appleby Nominees (Jersey) Limited have been issued and allotted 10,000,000 Common Shares to satisfy existing and future Exit Awards. The Exit Awards are granted subject to the following terms:

- (a) the Exit Awards are conditional rights to the sale proceeds of Common Shares, subject to the occurrence of a defined exit event;
- (b) no consideration is payable by the participant on the grant of an Exit Award or at a later date;
- (c) the participant will at no time become the beneficial owner of the Common Shares subject to the Exit Award and will not be entitled to any voting, dividend or other rights attaching to the Common Shares;
- (d) Exit Awards envisage a sale of the Company or a substantial proportion of its assets, i.e. more than 50%, and will vest immediately on the occurrence of an exit event;
- (e) the Exit Awards will lapse in full:
  - (i) if the participant ceases to be a director or employee of the Group for any reason other than death and the Board decides that the Exit Award should lapse; or
  - (ii) on the fifth anniversary of the date of grant of the Exit Award;



- (f) if and when the Exit Award vests, the trustee will sell all of the Common Shares subject to the Exit Award. The trustee will pay the net proceeds of such sale, together with any cash it holds from net dividends received or otherwise in respect of those Common Shares, to the participant; and
- (g) any right pursuant to the Exit Award shall not form part of the participant's entitlement to remuneration or benefit pursuant to his contract of employment.

As at the Last Practicable Date, 2,897,798 Exit Awards have been granted to employees of the Group, including the following Directors and Senior Managers:

Name	Number of Common Shares to be cash settled
Tony Peart	140,000
John Stafford	43,750
Umur Eminkahyagil	140,000

## 12 Subsidiaries, investments and principal establishments

The Company acts as the holding company of the Group. The significant Subsidiaries of the Company are as follows:

Name	Country of incorporation	Proportion of ownership interest	Principal activity
<i>Active subsidiaries</i>			
Gulf Keystone Petroleum (UK) Limited	England and Wales	100%	Geological, geophysical and engineering services and administration
Gulf Keystone Petroleum International Limited	Bermuda	100%	Exploration, evaluation, development and production activities
<i>Inactive subsidiaries</i>			
Gulf Keystone Petroleum HBH Limited	Bermuda	100%	Exploration and evaluation activities
Gulf Keystone Petroleum Numidia Limited	Bermuda	100%	Exploration and evaluation activities
Shaikan Petroleum Limited	Bermuda	100%	Exploration and evaluation activities

## 13 Material contracts

The following contracts (not being contracts entered into in the ordinary course of business): (i) are or may be material and have been entered into by members of the Group within two years immediately preceding the date of this document; or (ii) have been entered into by members of the Group at any time before the date of this document where those contracts contain provisions under which the Group has an obligation or entitlement which is or may be material to the Group as at the date of this document (including any amendments as a result of the Restructuring); or (iii) are material contracts entered into by the Group in connection with the Restructuring and the Open Offer.

### 13.1 *Material contracts that are or may be material and have been entered into by members of the Group within two years immediately preceding the date of this document*

#### *Akri-Bijeel Relinquishment Agreement*

On 31 December 2015, the KRG, Kalegran and GKPI entered into a relinquishment and termination agreement relating to the Akri-Bijeel Block and the Akri-Bijeel PSC (the "Akri-Bijeel Relinquishment"). Under the terms of the Akri-Bijeel Relinquishment, GKPI and Kalegran relinquished to the KRG their right to drill, explore and export oil and gas from the Akri-Bijeel Block. GKPI and Kalegran have assigned and transferred to the

KRG all inventory and assets they held on the Akri-Bijeel Block. Under the terms of the Akri-Bijeel Relinquishment, in connection with the amount owed by GKPI and Kalegran to the KRG for the provision of security services, GKPI and Kalegran were required to pay the KRG the amount of US\$17 million. While the KRG has released GKPI and Kalegran of their obligations under the Akri-Bijeel PSC, GKPI and Kalegran remain obligated to settle the land compensation claims of third parties. In accordance with the Akri-Bijeel Relinquishment, these claims must be settled by 1 July 2016. Under the terms of the Akri-bijeel JOA Termination Agreement dated 10 June 2016 GKPI and Kalegran have agreed a nil cost settlement between the parties.

#### ***Sheikh Adi Relinquishment Agreement***

On 16 March 2016, the KRG and GKPI entered into a relinquishment and termination agreement relating to the Sheikh Adi Block and the Sheikh Adi PSC (the “**Sheikh Adi Relinquishment**”). Under the terms of the Sheikh Adi Relinquishment, GKPI relinquished to the KRG its right to drill, explore and export oil and gas from the Sheikh Adi Block. GKPI has assigned and transferred to the KRG all inventory and assets it held on the Sheikh Adi Block. Both the KRG and GKPI have waived any claims it may have against the other under the Sheikh Adi PSC.

#### ***Placing Agreement***

Pursuant to the placing agreement (the “**Placing Agreement**”) dated 30 March 2015 between the Company, Mirabaud Securities LLP (“**Mirabaud**”) and Pareto Securities Limited (“**Pareto**”), Mirabaud and Pareto agreed to use reasonable endeavours as agents for the Company to place the Placing Shares with Placees at the Placing Price pursuant to the Placing and act as joint brokers to the Company in relation to the Placing(as defined in the Pacing Agreement) and the admission of the Placing Shares to the standard segment of the Official List and to trading on the Main Market for listed securities.

On completion of the Placing and Admission, the Company agreed to pay Mirabaud and Pareto a commission of 4% of the aggregate value at the Placing Price of the Placing Shares which was shared equally between them.

The agreement contains warranties given by the Company and indemnities from the Company in favour of Mirabaud and Pareto as to the accuracy of information contained in this document and other matters relating to the Company and its business. The liability of the Company for a breach of warranty is limited.

#### ***First Subscription Agreement***

On 13 July 2016 the Company and Capital entered into a subscription agreement under which Capital undertook to subscribe for 54,294,991 Common Shares at a subscription price of 1.09 dollar cents per Common Share. In order to put in place the Restructuring, the Company and its advisors engaged in a series of negotiations and discussions with key stakeholders, pursuant to which Capital entered into the First Subscription Agreement as part of their support for the overall Restructuring, by subscribing for Common Shares under the First Subscription Agreement and agreeing to subscribe for up to US\$20 million of New Common Shares pursuant to the Open Offer as an underwrite, and providing additional support for the passing of the Resolution.

#### ***Irrevocable Undertaking***

On 13 July 2016 the Company and Capital entered into an irrevocable undertaking whereby Capital irrevocably undertook to vote its interest in Common Shares, together with any other Common Shares of which Capital may become the beneficial owner or registered owner in favour of the Resolution.

13.2 *Material contracts that have been entered into by members of the Group at any time before the date of this document where those contracts contain provisions under which the Group has an obligation or entitlement which is or may be material to the Group as at the date of this document (including any amendments as a result of the Restructuring)*

**Shaikan PSC**

The Shaikan PSC in respect of the Shaikan Block between (1) the KRG, (2) GKPI, (3) Texas and (4) MOL (GKPI, Texas and MOL being the “**Shaikan Contractors**”) became effective on 6 November 2007 and was amended pursuant to the First Shaikan Amendment on 1 August 2010. It is the intention of the MNR and GKPI that, subject to the execution of the Second Shaikan Amendment the Shaikan PSC will be further amended to implement the relevant terms of the Bilateral MNR Agreement.

Pursuant to the terms of the Shaikan PSC, the Shaikan Contractors have been granted exclusive right and authority to conduct exploration, gas marketing, development, production and decommissioning operations in respect of petroleum in the Shaikan Block. The term of the Shaikan PSC comprises an exploration period of up to seven years and, in the event a discovery is made by the Shaikan Contractors during the exploration period, up to four additional years for exploration and gas marketing activities and/or a development period of up to 30 years for a Commercial Discovery in respect of: (i) crude oil and associated natural gas; or (ii) non-associated natural gas.

The exploration period may be further extended for two additional one-year periods if the Shaikan Contractors consider that either: (i) additional work is required prior to submitting an appraisal work programme or budget in respect of a discovery or declaring a Commercial Discovery; or (ii) they have not completed their exploration evaluation of the Shaikan Block, provided that the Shaikan Contractors have satisfied certain minimum exploration and/or work obligations, as applicable. If a discovery is made during such seven-year period but the Shaikan Contractors require additional time to complete the gas marketing operations necessary to declare the discovery a Commercial Discovery, the exploration period may be extended for up to two additional two-year periods.

A Commercial Discovery was announced by the Company in August 2012, therefore the Shaikan Contractors have the exclusive right to develop and produce such Commercial Discovery for a period of 20 years from the date of such Commercial Discovery, with an automatic right to extend for an additional period of five years. The right to develop a Commercial Discovery for up to 25 years following the date of the discovery is a separate right in respect of: (i) crude oil and associated natural gas; and (ii) non-associated natural gas. If, following the expiration of a development period, the Shaikan Contractors consider that commercial production in respect of a particular production area is still possible, it may request to extend the applicable development period for an additional five years.

In accordance with the Shaikan PSC upon declaring a Commercial Discovery, the Shaikan Contractors must submit a proposed Shaikan FDP to the management committee within 180 days of the Commercial Discovery. The KRG is deemed to approve the Shaikan FDP, provided its representatives on the management committee provide written approval. The management committee should use their best efforts to approve the Shaikan FDP within 60 days of receipt; if approval takes over 60 days to approve, the development period will be extended by such number of days. The KRG may request an amendment to the Shaikan FDP and the management committee has an obligation to discuss such amendment within 60 days of receipt.

The Shaikan FDP was approved on 25 June 2013. As a consequence of continued production and pressure data gathering the Company has been able to revise its field development plan appreciating the optimum recovery drive mechanism and reducing well count. An updated draft of the Shaikan FDP based on these revisions, which includes a production target of 110,000 bopd and the development of the Jurassic reservoirs, was submitted to the MNR for approval in December 2015. In parallel, the bridge to the Shaikan FDP (a potential move to increase production to 55,000 bopd in the event that additional funding is available), was approved by MOL and the MNR.

The Shaikan Contractors are required to prepare and submit a proposed work programme and budget for development (the “**Shaikan Work Program**”) within 90 days of the approval of the Shaikan FDP, and this should thereafter be updated on 1 October of each

calendar year. The KRG may request an amendment to the Shaikan Work Program, and the management committee has an obligation to discuss such amendment within 60 days of receipt. The Shaikan Work Program and Budget for the period to 31 December 2016 was approved on 19 January 2016 following an earlier Operator Committee meeting in December. The budget was presented to the Shaikan Management Committee on the 15th December 2015. The signed Management Committee minutes were received on 27th July 2016. The Shaikan Contractors are authorised to incur expenditures not budgeted in the Shaikan Work Program, provided it does not exceed 10% of the approved Shaikan Work Program budget, and provided such expenditure is reported as soon as reasonably practicable to the management committee. Such excess will be treated as petroleum costs, except if it exceeds 10%, in which case the Shaikan Contractors will only be able to recover such excess if approved by the management committee.

Prior to the Second Shaikan Amendment, under the terms of the Shaikan PSC, the KRG has the option (the “**Shaikan Government Option**”) to participate through a public company duly registered and incorporated in Kurdistan and regulated by the KRG under the Kurdistan Oil and Gas Law in an undivided interest in the petroleum operations (and all other rights, obligations and liabilities of the Shaikan Contractors) of the Shaikan Block as a component of the Shaikan Contractors (a “**Shaikan Contractor Entity**”). The Shaikan Government Option is over an interest of between 5 and 20% and (subject to such extension as may be agreed by the parties) within 180 days of the first Commercial Discovery being declared. In addition to the Shaikan Government Option, the KRG has the option to nominate a third party as a Shaikan Contractor Entity to have an undivided interest in the petroleum operations of the Shaikan Block (the “**Shaikan Third Party Option**”) of between 5 and 15%. As noted above, pursuant to the Second Shaikan Amendment the Shaikan Government Option will be formally exercised upon execution of the Second Shaikan Amendment and the implementation of the First Shaikan Amendment formally recognised .

Pursuant to the terms of the Shaikan PSC, the KRG is entitled to a royalty of 10% for export crude oil and export non-associated natural gas. For the first year following production, the Shaikan Contractors are entitled to a 30% share in Profit Crude Oil and a 35% share in Profit Natural Gas, following which the Shaikan Contractor’s share of Profit Crude Oil will range between 15 and 30% and its share in Profit Natural Gas will range between 18 and 35%, which range is determined with reference to the cumulative revenues actually received and the cumulative costs actually incurred by the Shaikan Contractors up to and including the last day of the preceding period of six consecutive months starting from the first day of January or July, respectively. The KRG was entitled to the revenues accruing from the sale of 40% of GKPI’s entitlement to the Profit Petroleum, but this has been reduced to 30% of GKPI’s entitlements to the Profit Petroleum pursuant to the terms of the Bilateral MNR Agreement and will be formally recognised under the terms of the Second Shaikan Amendment.

In connection with the signing of the Shaikan PSC, the Shaikan Contractors paid the KRG a signing bonus of US\$10 million and a capacity building bonus of US\$15 million. In addition, the Shaikan Contractors are obliged to pay the KRG the following production bonuses: US\$2.5 million upon the first production of crude oil or non-associated natural gas from the Shaikan Block following a Commercial Discovery and further payments of US\$5, 10 and 20 million upon reaching cumulative production targets of 10, 25 and 50 million barrels of crude oil or 10, 25 and 50 mmboe of non-associated natural gas from a Commercial Discovery from the Shaikan Block, respectively. The Shaikan Contractors are permitted to recover costs equal to up to 40% of export crude oil produced and saved from the Shaikan Block and associated natural gas (less, amongst other things, gas used for petroleum operations), and equal to up to 50% of export non-associated natural gas. The following expenses are recoverable as petroleum costs by the Shaikan Contractors: an exploration rental fee of US\$10/km<sup>2</sup> per year during the exploration period; a production rental fee of US\$100/km<sup>2</sup> per year after commercial production; a recruitment or secondment of personnel fund of up to US\$150,000 for the first three contract years; a training plan fund in Kurdistan of US\$150,000 per year during the exploration period and US\$300,000 per year during the development period; US\$100,000 per year during the

exploration period and US\$200,000 per year during the development period towards the KRG's environment fund; and costs associated with the technological and logistical assistance provided during the first year of the Shaikan PSC up to US\$1 million.

The Shaikan PSC is governed by English law and the parties to the Shaikan PSC have agreed all disputes will be settled through arbitration in accordance with the rules of the London Court of International Arbitration. The Shaikan Contractors may sell, assign, transfer or dispose of all or part of their rights, obligations and interests in the Shaikan PSC with the prior written approval of the KRG and must notify and obtain the consent of the KRG in respect of any change of control, other than to an affiliated company of the Shaikan Contractors. The Shaikan PSC could also be terminated by the KRG if, among other things, the Shaikan Contractors fail to meet their contractual obligations under the terms of the Shaikan PSC.

#### ***Bilateral MNR Agreement***

The Bilateral MNR Agreement was entered into on 16 March 2016 by MNR and GKPI (and thus binds these two parties alone). It has two principal purposes, namely to:

1. record the agreement and mutual understanding of MNR and GKPI in relation to certain aspects of the Shaikan PSC, including (*inter alia*):
  - (a) MNR's approval of the proposed assignment and transfer to GKPI of the entire 5% participating interest in the Shaikan PSC currently held by Texas;
  - (b) MNR and GKPI's intention to implement the Shaikan Third Party Option so that (i) a 7.5% participating interest in the Shaikan PSC in aggregate shall be allocated in favour of GKPI, MOL and Texas *pro rata* to their respective participating interests; and (ii) a 7.5% carried interest in the Shaikan PSC shall be allocated to MNR;
  - (c) MNR and GKPI's intention, subject to the satisfaction of certain conditions (including the payment by MNR of certain Capex, opex and other back-costs attributable to its Shaikan Government Option) to recognise the allocation to MNR of the Shaikan Government Option with effect from 1 August 2012;
  - (d) the basis in due course for (i) the calculation; and (ii) payment on a monthly basis until satisfied in full, of the back-costs referred to in sub-paragraph 2(c) above;
  - (e) the reduction in the capacity building value charge to be paid per month by GKPI under the Shaikan PSC from 40% to 30% of sales of GKPI's Profit Petroleum (as defined in the Shaikan PSC); and
  - (f) the commitment of each of MNR and GKPI to enter into the Second Shaikan Amendment for the purposes of giving effect to each of the objectives listed at sub-paragraph 2 (a) through to 2 (e) above; and
2. finalise the terms of relinquishment and termination by the Group of its rights and obligations under the Sheikh Adi PSC, which has been completed in accordance with the executed Relinquishment and Termination Agreement attached to the Bilateral MNR Agreement.

#### ***Guaranteed Notes***

On 17 April 2014 (the "**Issue Date**"), the Company issued (a) US\$250,000,000 Guaranteed Notes due 2017 ("**Guaranteed Notes**") pursuant to a trust deed (the "**Guaranteed Note Trust Deed**") between the Company, GKPI and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Guaranteed Note Trustee**") and (b) freely tradeable and detachable warrants relating to 40 million Common Shares in the Company ("**Warrants**"). The Company entered into supplements to the Guaranteed Note Trust Deed on 7 April 2015, 21 May 2015 and 15 June 2015 in connection with the consent solicitation process described at "*Operating and Financial Review – Financing – Guaranteed Notes due 2017*".

The principal terms of the Guaranteed Notes are as follows:

- (a) the Guaranteed Notes are guaranteed by GKPI;
- (b) the Guaranteed Notes are secured by a share mortgage over the Company's shares in GKPI (the "**Share Mortgage**");



- (c) the Guaranteed Notes carry a coupon of 13% per annum, and interest is payable on 18 April and 18 October each year, beginning on 18 October 2014;
- (d) the maturity date of the Guaranteed Notes is 18 April 2017;
- (e) the Guaranteed Notes can be redeemed at a redemption price of 103.25% from 18 April 2016; and 100% from 18 October 2016;
- (f) in the event of a change of control, there is a put option at 101% of principal plus accrued and unpaid interest;
- (g) in the event of certain sales of all or part of the Group's interest in the Shaikan Block, there is a put option at the relevant redemption price described at (e) above;
- (h) the terms and conditions of the Guaranteed Notes contain covenants restricting the ability of the Company and GKPI to, among other things, incur additional debt, grant security interests to third persons, dispose of material assets, undertake organisational measures such as mergers, changes of corporate form, joint ventures or similar transactions and enter into transactions with related parties;
- (i) the guarantee granted by GKPI will be released in certain circumstances, including (i) in connection with any sale or other disposition of all or substantially all of the assets of GKPI, and (ii) in connection with any sale or other disposition of capital stock of GKPI, in each case to a person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary (as defined in the Guaranteed Note Trust Deed) of the Company and provided the transaction does not violate the provisions of the Guaranteed Note Trust Deed regarding asset sales;
- (j) the Guaranteed Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's Euro MTF Market; and
- (k) the Guaranteed Notes are governed by English law.

If the Restructuring is consummated, the entire aggregate principal amount of the Guaranteed Notes will be cancelled pursuant to the Debt Equitisation.

The principal terms of the Warrants are as follows:

- (a) 40 million Warrants were issued by the Company at an initial exercise price of US\$169.907 cents (which is 102.3535 pence at an exchange rate of US\$1.66 per £1.00 based on the Bloomberg Composite Rate on 7 April 2014);
- (b) there are 32,000 Warrants per Note, each with a duration of 36 months;
- (c) the Warrants are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's Euro MTF Market;
- (d) the Warrants expire on 18 April 2017; and
- (e) the Warrants are registered, and governed by English law.

#### ***Convertible Bonds***

On 18 October 2012, the Company issued US\$275 million Convertible Bonds due 2017 pursuant to a trust deed (the "**Convertible Bond Trust Deed**") among the Company and BNP Paribas Trust Corporation UK Limited as trustee (the "**Convertible Bond Trustee**"). On 6 November 2013, the Company executed a supplemental trust deed to the Convertible Bond Trust Deed pursuant to which it issued a further US\$50 million of Convertible Bonds, which were consolidated with the Convertible Bonds issued in 2012 to form a single series of Convertible Bonds. The Convertible Trust Deed was further amended on 15 June 2015 in connection with the consent solicitation process described at "*Operating and Financial Review – Financing – Guaranteed Notes due 2017*".

The principal terms of the Convertible Bonds are as follows:

- (a) each Convertible Bond may be converted by the holder thereof into Common Shares at the prevailing USD:GBP spot rate at the time of pricing;
- (b) the Convertible Bonds are secured by a share mortgage over the Company's shares in GKPI;
- (c) the Convertible Bonds may be converted at any time until 18 October 2017;

- (d) the Convertible Bonds can be purchased, cancelled or redeemed by the Company;
- (e) unless previously purchased and cancelled, redeemed or converted, the Convertible Bonds will be redeemed on 18 October 2017 (the “**Convertible Bond Maturity Date**”);
- (f) the Company may be obliged to redeem all or some of the Convertible Bonds at the option of the bondholders upon the occurrence of a change of control;
- (g) the Convertible Bonds are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange’s Euro MTF Market;
- (h) the Convertible Bonds carry a coupon of 6.25% per annum payable semi-annually in arrears on 18 April and 18 October in each year up to and including the Convertible Bond Maturity Date;
- (i) the Common Shares issued on conversion of the Convertible Bonds will rank for all dividends or other distributions declared after the conversion date but not before such date and otherwise *pari passu* in all respects with the Common Shares in issue on the date of such conversion;
- (j) the Convertible Bond Trust Deed contains provisions for the appropriate adjustment of the number of Common Shares issued on exercise of the Bonds or the adjustment of the subscription price upon, *inter alia*, consolidation, reclassification or sub-division of the Common Shares, the payment of a dividend to Shareholders, a change of control or the issue or grant of any option, warrant or other rights to subscribe for or purchase or otherwise acquire Common Shares;
- (k) the rights and privileges of the Convertible Holders may be altered by the Trustee if such amendment, in the opinion of the Trustee, is not materially prejudicial to the interests of the Convertible Holders, otherwise any amendments must be agreed by an extraordinary resolution, being the consent in writing by not less than 75% of the aggregate principal amount of Bonds outstanding or 75% of the aggregate principal amount of the Bonds outstanding of the votes cast by those Convertible Bondholders present at a quorate meeting of Convertible Holders;
- (l) the Convertible Bonds are freely transferable; and
- (m) the conversion of the Convertible Bonds would result, subject to any adjustments, in the allotment and issue of 78,226,895 Common Shares, based on a conversion rate of US\$4.15 as at the Last Practicable Date.

If the Restructuring is consummated, the entire aggregate principal amount of Convertible Bonds will be cancelled pursuant to the Debt Equitisation as described in this Part 17.

### ***Share Mortgage***

On 15 June 2015 the Company entered into a share mortgage with BNP Paribas Trust Corporation UK Limited as security agent (the “**Security Agent**”) pursuant to which the Company charged to the Security Agent by way of first equitable mortgage all of its shares in GKPI and, by way of first fixed charge, all related rights to dividends and other distributions in relation to such shares. The Share Mortgage is subject to the terms of the Intercreditor Agreement described below and secures the liabilities of the Company and GKPI, as applicable, under and in connection with the Guaranteed Note Trust Deed, the Guaranteed Notes, the Convertible Bond Trust Deed and the Convertible Bonds.

The Share Mortgage is governed by Bermuda law. If the Restructuring is consummated, the Share Mortgage will be released. If the Restructuring is not consummated, the Share Mortgage will remain in place and enforceable by the Security Agent in accordance with its terms and the terms of the Intercreditor Agreement described below.

### ***Intercreditor Agreement***

On 15 June 2015 the Company entered into an intercreditor agreement (the “**Intercreditor Agreement**”) with BNY Mellon Corporate Trustee Services Limited, as Guaranteed Note Trustee, BNP Paribas Trust Corporation UK Limited, as Convertible Bond Trustee, and BNP Paribas Trust Corporation UK Limited as security agent (the “**Security Agent**”). The Intercreditor Agreement sets out the terms on which the Share Mortgage may be enforced and the treatment of proceeds from enforcement of the Share Mortgage.

Under the Intercreditor Agreement, prior to taking action to enforce the security created by the Share Mortgage, the Security Agent must receive from the Guaranteed Note Trustee a written instruction from which has been approved by (i) Guaranteed Noteholders holding not less than 50% of the principal amount of the Guaranteed Notes or (ii) an extraordinary resolution passed at a Guaranteed Noteholders' meeting, in each case with respect to the enforcement of the Share Mortgage. Subject to the rights of any creditor with prior security or preferential claims, the proceeds of enforcement of the Share Mortgage shall be paid to the Security Agent and shall be applied in the following order:

- (i) first, in or towards payment of any liabilities owing to the Security Agent and any receiver or delegate appointed pursuant to the Intercreditor Agreement;
- (ii) second, on a *pari passu* and *pro rata* basis in accordance with the respective amounts then owing thereto, in or towards payment of any fees, costs and expenses of the Guaranteed Note Trustee and the Convertible Bond Trustee incurred in connection with such enforcement;
- (iii) third, on a *pari passu* and *pro rata* basis (based on the Guaranteed Note debt and Convertible Bond debt then due and payable at the time of such distribution as certified by the Guaranteed Note Trustee and the Convertible Bond Trustee, respectively), in payment to the Guaranteed Note Trustee and the Convertible Bond Trustee for application towards the Guaranteed Note debt in accordance with the Guaranteed Note Trust Deed and Convertible Bond debt in accordance with the Convertible Bond Trust Deed; and
- (iv) fourth, the payment of the surplus (if any) to the Company.

Pursuant to the Intercreditor Agreement, subject to the Security Agent having received requisite certificates from the Company or Guaranteed Note Trustee, the Security Agent shall, upon the instruction of the Guaranteed Note Trustee, release the security created by the Share Mortgage:

- (i) upon the release of the Company from its guarantee of the Guaranteed Notes pursuant to the terms and conditions thereof;
- (ii) upon the liquidation or dissolution of the Company; provided no default or event of default has occurred or is continuing under the Guaranteed Note Trust Deed;
- (iii) upon modification or waiver of the conditions to release such Security made in accordance with the terms and conditions of the Guaranteed Notes;
- (iv) upon repayment in full of the Guaranteed Notes; or
- (v) where the Guaranteed Note Trustee considers it is necessary or desirable to do so in connection with an enforcement of the Share Mortgage.

In addition, subject to the Security Agent having received requisite certificates from the Company, the Security Agent shall release the security created by the Share Mortgage in the following circumstances:

- (i) in connection with any sale or other disposition of all or substantially all of the assets of the Company (including by way of merger, amalgamation or consolidation) to a person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary (as defined in the Guaranteed Note Trust Deed) of the Company, where such sale or other disposition does not violate the provisions of condition 4.4 of the Guaranteed Note terms and conditions;
- (ii) in connection with any sale or other disposition of capital stock of the Company (whether by direct sale or through a holding company) to a person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary (as defined in the Guaranteed Note Trust Deed) of the Company, if the sale or other disposition does not violate the provisions of condition 4.4 of the Guaranteed Note terms and conditions; or
- (iii) in connection with the merger, amalgamation or consolidation of the Company pursuant to condition 4.8.2 of the Guaranteed Note terms and conditions, provided that the Company grants a share mortgage over all of the issued common shares in the share capital of the Successor Guarantor (as defined in the Guaranteed Note

Trust Deed) (if any) on the same terms as the Share Mortgage simultaneously with such release in accordance with condition 4.8.6 of the Guaranteed Note terms and conditions.

The Security Agent shall also release the security created by the Share Mortgage in connection with a sale or disposal of all or substantially all of the capital stock of the Company by an insolvency officer appointed to the Company in Bermuda or the United Kingdom, if so requested by such insolvency officer.

The Intercreditor Agreement is governed by the laws of England and Wales.

If the Restructuring is consummated, the Intercreditor Agreement will be cancelled. If the Restructuring is not consummated, the Intercreditor Agreement will remain in place and will continue to govern the terms on which the Share Mortgage may be enforced and the treatment of proceeds from enforcement of the Share Mortgage.

#### ***Power of Attorney***

On 15 June 2015, the Company granted a power of attorney (the “**PoA**”) in favour of the Security Agent whereby the Company appointed the Security Agent to be its attorney, subject to and conditional upon the occurrence of an event of default under the Guaranteed Note Trust Deed (which in case of a certain events of default contested in good faith by the Company has been determined by an English court without prejudice to the injunctive and other rights and the Company’s right to appeal and other rights) (a “**Relevant Event of Default**”), to exercise all of the Company’s powers as a member of GKPI (a) to convene and/or requisition a meeting of the members of GKPI for the sole purpose of removing existing directors of GKPI and appointing new directors, (b) to nominate new directors of GKPI, (c) to appoint a corporate representative and/or proxy for such meeting, (d) to exercise the votes of the Company at such meeting and (e) to execute certain relevant documents in connection therewith.

The Power of Attorney is governed by Bermuda law. If the Restructuring is consummated, the Power of Attorney will be cancelled.

#### ***Deed of Subordination***

On 17 April 2014, the Company and GKPI entered into a deed of subordination (the “**Deed of Subordination**”) whereby the payment of interest on or repayment of any intercompany indebtedness (other than Subordinated Guarantor Funding (as defined in the Guaranteed Note Trust Deed)) owed or owing by GKPI to the Company from time to time is: (i) subordinated in a winding-up, insolvency or other bankruptcy proceedings of GKPI to the prior payment in full in cash of all amounts due and payable on or under GKPI’s guarantee of the Guaranteed Notes which would be or become due and payable to the Guaranteed Noteholders or the Guaranteed Note Trustee in such winding-up or other bankruptcy proceedings; and (ii) subordinated in preference of payment in respect of any amounts which will become due and payable within 30 days with respect to the Guaranteed Notes and/or the Guaranteed Notes Trust Deed, except to the extent that payment on or repayment of such intercompany indebtedness is required in the ordinary course of business in order that the Company remains able to fund its business operations and any payments which the Company is obliged to make for GKPI or the Company to remain a going concern.

In addition, pursuant to the Deed of Subordination the Company and GKPI agreed that the payment of interest on or repayment of any intercompany indebtedness owed or owing by the Company to GKPI from time to time is: (i) subordinated in a winding-up, insolvency or other bankruptcy proceedings of the Company to the prior payment in full in cash of all amounts due and payable on or under the Guaranteed Notes and/or the Guaranteed Notes Trust Deed which would be or become due and payable to the Guaranteed Noteholders or the Guaranteed Note Trustee in such winding-up or other bankruptcy proceedings; and (ii) subordinated in preference of payment in respect of any amounts which will become due and payable within 30 days with respect to the Guaranteed Notes and/or the Guaranteed Notes Trust Deed, except to the extent that payment on or repayment of such intercompany indebtedness is required in the ordinary

course of business in order that GKPI remains able to fund its business operations and any payments which GKPI is obliged to make for the Company or GKPI to remain a going concern.

The Deed of Subordination is governed by the laws of England and Wales.

### **13.3 *Material contracts entered into or to be entered into by the Group in connection with the Restructuring and the Open Offer***

#### ***Restructuring Agreement***

On 14 July 2016 GKP, GKPI and members of the Committee entered into the Restructuring Agreement under the terms of which the signatories have agreed, *inter alia*, to (i) forbear from taking any action to enforce the terms of the Guaranteed Notes and/or the Convertible Bonds, as applicable, (ii) support and take reasonable and necessary actions (that are consistent with the Restructuring Agreement and the Restructuring) and refrain from taking certain other actions (that would be inconsistent with the Restructuring Agreement and the Restructuring) in accordance with such rights as they may have under or in respect of the Guaranteed Notes and/or the Convertible Bonds, as applicable, in furtherance of implementation and consummation of the Restructuring, and (iii) vote in favour of the Scheme at the relevant Scheme Meeting(s). Additional Convertible Bondholders and Guaranteed Noteholders may accede to the Restructuring Agreement and become Participating Holders.

The Restructuring Agreement will terminate on 14 October 2016, provided that it may be extended in certain circumstances to a date not later than 15 December 2016, and provided further that with the consent of each party to the Restructuring Agreement other than GKP and GKPI, the termination date may be extended further. The Restructuring Agreement may be terminated by the Company and/or the Guaranteed Noteholders and Convertible Bondholders in certain circumstances.

The Restructuring Agreement may be terminated early for cause including if there is a material breach or if certain steps in connection with the Restructuring have not been achieved by certain pre-set dates, if the Company or GKPI become insolvent, there is a material adverse change or a change of control. The Restructuring Agreement may also be terminated if there is a new default under the Guaranteed Notes or the Convertible Bonds declared by the holders of 25% of the Guaranteed Notes or the Convertible Bonds as the case may be.

#### ***Second Subscription Agreement***

On 13 July 2016 the Company and Capital entered into a conditional subscription agreement, under which Capital undertook to subscribe, at a subscription price per New Common Share as is equal to the Offer Price, for such number of New Common Shares as is equal to the lower of:

- US\$ 20 million / Offer Price; or
- (US\$ 20 million – A) / Offer Price

Where  $A = \text{Offer Price} \times \text{such number of Open Offer Shares in respect of which valid acceptances and cleared funds have been received by the Company in excess of 458,859,134 Open Offer Shares}$ , provided that if there is no such excess then the number of such shares will be zero.

The commitment contained in the Second Subscription Agreement is conditional on the Restructuring.

#### ***The Scheme***

It is intended that the Debt Equitisation and Notes Reinstatement will be effected pursuant to the Scheme, which is a process under the laws of England and Wales. If the Debt Equitisation and Notes Reinstatement are implemented pursuant to the Scheme, the Convertible Bonds and Guaranteed Notes will be cancelled and the relevant Scheme Entitlements will be issued to Scheme Creditors.

In brief, the Scheme provides for, amongst other things:

- (i) the waiver and release by Scheme Creditors of all claims under the Convertible Bonds and Guaranteed Notes; and



- (ii) the execution and delivery of documentation for the issue to Scheme Creditors of Reinstated Notes and/or New Common Shares, as applicable.

If the Scheme Effective Date occurs, the assets that will be distributed to the Scheme Creditors will be their relevant Scheme Creditor Entitlements, which shall be determined in accordance with the terms of the Scheme.

Despite any Scheme Creditor not voting on the Scheme, upon the occurrence of the Scheme Effective Date, such Scheme Creditor will remain entitled to receive its Scheme Creditor Entitlements provided that it has given certain confirmations by the relevant deadline.

If the Scheme becomes effective, each present and future holder of any Scheme Claim will be bound by the Scheme, whether or not such holder approved the Scheme, objected to the Scheme or took no action in respect of the Scheme.

The Scheme Meetings are expected to be convened for 22 September 2016, in each case at the offices of Paul Hastings (Europe) LLP at Ten Bishops Square, London E1 6EG. In order for the Restructuring to become effective, the Scheme requires the approval of both a majority in number and at least 75% in value of the Scheme Creditors present and voting (either in person or by proxy) at each Scheme Meeting.

*Conditions to the Scheme becoming effective*

The Scheme will become effective on the Scheme Effective Date. The Scheme will not become effective until the conditions precedent to the Scheme Effective Date have been fulfilled or waived.

Pursuant to the Scheme, following:

- approval by the requisite majorities of Scheme Creditors (as set out above);
- the granting by the Court of the Sanction Order sanctioning the Scheme; and
- the date of the delivery of the Sanction Order to the Registrar of Companies,

the instructions, authorisations, directions and authorities contained in the Scheme will take effect and the Reinstated Notes Trust Deed and related documents will be signed and dated. However, the Company will not deliver the Sanction Order to the Registrar of Companies unless and until all of the following conditions have been satisfied (as confirmed to the Company by a Committee Advisor) or waived:

- the Company delivering a written confirmation to the Committee Advisors that the Scheme Shares will be admitted to trading on the London Stock Exchange promptly after the Scheme Effective Date;
- prior to the Scheme Effective Date no member of the Group having entered into any bankruptcy, liquidation, administration, receivership or any other insolvency procedure (or any analogous proceeding in any other jurisdiction), whether voluntary or involuntary;
- prior to the Scheme Effective Date no enforcement or acceleration or debt recovery action having been taken by or on behalf of any of the other creditors and/or suppliers of the Company or any member of the Group under or in connection with any other indebtedness or due amounts of the Company or any member of the Group in an aggregate amount in excess of US\$10 million;
- the Company delivering a written confirmation to the Committee Advisor dated not more than two Business Days before the Scheme Effective Date confirming that it has advised the Committee of any material changes to the Capex Plan;
- the Company delivering a written confirmation to the Committee Advisor dated not more than two Business Days before the Scheme Effective Date confirming that it has not spent any Capex other than Capex relating to production maintenance;
- satisfaction that any new Board member(s) selected and approved by the Majority Participating Holders and notified to the Company prior to the Scheme Effective Date will be appointed to the Board on or promptly after the Scheme Effective Date;

- the Company having agreed arrangements with the MNR reasonably satisfactory to both it and to the Majority Participating Holders regarding (a) the implementation of the Bilateral MNR Agreement; (b) the future marketing of the Group's oil until a formal audit has been carried out; and (c) the predictability of future payments including recovery of past costs and receivables;
- payment in full of all advisory fees then due and payable to the advisers of the Ad-Hoc Committee in accordance with the terms in their respective engagement and fee letter agreed by the Company; and
- the Reinstated Notes Trust Deed has been executed and will, subject only to the occurrence of the Scheme Effective Date, be delivered and all other steps and actions required to constitute and issue the Scheme Shares and the Reinstated Notes have been completed save only to the extent that they are conditional upon the occurrence of the Scheme Effective Date as confirmed by the Company delivering a written confirmation to the Committee Advisors on or about the Scheme Effective Date.

The conditions to the effectiveness of the Scheme may be amended by further negotiation between the parties or at the request of the Court. The Majority Participating Holders may also waive any of the above conditions either with or without such conditions as they may see fit. Under its terms, the Scheme will have no operative effect and will lapse if the Company has not filed the Sanction Order before 15 December 2016.

#### ***Reinstated Notes Trust Deed***

As part of the Scheme, the Company will issue US\$100.0 million aggregate principal amount of new guaranteed notes in the Notes Reinstatement. The Reinstated Notes will be constituted by a trust deed to be entered into among the Company, GKPI and the trustee appointed in respect of the Reinstated Notes (the "**Reinstated Notes Trust Deed**").

The Reinstated Notes will be guaranteed by GKPI and their terms will be the same as the existing Guaranteed Notes, subject to the following amendments:

- Maturity: 18 October 2021. At any time prior to maturity, the Reinstated Notes are redeemable at par and can therefore be refinanced without any prepayment penalty;
- Interest: from the date of issuance to 18 October 2018, the Company will have the option to pay interest either (a) on a PIK basis at 13% or (b) in cash at 10%. From 19 October 2018 onwards, interest will be payable in cash at 10%;
- Additional debt basket: pursuant to the Super Senior Basket the Company will be permitted to raise up to US\$25 million of additional indebtedness at any time on market terms to fund capital expenditure and operating expenses post-Restructuring. This additional indebtedness may be incurred as: (i) a Tap Issuance; or (ii) super senior credit facility indebtedness ranking ahead of the Reinstated Notes;
- Certain other amendments including, *inter alia*, the removal of security (such that the Reinstated Notes will be unsecured), the removal of the Debt Service Reserve Account and the extension of the grace periods in respect of certain events of default under the Reinstated Notes.

#### **14 Statutory auditors**

The auditors of the Company for the financial years ended on 31 December 2015, 31 December 2014 and 31 December 2013 have been Deloitte LLP, chartered accountants, whose registered address is at 2 New Street Square, London EC4A 3BZ. Deloitte LLP have audited the annual consolidated financial statements for the Company which have been prepared in accordance with IFRS as adopted by the European Union.

#### **15 Working capital**

The Company is of the opinion that, taking into account the proceeds of the Restructuring, as at the date of this document the Group does not have sufficient working capital for its present requirements, that is, for at least the 12 months following the date of this document.

The Company has reviewed its working capital requirements, which it has drawn up in accordance with the ESMA guidance, in the event that: (a) the Restructuring is not implemented; and (b) the Restructuring is completed.

### ***Restructuring is not implemented***

In order for the Restructuring to be implemented it must be approved by Guaranteed Noteholders and Convertible Bondholders at the Creditor Meetings, and the Scheme must be sanctioned by the Court. The Scheme will require the consent of not less than 75% (by value), and a majority in number, of each of the Guaranteed Noteholders and Convertible Bondholders that attend and vote at each of the Creditor Meetings. In addition, there are a number of conditions that need to be satisfied, including, *inter alia*:

- the Company having confirmed that the Scheme Shares to be issued in the Debt Equitisation will be admitted to trading on the London Stock Exchange promptly after the Scheme Effective Date;
- the Company having confirmed that it has advised the Committee Advisors of any material changes to the Company's Capex Plan;
- the Company having confirmed that it has not spent any Capex other than Capex relating to production maintenance;
- satisfaction that any new Board member(s) selected and approved by the Majority Participating Holders and notified to the Company prior to the Scheme Effective Date will be appointed to the Board on or promptly after the Scheme Effective Date; and
- the Company having agreed arrangements with the MNR reasonably satisfactory to both it and to the Majority Participating Holders regarding (a) the implementation of the Bilateral MNR Agreement, (b) the future marketing of the Group's oil until a formal audit has been carried out and (c) the predictability of future payments including recovery of past costs and receivables.

If the Restructuring is not implemented:

- the Debt Equitisation will not take place and the entire principal amount of Convertible Bonds and Guaranteed Notes, together with accrued and unpaid interest, including the interest that was due on 18 April 2016, will remain outstanding;
- an event of default will be continuing under both the Convertible Bond Trust Deed and the Guaranteed Note Trust Deed unless and until the Company pays the interest amounts that were due to Convertible Bondholders and Guaranteed Noteholders on 18 April 2016. While such events of default are continuing, the Convertible Bondholders and Guaranteed Noteholders could request the relevant trustee to declare the debt under the Convertible Bonds and Guaranteed Notes, as applicable, immediately due and repayable at the principal amount together with accrued and unpaid interest, however signatories to the Restructuring Agreement cannot take action to accelerate prior to the termination date under the Restructuring Agreement or in connection with the alternative restructuring.

If the Restructuring is not implemented then there may be an alternative restructuring which will result in no value being returned to Shareholders. In such an event the Company, and GKPI have agreed under the Restructuring Agreement to work co-operatively and in good faith with the signatories to the Restructuring Agreement to implement an alternative restructuring. The general principles of the alternative restructuring would provide for a restructuring of the liabilities of the Group but neither the Shareholders nor Convertible Bondholders who have not entered into the Restructuring Agreement by 1 August 2016 will participate in any value preserved or created through the alternative restructuring. It is most likely that an alternative restructuring will result in a liquidation of the Company and the Company does not anticipate that there will be any value returned to Shareholders through that liquidation.

The Company considers that should the Restructuring not proceed then the alternative restructuring contemplated in the Restructuring Agreement would offer a better return to creditors than liquidation but would not return any value to Shareholders.

If the Restructuring is not implemented and there is no alternative restructuring, the Directors believe that the Group will be unable to service its debt and/or meet its repayment obligations and would become subject to applicable insolvency processes, among other consequences, with immediate effect and:

- the Company would cease trading and GKPI and other members of the Group would become subject to applicable insolvency processes; and/or

- the Noteholders would be able to enforce their claim against GKPI under its guarantee of the Guaranteed Notes; and/or
- the Noteholders would be able to instruct the Guaranteed Note Trustee to enforce the security over the shares in GKPI, in which case, pursuant to the Intercreditor Agreement, the Noteholders and Bondholders could acquire the Group's interest in the Shaikan Block; and/or
- an acceleration of the Guaranteed Note Debt by the Noteholders would result in an event of default under the Convertible Bond Trust Deed as a result of the Convertible Bond cross-acceleration event of default provision, and vice versa; and/or
- the MNR could have cause to revoke GKPI's operatorship of the Shaikan Block and could have cause to terminate its participation in the Shaikan PSC.

***If the Restructuring is implemented***

In accordance with ESMA guidance, the Directors have made the working capital statement after considering a reasonable worst case scenario, applying a number of adverse sensitivities reflecting key financial risks to the Group offset by mitigating actions available to management, principally the impact of delayed and/or partial payments from the KRG for the company's exports from the Shaikan Block for an extended period of time in light of the fact that prior to September 2015 the Company had not received regular payments from the KRG for export sales. However, from September 2015 to July 2016, the Company has received regular monthly payments from the KRG for export sales.

In order to meet its future working capital requirements the Group is dependent both on its cash surplus (approximately US\$96 million following completion of the Restructuring) and on receipt of monthly payments from the KRG for export sales.

Based on the working capital assessment under the Reasonable Worst Case Scenario, following the implementation of the Restructuring a deficit, of approximately US\$0.4 million is forecast to occur in August 2017 increasing to a maximum cash deficit of US\$8.0 million occurring in September 2017 of the 12 month period.

The Directors will continue to monitor the receipt of sale proceeds from the KRG and its working capital requirements. If the cash deficit projected under the Reasonable Worst Case Scenario is anticipated the Directors would seek to respond in a timely manner ahead of such deficit arising through the application of one, all, or a combination of the following (in order of the Company's confidence of their likelihood of success):

- application of funds received from Qualifying Shareholders that participate in the Open Offer which may provide up to a further US\$5 million in cash proceeds (in addition to the Subscription). Based on the indications received to date, the Company is confident that such funds will be available upon completion of the Restructuring; and/or
- the use of the General Debt Basket and/or the Super Senior Basket permitting the incurrence of (in aggregate) an additional US\$45 million indebtedness in funding. The Company is confident that it will be able to secure such financing under the General Debt Basket and/or the Super Senior Basket within the time frame required to address the cash deficit; and/or
- execution of the Second Shaikan Amendment on terms materially identical to those set out in the Bilateral MNR Agreement, pursuant to which it can be expected that the MNR will pay its 20% share of costs as a result of any implementation of the Shaikan Government Option, thereby reducing the paying interest of GKPI from 80% to 64%. The execution of the Second Shaikan Amendment on such terms would bring an overall net benefit to the Company's cash flow. The Company is currently negotiating the execution of the Second Shaikan Amendment and will only execute the Second Shaikan Amendment if the terms are aligned with the best interests of the Group; and/or
- deferral of planned capital expenditures on the Shaikan Block, which may have a short term adverse impact on the Shaikan Block's production profile, until funds to undertake such work could be secured. GKPI is operator of the Shaikan Block and as such is able to propose such deferrals, subject to required approvals from MOL and the MNR; and/or

- in addition to any agreed repayments of revenue arrears and back-costs attributable to the Shaikan Government Option which may be set out in the Bilateral MNR Agreement, seek an accelerated recovery of such arrears due to the Group by the KRG. The Company believes that based on the Company's longstanding constructive relationship with the KRG negotiations with the KRG on this point would have a positive outcome.

If the Directors were, in such circumstances, unable to implement any of the mitigating actions set out above, it is likely that the Company would be forced into an insolvency process (be that administration or liquidation) shortly thereafter.

## **16 No significant change**

There has been no significant change in the financial or trading position of the Company since 31 December 2015, being the end of the last financial period of the Company for which historical financial information is incorporated by reference.

## **17 Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened and of which the Company is aware) which may have, or have had during the 12 months prior to the date of this document, a significant effect on the Company and/or the Group's financial position or profitability.

## **18 Related Party Transactions**

Save for the related party transactions set out in note 27 (Related party transactions) of the audited consolidated financial statements of the Company as of 31 December 2014, there are no related party transactions that were entered into by the Group during the financial years ended 31 December 2015, 31 December 2014 and 31 December 2013 up to and including the date of this document.

## **19 Consents**

19.1 ERC Equipoise (in its capacity as competent person) has given and not withdrawn its written consent to the inclusion in this document of the ERC Equipoise Report in the form and context in which they are included, and has authorised the contents of such parts of this Prospectus as comprise the ERC Equipoise Report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

19.2 Perella Weinberg Partners UK LLP has given and not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it is included.

## **20 Miscellaneous**

20.1 The total costs (including fees and commissions, but exclusive of VAT) payable by the Company in connection with the Restructuring are estimated to be US\$14m.

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

## **21 Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any Business Day at the offices of Memery Crystal LLP for the period of 12 months following Admission:

21.1 this document;

21.2 the Memorandum of Association and the Bye-laws of the Company;

21.3 the audited consolidated financial statements of the Company in respect of the three financial years ended 31 December 2015, 2014 and 2013, together with the related audit reports from the independent auditor, which are incorporated by reference.

21.4 the ERC Equipoise Report set out in Part 21 of this document: "*Competent Person's Report*"; and



21.5 the letters confirming the consents referred to in paragraph 19 “*Consents*” of this Part 17.  
Dated 31 August 2016

## PART 18

### DOCUMENTATION INCORPORATED BY REFERENCE

The following information, available free of charge in electronic format on the Group's website at [www.gulfkeystone.com](http://www.gulfkeystone.com) or in printed format from the offices of Memery Crystal LLP at 44 Southampton Buildings, London WC2A 1AP, United Kingdom is incorporated by reference in the document.

Reference document	Information incorporated by reference	Page number in the reference documents
2015 Annual Report	Audited Consolidated Financial Statements	83
2014 Annual Report	Audited Consolidated Financial Statements	74
2013 Annual Report	Audited Consolidated Financial Statements	88

To the extent that any information incorporated by reference itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this document for the purposes of the Prospectus Rules.

Any statement which is deemed to be incorporated by reference into this document shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained in this document (or in a later document which is incorporated by reference into this document) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.

Except as set forth above, no other portion of these documents is incorporated by reference into this document and those portions which are not specifically incorporated by reference in this document are either not relevant for prospective investors or the relevant information is included elsewhere in this document.

## PART 19

### DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

<b>1958 Act</b>	The Bermuda Judgments (Reciprocal Enforcement) Act 1958
<b>2006 Act</b>	the UK Companies Act 2006, as amended
<b>2007 Draft Bill</b>	the draft legislation proposed by the Iraq Federal Oil and Energy Committee of the Council of Ministers during 2007 relating to oil and gas resources in the whole of Iraq, including Kurdistan
<b>Admission</b>	the admission of the New Common Shares to the standard segment of the Official List and to trading on the Main Market for listed securities
<b>AIM</b>	a market operated by the London Stock Exchange
<b>Akri-Bijeel Block</b>	covers an area of 889 km <sup>2</sup> and is situated to the east of the Shaikan Block
<b>Akri-Bijeel PSC</b>	the PSC for the Akri-Bijeel Block
<b>Application Form</b>	the personalised application form being sent to Qualifying Non-CREST Shareholders for use in connection with the Open Offer
<b>Audit and Risk Committee</b>	the audit and risk committee established by the Board, as set out in paragraph 3 of Part 9 of this document
<b>Ber Bahr Block</b>	covers an area of 280 km <sup>2</sup> and lies to the north-west of the Shaikan Block
<b>Ber Bahr PSC</b>	the PSC for the Ber Bahr Block
<b>Bilateral MNR Agreement</b>	the bilateral agreement between the Company and the MNR dated 16 March 2016 as described in further detail in paragraph 13 of Part 17 of this document
<b>Board</b>	the directors of the Company from time to time
<b>Budget Law</b>	Iraq's federal budget agreed in 2015 with the federal government in Baghdad
<b>Business Day</b>	a day (other than a Saturday or a Sunday) on which banks are open for business in London and Bermuda
<b>Bye-laws</b>	the bye-laws of the Company
<b>Capex</b>	any expenditure or obligation in respect of expenditure which, in accordance with accounting principles applied by the Company in the preparation of its audited accounts, is treated as capital expenditure (and including the capital element of any expenditure or obligation incurred in connection with any finance lease)
<b>Capex Plan</b>	the capital expenditure plans of the Group as described in the Company's announcement of 14 April 2016
<b>Capital</b>	Capital Research and Management Company, which serves as investment advisor to New World Fund, Inc. and SMALLCAP World Fund, Inc.
<b>CCSS</b>	the CREST Courier and Sorting Service established by Euroclear UK & Ireland to facilitate, <i>inter alia</i> , the deposit and withdrawal of securities
<b>Common Shares</b>	common shares in the capital of the Company, with a nominal par value of US\$0.01
<b>Committee</b>	the ad-hoc committee of Guaranteed Noteholders and Convertible Bondholders formed pursuant to the terms of the Guaranteed Note Trust Deed in October 2015
<b>Committee Advisors</b>	the legal and/or financial advisors to the Committee

<b>Companies Act (Bermuda)</b>	the Companies Act 1981 of Bermuda
<b>Company, Gulf Keystone or GKP</b>	Gulf Keystone Petroleum Limited
<b>Convertible Bonds</b>	the US\$325 million of convertible bonds due 2017 issued by the Company as described in further detail in paragraph 13 of Part 17 of this document
<b>Convertible Bondholders</b>	the holders of the Convertible Bonds
<b>Convertible Bonds Scheme Creditor</b>	a person who has a Scheme Claim under or in respect of the Convertible Bonds
<b>Convertible Bonds Scheme Entitlement</b>	in respect of each Convertible Bonds Scheme Creditor means the number of Scheme Shares to be allotted to that Convertible Bonds Scheme Creditor under the Scheme
<b>Convertible Bond Trustee</b>	BNP Paribas Trust Corporation UK Limited
<b>Convertible Bond Trust Deed</b>	the trust deed dated 18 October 2012 as supplemented on 6 November 2013 and 15 June 2015 among the Company and the Convertible Bond Trustee constituting the Convertible Bonds as described in further detail in paragraph 13 of Part 17 of this document
<b>Court</b>	Chancery Division of the High Court of Justice of England and Wales
<b>CREST</b>	the relevant system (as defined in the Uncertificated Securities Regulations) in respect of which Euroclear UK & Ireland is the operator (as defined in the Uncertificated Securities Regulations)
<b>CREST Manual</b>	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedures and CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 (and as amended since)
<b>CREST Proxy Instruction</b>	the appropriate CREST message which creates a proxy appointment
<b>CREST Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
<b>CREST Sponsor</b>	a CREST participant admitted to CREST as a CREST sponsor
<b>Debt Equitisation</b>	the release and conversion into equity of 62.4% of the outstanding principal amount and accrued interest of the Guaranteed Notes (being approximately US\$266 million) and 100% of the outstanding principal amount and accrued interest of the Convertible Bonds (being approximately US\$335 million) pursuant to the issue of New Common Shares to Guaranteed Noteholders and Convertible Bondholders, which will result in the Guaranteed Noteholders and Convertible Bondholders holding 72.8% and 22.2% (respectively) of the increased share capital of the Company immediately following such conversion
<b>Debt Service Reserve Account</b>	the debt service reserve account required under the terms and conditions of the Guaranteed Notes
<b>Declaration of Commerciality</b>	PSC requirement defining the end of the Appraisal Period and the start of Commercial Production
<b>Deed Poll</b>	the deed poll in favour of the holders of the Depositary Interests from time to time
<b>Depositary</b>	Computershare Investor Services Plc
<b>Depositary Agreement</b>	the agreement between the Company and the Depositary appointing the Depositary
<b>Depositary Interests or DIs</b>	the dematerialised depositary interests issued by the Depositary in respect of the underlying Common Shares

<b>Directors</b>	the directors of the Company, whose names are set out on page 88 of this document
<b>Disclosure and Transparency Rules</b>	the Disclosure and Transparency Rules made by the FCA under Part VI of FSMA
<b>DNO</b>	DNO ASA a Middle East and North Africa focused oil and gas company
<b>DNO Takeover Offer</b>	the proposal made by DNO to the Company to, conditional on completion of the Restructuring, acquire the entire issued share capital of the Company for US\$290 million (US\$120 million in cash, US\$ 170 million in shares in DNO)
<b>ERC Equipoise</b>	ERC Equipoise Ltd, the Group's independent Reserves and resources evaluator
<b>ERC Equipoise Report or CPR</b>	the independent competent person's report that evaluate the Reserves, Prospective Resources and Contingent Resources of the Group's assets, prepared by ERC Equipoise dated 31 August 2016
<b>ESMA</b>	European Securities and Markets Authority
<b>Euroclear UK &amp; Ireland or Euroclear</b>	Euroclear UK & Ireland Limited, the operator of CREST
<b>Excess Application Facility</b>	the facility for Qualifying Shareholders to whom the Open Offer is made to apply for Excess Shares in excess of their Open Offer Entitlements
<b>Excess Open Offer Entitlements</b>	in respect of each Qualifying Shareholder who has taken up his Open Offer Entitlement in full, the entitlement (in addition to the Open Offer Entitlement) to apply for Excess Shares pursuant to the Excess Application Facility, which may be subject to scaling down (i) firstly, by reference to each applicant's <i>pro rata</i> holding of Common Shares, and (ii) secondly, at the discretion of the Company, by reference to the amount of each applicant's tendered applications under the Excess Application Facility
<b>Excess Shares</b>	Open Offer Shares which may be applied for through the Excess Application Facility in addition to Open Offer Entitlements
<b>Excluded Territories</b>	Australia, Canada, Japan, New Zealand, Switzerland and the Republic of South Africa and each an " <b>Excluded Territory</b> "
<b>Existing Common Shares</b>	the existing Common Shares as at the date of this document
<b>FCA</b>	the Financial Conduct Authority
<b>Ferkane Block</b>	covers a 5,891.07km <sup>2</sup> area of land situated in the SE Constantine Basin of Algeria
<b>Ferkane PSC</b>	the PSC for the Ferkane Block
<b>Finance Committee</b>	the finance committee established by the Board, as set out in paragraph 3 of Part 9 of this document
<b>First Shaikan Amendment</b>	the first amendment to the Shaikan PSC dated 1 August 2010 the details of which are summarised in paragraph 13 of Part 17 of this document
<b>First Subscription Agreement</b>	the conditional agreement between Capital and the Company dated 13 July 2016 as described in further detail in paragraph 13 of Part 17 of this document
<b>FSMA</b>	the Financial Services and Markets Act 2000
<b>FTSE</b>	FTSE International Limited
<b>Genel</b>	Genel Energy International Limited
<b>General Debt Basket</b>	the provision in the Reinstated Notes that will permit the Company or GKPI to incur up to US\$20 million of additional indebtedness at any time outstanding



<b>GKPI</b>	Gulf Keystone Petroleum International Limited
<b>GKP (UK) Ltd</b>	Gulf Keystone Petroleum (UK) Limited
<b>Group</b>	the Company and its Subsidiaries as at the date of this document
<b>Guaranteed Notes</b>	the US\$250 million guaranteed notes due 2017 issued by the Company as described in further detail in paragraph 13 of Part 17 of this document
<b>Guaranteed Noteholders</b>	the holders of Guaranteed Notes
<b>Guaranteed Notes Scheme Creditor</b>	a person who has a Scheme Claim under or in respect of the Guaranteed Notes
<b>Guaranteed Notes Scheme Entitlement</b>	in respect of each Guaranteed Notes Scheme Creditor means its Reinstated Notes Entitlement (if any) and its Guaranteed Notes Share Entitlement (if any)
<b>Guaranteed Notes Share Entitlement</b>	in respect of each Guaranteed Notes Scheme Creditor means the Scheme Shares to be allotted to that Guaranteed Notes Scheme Creditor under the Scheme
<b>Guaranteed Note Trust Deed</b>	the trust deed dated 17 April 2014 as supplemented on 7 April 2015, 21 May 2015 and 15 June 2015 among the Company, GKPI and the Guaranteed Note Trustee constituting the Guaranteed Notes as described in further detail in paragraph 13 of Part 17 of this document
<b>Gulf Keystone EBT</b>	the employee benefit trust established by the Company
<b>Health, Safety, Security, Environment and CSR Committee</b>	the health, safety, security, environment and corporate social responsibility committee established by the Board in accordance with the UK Corporate Governance Code and the Listing Rules, as set out paragraph 3 of Part 9 of this document
<b>HMRC</b>	HM Revenue & Customs
<b>HSSE</b>	Health, Safety, Security and the Environment
<b>IFRS</b>	the International Financial Reporting Standards as adopted by the European Commission for use in the European Union
<b>IOCs</b>	international oil companies
<b>Intercreditor Agreement</b>	the Intercreditor Agreement dated 15 June 2015 among the Company, the Guaranteed Note Trustee, the Convertible Bond Trustee and the Security Agent entered into in connection with the Share Mortgage as described in further detail in paragraph 13 of Part 17 of this document
<b>Iraqi Constitution</b>	the permanent constitution of Iraq approved by the people of Iraq in the general referendum of 15 October 2005
<b>Iraqi Government</b>	the federal government of Iraq
<b>Kalegran</b>	Kalegran Limited (a wholly owned subsidiary of MOL)
<b>KOMO</b>	Kurdistan Oil Marketing Organisation
<b>KRG</b>	the Kurdistan Regional Government
<b>Kurdistan</b>	the Kurdistan region, an autonomous region in Iraq
<b>Kurdistan Oil and Gas Law</b>	the Oil and Gas Law of the Kurdistan Region – Iraq (Law No. 22-2007)
<b>Last Practicable Date</b>	the last practicable date prior to the publication of this document, being 26 August 2016 (unless otherwise stated)
<b>Listing Rules</b>	the Listing Rules made by the FCA under Part VI of the FSMA
<b>London Stock Exchange or LSE</b>	London Stock Exchange Plc
<b>Main Market</b>	the Main Market of the LSE

<b>Majority Participating Holders</b>	Participating Holders holding in aggregate at least 50.01% of the aggregated principal amount of the Guaranteed Notes and the Convertible Bonds held by the Participating Holders at the relevant time
<b>Member State</b>	a member of the EEA
<b>Memorandum of Association</b>	the memorandum of association of the Company
<b>Money Laundering Regulations</b>	the Money Laundering Regulations 2007, as amended from time to time
<b>MNR</b>	Kurdistan's Ministry of Natural Resources
<b>MOL</b>	MOL Hungarian Oil and Gas Plc
<b>New Common Shares</b>	the new Common Shares to be issued in connection with the Restructuring, being the Common Shares comprised in the Debt Equitisation, the Open Offer and/or the Subscription
<b>New Convertible Bonds</b>	the second tranche of US\$50 million Convertible Bonds issued on 6 November 2013 on the same terms (save for the issue price), which were consolidated with the Convertible Bonds issued in 2012 to form a single series of Convertible Bonds
<b>Nomination Committee</b>	the nomination committee established by the Board in accordance with the UK Corporate Governance Code and the Listing Rules, as set out in paragraph 3 of Part 9 of this document
<b>Non-CREST Application Form</b>	the Application Form sent to Qualifying Non-CREST Shareholders
<b>Notes Reinstatement</b>	the reinstatement of US\$100 million of Guaranteed Note claims to be effected by the Scheme in connection with the Restructuring by the issuance of the Reinstated Notes
<b>Offer Price</b>	0.8314 pence per Open Offer Share
<b>Official List</b>	the official list of the FCA
<b>OPEC</b>	Organisation of the Petroleum Exporting Countries
<b>Open Offer</b>	the pre-emptive open offer of up to US\$25 million made to Qualifying Shareholders
<b>Open Offer Entitlements</b>	the invitation by the Company to Qualifying Shareholders to apply to acquire 20 Open Offer Shares for every 9 Existing Common Shares held at the Offer Price
<b>Open Offer Shares</b>	up to 2,294,295,672 New Common Shares to be offered by the Company to Qualifying Shareholders to whom the Open Offer is made
<b>Overseas Shareholders</b>	Qualifying Shareholders who have registered addresses outside the UK
<b>Participating Holders</b>	those Guaranteed Noteholders and Convertible Bondholders from time to time who have entered into or otherwise become bound by the Restructuring Agreement
<b>PRA</b>	the Prudential Regulation Authority
<b>Preferred Shares</b>	the 20,000 preferred shares of par value US\$1,000.00 each
<b>Profit Crude Oil</b>	the quantities of available crude oil (which excludes crude oil deducted for royalty payments) and available associated natural gas produced from the production area, after the recovery of petroleum costs
<b>Profit Natural Gas</b>	the quantities of available non-associated natural gas produced from the production area, after the recovery of petroleum costs
<b>Profit Petroleum</b>	Profit Crude Oil and Profit Natural Gas
<b>Prospectus Rules</b>	the prospectus rules made by the FCA under Part VI of the FSMA

<b>PSCs</b>	Production Sharing Contracts
<b>Qualifying CREST Shareholders</b>	Qualifying Shareholders holding Existing Common Shares in uncertificated form in CREST
<b>Qualifying non-CREST Shareholders</b>	Qualifying Shareholders holding Existing Common Shares in certificated form who do not have a registered address in and are not located or resident in an Excluded Territory or the United States
<b>Qualifying Shareholder</b>	shareholder(s) on the Register on the Record Date
<b>Reasonable Worst Case Scenario</b>	the Company's reasonable worst case scenario to its working capital requirements which reflects a number of sensitivities, principally the impact of delayed and/or partial payments from the KRG for the company's exports from the Shaikan Block for an extended period of time offset by mitigating actions available to management
<b>Receiving Agent</b>	Computershare Investor Services Plc
<b>Record Date</b>	5pm on 30 August 2016
<b>Register</b>	the register of member of the Company
<b>Registrar</b>	Computershare Investor Services Plc
<b>Registrar of Companies</b>	the registrar of companies within the meaning of the 2006 Act
<b>Regulation S</b>	Regulation S under the Securities Act
<b>Regulatory Information Service</b>	any information service authorised from time to time by the FCA for the purposes of disseminating regulatory announcements
<b>Reinstated Notes</b>	the US\$100 million of guaranteed notes to be issued pursuant to the Notes Reinstatement
<b>Reinstated Notes Entitlement</b>	in respect of each Guaranteed Notes Scheme Creditor means the principal amount of the Reinstated Notes to be allotted to that Guaranteed Notes Scheme Creditor under the Scheme
<b>Reinstated Notes Trust Deed</b>	the trust deed constituting the Reinstated Notes to be entered into upon implementation of the Restructuring among the Company, GKPI and the trustee appointed in respect of the Reinstated Notes
<b>Related Documents</b>	the Intercreditor Agreement, any agreement constituting or evidencing any Security (as defined in the Intercreditor Agreement), and any agreement or instrument entered into under or in connection with any of them
<b>Relinquishment and Termination Agreement</b>	the agreement effecting the relinquishment and termination by the Group of its rights and obligations under the Sheikh Adi PSC as attached to the Bilateral MNR Agreement
<b>Remuneration Committee</b>	the remuneration committee established by the Board in accordance with the UK Corporate Governance Code and the Listing Rules, as set out in Part 9 of this document
<b>Resolution</b>	the resolution approved at the Special General Meeting
<b>Restructuring</b>	the capital restructuring of the Company by way of the Open Offer, the Debt Equitisation and the Notes Reinstatement, as contemplated by the Scheme and this document, including (but not limited to) any and all connected compromises/agreements with persons not party to the Scheme, the Debt Equitisation, the Notes Reinstatement or the Open Offer

<b>Restructuring Agreement</b>	the conditional agreement between the Company, GKPI, each of the members of the Committee and certain other Bondholders and Noteholders, dated 14 July 2016 as described in further detail in paragraph 13 of Part 17 of this document
<b>Sanction Order</b>	the order of the Court that sanctions the Scheme
<b>Scheme</b>	the scheme of arrangement under Part 26 of the 2006 Act between the Company and the Scheme Creditors in connection with the Restructuring with any modification, addition or condition that the Court may think fit
<b>Scheme Claim</b>	any claim in respect of any Scheme Liability of the Company to any person arising directly or indirectly in relation to or arising out of or in connection with all or any of the Convertible Bonds, the Convertible Bonds Trust Deed, the Guaranteed Notes or the Guaranteed Notes Trust Deed (including, for the avoidance of doubt, any interest accruing on, or accretions arising in respect of, such claims after the Scheme Record Date) or any of the Related Documents
<b>Scheme Creditors</b>	the persons with a beneficial interest as principal in the Guaranteed Notes and/or Convertible Bonds at the Record Date
<b>Scheme Effective Date</b>	the time and date on which an office copy of the Sanction Order is delivered to the Registrar of Companies for registration
<b>Scheme Entitlement</b>	means in respect of a Guaranteed Notes Scheme Creditor that person's Guaranteed Notes Scheme Entitlement and in respect of a Convertible Bonds Scheme Creditor that person's Convertible Bonds Scheme Entitlement
<b>Scheme Liability or Scheme Liabilities</b>	any debt, liability or obligation whatsoever whether it is present, future, prospective or contingent, whether or not its amount is fixed or undetermined, whether or not it involves the payment of money or the performance of an act or obligation and whether it arises at common law, in equity or by statute, in England and Wales, Bermuda or in any other jurisdiction, or in any other manner whatsoever, but such expression does not include any liability which is barred by statute or is otherwise unenforceable or arises under a contract which is void or, being voidable, has been duly avoided
<b>Scheme Meetings</b>	the meetings of the Scheme Creditors convened in accordance with the Scheme to consider and, if thought fit, approve the Notes Reinstatement and the Debt Equitisation, including any adjournment thereof
<b>Scheme Record Date</b>	the record date for the purpose of determining Scheme Entitlements under the Scheme
<b>Scheme Shares</b>	common shares of the Company equal in aggregate to the Scheme Share Amount to be issued as fully paid up under the Scheme to Guaranteed Notes Scheme Creditors and Convertible Bonds Scheme Creditors
<b>Scheme Share Amount</b>	19,616,227,993
<b>Second Shaikan Amendment</b>	the second proposed amendment to the Shaikan PSC formally implementing the terms of the Bilateral MNR Agreement (including the First Shaikan Amendment)
<b>Second Subscription Agreement</b>	the subscription agreement between Capital and the Company dated 13 July 2016 as described in further detail in paragraph 13 of Part 17 of this document
<b>Securities Act</b>	the United States Securities Act of 1933 (as amended)
<b>Security Agent</b>	BNP Paribas Trust Corporation UK Limited

<b>SEDA Facility</b>	the Standby Equity Distribution Agreement dated 6 May 2009 (as amended on 1 October 2009 and 24 March 2010)
<b>Senior Managers</b>	the senior managers whose names are set out on page 89 of this document
<b>Series A Preferred Shares</b>	the 40,000 Series A preferred shares of par value US\$1,000.00 each
<b>Shaikan Block</b>	covers an area of 283 km <sup>2</sup> and is situated about 85 km to the north-west of Erbil
<b>Shaikan FDP</b>	Shaikan Field Development Plan approved on 25 June 2013 an updated draft of which was submitted to the MNR for approval in December 2015
<b>Shaikan Government Option</b>	as such term is defined and described in greater detail in paragraph 13 of Part 17 of this document
<b>Shaikan PF-1</b>	the first production facility on the Shaikan Block
<b>Shaikan PF-2</b>	the second production facility on the Shaikan Block
<b>Shaikan PSC</b>	the PSC for the Shaikan Block
<b>Shaikan Third Party Option</b>	as such term is defined and described in greater detail in paragraph 13 of Part 17 of this document
<b>Share Mortgage</b>	the first equitable mortgage dated 15 June 2015 granted by the Company in favour of the Security Agent over the Company's shares in GKPI as described in further detail in paragraph 13 of Part 17 of this document
<b>Share Option Plan</b>	the Company's share option scheme adopted on 20 August 2004 (as amended in April 2006, July 2006 and September 2012)
<b>Share Scheme</b>	the share schemes operated by the Group which are summarised in paragraph 11 of Part 17 of this document
<b>Shareholder</b>	a holder of Common Shares from time to time
<b>Sheikh Adi Block</b>	covers an areas of 180 km <sup>2</sup> and lies to the west of the Shaikan Block
<b>Sheikh Adi PSC</b>	the PSC for the Sheik Adi Block
<b>SOMO</b>	State Organisation for Marketing of Oil
<b>Sonatrach</b>	Société Par Actions Sonatrach, Algeria's national oil development enterprise, founded in 1963
<b>Special General Meeting or SGM</b>	the general meeting of the Shareholders held on 5 August 2016 at which the Resolution was passed
<b>Standard Listing</b>	a listing on the standard segment of the Official List
<b>Standstill</b>	the standstill agreements dated 29 April 2016 and 1 June 2016 between the Company and the Committee providing the Company with an informal standstill period beyond the expiry of the grace periods for the April 2016 coupon payments due under the Convertible and Guaranteed Bonds
<b>STPI</b>	the Shaikan Third Party Option
<b>Subscription</b>	to the extent the Open Offer is not fully subscribed, Capital's agreement pursuant to the Second Subscription Agreement to subscribe for up to US\$20 million of New Common Shares at the Offer Price. If subscriptions from other Qualifying Shareholders under the Open Offer exceed US\$5 million then the amount to be subscribed for by Capital will reduce dollar for dollar by the amount of the excess so that the full US\$25 million is available to Qualifying Shareholders to whom the Open Offer is made other than Capital
<b>Subsidiary</b>	as defined in section 86 of the Companies Act (Bermuda)



<b>Super Senior Basket</b>	the provision in the Reinstated Notes that will permit the Company to incur up to US\$25 million of additional indebtedness at any time on market terms to fund capital expenditure and operating expenses
<b>Takeover Code</b>	the UK City Code on Takeovers & Mergers
<b>Takeover Panel</b>	the Panel on Takeovers and Mergers
<b>Tap Issuance</b>	an issuance of additional Reinstated Notes pursuant to the trust deed constituting, and having the same terms and conditions as, the Reinstated Notes
<b>Texas</b>	Texas Keystone Inc.
<b>UK or United Kingdom</b>	the United Kingdom of Great Britain and Northern Ireland
<b>UK Listing Authority or UKLA</b>	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of admission to the Official List
<b>Uncertificated Securities Regulations</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
<b>US or United States</b>	the United States of America, its territories and possession, any state of the United States of America and the District of Columbia
<b>VAT</b>	value added tax
<b>Warrants</b>	the warrants relating to 40 million Common Shares issued in connection with the Guaranteed Notes the terms of which are summarised in paragraph 13 of Part 17 of this document

## PART 20

### GLOSSARY OF TECHNICAL TERMS

<b>boe</b>	barrels of oil equivalent
<b>bopd</b>	barrels of oil per day
<b>Bscf</b>	thousands of millions of standard cubic feet
<b>Commercial Discovery</b>	a discovery which is potentially commercial when taking into account all technical, operational, commercial and financial data collected when carrying out appraisal works or similar operations, including recoverable reserves of petroleum, sustainable regular production levels and other material technical, operational, commercial and financial parameters, all in accordance with prudent international petroleum industry practice and as defined in the Shaikan PSC
<b>Contingent Resources</b>	quantities of petroleum estimated, as at a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies
<b>EWI</b>	Extended well test
<b>MMboe</b>	Million barrels of oil equivalent
<b>MMstb</b>	Million stock tank barrels
<b>oil in place</b>	the total quantity of oil that is estimated to exist originally in naturally occurring reservoirs
<b>Possible Reserves</b>	those Reserves that are less certain to be recovered than Probable Reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of Proved Reserves plus Probable Reserves plus Possible Reserves, as further defined in the PRMS
<b>PRMS</b>	the Petroleum Resources Management System developed by the Society of Petroleum Engineers
<b>Probable Reserves</b>	those Reserves that are less certain to be recovered than Proved Reserves. There is at least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved Reserves plus Probable Reserves, as further defined in the PRMS
<b>Prospective Resources</b>	quantities of petroleum estimated, as at a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development, as further defined in the PRMS
<b>Proved Reserves</b>	those Reserves which are most certain to be recovered. There is at least a 90% probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves, as further defined in the PRMS
<b>Reserves</b>	quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development projects applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates as: Proved (1P), Proved plus Probable (2P) and Proved plus Probable plus Possible (3P)
<b>stb</b>	Stock tank barrels

**PART 21**  
**COMPETENT PERSON'S REPORT**

31 August 2016

The Directors  
Gulf Keystone Petroleum Ltd  
16 Berkeley Street  
London W1J 8DZ

Attention: Jón Ferrier

Dear Sirs,

**RE: Competent Person's Report on Certain Petroleum Interests of Gulf Keystone Petroleum Ltd and its Subsidiaries in Kurdistan, Iraq**

In accordance with your request, ERC Equipoise Limited (ERCE) has completed an evaluation of estimates of volumes of petroleum in place, Reserves, Contingent Resources and Prospective Resources of certain petroleum interests of GKP and its subsidiaries in the Kurdistan region of Iraq. In addition, ERCE has carried out an economic evaluation of Reserves. The results of ERCE's evaluations are described in this Competent Person's Report (CPR), with an effective date of 30 June 2016.

ERCE understands that GKP intends to conduct a debt restructuring. This CPR has been prepared for the purposes of being included, in its entirety, in the Prospectus prepared by GKP and its advisors in relation to a debt restructuring and that as such it may be released by way of a Regulatory News Service (RNS) announcement to the London Stock Exchange. It may not be used for any other purpose without the prior written approval of a director of ERCE.

GKP has made available to ERCE a technical dataset including geophysical, geological, petrophysical and engineering data and interpretations as well as commercial information and fiscal and contractual terms pertaining to the licence holdings. ERCE has relied on the accuracy and completeness of the information provided by GKP in the preparation of this report and has taken all reasonable care to present the information accurately. ERCE has not undertaken a site visit.

We have reviewed raw data, analyses and interpretations presented by GKP and have audited GKP's estimates of volumes of petroleum in place, Reserves, Contingent Resources and Prospective Resources. We have carried out our own analyses and have made our own estimates of volumes where we have deemed this to be necessary. The volumes reported in this CPR are based on data and information available up to 30 June 2016. They represent ERCE's professional opinion at the time of preparing this report. The estimation of volumes of petroleum is subject to uncertainty and therefore the volumes reported in this CPR may change, upwards or downwards, as new data become available.

We have constructed an economic model that incorporates estimates of future production volumes of petroleum for the further development of Shaikan together with estimates of future expenditure and commodity price scenarios to estimate economic cut-off dates for reporting a range of estimates of gross field Reserves. We have incorporated the fiscal terms governing the Shaikan licence block to



estimates Net Present Values (NPV) for Reserves. The NPVs in this report do not represent ERCE's opinion of a market value of the asset, as it is necessary to account for additional factors such as potential upside and various risk and market related factors.

ERCE has estimated and reported the volumes of petroleum in place, Reserves, Contingent Resource and Prospective Resources in accordance with the March 2007 "Petroleum Resources Management System" (SPE PRMS), sponsored by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE). These definitions are set out in Section 6. ERCE has also followed the "Guidelines for Application of the Petroleum Resources Management System", November 2011, sponsored by the SPE, the AAPG, the WPC, the SPEE and the Society of Exploration Geophysicists (SEG). Volumes reported in this CPR have been rounded to the nearest 1 MMstb for oil or 1 Bscf for gas.

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

We have reported GKP "Gross Field Reserves", GKP "Working Interest Reserves" and GKP "Net Entitlement Reserves". GKP "Gross Field Reserves" are 100% of the volumes estimated to be economically recoverable from the field from 30 June 2016 onwards. GKP "Working Interest Reserves" are GKP's working interest (WI) fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs these assets. GKP's "Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan. GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments. The evaluation of Net Entitlement Reserves also includes an additional entitlement from "Tax Barrels" arising from the deemed Corporate Income Tax under the PSC paid on GKP's behalf from the Government's share of Profit Petroleum.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates as 1C, 2C and 3C.

We have reported GKP "Gross Field Contingent Resources" and GKP "Working Interest Contingent Resources". GKP "Gross Field Contingent Resources" are 100% of the volumes estimated to be economically recoverable from the field from 30 June 2016 onwards. GKP "Working Interest Contingent Resources" are GKP's working interest (WI) fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs these assets, which are expected to be less.





Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery (COS) and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development as Low, Best and High. Prospective Resources can be sub-classified as Prospects, Leads and Plays. A Prospect is a potential accumulation that is sufficiently well defined to represent a viable drilling target. A Lead is a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect. A Play is a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

We have reported GKP "Gross Field Prospective Resources" and GKP "Working Interest Prospective Resources". GKP "Gross Field Prospective Resources" are 100% of the volumes estimated to be economically recoverable from the field from 30 June 2016 onwards. GKP "Working Interest Prospective Resources" are GKP's working interest (WI) fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs these assets, which are expected to be less.

GKP is the operator of the Shaikan PSC and has a 75% working interest plus 5% held by Texas Keystone Inc. (TKI) in trust. The other 20% interest in the PSC contractor group is held by MOL. The PSC (2007) as amended by the First Amendment (2010) allows for the Kurdistan Regional Government (KRG) to back in up to 20% and a Third Party Participation nominated by the KRG to take up to a maximum of 15%. Under this scenario, GKP's interest would be diluted to 54.4% (comprising 51.0% for GKP and 3.4% for the interest held in trust by TKI).

ERCE has been informed by GKP that it has entered in to an agreement with Kurdistan Ministry of Natural Resources (MNR) dated 16 March 2016 (the March Agreement) which confirms the KRG's back in right of 20%. In addition, the new agreement assigns half of the Third Party interest (7.5%) to the non-government contractors pro rata to their existing working interests with the remaining 7.5% to be held by the MNR. Also the Capacity Building Value for GKP and TKI is reduced from 40% to 30%.

The March Agreement has still to be ratified by all parties through an amendment to the PSC. If amended, GKP's working interest under the PSC will be 58.0% (comprising 54.375% for GKP and 3.625% for TKI) with a cost exposure of 64.0% and the Capacity Building Value for GKP and TKI will be reduced from 40% to 30%. ERCE's Base Case economic evaluation is based on the terms set out in the March Agreement.

Within the Shaikan PSC area, GKP has discovered oil in the Cretaceous, Jurassic and Triassic intervals and gas in the Triassic interval of the Shaikan field. GKP declared the field commercial with "The First Commercial Declaration Date" under the terms of the PSC set at 1 August 2012. GKP submitted a field development plan (FDP) to the Kurdistan authorities in 2013 for the development of Shaikan in multiple phases and ERCE has been informed by GKP that the development was approved.

Subsequently GKP has prepared a revised 'Shaikan Phase 1-2' plan, which was submitted to the Kurdistan authorities in a Field Development Plan Update ("FDP Update") report in December 2015. It was anticipated that approval of this plan would occur in 2016, with first oil through the new facilities



occurring in early 2019. In the light of the current low oil price environment, in early 2016 GKP and its partners deferred a Final Investment Decision (“FID”) for the FDP Update until end-2017, which will result in a one year delay in first oil through the new production facilities. Significant expenditure on the new plant is now planned to commence in 2018 and first oil through the new facilities in 2020.

ERCE has made estimates of hydrocarbons initially in place and estimates of recoverable volumes of oil and gas for the Jurassic, Triassic and Cretaceous intervals. We have classified the portions of these volumes that are estimated to be economically recoverable within the licence period (to 30 June 2043) upon implementation of the ‘Shaikan Phase 1-2’ development plan as Reserves (Table 1). The remaining volumes that are estimated to be potentially recoverable within the licence period, but for which no definite plans are in place, have been classified as Contingent Resources (Table 3).

We have reviewed production and cost forecasts and have carried out an economic evaluation of the Reserves for the ‘Shaikan Phase 1-2’ development. The results are presented in Table 2.

ERCE has evaluated and reported Prospective Resources for the deep Triassic age Kurre Chine D formation, which has not yet been penetrated by a well, and for the shallow Cretaceous age Qanchuqa formation where potential exists for moveable hydrocarbons to be discovered (Table 4) in areas that have not yet been tested.

**Table 1: Summary of GKP Working Interest and Net Entitlement Oil Reserves**

Field	Formation	Gross Field Oil Reserves (MMstb)			GKP WI (%)	GKP Working Interest Oil Reserves (MMstb)			GKP Net Entitlement Oil Reserves (MMstb)		
		1P	2P	3P		1P	2P	3P	1P	2P	3P
Shaikan	Cretaceous	1	3	4	58.0	1	2	2	79	161	203
Shaikan	Jurassic	219	575	883	58.0	127	333	512			
Shaikan	Triassic	18	44	63	58.0	10	25	37			
Shaikan	<b>Total</b>	<b>238</b>	<b>622</b>	<b>951</b>	<b>58.0</b>	<b>138</b>	<b>360</b>	<b>551</b>	<b>79</b>	<b>161</b>	<b>203</b>

**Table 2: Summary of Base Case Economic Evaluation of 'Shaikan Phase 1-2' Reserves**

Reserves Category	Economic limit (year)	GKP Net Entitlement Reserves (MMstb)	Net Present Value Net to GKP at 1 July 2016 (US\$ million Nominal). At annual discount rates of:					Gross field Reserves (MMstb)
			0%	5%	10%	15%	20%	
1P	2029	79	812	501	306	180	99	238
2P	2043	161	3,067	1,759	1,089	708	477	622
3P	2043	203	4,615	2,374	1,364	849	559	951

**Note:** The values in this table are based on the economic 'base case' price scenario detailed in the economics section of this CPR, comprising a real Brent oil price of US\$46/stb in 2016 and increasing to a flat \$70/stb in 2021 and thereafter, escalated at 2.0% pa.

**Table 3: Summary of GKP Working Interest Oil and Gas Contingent Resources**

Field/ Licence	Formation	Gross Field Oil Contingent Resources (MMstb)			GKP WI (%)	GKP Net WI Oil Contingent Resources (MMstb)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	14	53	175	58.0	8	31	102
	Jurassic	97	80	340		56	46	197
	Triassic	29	106	347		17	61	201
<b>Total</b>		<b>140</b>	<b>239</b>	<b>862</b>		<b>81</b>	<b>138</b>	<b>500</b>

Field/ Licence	Formation	Gross Field Gas Contingent Resources (Bscf)			GKP WI (%)	GKP Net WI Gas Contingent Resources (Bscf)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	0	0	0	58.0	0	0	0
	Jurassic	102	305	772		59	177	448
	Triassic	292	648	1,583		169	376	918
<b>Total</b>		<b>394</b>	<b>953</b>	<b>2,355</b>		<b>228</b>	<b>553</b>	<b>1,366</b>

**Note:** The volumes reported here are unrisks in that they have not been multiplied by a chance of development.

**Table 4: Summary of GKP Working Interest Unrisked Oil Prospective Resources**

Block/ Licence	Prospect	Gross Field Oil Prospective Resources (MMstb)			GKP WI (%)	GKP Net WI Oil Prospective Resources (MMstb)			COS (%)
		Low	Best	High		Low	Best	High	
Shaikan	Qamchuqa	6	23	85	58.0	4	13	49	50
	Triassic KCD	17	42	105		10	24	61	28

**Note:** The volumes reported here are "unrisked" in that they have not been multiplied by the chance of success (COS).

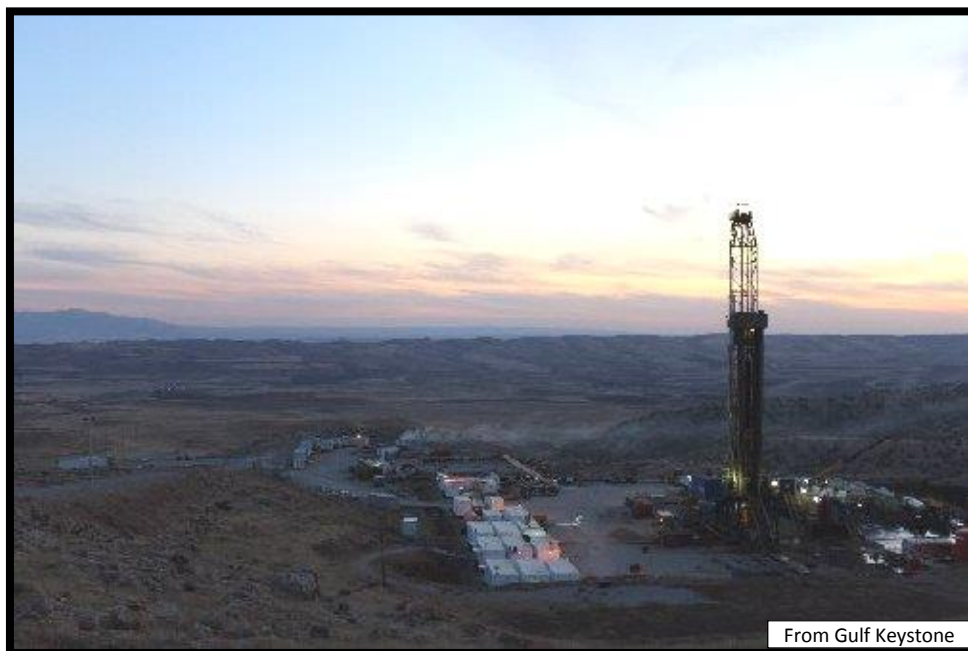


ERCE is an independent consultancy specialising in geoscience, engineering and economics evaluation. Except for the provision of professional services on a fee basis, ERC Equipose Limited has no commercial arrangement with any other person or company involved in the interests that are the subject of this report. The work has been supervised by Mr Simon McDonald, Engineering Director of ERCE, a Chartered Petroleum Engineer, a member of the Board of Directors of the Society of Petroleum Evaluation Engineers and a member of the Energy Institute and the Society of Petroleum Engineers. He has 39 years' experience in the evaluation of oil and gas fields and acreage, preparation of development plans and assessment of reserves and resources.

For the purposes of Prospectus Rule 5.5.3R(2)(f) ERCE accepts responsibility for the information contained in this section of the Prospectus and those sections of the Prospectus which include references to the information in this section. ERCE declares that to the best of its knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained herein is in accordance with the facts and does not omit anything likely to affect the import of such information.

Yours faithfully,  
ERC Equipose Limited  
Simon McDonald, C.Eng.  
Engineering Director

# Competent Person's Report on the Interests of Gulf Keystone Petroleum and its Subsidiaries in the Shaikan Field, Kurdistan, Iraq as at 30 June 2016



PREPARED FOR: Gulf Keystone Petroleum

BY: ERC Equipoise Limited

Month: August

Year: 2016





Authors: S Hattingh, D Munn, A Symms, D Wilson, G Privett, K Al Marei, J Ramsay, P Chernik, J Ho, M Braim, G Boyd

Approved by: S McDonald

Date released to client: 31 August 2016

***ERC Equipoise Ltd ("ERC Equipoise" or "ERCE") has made every effort to ensure that the interpretations, conclusions and recommendations presented herein are accurate and reliable in accordance with good industry practice. ERC Equipoise does not, however, guarantee the correctness of any such interpretations and shall not be liable or responsible for any loss, costs, damages or expenses incurred or sustained by anyone resulting from any interpretation or recommendation made by any of its officers, agents or employees. In the case that material is delivered in digital format, ERCE does not accept any responsibility for edits carried out after the product has left the Company's premises.***



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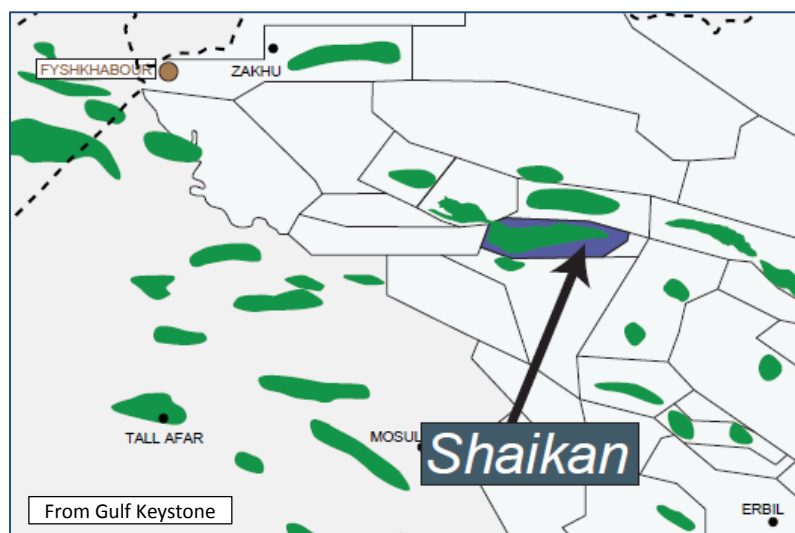
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## 1. Executive Summary

ERC Equipose Limited (ERCE) has reviewed and evaluated the Shaikan field in the Shaikan Production Sharing Contract (PSC) concession in the Kurdistan region of Iraq in which Gulf Keystone Petroleum Limited (GKP) has an interest (Figure 1.1). GKP is the operator of the Shaikan PSC and has a 75% working interest plus 5% held by Texas Keystone Inc. (TKI) in trust. The other 20% interest in the PSC contractor group is held by MOL.



**Figure 1.1: Location Map of GKP Licence Blocks**

At the time of preparing this report, GKP's working interest in the Shaikan PSC is 75%. An additional 5% working interest is held in trust by TKI for GKP.

The PSC (2007) as amended by the First Amendment (2010) allows for the Kurdistan Regional Government (KRG) to back in up to 20% and a Third Party Participation nominated by the KRG to take up to a maximum of 15%. Under this scenario, GKP's interest would be diluted to 54.4% (comprising 51.0% for GKP and 3.4% for the interest held in trust by TKI). ERCE has been informed by GKP that it has entered in to an agreement with Kurdistan Ministry of Natural Resources (MNR) dated 16 March 2016 (the March Agreement) which confirms the KRG's back in right of 20%. In addition, the new agreement assigns half of the Third Party interest (7.5%) to the non-government contractors pro rata to their existing working interests with the remaining 7.5% to be held by the MNR. Also the Capacity Building Value for GKP and TKI is reduced from 40% to 30%.

The March Agreement has still to be ratified by all parties through an amendment to the PSC. If amended, GKP's working interest under the PSC will be 58.0% (comprising 54.375% for GKP and 3.625% for TKI) with a cost exposure of 64.0% and the Capacity Building Value for GKP and TKI will be reduced from 40% to 30%.

GKP has requested that ERCE's Base Case economic evaluation is based on the terms set out in the March Agreement. ERCE has also run economic sensitivity cases under the terms of the current PSC assuming both fully diluted and undiluted interests.

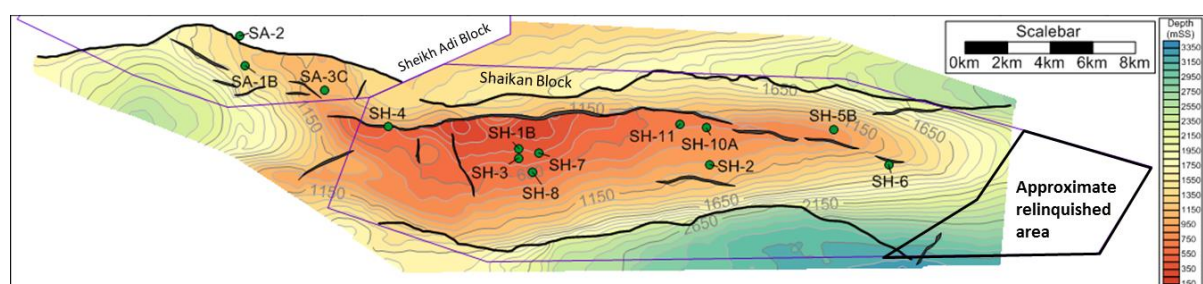
ERCE previously evaluated GKP's assets in Kurdistan and prepared a CPR dated March 2014, which was incorporated into GKP's Prospectus for the transfer of its listing from the London Stock



Exchange's Alternative Investment Market (AIM) to the Main Market. The CPR prepared by ERCE for GKP's listing ("the Listing CPR") has an effective date of 31 December 2013 and incorporates data received from GKP up to 31 December 2013. A subsequent CPR with an effective date of 30 September 2015 was issued in September 2015 and incorporated data received from GKP up to 30 June 2015. This current CPR, which covers the Shaikan field only, has an effective date of 30 June 2016 and includes data received from GKP up to 30 June 2016. The current CPR therefore incorporates new information spanning twelve months and predominantly comprises additional production and dynamic information gathered from the Jurassic reservoirs, GKP's updated development plans and new cost estimates following completion of a Front End Engineering and Design (FEED) study by a contractor. No new wells have been drilled in the field since the last CPR. The new information has been taken into account by ERCE in the preparation of this CPR, which is a stand-alone document reflecting the latest understanding of the Shaikan field.

The new dynamic data in the form of flow rates from nine producing wells and additional downhole pressure measurements in ten wells gathered during the past twelve months continue to support GKP's interpretation that depletion drive with possible gas cap expansion is occurring in the Jurassic reservoir. ERCE has audited GKP's recovery factors and production forecasts according to the current understanding of the drive mechanism and updated development plan. The Reserves estimates reported in this CPR reflect the current understanding of reservoir dynamics and are based on GKP's latest development plan.

A depth map to the top of the Jurassic interval over Shaikan is presented in Figure 1.2.



**Figure 1.2: Top Jurassic Structure Depth Map of Shaikan (m TVDSS)**

ERCE has estimated and reported the volumes of petroleum in place, Reserves, Contingent Resource and Prospective Resources in accordance with the March 2007 "Petroleum Resources Management System" (SPE PRMS), sponsored by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE) (see Section 6). The results of ERCE's evaluation are summarised in Table 1.1 to Table 1.9.

The assessment of Reserves reported in this CPR is based on the assumption that GKP will receive payment for produced hydrocarbons according to pricing assumptions used by ERCE. Furthermore, the assessment is based on the assumption that GKP's Shaikan Joint Venture partner MOL Hungarian Oil and Gas plc (MOL) and the Kurdistan authorities will approve the development plan as described herein, that a Final Investment Decision (FID) will be taken by the end of 2017 and that GKP will have the resources to implement the plan.



GKP has discovered oil in the Cretaceous, Jurassic and Triassic intervals and gas in the Triassic interval of the Shaikan field. The discovery was made by Well Shaikan-1B in 2009. The field has subsequently been appraised and an initial phase of development has been implemented, with a total of ten exploration, appraisal and development wells having been drilled at the time of preparing this report. GKP has acquired a comprehensive dataset include seismic data, cores, petrophysical logs and fluid samples. Multiple flow tests have been carried out including an extended test in two wells and intermittent interference testing since October 2010.

The Jurassic reservoirs have been on stream almost continuously since December 2013, apart from a period between mid-February 2015 and mid-March 2015 and a period from the latter part of February to mid-March 2016 when the field was shut in due to disruption of the pipeline export route through Turkey. Production was initially from two wells flowing at a combined rate of approximately 10 Mstb/d. This was progressively ramped up with more wells coming on stream. The current peak deliverability of the wells is close to the handling capacity of the production facilities of 45 Mstb/d. The field produced at an average oil rate of approximately 33 Mstb/d from up to nine wells during the period from 1 January 2016 to 30 June 2016. The average rate was adversely affected by the shut down early in the year. During the past three months production has remained steady at approximately 39 Mstb/d. Production has been primarily from the upper Jurassic with eight wells producing from these intervals and one well producing from the lower Jurassic. Cumulative oil production to 30 June 2016 was 25.1 MMstb. Since June 2015 crude oil has been exported by truck some 120 km to oil export facilities at Fishkabour on the border between Iraq and Turkey, and then injected into the Kirkuk to Ceyhan export pipeline through Turkey for sale at Ceyhan.

GKP declared the field commercial with “The First Commercial Declaration Date” under the terms of the PSC set at 1 August 2012. GKP submitted a field development plan (FDP) to the Kurdistan authorities in 2013 for the development of Shaikan in multiple phases and ERCE has been informed by GKP that the development was approved.

GKP defined an initial phase of development comprising 26 production wells, which formed the basis for ERCE’s estimates of Reserves reported in the Listing CPR. At the time of preparing the Listing CPR, understanding of reservoir dynamic behaviour was in its infancy and the Reserves estimates were based on the premise that natural aquifer influx would be the primary drive mechanism. Dynamic data acquired over the past two years has shown good communication across the upper Jurassic and slowly declining reservoir pressure that can be reconciled with material balance calculations. It now appears more likely that the primary drive mechanism will be gas cap expansion and gravity drainage and GKP has accordingly modified the development plans.

In addition to the nine existing production wells, GKP’s current plan comprises 32 production wells in the Jurassic reservoirs, one production well in the Cretaceous and five production wells in the Triassic reservoirs. Two further wells for gas injection and one water disposal well are planned in addition to a Permian exploration well. The development plan includes facilities upgrades to a maximum oil production capacity of 115 Mstb/d and the construction of a spur pipeline from the field to the main trunk export pipeline. We refer to this development in this CPR as ‘Shaikan Phase 1-2’, as it includes all of Phase 1 as described in the FDP and a substantial portion of Phase 2. The



Reserves reported in this CPR are therefore based on the implementation of the Shaikan Phase 1-2 development.

This revised 'Shaikan Phase 1-2' plan was submitted to the Kurdistan authorities in a Field Development Plan Update ("FDP Update") report in December 2015. It was anticipated that approval of this plan would occur in 2016, with first oil through the new facilities occurring in early 2019.

In the light of the current low oil price environment, in early 2016 GKP and its partners deferred a Final Investment Decision ("FID") for the FDP Update until end-2017, which will result in a one year delay in first oil through the new production facilities. Significant expenditure on the new plant is now planned to commence in 2018 and first oil through the new facilities in 2020.

An interim plan, termed the "Bridge to the FDP" has been formulated, which details activities and expenditure to mitigate the expected decline in oil rate from the existing well stock and maintain current production levels through the existing plant prior to FID for the FDP Update at end-2017. This plan envisages some debottlenecking work to be carried out at the end of 2016 that will lower the inlet pressure to the separators, the installation of desalters to treat produced emulsions believed by Gulf Keystone to be formed by the mixing of oil with drilling fluid lost to the reservoir during drilling and completion, the drilling of a single well in the second half of 2017 and the installation of four electrical submersible pumps (ESPs) from April 2017 to boost the production rates. We have assumed this interim plan is implemented in this CPR.

The Bridge to the FDP also presents an alternative interim investment scenario whereby an additional temporary production facility is installed in the field, increasing capacity in the interim period from 45 Mstb/d to 55 Mstb/d. This scenario has not been considered further in this CPR.

ERCE has made estimates of hydrocarbons initially in place (Table 1.8) and estimates of recoverable volumes of oil and gas for the Jurassic, Triassic and Cretaceous intervals. We have classified the portions of these volumes that are estimated to be economically recoverable within the licence period upon implementation of the 'Shaikan Phase 1-2' development plan as Reserves (Table 1.1). The gross field Proved plus Probable (2P) oil Reserves estimated by ERCE for the Phase 1 development of the Jurassic interval in Shaikan amount to 575 MMstb, for the Triassic the 2P oil Reserves are estimated to be 44 MMstb and for the Cretaceous they are 3 MMstb.

The remaining volumes that are estimated to be potentially recoverable within the licence period, but for which no definite plans are in place have been classified as Contingent Resources (Table 1.4 and Table 1.5). The gross field 2C Contingent Resources estimated by ERCE for the Jurassic interval in Shaikan amount to 80 MMstb of oil and 305 Bscf of solution gas. For the Triassic, the gross field 2C Contingent Resources are estimated to be 106 MMstb and 648 Bscf and for the Cretaceous, they are estimated to be 53 MMstb.

The Shaikan PSC terms allow for a Development Period of 20 years with an automatic right to a five year extension, followed by a further five year extension that can be applied for. This gives an effective Development Period of 30 years after which the PSC contract will expire. GKP has informed ERCE that the 30 year period expires on 30 June 2043. There is no assurance that GKP will receive an



extension beyond 30 years and the terms that would apply should a further extension be granted are unknown.

Due to the time factor of gravity drainage of oil from matrix blocks by gas cap expansion, ERCE estimates that some volumes that are recoverable over time might not be recovered within the licence period. We have reported these in Table 1.6 as 'Technically recoverable volumes'. We have not classified these volumes as Contingent Resources as the question of ownership after expiry of the licence period has not been confirmed. Should GKP be granted an extension to the licence beyond the 30 year period, portions of these volumes (depending on GKP's equity) would be candidates for reporting as Reserves and/or Contingent Resources.

We have constructed an economic model that incorporates estimates of future production volumes of petroleum for the planned development of Shaikan together with estimates of future expenditure and commodity price scenarios to estimate economic cut-off dates for reporting a range of estimates of gross field Reserves. We have incorporated the current fiscal terms governing the Shaikan licence block to estimates Net Present Values (NPV) for Reserves. The results are presented in Table 1.2. The future oil price assumptions are shown in Table 1.3.

ERCE has evaluated and reported Prospective Resources for the deep Triassic age Kurre Chine D formation, and for the shallow Cretaceous age Qanchuqa formation where potential exists for moveable hydrocarbons within a depth windows related to temperature (Table 1.7).

**Summary of Results.** A summary of the estimates of Reserves is shown in Table 1.1. The results of the economic evaluation of Reserves are shown in Table 1.2, based on the oil price scenario shown in Table 1.3 and an oil price quality discount to Brent specified by GKP. The oil price discount is based upon a marketing study prepared by Channoil Consulting Limited (Channoil) at the request of GKP; the discount used for the "2P" Reserves varies between \$13.1 / stb and \$14.7 / stb over the life of the forecast. The Ministry of Natural Resources (MNR) of the Kurdistan Regional Government (KRG) currently purchases Shaikan crude at a discount of \$14.7 / stb. GKP has informed ERCE that a Heads of Terms Agreement has been concluded with the MNR, which provides that the discount applicable (\$14.7 / stb) is subject to revision and the retroactive application of a Quality Bank pricing formula, potentially based on an independent third party valuation such as the Channoil study.

Summaries of estimates of Contingent Resources are shown in Table 1.4 for oil and in Table 1.5 for gas. A summary of volumes estimated to be recoverable beyond the expiry date of the PSC licence is shown in Table 1.6. A summary of estimates of Prospective Resources is shown in Table 1.7. A summary of estimates of discovered volumes of oil initially in place (STOIIP) and gas initially in place (GIIP) is shown in Table 1.8. A summary of estimates of undiscovered volumes of STOIIP is shown in Table 1.9. No economic evaluation of Contingent Resources or Prospective Resources has been carried out by ERCE.

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





Oil Reserves as of 30 June 2016 shown in Table 1.1 are for Shaikan Phase 1-2 development of the Jurassic, Triassic and Cretaceous intervals of the Shaikan field comprising 51 wells and maximum oil processing capacity of 115 Mstb/d. They do not include volumes estimated to be recoverable from the field after expiry of the PSC licence on 30 June 2043. The results of an economic evaluation are shown in Table 1.2 using the oil price assumptions shown in Table 1.3.

**Table 1.1: Summary of Oil Reserves**

Field	Formation	Gross Field Oil Reserves (MMstb)			GKP WI (%)	GKP Working Interest Oil Reserves (MMstb)			GKP Net Entitlement Oil Reserves (MMstb)		
		1P	2P	3P		1P	2P	3P	1P	2P	3P
Shaikan	Cretaceous	1	3	4	58.0	1	2	2	79	161	203
Shaikan	Jurassic	219	575	883	58.0	127	333	512			
Shaikan	Triassic	18	44	63	58.0	10	25	37			
Shaikan	<b>Total</b>	<b>238</b>	<b>622</b>	<b>951</b>	<b>58.0</b>	<b>138</b>	<b>360</b>	<b>551</b>	<b>79</b>	<b>161</b>	<b>203</b>

**Notes**

- 1) "Gross Field Reserves" are 100% of the volumes estimated to be economically recoverable from the fields from 30 June 2016 onwards, up to expiry of the PSC licence on 30 June 2043.
- 2) GKP "Working Interest (WI) Reserves" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSC that governs this asset.
- 3) GKP "Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan.
- 4) GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments.
- 5) The evaluation of Net Entitlement Barrels includes an additional entitlement from "Tax Barrels" arising from the deemed Corporate Income Tax under the PSC paid on GKP's behalf from the Government's share of Profit Petroleum.
- 6) The working interest used in this report for the Shaikan PSC is 58.0%.

**Table 1.2: Summary of Base Case Economic Evaluation of Reserves (with GKP oil price discount)**

Reserves Category	Economic limit (year)	GKP Net Entitlement Reserves (MMstb)	Net Present Value Net to GKP at 1 July 2016 (US\$ million Nominal). At annual discount rates of:					Gross field Reserves (MMstb)
			0%	5%	10%	15%	20%	
1P	2029	79	812	501	306	180	99	238
2P	2043	161	3,067	1,759	1,089	708	477	622
3P	2043	203	4,615	2,374	1,364	849	559	951

**Table 1.3: Oil Price Assumption for Economic Evaluation**

Brent Crude Oil Price (Nominal)	2016	2017	2018	2019	2020	2021	2022	2023+
Real (constant \$, 2016)	46	53	60	65	68	70	70	70
Nominal (\$ of the day)	46	54	63	69	74	78	79	+2.0% pa



**Contingent Resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates as 1C, 2C and 3C.

All Contingent Resources shown in Table 1.4 are contingent on the definition of development plans and the demonstration of commerciality. They do not include volumes estimated to be recoverable from the field after expiry of the PSC licence on 30 June 2043.

**Table 1.4: Summary of Oil Contingent Resources**

Field/ Licence	Formation	Gross Field Oil Contingent Resources (MMstb)			GKP WI (%)	GKP Net WI Oil Contingent Resources (MMstb)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	14	53	175	58.0	8	31	102
	Jurassic	97	80	340		56	46	197
	Triassic	29	106	347		17	61	201
<b>Total</b>		<b>140</b>	<b>239</b>	<b>862</b>		<b>81</b>	<b>138</b>	<b>500</b>

#### Notes

- 1) "Gross Field Contingent Resources" are 100% of the volumes estimated to be recoverable from the fields without any economic cut-off being applied from 30 June 2016 onwards, up to expiry of the PSC licence on 30 June 2043.
- 2) GKP "Working Interest (WI) Contingent Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.
- 3) Contingent Resources are estimates of volumes that might be recovered from the field under as yet undefined development scheme(s). It is not certain that the fields will be developed or that the volumes reported as Contingent Resources will be recovered.
- 4) The volumes reported here are unrisks in that they have not been multiplied by a chance of development.

Gas volumes shown in Table 1.5 are solution gas, apart from the gas reported for the Triassic interval where a portion of the gas is from a gas cap. Gas Contingent Resources are subject to the same contingencies as the corresponding Oil Contingent Resources shown in Table 1.4. In addition, they are contingent on securing gas sales agreements and gas export routes.

**Table 1.5: Summary of Gas Contingent Resources**

Field/ Licence	Formation	Gross Field Gas Contingent Resources (Bscf)			GKP WI (%)	GKP Net WI Gas Contingent Resources (Bscf)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	0	0	0	58.0	0	0	0
	Jurassic	102	305	772		59	177	448
	Triassic	292	648	1,583		169	376	918
<b>Total</b>		<b>394</b>	<b>953</b>	<b>2,355</b>		<b>228</b>	<b>553</b>	<b>1,366</b>



### Notes

- 1) "Gross Field Contingent Resources" are 100% of the volumes estimated to be economically recoverable from the fields without any economic cut-off being applied from 30 June 2016 onwards, up to expiry of the PSC licence on 30 June 2043.
- 2) GKP "Working Interest (WI) Contingent Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.
- 3) Contingent Resources are estimates of volumes that might be recovered from the field under as yet undefined development scheme(s). It is not certain that the fields will be developed or that the volumes reported as Contingent Resources will be recovered.
- 4) The volumes reported here are unrisks in that they have not been multiplied by a chance of development.
- 5) Gas Contingent Resources are estimates of recoverable hydrocarbon gas volumes and exclude any non-hydrocarbon volumes that might be produced.
- 6) To the extent that gas is flared after the effective date of this report, the gas Contingent Resources reported for Shaikan Jurassic will be reduced.

### Technically Recoverable Oil volumes

Volumes reported in Table 1.6 are estimated to be recoverable from the fields after the expiry of the PSC licence on 30 June 2043, based on current understanding of the recovery processes likely to prevail in the fractured reservoirs. They are not classified as Reserves or Contingent Resources as ownership after licence expiry is unknown.

**Table 1.6: Summary of Technically Recoverable Oil Volumes After Licence Expiry**

Field/ Licence	Formation	Gross Field Oil Technically Recoverable Volumes (MMstb)		
		Low	Best	High
Shaikan	Cretaceous	0	0	0
	Jurassic	84	132	219
	Triassic	10	18	35
<b>Total</b>		<b>94</b>	<b>150</b>	<b>254</b>

### Notes

- 1) "Gross Field Technically Recoverable Volumes" are 100% of the volumes estimated to be recoverable from the fields without any economic cut-off being applied after expiry of the PSC licence on 30 June 2043.
- 2) The volumes reported here are unrisks in that they have not been multiplied by a chance of development.



**Prospective Resources** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery (COS) and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development as Low, Best and High. Prospective Resources can be sub-classified as Prospects, Leads and Plays. A Prospect is a potential accumulation that is sufficiently well defined to represent a viable drilling target. A Lead is a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect. A Play is a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

**Table 1.7: Summary of Unrisked Oil Prospective Resources (Prospects)**

Block/ Licence	Prospect	Gross Field Oil Prospective Resources (MMstb)			GKP WI (%)	GKP Net WI Oil Prospective Resources (MMstb)			COS (%)
		Low	Best	High		Low	Best	High	
Shaikan	Qamchuqa	6	23	85	58.0	4	13	49	50
	Triassic KCD	17	42	105		10	24	61	28

#### Notes

- 1) Prospects are features that have been sufficiently well defined through analysis of geological and geophysical data that they are considered drillable targets.
- 2) "Gross Field Unrisked Prospective Resources" are 100% of the volumes estimated to be recoverable from an accumulation.
- 3) GKP "Working Interest Prospective Resources" are GKP's working interest fraction of the gross resources. They are not GKP's Net Entitlement under the terms of the PSCs that govern these assets, which can be expected to be lower.
- 4) The geological chance of success (COS) reported here is an estimate of the probability that drilling the Prospect would result in a discovery as defined under SPE PRMS (Section 6).
- 5) Prospective Resources reported here are "unrisked" in that the volumes have not been multiplied by the COS.





**Discovered Petroleum Initially-in-place** is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

**Undiscovered Petroleum Initially-in-place** is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.

**Table 1.8: Summary of Discovered Oil and Gas Initially in Place**

Field/ Licence	Formation	STOIIP (MMstb)			Free GIIP (Bscf)			Comments
		Low	Best	High	Low	Best	High	
Shaikan	Cretaceous above isotherm	475	553	645	0	0	0	No recovery reported
	Cretaceous below isotherm	653	842	1,344	0	0	0	
	Jurassic above 1,450 mSS	2,698	3,296	4,100	3	8	15	
	Jurassic below 1,450 mSS	1,791	2,159	2,677	0	0	0	
	Triassic	245	427	823	630	1,037	1,787	Gas is sour and rich

Notes

- 1) GIIP is free gas and excludes solution gas
- 2) GIIP is sour, wet gas

**Table 1.9: Summary of Undiscovered and Prospective Oil Initially In Place**

Field/ Licence	Formation	STOIIP (MMstb)		
		Low	Best	High
Shaikan	Qamchuqa	484	1,099	2,584
	Triassic KCD	51	123	316

Notes

- 1) Oil has been intersected in the Shaikan Qamchuqa, but volumes are reported as 'prospective' because no flow test has been carried out.



## 2. Introduction

ERC Equipoise Limited (ERCE) has reviewed and evaluated the Shaikan field in the Shaikan Production Sharing Contract (PSC) concession in the Kurdistan region of Iraq (Figure 1.1). At the time of preparing this report, GKP's working interest in the Shaikan PSC is 75%. An additional 5% working interest is held in trust by TKI for GKP.

The PSC (2007) as amended by the First Amendment (2010) allows for the KRG to back in up to 20% and a Third Party Participation nominated by the KRG to take up to a maximum of 15%. Under this scenario, GKP's interest would be diluted to 54.4% (comprising 51.0% for GKP and 3.4% for the interest held in trust by TKI). ERCE has been informed by GKP that it has entered in to an agreement with Kurdistan Ministry of Natural Resources (MNR) dated 16 March 2016 (the March Agreement) which confirms the KRG's back in right of 20%. In addition, the new agreement assigns half of the Third Party interest (7.5%) to the non-government contractors pro rata to their existing working interests with the remaining 7.5% to be held by the MNR. Also the Capacity Building Value for GKP and TKI is reduced from 40% to 30%.

The March Agreement has still to be ratified by all parties through an amendment to the PSC. If amended, GKP's working interest under the PSC will be 58.0% (comprising 54.375% for GKP and 3.625% for TKI) with a cost exposure of 64.0% and the Capacity Building Value for GKP and TKI will be reduced from 40% to 30%.

GKP has requested that ERCE's Base Case economic evaluation is based on the terms set out in the March Agreement. ERCE has also run economic sensitivity cases under the terms of the current PSC assuming both fully diluted and undiluted interests.

ERCE was engaged by GKP to carry out an independent assessment of Reserves, Contingent Resources and Prospective Resources for GKP's interest in the Shaikan field located in Kurdistan, Iraq and to report the results in the form of a Competent Person's Report (CPR). This assessment has been carried out in the form of an audit of GKP's own work. This CPR is an update of two previous assessments carried out by ERCE which were presented to GKP in March 2014 (the Listing CPR) and September 2015. The current CPR incorporates new information spanning twelve months and predominantly comprises additional production and dynamic information gathered from the Jurassic reservoirs, GKP's updated development plans and new cost estimates following completion of a FEED study. No new wells have been drilled in the field since the last CPR.

GKP is an independent oil and gas company registered in Bermuda, with further offices in Erbil in the Kurdistan Region of Iraq and in London in the UK. For the purpose of this report, ERCE has reviewed the Shaikan field, governed by a Production Sharing Contract (PSC) (Figure 2.1). GKP is the operator of the Shaikan block, having acquired the interest in November 2007.



### 3. Dataset

In its interpretation of the Shaikan field ERCE has relied upon data provided by GKP, as well as data available in the public domain. Data were made available up to the data cut-off date of 30 June 2016 other than where stated explicitly. The data included, amongst others:

- The Field Development Plan (FDP) and Addendum, the Appraisal Report and the Discovery Report.
- The Field Development Plan Update (FDP Update) and the interim investment plan The Bridge to the FDP.
- Documents, graphs and tables of general geological and well data
- Seismic workstation projects and interpretations together with time and depth structure maps for the Shaikan structure
- Structural models of various vintages in Petrel of the Shaikan field
- Well logs for most drilled wells
- Core data retrieved from select intervals
- Drilling and well reports
- Well test data and interpretations
- PVT reports for selected intervals within the Jurassic and Triassic
- PSC information, with past costs
- Daily historical production figures and pressure measurements for all producing Shaikan wells up to 30 June 2016
- The material balance model constructed by GKP in Excel.
- Production forecasts and cost information for GKP's current and future development plans for the Shaikan field
- Analyses carried out by GKP and third parties pertaining to pressure transient analysis of production data, PVT reviews, material balance and production forecasting, petrophysical interpretations and fracture analyses for the Jurassic reservoirs in Shaikan.
- Facilities and associated cost information presented in the FDP Update and the Bridge to the FDP.
- Documents and cost information produced during a Front End Engineering and Design (FEED) study conducted in 2015 and 2016 by a contractor on GKP's behalf.

ERCE has relied upon GKP for the completeness and accuracy of the dataset used in the preparation of this report. No site visit was undertaken during this evaluation. GKP has informed ERCE that there has been no material change in its portfolio between the data cut-off date, 30 June 2016 and the date of issue of this report.



## 4. Evaluation Basis

The dataset provided by GKP enabled ERCE to complete a satisfactory audit of:

- Volumes of oil and gas initially in place
- Oil Reserves
- An economic evaluation of oil Reserves
- Oil and gas Contingent Resources and oil Prospective Resources

For the purposes of economic modelling, ERCE constructed independent economic models, utilising the PSC and country fiscal system information presented by GKP.

ERCE has used standard petroleum evaluation techniques in the preparation of this report. These techniques combine geophysical and geological knowledge with assessments of porosity and permeability distributions, fluid characteristics and reservoir pressure. There is uncertainty in the measurement and interpretation of basic data. ERCE has estimated the degree of this uncertainty and determined the range of petroleum initially in place and recoverable hydrocarbons. Our methodology adheres to the guidelines of the SPE PRMS (Summarised in Section 6 of this report).

ERCE has evaluated the development scheme for the Shaikan field presented by GKP and has conducted an audit of the capital and operating costs prepared by GKP and also capital costs prepared by the FEED contractor. ERCE has audited production forecasts prepared by GKP for the existing development comprising nine production wells completed in the Jurassic interval of the Shaikan field and for further development plans for the Jurassic, Cretaceous and Triassic reservoirs of the Shaikan field. Audited production, Capex and Opex forecasts have then been used as input into the economic model. ERCE's economic analysis is based on the Kurdistan PSC applicable to Shaikan on a stand-alone basis and does not take into account any outstanding debt, nor future indirect corporate costs of GKP.

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

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

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



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

## **5. Shaikan Field**

### **5.1. Introduction**

The Shaikan field is located some 60 km north of Erbil in northern Kurdistan (Figure 1.1). Oil and gas condensate have been tested in naturally fractured formations in the Cretaceous, Jurassic and Triassic intervals. Oil from the Cretaceous is very heavy, although viscosity decreases with increasing depth and temperature. The Jurassic contains medium to heavy crude ranging in gravity from 18 °API at the top to 11 °API towards the base of the column. The GOR is approximately 390 scf/stb. The Triassic contains light oil and gas condensate. The oil contained within all intervals of the field has a high content of H<sub>2</sub>S and CO<sub>2</sub>.

The original discovery Well Shaikan-1B (also referred to as Well SH-1B) was drilled in November 2009 to a depth of 2,950 mMDRKB and oil was successfully tested. Appraisal drilling commenced in 2010, with the drilling of Well Shaikan-3 in December 2010 to a depth of 1,518 mMDRKB. In August 2011 Well Shaikan-2 was drilled to 3,300 mMDRKB and in December 2011. Well Shaikan-4 was drilled to 3,400 mMDRKB. In April 2012 Well Shaikan-6 was drilled on the eastern flank and is likely to be used for water disposal in the future. Subsequently, Well Shaikan-5B was drilled north-east of Well Shaikan-6 and Well Shaikan-8 were drilled in the vicinity of Well Shaikan-1B and Well Shaikan-3. Subsequent to the completion of the Listing CPR dated March 2014, GKP drilled Well Shaikan-7E in to the east of, and in proximity to, Well Shaikan-3. In addition, Well Shaikan-10A located north of Well Shaikan-2 and Well Shaikan-11, located north-east of Well Shaikan-2, were drilled. By mid-2015, Wells Shaikan-1B, -2, -3, -4, -5B, -7, -8, -10 and -11 had all been completed and brought on production.

GKP submitted an Appraisal Report to the Ministry of Natural Resources in Kurdistan in the third quarter of 2012. GKP declared the field commercial with “The First Commercial Declaration Date” under the terms of the PSC being set at 1 August 2012. GKP prepared and submitted a field development plan (FDP) to the Kurdistan authorities dated January 2013 for the development of the Shaikan field. The FDP focussed on exploitation of the Jurassic interval. At the request of the Kurdistan authorities, an Addendum to the FDP, dated June 2013, was submitted by GKP, which included a more aggressive and comprehensive development than the original FDP. The development of Shaikan was approved by the authorities following submission of the Addendum.

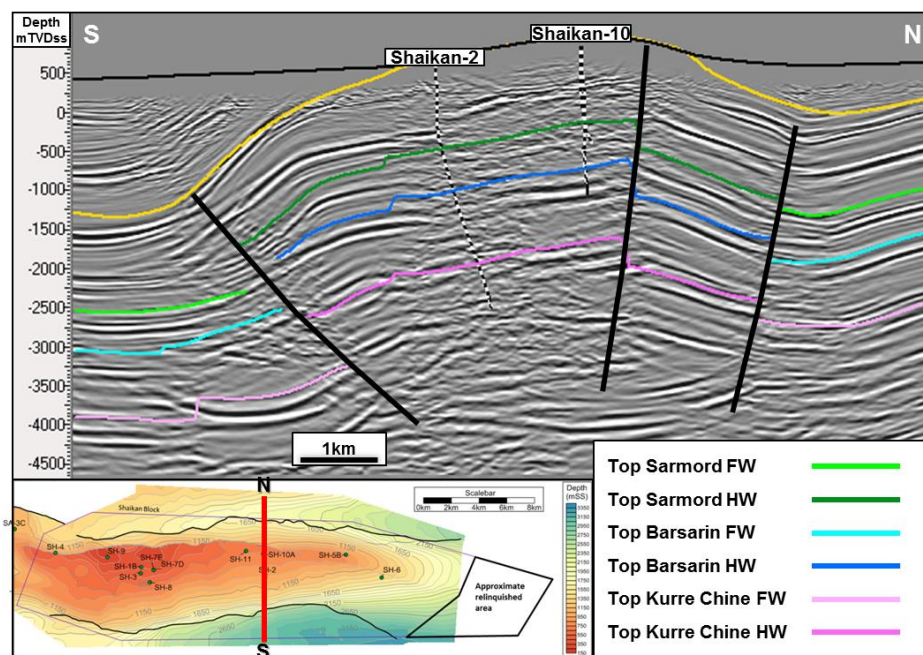
A revised ‘Shaikan Phase 1-2’ plan was submitted to the Kurdistan authorities in a Field Development Plan Update (“FDP Update”) report in December 2015. This plan includes facilities upgrades from a current oil production capacity of 45,000 stb/d to a maximum capacity of 115 Mstb/d and the construction of a spur pipeline from the field to the main trunk export pipeline. First oil through the new facilities was envisaged in 2019, although this date has now been deferred to 2020.

### **5.2. Seismic Interpretation**

The Shaikan field is covered by 3D seismic data, acquired by Gulf Keystone in 2010. The seismic reference datum is 1,300 m above mean sea level. The original processed seismic volume exhibited



poor image quality over the core of the anticline, where rocks of Cretaceous age are exposed and progressively eroded. Subsequently, GKP has undertaken post-stack reprocessing of the data over the whole of the Shaikan anticline, and image quality in the core of the anticline is much improved (Figure 5.1). The most recent PoSDM processing, completed subsequent to the Listing CPR, forms the basis of the most recent structural interpretation. Vertical Seismic Profiles (VSPs) have been acquired in Wells Shaikan-1B, Shaikan-2, Shaikan-4, Shaikan-5B and Shaikan-6 to tie wells to seismic data.



**Figure 5.1: Dip Seismic Line, Shaikan Field**

Using a combination of seismic mapping, extrapolation of structural dip, well formation dip and mapped surface structure, GKP has constructed a depth structure map of the Shaikan structure. In its simplest terms, the structure is a compressional, asymmetric anticline, with a faulted or possibly steeply folded northern limb and a subsidiary back fault developing to the south. It maps as dip closed plunging eastwards, connected to the Sheikh Adi structure to the northwest by a saddle with probable cross-faulting to the west of Well Shaikan-4. Care has been taken to map key markers (Sarmord, Barsarin and Kurre Chine) separately in the footwall and hanging wall, to ensure accurate reconstruction for volumetric purposes.

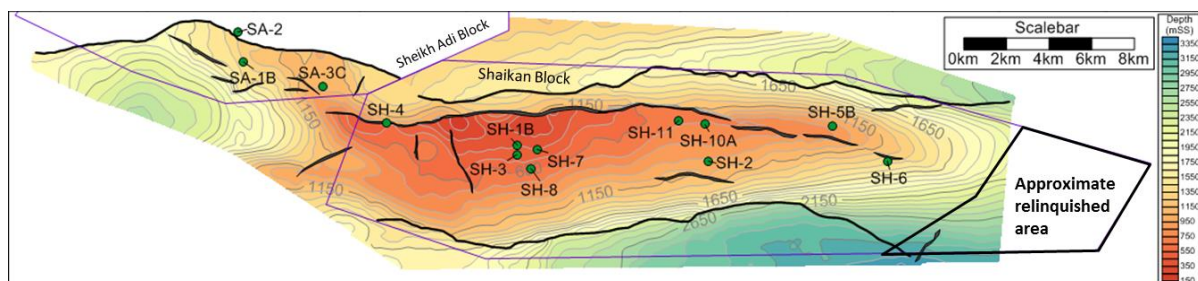
ERCE has reviewed the seismic interpretation carried out by GKP and has accepted it as a reasonable basis for estimating volumes. Although seismic image quality is now sufficient within the core of the Shaikan anticline to allow structural form to be mapped directly, we note that the field is likely to be more structurally complex than is currently mapped.

### 5.3. Depth Conversion

The Shaikan surfaces and horizons supplied by GKP had been interpreted on the PoSDM seismic volume, within the depth domain. The velocity model for this volume is described as relatively simplistic and model based, taking into account major velocity variations in the overburden. No correction was applied to the seismic volume to tie the wells so there are residual errors at well



locations. Depth error maps were used to correct these at each reservoir level before gross rock volume calculation. These errors are mostly within the range  $\pm 100\text{m}$ , consistent with the depth error estimated for the previous velocity model over the core of the field. The top Jurassic depth map for Shaikan based on the GKP seismic interpretation and used by ERCE for volumetric estimation is shown in Figure 5.2.



**Figure 5.2: Shaikan Top Jurassic Depth Map**





















## 5.4. Geological Description

### 5.4.1. Reservoir Description

Hydrocarbons were discovered in the fractured carbonates of the Cretaceous, Jurassic and Triassic intervals (Figure 5.3). Cores were cut in a number of the wells and wireline logs were acquired in all wells. However, Wells Shaikan-3, Shaikan-8, Shaikan-10A and Shaikan-11 were terminated in the Jurassic interval and therefore no data are available from these wells for the Triassic.

The hydrocarbon bearing sections in the Cretaceous that ERCE has evaluated are the Sarmord, Garagu and Chia Gara. These reservoirs comprise dolomite, limestone and shale. Matrix porosity is generally in the range from 0% to 22% with permeability generally ranging between  $<0.01$  and 50 md. The Sarmord, Garagu and Chia Gara appear, from logs, to have different fluid contacts and have been evaluated as separate reservoirs. Wells Shaikan-10A and Shaikan-11 have penetrated the northerly fault complex in the Garagu and potentially in the Chia Gara, which has led to structural thickening of the well isochores.



GKP internal stratigraphic scheme					
System	Series	Formation	Lithology		
Tertiary	Lower Palaeocene	Gercus			
		Kolosh			
Cretaceous	Upper	Shiranish			
	Middle	Bekhme			
		Kometan			
		Qamchuqa			
	Lower	Sarmord			
		Garagu			
		Chia Gara			KRI stratigraphic scheme for Jurassic
Jurassic	Upper	Barsarin			Barsarin
		Sargelu		Neokelekan	
	?Upper	Alan		Sargelu	
		Mus			
	Lower	Adaiyah		Alan	
		Butmah		Mus, Adaiyah, Butmah	
Triassic	Upper	Baluti			
		Kurre Chine A			
		Kurre Chine B			
		Kurre Chine C			
		Kurre Chine Dolomite			

**Figure 5.3: Shaikan Stratigraphy**

The Jurassic reservoir comprises, from the top, the Sargelu, Alan, Mus, Adaiyah and Butmah formations. The Barsarin formation at the top of the Jurassic is non-reservoir and the Adaiyah formation lying between the Mus and Butmah is poorer reservoir quality. Formation pressure data suggest that all the Jurassic reservoir intervals are in vertical static pressure equilibrium. Dolomite and anhydrite make up the majority of the lower part of the Jurassic, while limestone and anhydrite are prevalent in uppermost formations (Sargelu and Alan). Shales are also common across the field in the Sargelu. The lowermost Sargelu and Alan formations exhibit high gamma ray log responses, which are believed to be due to organic richness and the possible presence of bitumen. These formations are known to contain source rock in the region. The limited cored section and the results from the Nuclear Magnetic Resonance (NMR) and Elemental Capture Spectroscopy (ECS) logs prove that the interval represents a low porosity section, which contrasts markedly with values derived from the standard logs. This discrepancy has been fully accounted for in our calculations. Matrix porosity generally ranges from 0% to 15% with permeability from cores varying between <0.01 and 1 md, with occasional intervals up to 700 md.

Well Shaikan-4 penetrated the northerly fault within the Sargelu (Jurassic). Here, a repeat reservoir section due to the faulting is recognised, and from log evaluation it was concluded that hydrocarbons occur in both the hanging wall and footwall of the structure. Dips of 60° were interpreted from the image logs adjacent to the thrust in Well Shaikan-4 and highlight the distortion occurring along the thrust. This distortion was accounted for in determining the thickness value for each of the geological intervals in this well.

The Triassic section has not been fully penetrated by any well in the field and the hydrocarbons discovered to date in the field occur within the Kurre Chine A, B and C formations. These comprise



heavily anhydritic dolomites and limestones having porosity between 0 and 15% and permeability from <0.01 to 2.5 md.

#### 5.4.2. Fracture Description

From the available data, comprising fieldwork, core and image logs, ERCE has concluded that two families of fractures are present in the Shaikan field. These are the small-scale fractures (including hairline, stylolites, stratabound joints and tension gashes), which form a background fracture system that is present throughout each reservoir interval and are often partially occluded by mineralisation. The second family of fractures at Shaikan are larger scale and include non-stratabound joints, 'fracture corridors' and sub-seismic faults. The presence of this latter category was inferred by GKP, because of the possible higher fracture density interpreted in the image logs of Shaikan-10A and Shaikan-11 and frequent rubble zones in the core.

Shaikan has the form of an elongate linear feature, probably controlled by the reactivation of a basement fault (Figure 5.2). The boundary faults to the north and south define an asymmetric anticline with hinge lines and relatively little crestal bending. Based on the observations from the well data, combined with an understanding of the structural geometry and drawing upon comparisons with other structures in the region, we estimated a range of bulk fracture porosity for the Jurassic reservoirs of 0.1%, 0.4% and 0.7% for low, mid and high cases during the preparation of our previous CPR. From the additional data obtained from Well Shaikan-10A and Well Shaikan-11 and from recent production data and material balance modelling (Section 5.10) we have concluded that a narrower range of uncertainty in fracture porosity is appropriate and therefore used 0.2%, 0.4% and 0.7% as low, mid and high case estimates.

The available fracture data for the Cretaceous and Triassic are more limited than for the Jurassic, and therefore there is greater uncertainty in estimates of fracture porosity for these intervals than for the Jurassic. Image logs suggest that the Cretaceous and Triassic might have a lower fracture density than the Jurassic and therefore we have reflected this, together with consideration of the geological aspects of each interval, in our estimated ranges of fracture porosity. For the Cretaceous interval, we have used 0.05%, 0.3% and 0.7% for the low, mid and high cases. For the Triassic interval, we have used 0.1%, 0.3% and 0.7% for the low, mid and high case estimates.

Fracture porosity estimates described in this section are applicable to net reservoir only. Net-to-gross ratios for fractures were estimated by identifying poorly fractured rock such as shale and anhydrite and defining any interval of rock containing more than 50% shale or 50% anhydrite as non-net.

### 5.5. Log Analysis

The composited wireline log data for Wells Shaikan-5B and Shaikan-8 were provided by GKP in digital format, and include curves containing total gamma ray, thorium, potassium and uranium components from the spectral gamma, caliper, deep, shallow and micro resistivity, density, neutron sonic, and NMR logs. GKP also provided ERCE with interpreted logs comprising shale volume, porosity and water saturation, as well as the average reservoir properties derived from these interpretations by GKP.



ERCE analysed the wireline logs for these two wells and calculated shale volume, porosity and water saturation. The ERCE interpretations were used as a basis for auditing the log analysis provided by GKP, from which property values and ranges of uncertainty were estimated for volumetric calculations. The interpreted logs for Well Shaikan-5B are shown in Figure 5.5.

#### 5.5.1. Shale Volume

ERCE derived shale volume ( $V_{sh}$ ) from the gamma ray and density and neutron logs. Where the spectral gamma was available, the value that excludes the uranium contribution was used, and the linear gamma ray index was calculated. The density neutron method was also used to calculate  $V_{sh}$  and where the hole was in gauge the minimum value for  $V_{sh}$  estimated using the two methods was accepted. Where the hole was out of gauge, the gamma ray index method was used.

#### 5.5.2. Porosity

ERCE derived total porosity from the density neutron cross plot method where the hole was in gauge. Where the hole was over gauge the sonic porosity was used if it was lower than the density neutron porosity. Core poroperm data were available over the interval 1,936.3 to 1,947.4 mMDRKB in Well Shaikan-5B. There is generally only moderate agreement with the density neutron porosity here, but this may be in part explained by core grain densities. More than half of the core plugs show laboratory derived grain density below 2.71 g/cc, the textbook value for limestone. The mudlog showed the Alan formation over the cored interval to be composed of limestone with minor discrete shale bands. Assuming that the plugs have not been taken from the shaley bands, this implies that sample cleaning may not have removed all of the residual hydrocarbon, and in consequence the derived porosity will be too low. This is consistent with the separation between the total gamma reading and the Potassium/Thorium contribution over this interval. The separation is probably due to the contribution from Uranium bearing organic material. This separation is significant over the Alan formation, but is much less so over the predominantly clean limestone of the Mus formation.

ERCE calculated effective porosity using:

$$\phi_e = \phi_t(1 - V_{sh})$$

where:  $\phi_e$  = effective porosity  
 $\phi_t$  = total porosity  
 $V_{sh}$  = Shale volume

#### 5.5.3. Water Saturation

ERCE used the Archie equation to calculate water saturation:

$$S_w^n = FF \times \frac{R_w}{R_t}$$

$$FF = \frac{a}{\phi^m}$$

where:  $FF$  = formation factor  
 $R_w$  = formation water resistivity (ohm.m)  
 $R_t$  = resistivity log value (ohm.m)



$\emptyset$  = porosity log value  
 $a$  = Archie constant (= 1)  
 $m$  = cementation exponent  
 $n$  = saturation exponent

Special core analysis gave values of  $m=1.86$  and  $n=1.95$  for the Sargelu, and Alan formations. Other SCAL measurements gave  $m=1.90$  for the Mus Formation, and  $m=2.04$  for the Butmah Formation. For both these formations a value of 2 was used for “ $n$ ”. For other formations, saturation was calculated using “ $m$ ”=2 and “ $n$ ”=2.

ERCE calculated formation temperature with the formula:

$$T = 27 + 0.02 \times D$$

where:  $T$  = Temperature (°C)  
 $D$  = Depth (mTVDRKB)

Rw was reported to be 0.7 ohm.m @ 15.5° C in the Sarmord and Chia Gara formations, equivalent to approximately 10,000 ppm NaCl. In the Jurassic Barsarin-Mus Formation, a value of 0.45 ohm.m @ 15.5° C was used, equivalent to approximately 16,000 ppm NaCl. In the lower Jurassic Adaiyah – Baluti formations, and Upper Triassic Kurre Chine A & B formations, Rw was 0.3 ohm.m, equivalent to approximately 25,000 ppm NaCl. In the Triassic Kurre Chine C, Rw was 0.053 ohm.m, equivalent to approximately 205,000 ppm NaCl.

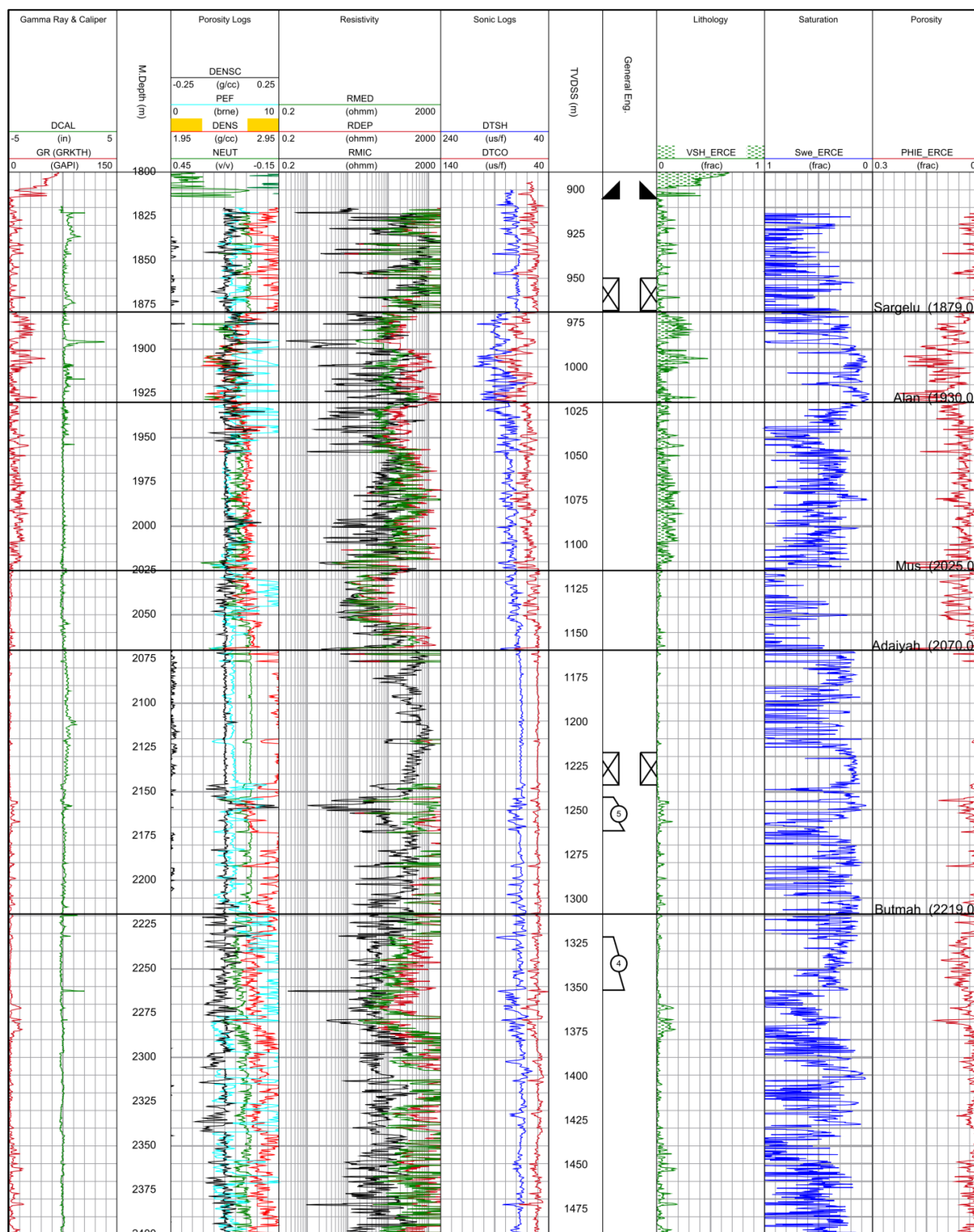
#### 5.5.4. Cut-offs

We carried out our petrophysical interpretation on two representative wells to provide a basis for auditing the reservoir property ranges provided by GKP. From our analysis, we concluded that the property ranges provided by GKP were satisfactory and these were consequently used by ERCE for making our volumetric estimates. For estimating N/G, porosity cut-offs of 7.0%, 4.5% and 3.0% were applied for the low, best and high cases. Low, best and high porosity cut-offs lead to low, best and high estimates of hydrocarbon pore thickness, with the constituent reservoir properties N/G ratio, porosity and oil saturation. The field-wide averages of N/G, porosity and saturation estimates included data from all wells where log data were available.

## 5.6. Fluid Contacts

There is uncertainty in fluid contacts in the Jurassic reservoirs of the Shaikan field. Several sources of data were analysed to identify the contacts and estimate the range of uncertainty in contact depths. These include the analysis of oil and water pressure gradients, the distinction between oil and water producing zones from DST data, analysis of wireline logs, inspection of fluid content of recovered cores and indications of fluids while drilling. Figure 5.5 shows an illustrative cross section through the Shaikan field.





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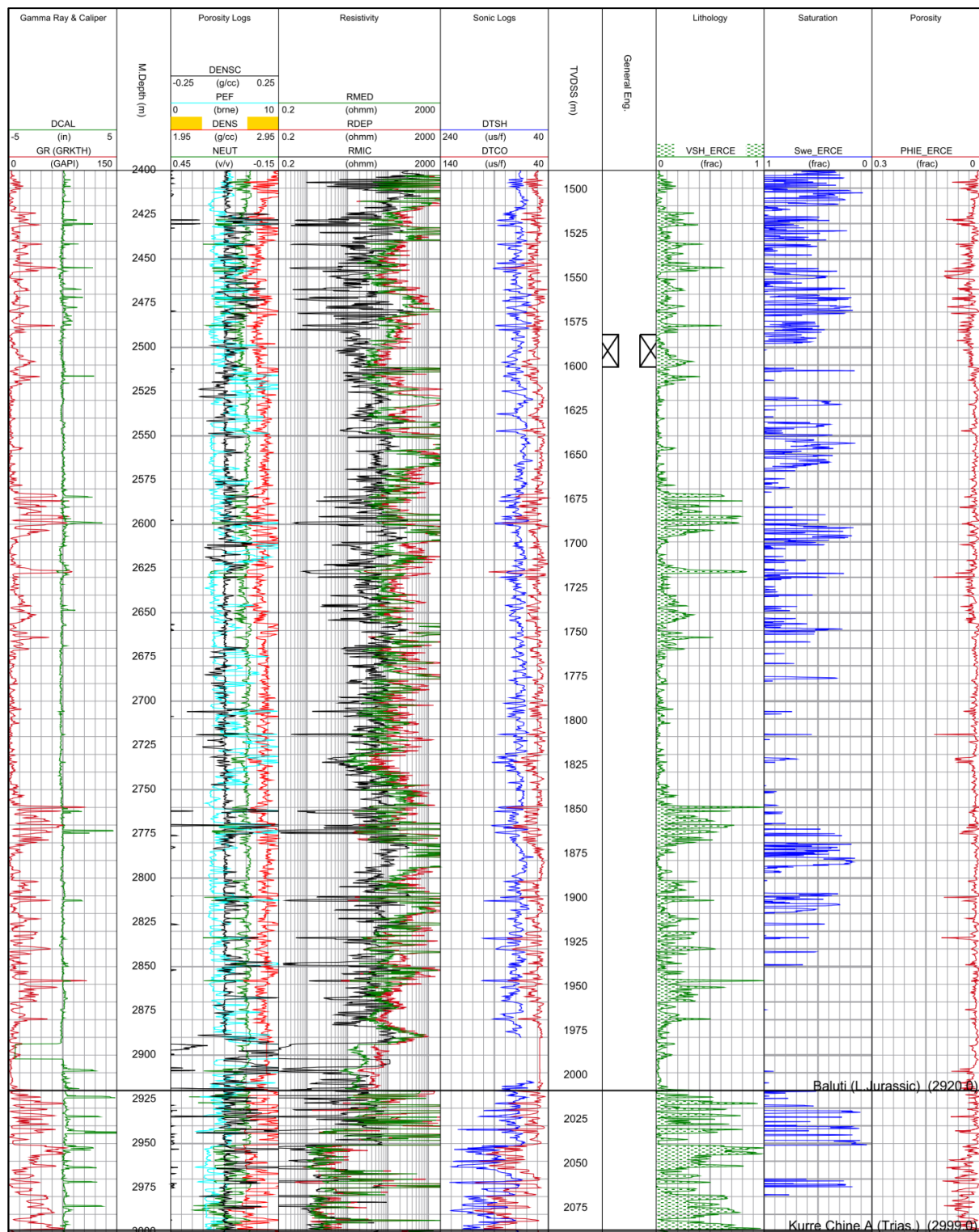
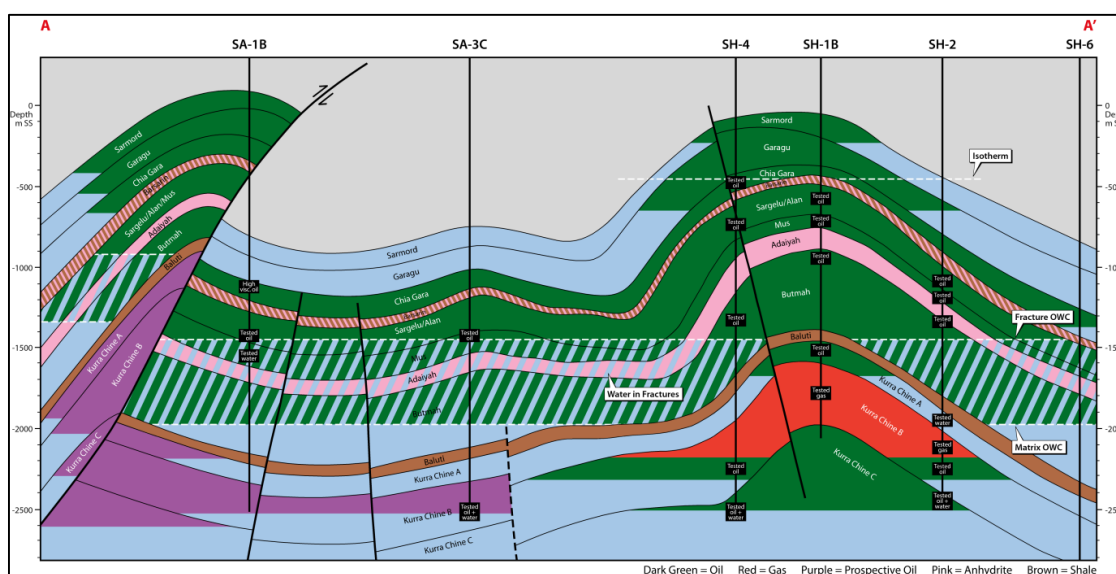


Figure 5.4: Well Shaikan-5B CPI of Jurassic Interval

Well Sheikh Adi-3C (SA-3C) was drilled within the Shaikan licence block in the saddle between Shaikan and the neighbouring Sheikh Adi field. The well was completed with downhole pressure gauges and used as an observation well. Recorded data show pressure decline closely tracking recorded pressures in the Shaikan field. This is interpreted to demonstrate hydraulic continuity in the Jurassic reservoirs between Shaikan and the footwall of Sheikh Adi. We have therefore assumed the same fluid contacts in the Jurassic in Shaikan and the footwall of Sheikh Adi based on the interpretation that the Sheikh Adi fault delimits the extent of the accumulation in the Jurassic. This is illustrated in Figure 5.5. Due to the structural relationship of the formations, it has further been assumed that continuity between Shaikan and Sheikh Adi also occurs in the Cretaceous reservoirs, whilst this is not necessarily the case for the Triassic reservoirs.



**Figure 5.5: Illustrative Cross Section through Shaikan and Sheikh Adi Fields**

It should be noted that there is uncertainty regarding the depth intervals from which fluids flowed during the flow tests and hence there is uncertainty in the interpretation of fluid contacts based on flow tests. Casing (or tubing) inserted into the well over intervals to be tested was (generally) not cemented in place, as cement would have penetrated the fractures and blocked the flow of fluids. Zone isolation was in the form of packers placed externally to the casing above and below the zone to be tested. The casing was then perforated, providing access directly to the formation across the perforations, but also to the formation behind casing via the annulus above and below the perforated interval as far as the external packers and, in the event of the formation being extensively fractured, to the formation above and below the packers via the fractures. Due to the low permeability of the matrix, flow of oil and water during testing was most likely to have come from fractures, and therefore the test results have been used to define the fluid contacts in the fractures only.

Another consideration in the analysis was whether or not a primary gas cap exists in the Shaikan field. Based on the field pressure gradient and PVT analysis, it is possible that a primary gas cap exists at the top of the structure. However, there is uncertainty in the PVT analysis where the bubble point measurements range from 1,570 psia to 1,907 psia. In addition, the reservoir temperature decreases when moving up-dip from measured data points. For the purposes of this evaluation, we have assumed that a small primary gas cap exists.



### 5.6.1. Cretaceous

Within the Cretaceous (Sarmord, Garagu and Chia Gara formations), a distinction was made between highly viscous oil at shallow depth, which is considered to be biodegraded and immobile unless heated, and oil at greater depth, which appears to have sufficiently low viscosity to flow under pressure drawdown. We have estimated in place volumes for both the shallow biodegraded oil and the deeper lower viscosity oil, but we have reported recoverable volumes only for the deeper zone of lower viscosity. The point of transition between viscous and moveable oil is likely to be related to temperature. However, there were insufficient reliable data from which to construct a temperature model of the reservoir to identify the depth of the isotherm at which this transition takes place. Consequently, the flow test results have been used to estimate this depth, which is for convenience referred to as the 'isotherm' depth.

Three attempts were made to flow test the Garagu formation in Well Shaikan-3, with perforations open between 290 mTVDSS and 410 mTVDSS in DST-1, DST-1A and DST-2A. These tests resulted in the down hole tools becoming clogged with viscous, sticky hydrocarbons. For the high case estimate, ERCE used the base of the Garagu formation tested by Well Shaikan-3 (DST-2A), at approximately 390 mTVDSS for the isotherm. DST-7 in Well Shaikan-4 was a successful test of the Chia Gara formation that flowed 130 stb/d of oil and 10 bbl/d of water from perforations over the interval 525 to 542 mTVDSS. We used the deepest perforation in Well Shaikan-4 DST-7 in the Chia Gara at approximately 540 mTVDSS for the isotherm in the low case. We assumed the most likely depth of the isotherm to occur 1/3 of the distance from the deep to shallow depths, i.e. at 490 mTVDSS.

ERCE analysed wireline logs, supported by DST results, to identify oil down to (ODT) and water up to (WUT) depths in each of the Cretaceous reservoirs. These are;

Sarmord ODT (wireline logs):	220 mTVDSS (Well Shaikan-8)
Sarmord WUT (wireline logs):	250 mTVDSS (Well Shaikan-5B)
Garagu ODT (wireline logs):	398 mTVDSS (Well Shaikan-3)
Garagu WUT (wireline logs):	1,120 mTVDSS (Well Shaikan-6)
Chia Gara ODT (test):	1,390 mTVDSS (Well Shaikan-6)

The ODT and WUT depths were used to define the low case and high case estimates of oil water contact (OWC), apart from the Chia Gara where a single value of 1,390 mTVDSS was used for all cases. In the Sarmord the best case was defined by a simple arithmetic average, while in the Garagu, due to the wide range in values, a log normal approach was used.

### 5.6.2. Jurassic

The Jurassic comprises the Barsarin, Sargelu, Alan, Mus, Adaiyah and Butmah formations, all of which contain oil apart from the Barsarin, which is considered non-reservoir. Pressure data acquired during a comprehensive campaign of flow testing suggest that the oil accumulation is continuous across all the formations of the Jurassic interval and hence fluid contacts are common to all formations. However, for volumetric estimation purposes, distinctions were made between oil occurring in the fractures and in the matrix and between clearly mobile oil and highly viscous oil in the fractures (referred to as the 'high viscosity zone'). ERCE has therefore assigned multiple sets of fluid contacts, fluid properties and recovery factors to the Jurassic accumulations according to oil quality and to whether the oil is in the fractures or the matrix.





The general model for the Jurassic interval comprises moveable oil in the fractures down to a depth of approximately 1,350 mTVDSS, below which an interval with highly viscous oil, the high viscosity zone, extends to approximately 1,450 mTVDSS. Below this depth, the fractures appear to be water bearing. However, oil has been identified in the matrix all the way down to approximately 1,950 mTVDSS. This apparent anomaly, in which water occurs in fractures surrounding oil saturated blocks of matrix (between approximately 1,450 and 1,950 mTVDSS) could be explained by possible updip leakage of the oil from the structure in recent geological time, causing drainage of the fractures accompanied by influx of water from the aquifer. It is possible that the influx of fresh water caused degradation of the oil to form an interval in the fractures of highly viscous oil or tar. Details are described below.

The log and core data from Well Shaikan-6 indicate an OWC in the matrix at 1,975 mTVDSS. Cores above this depth show high saturations of oil and oozing of oil upon release of pressure at surface. We have consequently used a depth of 1,975 mTVDSS for the OWC in the matrix for the low, best and high cases.

The OWC in the fractures (i.e. the contact between free water and the highly viscous oil in the fractures) has been estimated at 1,450 mTVDSS for the low, best and high cases. This is constrained by the results of Well Shaikan-6 DST-5A, which flowed water at a rate of 1,100 bbl/d with small amounts of heavy oil from the Sargelu formation that was perforated from 1,471 to 1,491 mTVDSS, suggesting a WUT at 1,471 mTVDSS.

Oil has been tested down to a depth estimated to be somewhere between 1,350 and 1,400 mTVDSS in the Jurassic, but no oil has been recovered in a successful flow test from the Jurassic below this. The deepest test that flowed oil at good rates from the Jurassic is DST-8 in Well Shaikan-2, which was perforated in the Butmah from 1,329 to 1,345 mTVDSS and flowed 723 stb/d of oil and 38 bbl/d of water. The depth at which the transition from medium to high viscosity oil in the fractures occurs has therefore been assumed to be 5 m below this depth, at approximately 1,350 mTVDSS. We have used 1,350 mTVDSS for the low best and high cases.

Heavy, tar-like oil was recovered from DST-7 in Well Shaikan-2 between 1,370 and 1,376 mTVDSS and water and tar-like heavy oil was recovered from DST-6 in the same well between 1,397 and 1,407 mTVDSS, defining the high viscosity zone.

Pressure data obtained from the many DSTs carried out by GKP have been used to estimate the formation pressure as a function of depth. These have been used to estimate the free water level (FWL), interpreted as the depth at which the oil pressure trend intersects the water pressure trend. Both absolute pressure and excess pressure plots have been analysed (Figure 5.8 and Figure 5.9). Due to the inherent difficulty of defining a precise relationship between pressure and depth from well test information, there is much scatter in the data points. However, the plots indicate a FWL somewhere between 1,350 mTVDSS and 1,450 mTVDSS. We have used a depth of 1,450 mTVDSS for the OWC in the fractures in the low, best and high cases.

Test results from Well Shaikan-5B appear to contradict the selection of contacts described above, in that clean water flowed from the Butmah formation that was perforated from 1,321 to 1,351 mTVDSS in DST-4. GKP has explained this by noting that the swell packer was located some 241 m deeper than the deepest perforation, i.e. at 1,592 mTVDSS, considerably below the OWC in the



fractures at 1,450 mTVDSS, resulting in a direct route behind casing between the perforations and an extensively fractured interval below the OWC. We agree that this is possible as the high density of the oil and very low viscosity of the water would allow water production via the annulus with little pressure drawdown on the well.

The recent pressure response recorded at well Sheikh Adi-3C in the Jurassic indicated it is connected to and forms part of the Shaikan field, and therefore the Shaikan Jurassic contacts have been extended into the Sheikh Adi Block. The natural geological break between the Shaikan and Sheikh Adi fields is assumed to be the main fault of Sheikh Adi structure.

We have estimated a depth of 488 mTVDSS as the greatest depth at which a primary GOC could exist, based on extrapolation of saturation pressure from PVT analyses and consideration of the intervals that were flow tested, none of which showed free flowing gas. We have used 488 mTVDSS for the low case. For the high case, we have assumed that no primary gas cap exists. For the best case, we have assumed that the GRV occupied by gas is equal to half of that in the low case.

### 5.6.3. Triassic

The Triassic interval comprises the Kurre Chine A, B and C formations, in which separate hydrocarbon accumulations were intersected. The oil in the Triassic is significantly lighter than the oil encountered in the Jurassic, with low viscosity (less than 0.5 cp). The Kurre Chine A is a relatively small light oil accumulation. The Kurre Chine B can be divided into an upper and a lower part, possibly separated by a seal. Fluids recovered during testing suggest that gas was discovered in the shallower part of the Upper Kurre Chine B with oil deeper in the Upper Kurre Chine B and in the Lower Kurre Chine B. The Kurre Chine C is the deepest interval in which hydrocarbons have been positively tested in the Shaikan field. Hydrocarbons in the Kurre Chine C appear to be a light oil. A few wells have penetrated the deeper Kurre Chine dolomites, which showed inconclusive evidence of containing hydrocarbons, possibly gas. However, the Kurre Chine dolomites have not been appraised and no resources have been attributed to them in this report.

**Triassic Kurre Chine A:** GKP has used an OWC of 1,680 mTVDSS for the Kurre Chine A. This is fairly reliably supported by extrapolation of the pressures recorded during DST-4 of Well Shaikan-1B onto a regional water line. ERCE has used this as the best case. DST-4 of Well Shaikan-1B tested dry oil at a rate of 1,784 stb/d over an interval from 1,518 to 1,598 mTVDSS. ERCE used a depth of 1,640 mTVDSS, approximately midway between the greatest depth of the interval from which dry oil flowed (1,598 mTVDSS) and the best case OWC of 1,680 mTVDSS for the low case OWC. ERCE used 1,720 mTVDSS for the high case OWC, resulting in a symmetric distribution. DST-5 of Well Shaikan-2 flowed water from an interval between 1,856 and 1,964 mTVDSS and DST-3 of Well Shaikan-4 flowed water from an interval from 1,969 to 1,984 mTVDSS. Pressures from these two water tests confirm the regional water gradient. The same set of contacts was used for the fractures and the matrix.

**Triassic Kurre Chine B:** Two alternative interpretations of the dataset for the Kurre Chine B lead to two different reservoir models. In the first model, the KCB Upper and KCB Lower are in pressure communication with an oil accumulation and gas cap and fluid contacts that are common to both intervals. In the second model, the KCB Upper and KCB lower are separated by a seal, with different pressures and fluid contacts. In this model, KCB Upper is an oil accumulation with a gas cap, while





KCB lower is an oil accumulation which may not have a gas cap. Data were insufficient to conclusively eliminate either one of these models. ERCE adopted the first model on the basis that the pressure measurements more strongly support a single continuous accumulation of oil with a gas cap. This model leads to more conservative estimates of Resources than the alternative model.

We defined the depth to the gas oil contact (GOC) by analysing test results. Well Shaikan-1B tested gas in DST-5 from an interval between 1,755 and 1,775 mTVDSS and Well Shaikan-2 tested gas in DST-4A from an interval between 2,121 and 2,127 mTVDSS, both in the KCB Upper. The greatest depth in an interval from which gas flowed was therefore 2,127 mTVDSS. This was defined as a gas down to (GDT) and was used for the high case GOC. Well Shaikan-4 DST-2 flowed oil at a rate of 5,086 stb/d from an interval between 2,234 and 2,254 mTVDSS in the KCB Lower. The shallowest depth of an interval from which oil flowed was therefore 2,234 mTVDSS. This was defined as an oil up to (OUT) and used by ERCE for the low case GOC. We set the best case GOC at 2,180 mTVDSS, half way between the low and high case GOCs. Oil was also tested in Well Shaikan-2, DST4, which flowed 2,620 stb/d from a KCB lower interval between 2,288 and 2,297 mTVDSS and Well Shaikan-5B DST 3, which flowed 600 stb/d from a KCB lower interval between 2,290 and 2,302 mTVDSS. The greatest depth of an interval from which oil flowed was therefore 2,302 mTVDSS, defined as an ODT and used by ERCE for the low case OWC. Water was tested from greater depths: Well Shaikan-6 DST-2 flowed water between 2,700 and 2,710 mTVDSS and Well Shaikan-6 DST-1 flowed water between 2,817 and 2,850 mTVDSS.

Extrapolation of pressures obtained from all these tests suggest that the greatest reasonable depth for an OWC is approximately 2,410 mTVDSS (described in Section 5.9.1) and we used this for the high case. GKP used a depth of 2,325 mTVDSS for the most likely OWC, approximately 25% of the depth difference between the low and high case OWCs. This is reasonable and was used by ERCE for the best case.

**Triassic Kurre Chine C:** Well Shaikan-2 tested oil at a rate of 1,000 stb/d and water at a rate of 900 bbl/d from an interval open between 2,426 and 2,506 mTVDSS. We have consequently set the low and best case OWCs at 2,426 and 2,506 mTVDSS respectively.

Well Shaikan-4 DST-1A tested oil at a rate of 440 stb/d with water at a rate of 68 bbl/d in a barefoot test from 2,324 to 2,611 mTVDSS. The well was tested with a fish in the hole, up to 2,508 mTVDSS. A production logging tool (PLT) showed that gas with some oil was flowing around the fish from below, but it was not clear what the hydrocarbon type was, nor which formation it was coming from, although it did suggest that hydrocarbons might exist below the depth of the best case OWC. A single pressure point obtained from this test was extrapolated to the regional water gradient, giving an estimate to the OWC at 2,947 mTVDSS. However, the extrapolation is tenuous and confidence in this depth as an OWC is much less and consequently we have used this depth to define the high case OWC.

## 5.7. Gross Rock Volume Estimation

### 5.7.1. Cretaceous

The structural depth map to the top of the Cretaceous Sarmord formation described in Section 5.2 was used by ERCE to generate structural depth maps to the tops of the Garagu and Chia Gara



formations using formation isochores derived from the wells. The formational isochore maps were adjusted to account for the structural thickening seen in Well Shaikan-10A and Well Shaikan-11.

ERCE estimated a range of gross rock volume (GRV) for each Cretaceous interval using the uncertainty ranges of OWCs described in Section 5.5.1. GRVs and STOIPs were estimated for the region both above and below the isotherm separating viscous immobile oil from the deeper, mobile oil. However, ERCE has reported Contingent Resources only for the oil below the isotherm. Since the entire Sarmord formation lies above the isotherm, no Contingent Resources have been reported for this formation.

#### 5.7.2. **Jurassic**

A Top Barsarin structural depth map was used by ERCE to generate structural depth maps for each Jurassic reservoir interval using formation isochores derived from the wells, in the same manner described above for the Cretaceous. ERCE estimated ranges of GRVs for the Jurassic interval for the different zones and OWCs as described in Section 5.5.2.

#### 5.7.3. **Triassic**

A top Triassic Kurre Chine A structural depth map was generated using the newly reprocessed PoSDM data, as described in Section 5.2. However, the Kurre Chine is poorly imaged in places on this new seismic data, with better imaging seen on the older volume. Rather than entirely superseding the original, the new Top Kurre Chine surface is therefore considered to represent an alternative structural possibility. The new surface, which gives larger GRVs, was therefore used with the high case contacts, as described in Section 5.5.3, to construct the high case GRV. The low case GRV was calculated using horizons derived from the old seismic data, with the low case contacts. In both cases, depth maps for the Kurre Chine B and C were created by the addition of true stratigraphic thickness isopachs derived from the wells, in the same manner described for the Jurassic and Cretaceous reservoir sections above. The mid case GRV was derived from the low and the high cases, assuming a lognormal distribution.

### 5.8. **Reservoir Fluid Properties**

GKP has collected many bottom hole and surface samples of oil and gas and has sent them to specialist laboratories for PVT analysis. Summaries of the PVT results used in the preparation of this report are shown in Table 5.1 for the Jurassic oil, Table 5.2 for the Triassic oil and Table 5.3 for the Triassic gas. ERCE has used the PVT data to estimate oil formation volume factors and solution gas oil ratios for oil zones and gas expansion factors and condensate-gas ratios for gas zones, as well as the uncertainty ranges in these properties for the purposes of estimating volumes of hydrocarbons in place. In instances where no PVT reports were available, we estimated fluid properties from an understanding of the test results. In the Cretaceous interval, the oil is very heavy or bituminous in nature and no PVT analysis has been reported. In the Jurassic interval the oil is medium to heavy with a gravity of between 14 and 20 °API and relatively high in-situ viscosity. In the Triassic interval, hydrocarbons are light oil, with a gravity of between 38 and 43 °API, and gas. The oil contained within all intervals of the field has a high content of H<sub>2</sub>S and CO<sub>2</sub>.

**Table 5.1: Shaikan Jurassic Oil PVT Summary**

Measurement/entity	Units	SH-1B	SH-1B	SH-1B	SH-1B	SH-3	SH-2	SH-2
		Sargelu	Mus	Butmah	Sargelu/ Alan	Sargelu/ Alan	Alan	Mus
DST number		1	2	7	(Note 1)	3A	1	8
Sample type <sup>(Note 2)</sup>		Rec.	Rec.	BH	BH	BH	BH	BH
Top perforations	mMDRKB	1,451	1,627	1,790	1,470	1,303	1,792	2,040
Base perforations	mMDRKB	1,510	1,668	1,815	1,540	1,513	1,836	2,058
Mid perforation depth	mTVDSS	599	763	917	621	631	1,113	1,337
Reservoir pressure	psia	1,989	2,175	2,279	1,990	2,162	2,588	2,871
Reservoir temperature	°F	119	129	128	119	120	142	149
Saturation pressure	psia	172	330	1,818	1,838	1,907	1,570	1,272
Density at reservoir	g/cc	0.914	0.924	0.860	0.856	0.859	0.883	0.904
Density at standard conditions	g/cc	0.935	0.955	0.946	0.939	0.942	0.961	0.972
Density at standard conditions	°API	19.9	16.7	18.1	19.2	18.7	15.7	14.0
Viscosity at reservoir	cp	57.70	81.70	13.52	11.41	9.85	26.25	55.88
GOR	scf/stb	57	52	413	442	480	325	240
FVF at reservoir	rb/stb	1.044	1.042	1.208	1.208	1.225	1.159	1.150
Compressibility at reservoir	10 <sup>-6</sup> psi <sup>-1</sup>	4.9	4.7	7.1	7.8	7.4	6.4	5.6
Solution gas non HC content	mol %	23.6	23.8	19.7		25.2	21.3	22.7

**Notes**

- 1) The Sargelu/Alan sample from Well Shaikan—1B was taken while the completion was being run.
- 2) 'Rec.' means recombined. 'BH' means bottom hole.

**Table 5.2: Shaikan Triassic Oil PVT Summary**

Measurement/entity	Units	SH-1B	SH-2	SH-4	SH-2
		Kurre Chine A	Kurre Chine B	Kurre Chine B	Kurre Chine C
DST number		4	4	2	3
Sample type <sup>(Note 2)</sup>		Rec.	BH		Rec.
Top perforations	mMDRKB	2,402	3,057	3,010	3,195
Base perforations	mMDRKB	2,483	3,066	3,030	3,275
Mid perforation depth	mTVDSS	1,558	2,292	2,244	2,466
Reservoir pressure	psia	3,254	4,444	4,191	6,015
Reservoir temperature	°F	151	185	183	186
Saturation pressure	psia	2,555	4,163	4,098	4,668
Density at reservoir	g/cc	0.657	0.585	0.638	0.608
Density at standard conditions	g/cc	0.810	0.819	0.840	0.833
Density at standard conditions	°API	43.2	41.2	37.1	38.3
Viscosity at reservoir	cp	0.32	0.14	0.19	0.19
GOR	scf/stb	1,086	2,647	1,719	1,873
FVF at reservoir	rb/stb	1.579	2.363	1.858	1.965
Compressibility at reservoir	10 <sup>-6</sup> psi <sup>-1</sup>	16.6	32.92		17.8
Solution gas non HC content	mol %	14.3	27.94		9.7

**Notes**

- 1) Limited data are available for Well Shaikan-4 DST-2. Information reported here is from GKP's FDP report.
- 2) 'Rec.' means recombined. 'BH' means bottom hole.

**Table 5.3: Shaikan Triassic Gas PVT Summary**

Measurement/entity	Units	SH-2
		Kurre Chine B
DST number		4A
Sample type		recombined
Top perforations	mMDRKB	2,882
Base perforations	mMDRKB	2,888
Mid perforation depth	mTVDSS	2,124
Reservoir pressure	psia	4,191
Reservoir temperature	°F	178
Saturation pressure (dew point)	psia	4,191
Density at reservoir conditions	g/cc	0.421
Condensate density at standard conditions	g/cc	0.775
Condensate density at standard conditions	°API	51.1
Viscosity at reservoir conditions	cp	0.08
CGR	stb/MMscf	120
Z factor at reservoir conditions	dimensionless	0.826
Expansion factor from reservoir conditions	scf/rcf	281

**5.8.1. Cretaceous**

For all of the Cretaceous formations, we used a formation volume factor (FVF) of 1.0 rb/stb for both the shallow, highly viscous and immobile oil and for the deeper, mobile oil in the fractures and in the



matrix. No uncertainty range was applied to the FVF. We assumed that no gas would be liberated from the produced oil. No data were available to confirm these assumptions, but they are consistent with the known heavy nature of the oil.

### 5.8.2. Jurassic

We estimated the oil FVF for the Jurassic above the high viscosity zone from PVT reports of good quality oil samples. The arithmetic mean of the FVFs from reliable samples is 1.19 rb/stb. We used this value for the best case and applied an uncertainty range of approximately  $\pm 3\%$  to give low, best and high case values of 1.22 rb/stb, 1.19 rb/stb and 1.16 rb/stb. This range was applied to the oil in all the Jurassic formations in the fractures and in the matrix down to the top of the high viscosity zone. For the high viscosity zone in the fractures we used a FVF of 1.00 rb/stb for low, best and high cases. No PVT data were available to support this value but it is consistent with the heavy nature of the oil. In the case of the matrix, the oil between the top of the high viscosity zone in the fractures and the OWC in the matrix at 1,975 mTVDSS, was assigned a range of FVFs of 1.10, 1.05 and 1.00 rb/stb for the low, best and high cases. No data were available to support these values but the oil is known to be heavier than the shallower oil in the matrix and hence should have lower values for the FVF.

We have used a value for the GOR of 390 scf/stb for oil in all Jurassic formations in both the matrix and fractures down to the top of the high viscosity zone for the best case and applied an uncertainty range of approximately  $\pm 10\%$ . For the oil in the fractures in the high viscosity zone we have not attributed any solution gas. In the case of the matrix, GKP used a GOR value of 200 scf/stb for the oil between the top of the high viscosity zone in the fractures and the OWC in the matrix at 1,975 mTVDSS. No data were available to support this value, but it appears reasonable considering the nature of the oil discovered while drilling, coring and attempting flow testing. We used this for the best case and applied an uncertainty range of  $\pm 10\%$ .

### 5.8.3. Triassic

**Triassic Kurre Chine A:** ERCE used the results of PVT laboratory experiments carried out on oil samples collected during DST-4 of Well Shaikan-1B to define properties for volumetric estimation. The laboratory derived oil formation volume factor of 1.58 rb/stb was used for the best case input and an uncertainty range of  $\pm 5\%$  was applied. The laboratory derived gas oil ratio of 1,086 scf/stb was used for the best case with a  $\pm 10\%$  uncertainty range. The non-hydrocarbon fraction of the solution gas was estimated to be approximately 14 % (molar).

**Triassic Kurre Chine B:** Two sets of samples were recovered from the gas cap, during DST-5 of Well Shaikan-1B and during DST-4A of Well Shaikan-2. When Well Shaikan-1B was tested, the wellbore was open to both the gas cap in the KCB, from 1,951 to 1,961 mTVDSS and a deeper oil bearing zone. Therefore, the PVT analysis of the samples from this test, which shows a very high condensate gas ratio (CGR), is probably not representative. Samples were recovered during DST-4A from Well Shaikan-2. The sample that was analysed in the laboratory was reported to exhibit dew point characteristics, i.e. it is likely to be in the gas phase at reservoir conditions. There is considerable uncertainty regarding the CGR, both in terms of fluid sampling representativeness and also as separator conditions are not yet defined. ERCE has used a range from 108 to 180 stb/MMscf for volumetric purposes, with a mid case estimate of 120 stb/MMscf. The range of gas expansion factors was estimated to be 238, 250 and 263 scf/rcf for the low, best and high cases. The dry gas is



expected to contain approximately 29% (molar) of non-hydrocarbons (primarily H<sub>2</sub>S and CO<sub>2</sub>). These non-hydrocarbon gas volumes were removed from the estimated recoverable gas volumes before reporting.

For the oil interval in the KCB, ERCE used PVT analyses from DST-4 of Well Shaikan-2 and DST-4 of Well Shaikan-4. We selected a range for the oil formation volume factor of 2.33, 2.12 and 1.91 rb/stb for the low, best and high cases with a corresponding range in GOR of 1,856, 2,183 and 2,510 scf/stb. We estimated that approximately 28% (molar) of the solution gas comprises non-hydrocarbon components.

**Triassic Kurre Chine C:** Fluid samples from Well Shaikan-4 DST-1A show very high gas content and have not been used by ERCE. An oil sample obtained from Well Shaikan-2 during DST-3 was analysed in a PVT laboratory and the results have been used to estimate fluid properties. We used the laboratory derived oil formation factor of 1.97 rb/stb to define the best case value and applied a  $\pm 10\%$  uncertainty range. Likewise, the laboratory derived GOR of 1,873 scf/stb was used to define the best case value, with a  $\pm 15\%$  uncertainty range. The solution gas was estimated to contain approximately 10% (molar) of non-hydrocarbon components, which have been removed before reporting of volumes.

## 5.9. Volumetric Input Parameters

Details of the ranges of parameters used by ERCE for estimating STOIP and GIIP for each reservoir interval are shown in Table 5.4 for the Cretaceous, Table 5.5 for the Jurassic and Table 5.6 for the Triassic formations. These parameters were used as input into the probability distribution functions for estimating Contingent Resources as described in Section 5.10. For fractures, we applied the fracture porosity ranges described in Section 5.3.2 to the net rock volume.





Table 5.4: Volumetric Input Parameters for Shaikan Cretaceous

Property	Sarmord			Garagu			Chia Gara		
	Low	Best	High	Low	Best	High	Low	Best	High
<b>Matrix</b>									
GRV (10 <sup>6</sup> m <sup>3</sup> )	3,160	3,393	3,629	5,308	12,229	23,711	20,141	20,141	20,141
N/G (fraction)	0.090	0.121	0.134	0.025	0.028	0.028	0.060	0.068	0.069
Phi (fraction)	0.141	0.114	0.102	0.159	0.151	0.150	0.133	0.125	0.125
So (fraction)	0.654	0.639	0.634	0.515	0.511	0.510	0.650	0.642	0.641
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Fractures</b>									
GRV (10 <sup>6</sup> m <sup>3</sup> )	3,160	3,393	3,629	5,308	12,229	23,711	20,141	20,141	20,141
N/G (fraction)	0.720	0.720	0.720	0.560	0.560	0.560	0.310	0.310	0.310
Phi (fraction)	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070	0.0005	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

**Notes**

- 1) GRV estimates in this table are above and below the isotherm depth at which oil becomes mobile.
- 2) No recoverable volumes are reported for the Sarmord formation as the entire reservoir interval lies above the isotherm depth.



Table 5.5: Volumetric Input Parameters for Shaikan Jurassic Oil

Property	Sargelu			Alan			Mus			Adaiyah			Butmah		
	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High	Low	Best	High
<b>Matrix</b>															
GRV (10 <sup>6</sup> m <sup>3</sup> )	14,386	14,724	15,062	17,083	17,102	17,120	8,810	8,810	8,810	16,049	16,049	16,049	59,632	59,632	59,632
N/G (fraction)	0.028	0.042	0.064	0.131	0.204	0.271	0.240	0.301	0.344	0.028	0.054	0.075	0.056	0.114	0.159
Phi (fraction)	0.095	0.078	0.066	0.127	0.093	0.080	0.126	0.115	0.106	0.095	0.078	0.068	0.102	0.080	0.075
So (fraction)	0.691	0.671	0.665	0.652	0.655	0.653	0.605	0.602	0.601	0.712	0.724	0.714	0.660	0.651	0.643
Bo (rb/stb)	1.22/1.10	1.19/1.05	1.16/1.00	1.22/1.10	1.19/1.05	1.16/1.00	1.22/1.10	1.19/1.05	1.16/1.00	1.22/1.10	1.19/1.05	1.16/1.00	1.22/1.10	1.19/1.05	1.16/1.00
<b>Fractures</b>															
GRV (10 <sup>6</sup> m <sup>3</sup> )	10,937	11,275	11,613	11,580	11,599	11,617	5,613	5,613	5,613	9,030	9,030	9,030	22,263	22,263	22,263
N/G (fraction)	0.530	0.530	0.530	0.970	0.970	0.970	0.970	0.970	0.970	0.200	0.200	0.200	0.860	0.860	0.860
Phi (fraction)	0.0020	0.0040	0.0070	0.0020	0.0040	0.0070	0.0020	0.0040	0.0070	0.0020	0.0040	0.0070	0.0020	0.0040	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.22/1.00	1.19/1.00	1.16/1.00	1.22/1.00	1.19/1.00	1.16/1.00	1.22/1.00	1.19/1.00	1.16/1.00	1.22/1.00	1.19/1.00	1.16/1.00	1.22/1.00	1.19/1.00	1.16/1.00

**Notes**

- 1) GRVs reported in this table include oil in the fractures above and below the depth at which the transition from highly viscous oil to less viscous oil takes place (1,350 mTVDSS) down to the OWC in the fractures (1,450 mTVDSS).
- 2) GRVs reported in this table include oil in the matrix down to the OWC in the matrix (1,975 mTVDSS) below the OWC in the fractures (1,450 mTVDSS).
- 3) For each case two values are reported for FVF. The low value applies to the region of high viscosity oil and vice versa.



Table 5.6: Volumetric Input Parameters for Shaikan Jurassic Gas Cap

Property	Sargelu			Alan		
	Low	Best	High	Low	Best	High
<b>Matrix</b>						
GRV ( $10^6 \text{ m}^3$ )	676	338	0	37	19	0
N/G (fraction)	0.028	0.042	0.064	0.131	0.204	0.271
Phi (fraction)	0.095	0.078	0.066	0.127	0.093	0.080
So (fraction)	0.691	0.671	0.665	0.652	0.655	0.653
Eg (scf/rcf)	119	132	145	119	132	145
<b>Fractures</b>						
GRV ( $10^6 \text{ m}^3$ )	676	338	0	37	19	0
N/G (fraction)	0.530	0.530	0.530	0.970	0.970	0.970
Phi (fraction)	0.0020	0.0040	0.0070	0.0020	0.0040	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000
Eg (scf/rcf)	119	132	145	119	132	145

Notes

- 1) Gas volumes reported in this table are free gas in the gas cap and exclude solution gas in the oil leg.
- 2) Gas volumes reported in this table are wet gas volumes.
- 3) Gas volumes reported in this table include non-hydrocarbon components.



Table 5.7: Volumetric Input Parameters for Shaikan Triassic Oil

	Kurru Chine A			Kurru Chine B Oil			Kurru Chine C		
	Low	Best	High	Low	Best	High	Low	Best	High
<b>Matrix</b>									
GRV ( $10^6$ m <sup>3</sup> )	1,778	2,669	4,006	3,093	5,859	11,099	8,039	15,127	28,465
N/G (fraction)	0.032	0.125	0.197	0.060	0.122	0.170	0.035	0.053	0.073
Phi (fraction)	0.086	0.064	0.055	0.097	0.075	0.064	0.092	0.081	0.084
So (fraction)	0.698	0.659	0.647	0.709	0.699	0.683	0.731	0.687	0.708
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91	2.17	1.97	1.77
<b>Fractures</b>									
GRV ( $10^6$ m <sup>3</sup> )	1,778	2,669	4,006	3,093	5,859	11,099	8,039	15,127	28,465
N/G (fraction)	0.660	0.660	0.660	0.580	0.580	0.580	0.430	0.430	0.430
Phi (fraction)	0.0010	0.0030	0.0070	0.0010	0.0030	0.0070	0.0010	0.0030	0.0070
So (fraction)	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Bo (rb/stb)	1.66	1.58	1.50	2.33	2.12	1.91	2.17	1.97	1.77



Table 5.8: Volumetric Input Parameters for Shaikan Triassic Gas Cap

	Kurre Chine B Gas		
	Low	Best	High
<b>Matrix</b>			
GRV ( $10^6 \text{ m}^3$ )	21,495	15,816	11,638
N/G (fraction)	0.060	0.122	0.170
Phi (fraction)	0.0972	0.0754	0.0640
So (fraction)	0.709	0.699	0.683
Eg (scf/rcf)	238	250	263
<b>Fractures</b>			
GRV ( $10^6 \text{ m}^3$ )	21,495	15,816	11,638
N/G (fraction)	0.580	0.580	0.580
Phi (fraction)	0.0010	0.0030	0.0070
So (fraction)	1.000	1.000	1.000
Eg (scf/rcf)	238	250	263

**Notes**

- 1) Gas volumes reported in this table are free gas in the gas cap and exclude solution gas in the oil leg.
- 2) Gas volumes reported in this table are wet gas volumes.
- 3) Gas volumes reported in this table include non-hydrocarbon components.



## 5.10. Dynamic Evaluation

The reservoir engineering dataset for the Shaikan field comprised a large number of DSTs carried out in all intervals in multiple wells and PVT laboratory reports for a comprehensive set of oil, gas and water samples. DST programmes in the Cretaceous have been hindered by mechanical difficulties and the bituminous nature of the oil, with the exception of Well Shaikan-4 which flowed oil at a rate of 130 stb/d from the Chia Gara formation during DST-7.

In the Jurassic many DSTs have been carried out successfully with oil flowing to surface from the Sargelu, Alan, Mus, Adaiyah, and Butmah formations, including a long term interference test between Wells Shaikan-1B and Shaikan-3. In some wells high flow rates were achieved from individual zones with little pressure drawdown, indicating high flow potential of the fracture system. However, several other DSTs failed to flow to surface or had low flow rates, due to low productivity and viscous oil, and in some cases due to mechanical problems. In the Triassic, several DSTs were conducted, flowing light oil and gas to surface, in some cases at high rates.

The Jurassic reservoirs have been on stream almost continuously since December 2013. Production has been primarily from the upper Jurassic with eight wells producing from these intervals and one well producing from the lower Jurassic. The nine production wells and two observation wells are fitted with downhole memory pressure gauges, providing invaluable reservoir information.

Special core analysis has been carried out on core plugs from Well Shaikan-2, Well Shaikan-4 and Well Shaikan-6. These included centrifuge air-brine capillary pressure measurements, gas-oil and water-oil relative permeability measurements and electrical measurements.

### 5.10.1. Well Tests and Interference Testing

Attempts to take Modular Formation Dynamic Tester (MDT) and Repeat Formation Tester (RFT) pressure measurements in Shaikan have been unsuccessful, due to the highly fractured nature of the reservoir rock. GKP has carried out an extensive DST programme, attempting approximately 47 DSTs at different intervals in Wells Shaikan-1B, Shaikan-2, Shaikan-3, Shaikan-4, Shaikan-5B, Shaikan-6 and Shaikan-8. Some of the tests showed extremely high potential flow rates, which is attributed to the well having penetrated natural fractures. Other tests were unsuccessful, with low or no flow, due to the bituminous nature of the oil in places, and possibly the paucity of connected fractures in parts. In addition, some tests failed due to operational difficulties.

The carrying out of DSTs has been operationally challenging, due to safety considerations caused by the high H<sub>2</sub>S content of produced fluids. Operational challenges were also caused by the fractured nature of the reservoir, which made it impossible to obtain reliable reservoir information by testing with cemented and perforated liners. GKP employed a variety of testing techniques, including open hole tests and by perforating through un-cemented casing with external inflatable packers. In addition, the high density and viscosity of the oil required the use of nitrogen lift to initiate and in some instances, to maintain flow of reservoir fluids to surface. These factors combined to make the interpretation of the DSTs difficult. However, GKP has largely addressed the ambiguity in DST interpretations caused by these limitations by conducting a large number of tests, thereby improving confidence in the overall results through repetition.





Sufficient data were gathered to ascertain oil productivity from the Jurassic and Triassic, to determine pressure gradients within the reservoirs and to identify fluid contacts. While most tests in the Jurassic produced dry oil, water was produced from Well Shaikan-5B and from Well Shaikan-6 at depths above the depth to which oil had been identified in the matrix, leading to a fairly complex model to explain the relationship between oil in the fractures and matrix (Section 5.5.2). Several tests in the Triassic produced water and samples were collected from the Kurre Chine A and Kurre Chine C reservoir intervals. In addition to the DST tests, GKP conducted a long term interference test between Wells Shaikan-1B and Shaikan-3.

GKP recorded pressures with gauges deployed down hole during the DSTs, obtaining data that could be subjected to pressure transient analysis to obtain reservoir information. Some of these data were interpretable, while other datasets were not, often due to non-stabilised flow rates caused by operational challenges. GKP's interpretation of test data indicated variable flow capacity with the permeability-thickness product over different zones ranging from 12 to nearly 10,000 Darcy.ft. The latter value is high and corresponds to a well productivity index greater than 100 stb/d/psi, suggesting significant flow contribution from the fracture network.

Wells Shaikan-1B and Shaikan-3, located 500 m apart, were put on long term production test on 20 September 2010 (Figure 5.8). Both wells produced from the Upper Jurassic reservoirs. Production was intermittent, with periods of flow interspersed with long periods of shut-in. This allowed the pressure readings in both wells to be analysed for interference effects. GKP's interpretation of the data showed very good communication between the wells in the Upper Jurassic.

From the down hole pressure gauges deployed during the DSTs, a total of 33 estimates of reservoir pressure were made. Pressure as a function of depth is illustrated in Figure 5.6. The pressure data were also transformed to excess pressure, illustrated in Figure 5.7. Excess pressure is the amount by which the absolute pressure at a point deviates from the regional water pressure. Plots of excess pressure vs. depth sharpen the definition of fluid contacts. Due to the interpretive nature of the pressure build-up data and the need to extrapolate from gauge depth to reservoir depth, pressure plots based on DST pressures are subject to greater uncertainty than pressure plots based on MDT or RFT datasets for the purposes of defining fluid contacts.

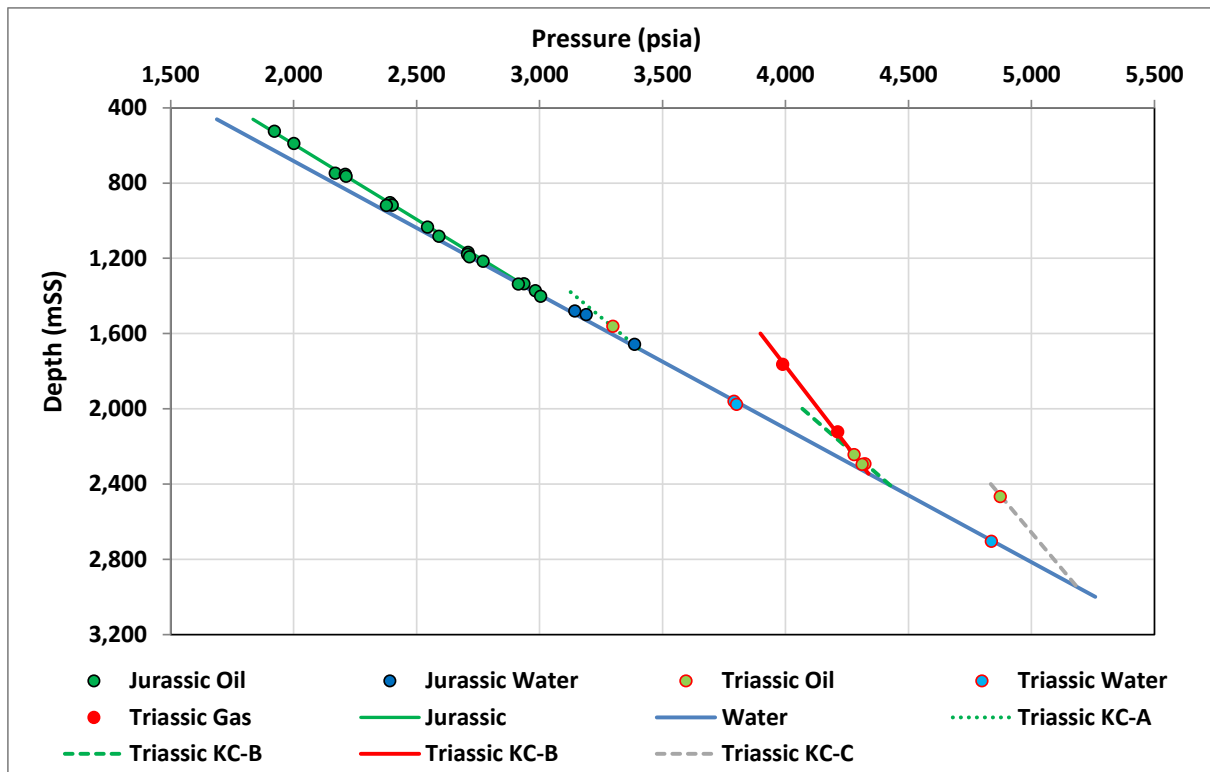


Figure 5.6: Shaikan Pressure vs Depth

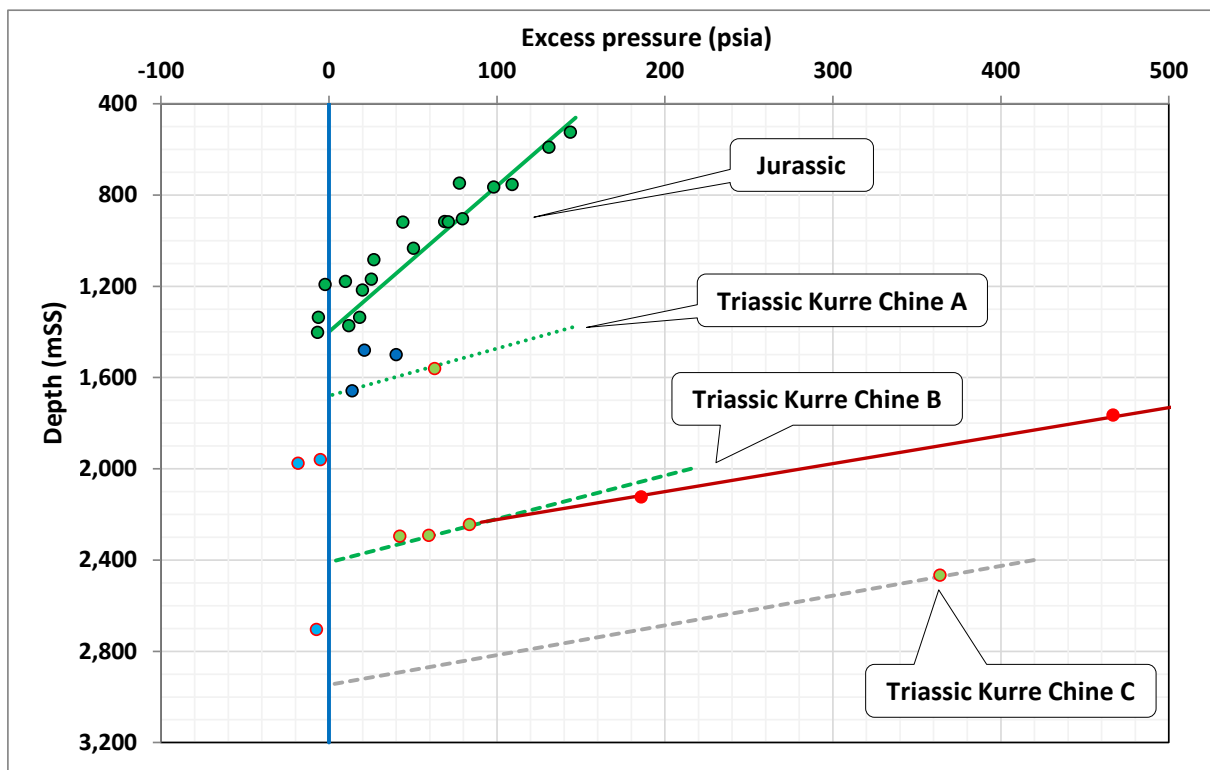


Figure 5.7: Shaikan Excess Pressure vs Depth



### 5.10.2. Historical Production from the Jurassic Reservoirs

The Jurassic reservoirs have been on stream almost continuously since December 2013 (Figure 5.8), apart from a period between mid-February 2015 and mid-March 2015 and a period between the latter part of February and mid-March 2016 when the field was shut in due to disruption of the pipeline export route through Turkey. Production was initially from two wells flowing at a combined rate of approximately 10 Mstb/d. This was progressively ramped up with more wells coming on stream. The current peak deliverability of the wells is close to the handling capacity of the production facilities of 45 Mstb/d. The field produced at an average oil rate of approximately 33 Mstb/d from up to nine wells during the period from 1 January 2016 to 30 June 2016. The average rate was adversely affected by the shut down early in the year. During the past three months production has remained steady at approximately 39 Mstb/d. Cumulative oil production to 30 June 2016 was 25.1 MMstb.

Production has been primarily from the upper Jurassic with eight wells producing from these intervals and one well (Well Shaikan-7E) producing from the lower Jurassic. Historical production on a well-by-well basis is shown in Figure 5.8. As at the date of this report there has been no evidence of excess gas production. There have been minor water production levels recorded in Well Shaikan-2, which has necessitated the well being choked back in the past six months. Small quantities of water have also been detected in Well Shaikan-8, which has accordingly been shut in due to the low tolerance for water in the production facilities. GKP believes the water produced to date is drilling fluid lost to the reservoir during drilling and completion operations. GKP plans to address this within the next year with the installation of desalters to allow some water production.

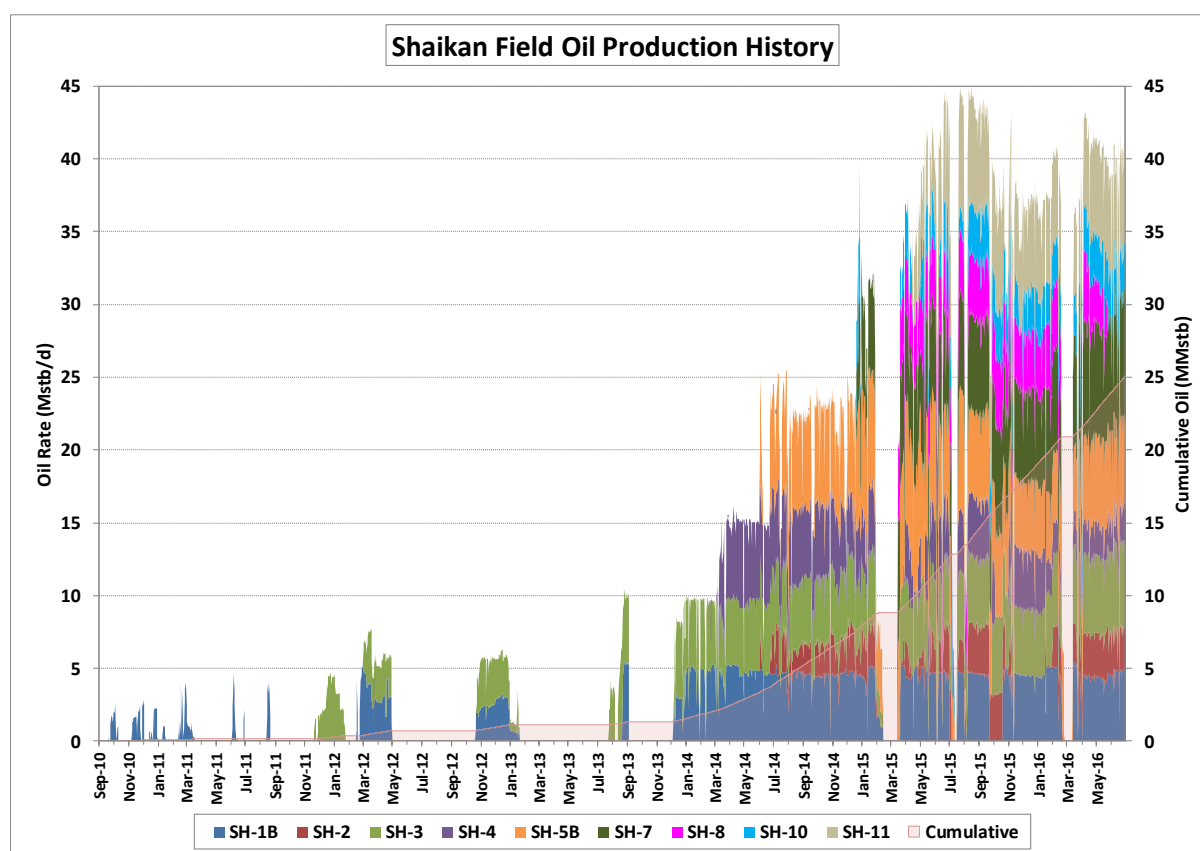


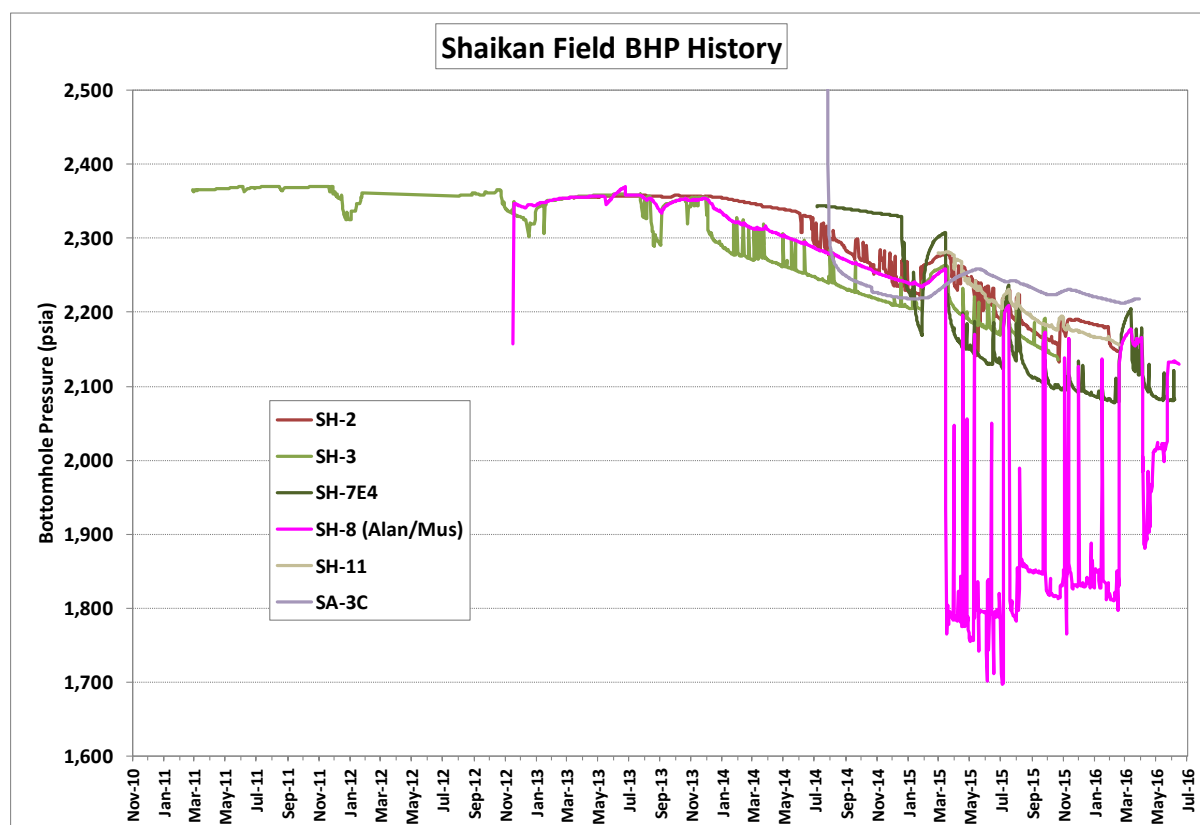
Figure 5.8 Shaikan Historical Production



Historical downhole pressure measurements over field life recorded in a selection of wells completed in the Jurassic are shown in Figure 5.9. These include the Lower Jurassic producer Shaikan-7E and the observation Well Sheikh Adi-3 to the west of the field. Pressures are observed to decline over time as fluids are extracted from the reservoirs. This occurs in producing wells as well as those wells that are not producing (observation wells), and the pressures respond rapidly in the observation wells to the opening and closing of producing wells, suggesting generally good communication within the Upper Jurassic reservoir, although the pressure decline in the eastern part of the field (Well Shaikan-2 and Well Shaikan-11) slightly lags behind the pressure decline in the central wells (Well Shaikan-3 and Well Shaikan-8).

Well SA-3C is effectively an observation well in the saddle between Shaikan and the neighbouring Sheikh Adi field, and shows a pressure response that suggests it is in pressure communication with the Shaikan field.

Pressure data recovered from downhole gauges in Wells Shaikan-8 (not shown) and Shaikan-7E show the decline in the Lower Jurassic Butmah reservoir before Well Shaikan-7E has begun producing and this has been attributed by GKP to production from the Butmah via leaking to the Shaikan-1B perforations in the Upper Jurassic. This potential leaking introduces uncertainty in the actual volumes recovered from the Upper and Lower Jurassic and complicates material balance estimates of STOIMP.



**Figure 5.9: Downhole Pressure over Time in Selected Shaikan Jurassic Wells**

The decline in pressure observed as a result of production suggests that the natural aquifer is not responding rapidly, if at all. This has positive implications for recovery of oil, as an expanding gas cap is likely to result in higher recovery from matrix blocks than aquifer influx.



All the wells apart from Wells Shaikan-4 and Shaikan-8 show only small amounts of pressure drawdown while producing, bearing testimony to high productivity indices and high flow potential from the open fractures.

### 5.10.3. Recovery Mechanisms for the Jurassic Reservoirs

ERCE has used dynamic data provided by GKP to guide estimates of recovery factors for the Shaikan Upper Jurassic reservoirs. Contrary to initial ideas that water influx from a natural aquifer would dominate the recovery process, it now appears more likely from dynamic data acquired thus far that aquifer influx is limited and that the recovery from the field will be dominated by processes associated with pressure depletion. The primary recovery mechanisms by pressure depletion are described below.

The saturation pressure of the oil in the vicinity of the crest of the structure is at, or close to, the oil's reservoir pressure. It is possible that a small primary gas cap exists, although due to uncertainty in laboratory derived data, its existence is not unequivocal. Nonetheless, extraction of fluids from the reservoir will continue to cause the reservoir pressure to decline below the saturation pressure of the oil, starting at the crest and progressing through the column. This will result in gas being liberated in the reservoir and migrating upwards through the fracture network to the crest, where the primary gas cap, if it exists, will expand. If a primary gas cap does not exist, then a secondary gas cap will probably already have formed by now and it will increase in size as gas accumulates at the crest during ongoing pressure depletion. Due to the good communication within the fracture system and the considerable vertical extent of the oil column, in the order of 1,000 m, it is likely that a stable vertical displacement process within the fracture network will be achieved. Wells located high in the structure, such as Wells Shaikan-1B and -3, will gas out before those located deeper in the column. This is expected to occur in the next couple of years. A very high recovery factor would be achieved from the fractures by this mechanism if well offtake points are appropriately located deep in the column and if the well offtake rates and well spacing are such that gravity stable displacement is achieved.

As pressure declines in the fracture network, a pressure differential will be established between the matrix blocks and the surrounding fractures, causing movement of oil out of the blocks into the fractures that provide the conduits to the wells. This movement will be driven by expansion of the oil within the matrix blocks due to the compressibility of the oil. This expulsion will continue until the oil in the matrix blocks reaches its saturation pressure and free gas is liberated in the pore space of the matrix blocks. Recovery from the matrix via this mechanism is determined by the compressibility of the oil, the saturation pressure of the oil (which varies through the column) and the effectiveness of the transmittal of pressure within the matrix blocks, which in turn is affected by size and shape of the matrix blocks and the permeability.

The gas liberated in the matrix blocks after the pressure drops below the saturation pressure is expected to be immobile initially and it is likely that oil will continue to be liberated from the matrix blocks until the gas saturation in the matrix blocks reaches a critical value above which it becomes mobile and, due to its low viscosity relative to oil, moves preferentially out of the matrix blocks and into the fractures. At this point recovery of oil from the matrix blocks will slow down and effectively cease under a purely depletion drive scenario. Recovery of oil by this mechanism is affected primarily by the critical gas saturation, which is expected to be in the range of 5 to 10%.



A further recovery mechanism involves gravity drainage of oil from matrix blocks surrounded by gas, which is driven by the forces of capillary pressure. Recovery by this mechanism is dependent on many factors that are currently poorly constrained in Shaikan, such as the gas-oil capillary pressure of the matrix, the gas-oil relative permeability curves and crucially, the physical dimensions of the matrix blocks and capillary continuity. GKP and ERCE have carried out fairly extensive theoretical calculations to assess the range of uncertainty in this component of recovery factor.

Our understanding of the development plan provided by GKP is that the produced gas will be processed and sweet gas will be utilised in the field and possibly exported or re-injected. Sour gas will be re-injected into the reservoir. Studies are currently being undertaken by GKP to optimise the injection strategy. GKP has informed ERCE verbally that GKP has permission from the authorities to dispose of sour gas by injection into the reservoir.

ERCE estimated low, best and high case recovery factors of 60%, 75% and 90% for the medium viscosity oil in the fractures down to 1,350 mTVDSS. These recovery factors are based on the assumption that the field will be extensively developed, with an adequate number of wells and appropriate well design. Recovery from the deeper higher viscosity oil in the fractures down to the OWC at 1,450 mTVDSS will be lower and we have used recovery factors of 10% 15% and 20% for this interval.

For the matrix, there is considerable uncertainty regarding recovery factors. We have estimated low, best and high case recovery factors of 5%, 10% and 20% for the oil in the matrix down to 1,350 mTVDSS. For the interval between 1,350 mTVDSS and 1,450 mTVDSS, we have estimated low, best and high case recovery factors of 0%, 2% and 5% from the matrix. For the interval 1,450 mTVDSS to the OWC in the matrix, 1,950 mTVDSS, we have previously used low, best and high recovery factors of 0%, 2% and 5%. This interval contains large volumes of oil in the matrix, but is water bearing in the fractures and to date no viable development plan has been identified to recover these volumes. Nonetheless, based on the assumption that a viable recovery mechanism will be identified, which may require gas injection, depletion or the implementation of an improved recovery technique, we have retained our estimates of recovery factors of 0%, 2% and 5%.

#### **5.10.4. Recovery Mechanisms for the Cretaceous Reservoirs**

The highly viscous oil at shallow depth is currently considered unrecoverable, both in the fractures and in the matrix. At the time of preparing this report, no realistic method for recovering this oil was evident although further studies into the use of thermal methods might be usefully undertaken.

The lower viscosity oil at greater depth is likely to be recoverable and we assigned recovery factors of 20%, 30% and 40% for the low, best and high case estimates for the fracture network. These recovery factors are based on the assumption of an effective water drive through the fractures, either in the form of influx from a natural aquifer or from water injection. Achieving these recovery factors also relies on an adequate number of wells and appropriate well design, which have yet to be defined. GKP has included a nominal development of the Cretaceous in the Field Development Plan Addendum, which was approved by the Kurdistan authorities. However, the development concept is still immature and consequently, ERCE has classified the estimates of recoverable volumes for the Cretaceous as Contingent Resources, contingent on further clarification of the development plan.





Despite this oil being lower viscosity than the overlying oil, it is still highly viscous and therefore we do not consider the oil in the matrix to be recoverable. Within the Cretaceous interval of the Shaikan field, therefore, we have reported Contingent Resources for oil from the fractures only and, within the fracture network, only for oil occurring below the depth at which the transition from a highly viscous state to a state of lower viscosity occurs.

#### 5.10.5. Recovery Mechanisms for the Triassic Reservoirs

The Triassic reservoirs are different from the Jurassic in pressure, fluid properties and hydrocarbon column height. In the Triassic, the pressure is higher, the fluid is light oil with high GOR and rich gas condensate and the hydrocarbon columns are significantly shorter than in the Jurassic. The light nature of the oil, low viscosity and high pressure favour good recovery. Development of the Triassic has not been finalised and estimates of recoverable volumes from all reservoirs in the Triassic have been classified as Contingent Resources.

**Triassic Kurre Chine A (KCA):** The KCA reservoir has been interpreted to contain oil with no primary gas cap. Estimates of recovery factors have been based on the premise that a similar recovery mechanism will apply as for the Jurassic reservoirs. ERCE has used a range of 60%, 70% and 80% for the low, best and high cases for recovery factors from the fractures. The corresponding values for the matrix are 5%, 10% and 20%.

**Triassic Kurre Chine B (KCB):** The KCB reservoir has been interpreted to contain oil with a primary gas cap. ERCE has assumed that depletion drive with gas cap expansion would be the primary drive mechanism. We applied an uncertainty range of 60%, 70% and 80% for low, best and high cases to the free gas, the condensate and the oil in the fractures. Lower recovery factors are expected from the matrix. For oil in the matrix, we have used an uncertainty range of 5%, 10% and 20%. We have also applied this recovery factor range of 5%, 10% and 20% for solution gas in the matrix. For free gas in the matrix, we assumed an uncertainty range of 50%, 60% and 70%, while for the condensate in the matrix, we assumed a range of 20%, 30% and 40%.

**Triassic Kurre Chine C (KCC):** The KCC reservoir has been interpreted to contain oil with no primary gas cap. No development plan has been defined and no detailed analysis of recovery factors has been completed. For the fracture network the range of recovery factors used by ERCE is 60%, 70% and 80% for the low, best and high cases for oil and solution gas. The corresponding range for the matrix is 5%, 10% and 20% for oil and solution gas.

#### 5.11. Shaikan Phase 1-2 Development Plan

GKP has described the large scale development of Shaikan in the FDP (January 2013) and Addendum 01 (June 2013) submitted to the Kurdistan Authorities. GKP informed ERCE that it has received approval for its plans to proceed with the development. The FDP and Addendum focus on development of the Jurassic interval, but also include limited development of the Cretaceous and Triassic intervals, the objective being to gauge reservoir response before further development of these intervals is planned. The development described in the FDP comprises several progressive phases, defined by increasing facility capacities and well count and referred to as phases 0, 1, 2 and 3.



In the Listing CPR ERCE attributed Reserves for the development of the Shaikan Jurassic reservoirs comprising 26 wells. GKP has subsequently acquired data that suggest that the main drive mechanism is likely to be through pressure depletion and gas cap expansion. With the benefit of reservoir performance and greater confidence in the drive mechanism, GKP has been able to refine plans for the next part of the development.

In addition to the nine existing production wells, GKP's current plan comprises 32 production wells in the Jurassic reservoirs, one production well in the Cretaceous and five production wells in the Triassic reservoirs. Two further wells for gas injection and one water disposal well are planned in addition to a Permian exploration well. The development plan includes facilities upgrades to a maximum oil production capacity of 115 Mstb/d and the construction of a spur pipeline from the field to the main trunk export pipeline. We refer to this development in this CPR as 'Shaikan Phase 1-2', as it includes all of Phase 1 as described in the Field Development Plan and a substantial portion of Phase 2. The Reserves reported in this CPR are therefore based on the implementation of the Shaikan Phase 1-2 development.

This revised 'Shaikan Phase 1-2' plan was submitted to the Kurdistan authorities in a Field Development Plan Update ("FDP Update") report in December 2015. It was anticipated that approval of this plan would occur in 2016, with first oil through the new facilities occurring in early 2019.

In the light of the current low oil price environment, in early 2016 GKP and its partners deferred a Final Investment Decision for the FDP Update until end-2017, which will result in a one year delay in first oil through the new production facilities. Expenditure on the new plant is now planned to start until 2018 with first oil through the new facilities in 2020.

An interim plan, termed the "Bridge to the FDP" has been formulated, which details interim activities and expenditure to mitigate the expected decline in oil rate from the existing well stock and maintain current production levels through the existing plant until FID. This plan envisages some debottlenecking work to be carried out at the end of 2016 that will lower the inlet pressure to the separators, the installation of desalters to treat produced emulsions believed by Gulf Keystone to be formed by the mixing of oil with drilling fluid lost to the reservoir during drilling and completion, the drilling of a single well in the second half of 2017 and the installation of four electrical submersible pumps (ESPs) from April 2017 to boost the production rates. We have assumed this interim plan is implemented in the CPR. It is possible a second well may need to be drilled in the event that one or both of the two crestal Wells Shaikan-1 and -3 gas out earlier than expected.

In this CPR, as in the September 2015 CPR, ERCE has attributed Reserves based on GKPs current plans, which will bring the total development well count to 51 as set out in Table 5.9 for the low and best case scenarios. GKP plans to install further facilities in the form of a CPF with three trains, which will bring the total oil processing capacity up to 115 Mstb/d. Thus the development for which Reserves are attributed in this CPR incorporates Phase 1 and a substantial part of Phase 2 as set out in the 2013 FDP. For the purposes of this CPR, we therefore refer to this development as the 'Shaikan Phase 1-2' development. Note that for the high case, we have included 11 additional wells to drain the Jurassic reservoirs (Table 5.9).



The Shaikan Phase 1-2 development plan is focussed on the Jurassic reservoirs with a further 32 production wells planned to be drilled and completed at different levels in the Jurassic reservoirs. Some of these wells might be drilled with horizontal drainholes or as highly deviated wells. Furthermore, the plan calls for the initial development of the Triassic reservoirs with five production wells and the Cretaceous reservoirs with 1 production well.

**Table 5.9: Well count for the Shaikan Phase 1-2 Development and Basis for Reserves Estimation**

Well type	Number of Wells	
	Low and Best Cases	High Case
Existing Jurassic producing wells	9	9
Future Jurassic production wells	32	43
Future Triassic production wells	5	5
Future Cretaceous production wells	1	1
<b>Total production wells</b>	<b>47</b>	<b>58</b>
Future gas disposal wells	2	2
Future water disposal wells	1	1
<b>Total development wells</b>	<b>50</b>	<b>61</b>
Permian exploration well/ development well	1	1
<b>Total well count</b>	<b>51</b>	<b>62</b>

#### 5.11.1. Shaikan Phase 1-2 Production Forecasts

GKP has presented three sets of production forecasts, with associated capex and opex for low, best and high cases for the Phase 1 development of the Jurassic, Triassic and Cretaceous reservoirs. ERCE has modified its production forecasts presented in the September 2015 CPR to reflect the updated development plans and phasing set out in the FDP Update and the Bridge to the FDP, including the recently announced one year delay to the FDP Update timetable to reflect the deferral of FID to the end of 2017. The forecasts are presented graphically in Figure 5.10 and listed in Table 5.10 (low case), Table 5.11 (best case) and Table 5.12 (high case).

It has been assumed that export would continue by trucking to Fishkabour and then pipeline to Ceyhan until 2020, with a facility capacity of 45 Mstb/d. It has been assumed that a new Central Processing Facility (CPF) with three production trains, would be constructed and become fully operational in stages, with full production capacity reached in the first half of 2021. It has further been assumed that export via pipeline would become fully operational in 2020 giving a total production capacity of 115 Mstb/d.

In order to sustain the plateau into the future, GKP plans to commence further drilling of Jurassic wells in 2018 and has shown a nominal drilling schedule continuing through 2034, with a total of 32 further Jurassic wells over and above those already on production. How many of these wells will actually be needed, the subsurface locations of the wells and the types of wells have not been finalised and will be determined as the development unfolds. Nonetheless, ERCE believes that the overall well counts shown in Table 5.9 are adequate to recover the forecast volumes presented in Table 5.10 to Table 5.12 and Figure 5.10. Note that for the high case, we have included 11 additional wells to drain the Jurassic reservoirs

Five Triassic wells are scheduled to be drilled commencing in 2019 with first oil in 2021. A single well is planned to be drilled in the Cretaceous in 2019, to come on stream in 2020. Dynamic information from the Triassic and Cretaceous reservoirs will be used to further plan the development of these reservoirs.

The forecasts show average oil production rates that take downtime into account. The profiles shown here are forecasts to 30 June 2043 when the licence expires and are estimates of technically



recoverable volumes. These profiles have been used as input into an economic model, which has been used to estimate the economic cut-off dates for each of the cases to assign Reserves.

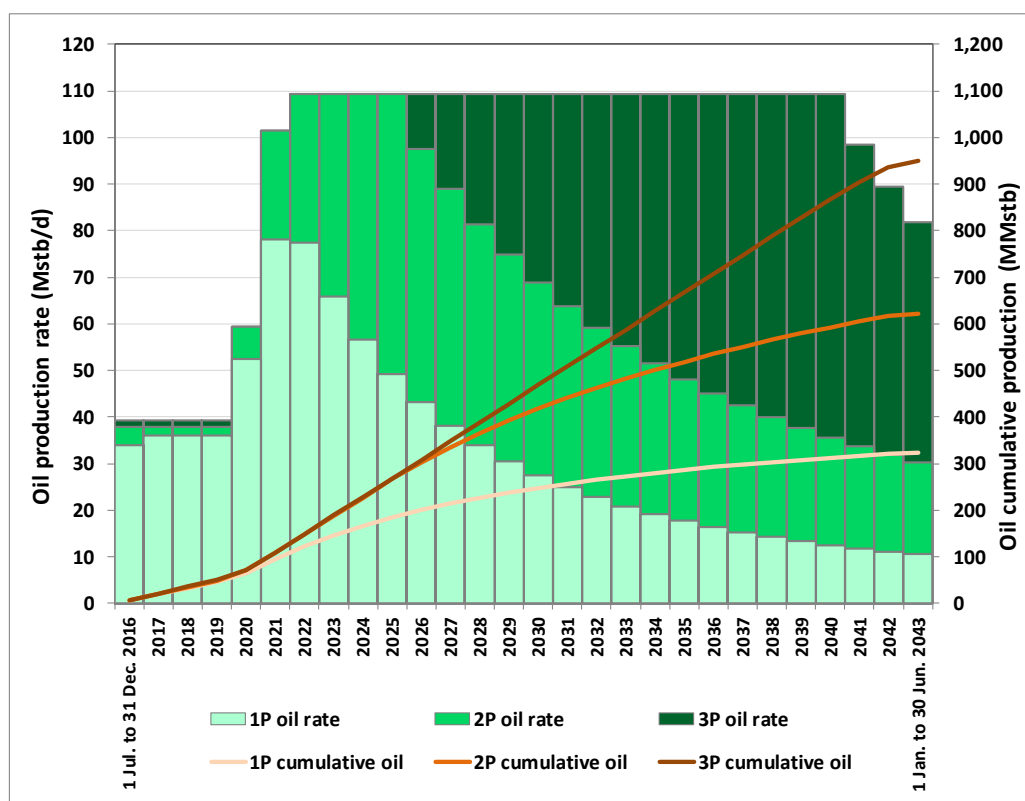


Figure 5.10: Production Forecasts for Shaikan Phase 1-2 Development

Table 5.10: Shaikan Phase 1-2 Development Low Case Production Forecasts

Year	1P							
	Shaikan Jurassic		Shaikan Triassic		Shaikan Cretaceous		Shaikan Total	
	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)
1 Jul. to 31 Dec. 2016	34.0	6.3	0.0	0.0	0.0	0.0	34.0	6.3
2017	36.0	19.4	0.0	0.0	0.0	0.0	36.0	19.4
2018	36.0	32.5	0.0	0.0	0.0	0.0	36.0	32.5
2019	36.0	45.7	0.0	0.0	0.0	0.0	36.0	45.7
2020	52.5	64.9	0.0	0.0	0.0	0.0	52.5	64.9
2021	77.4	93.1	0.0	0.0	0.7	0.3	78.1	93.4
2022	66.8	117.5	10.0	3.7	0.6	0.5	77.4	121.7
2023	57.1	138.4	8.3	6.7	0.5	0.7	65.9	145.7
2024	49.3	156.4	6.9	9.2	0.4	0.8	56.7	166.5
2025	43.0	172.1	5.9	11.4	0.4	1.0	49.3	184.5
2026	37.8	185.9	5.1	13.2	0.3	1.1	43.2	200.2
2027	33.5	198.1	4.4	14.9	0.3	1.2	38.2	214.2
2028	29.9	209.1	3.9	16.3	0.3	1.3	34.0	226.6
2029	26.8	218.9	3.5	17.5	0.2	1.4	30.5	237.8
2030	24.2	227.7	3.1	18.7	0.2	1.4	27.5	247.8
2031	22.0	235.7	2.8	19.7	0.2	1.5	25.0	256.9
2032	20.1	243.1	2.5	20.6	0.2	1.6	22.8	265.3
2033	18.4	249.8	2.3	21.4	0.2	1.6	20.8	272.9
2034	17.0	256.0	2.1	22.2	0.1	1.7	19.2	279.9
2035	15.7	261.7	1.9	22.9	0.1	1.7	17.7	286.3
2036	14.6	267.1	1.7	23.5	0.1	1.8	16.4	292.3
2037	13.6	272.0	1.6	24.1	0.1	1.8	15.3	297.9
2038	12.7	276.7	1.5	24.6	0.1	1.8	14.3	303.1
2039	11.9	281.0	1.4	25.1	0.1	1.9	13.4	308.0
2040	11.2	285.1	1.3	25.6	0.1	1.9	12.6	312.6
2041	10.6	289.0	1.2	26.0	0.1	1.9	11.8	316.9
2042	10.0	292.6	1.1	26.4	0.1	2.0	11.2	321.0
1 Jan. to 30 Jun. 2043	9.5	294.3	1.0	26.6	0.1	2.0	10.6	322.9

**Table 5.11: Shaikan Phase 1-2 Development Best Case Production Forecasts**

Year	2P							
	Shaikan Jurassic		Shaikan Triassic		Shaikan Cretaceous		Shaikan Total	
	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)
1 Jul. to 31 Dec. 2016	38.0	7.0	0.0	0.0	0.0	0.0	38.0	7.0
2017	38.0	20.9	0.0	0.0	0.0	0.0	38.0	20.9
2018	38.0	34.7	0.0	0.0	0.0	0.0	38.0	34.7
2019	38.0	48.6	0.0	0.0	0.0	0.0	38.0	48.6
2020	59.4	70.3	0.0	0.0	0.0	0.0	59.4	70.3
2021	100.4	107.0	0.0	0.0	1.0	0.4	101.4	107.4
2022	98.4	142.9	10.0	3.7	0.9	0.7	109.3	147.2
2023	98.5	178.9	10.0	7.3	0.8	1.0	109.3	187.1
2024	98.6	214.9	10.0	11.0	0.7	1.2	109.3	227.1
2025	98.7	250.9	10.0	14.6	0.6	1.4	109.3	267.0
2026	87.0	282.7	10.0	18.3	0.5	1.6	97.6	302.6
2027	79.8	311.8	8.7	21.4	0.5	1.8	88.9	335.0
2028	73.4	338.7	7.6	24.2	0.4	1.9	81.4	364.8
2029	67.7	363.4	6.7	26.6	0.4	2.1	74.8	392.1
2030	62.7	386.3	5.9	28.8	0.4	2.2	69.0	417.3
2031	58.2	407.6	5.3	30.7	0.3	2.3	63.8	440.6
2032	54.2	427.4	4.8	32.4	0.3	2.4	59.3	462.3
2033	50.6	445.9	4.3	34.0	0.3	2.5	55.2	482.4
2034	47.3	463.1	3.9	35.4	0.3	2.6	51.5	501.2
2035	44.4	479.3	3.6	36.7	0.2	2.7	48.2	518.8
2036	41.7	494.6	3.3	37.9	0.2	2.8	45.2	535.3
2037	39.2	508.9	3.0	39.0	0.2	2.9	42.4	550.8
2038	37.0	522.4	2.8	40.0	0.2	3.0	39.9	565.4
2039	34.9	535.1	2.6	41.0	0.2	3.0	37.7	579.1
2040	33.0	547.2	2.4	41.9	0.2	3.1	35.6	592.2
2041	31.3	558.6	2.2	42.7	0.2	3.1	33.7	604.4
2042	29.7	569.5	2.1	43.4	0.2	3.2	31.9	616.1
1 Jan. to 30 Jun. 2043	28.2	574.6	1.9	43.8	0.1	3.2	30.3	621.6

**Table 5.12: Shaikan Phase 1-2 Development High Case Production Forecasts**

Year	3P							
	Shaikan Jurassic		Shaikan Triassic		Shaikan Cretaceous		Shaikan Total	
	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)	Qo (Mstb/d)	Op (MMstb)
1 Jul. to 31 Dec. 2016	39.2	7.2	0.0	0.0	0.0	0.0	39.2	7.2
2017	39.2	21.5	0.0	0.0	0.0	0.0	39.2	21.5
2018	39.2	35.8	0.0	0.0	0.0	0.0	39.2	35.8
2019	39.2	50.1	0.0	0.0	0.0	0.0	39.2	50.1
2020	59.4	71.9	0.0	0.0	0.0	0.0	59.4	71.9
2021	90.4	104.9	10.0	3.7	1.0	0.4	101.4	108.9
2022	98.3	140.8	10.0	7.3	0.9	0.7	109.3	148.8
2023	98.4	176.7	10.0	11.0	0.8	1.0	109.3	188.6
2024	98.5	212.8	10.0	14.6	0.7	1.3	109.3	228.6
2025	98.6	248.7	10.0	18.3	0.7	1.5	109.3	268.5
2026	98.6	284.7	10.0	21.9	0.6	1.7	109.3	308.4
2027	98.7	320.7	10.0	25.6	0.6	2.0	109.3	348.3
2028	98.7	356.9	10.0	29.2	0.5	2.2	109.3	388.2
2029	98.8	392.9	10.0	32.9	0.5	2.3	109.3	428.1
2030	98.8	429.0	10.0	36.5	0.5	2.5	109.3	468.0
2031	99.8	465.4	9.0	39.8	0.4	2.7	109.3	507.9
2032	100.6	502.2	8.2	42.8	0.4	2.8	109.3	547.9
2033	101.4	539.2	7.5	45.6	0.4	3.0	109.3	587.7
2034	102.0	576.4	6.9	48.1	0.4	3.1	109.3	627.6
2035	102.6	613.9	6.3	50.4	0.3	3.2	109.3	667.5
2036	103.1	651.6	5.9	52.5	0.3	3.3	109.3	707.5
2037	103.5	689.4	5.4	54.5	0.3	3.4	109.3	747.3
2038	103.9	727.3	5.0	56.4	0.3	3.5	109.3	787.2
2039	104.3	765.4	4.7	58.1	0.3	3.6	109.3	827.1
2040	104.6	803.7	4.4	59.7	0.3	3.7	109.3	867.1
2041	94.2	838.1	4.1	61.2	0.2	3.8	98.5	903.1
2042	85.5	869.3	3.8	62.6	0.2	3.9	89.5	935.7
1 Jan. to 30 Jun. 2043	77.9	883.4	3.6	63.2	0.2	3.9	81.7	950.5





### 5.11.2. Wells and Surface Facilities Costs

The technical definition, specification and cost of wells, process and export facilities, as documented in various GKP documents and data sets, including the budget forecasts, have been reviewed by ERCE and found to be reasonable. In the preparation of this CPR, ERCE has made use of:

- Cost data that GKP has provided for the purposes of this review, including information provided in the FDP Update, Bridge to FDP and FEED documents.
- Costs and cost metrics prepared by ERCE during previous phases of work on this particular asset.
- Costs available to ERCE team members from analogue projects.

**Lifetime Development and Operational Costs.** Table 5.13 shows the various underlying ‘cost components’ (wells, facilities, opex). The data in Table 5.13 relate to the “best estimate case”, but are also relevant to the low and high cases, other than in the high case where the well count is greater. “Phase X” in the table relates to the additional capex required to maintain production at approximately 38 Mstb/d until the start of Phase 1-2. (Note that in Table 5.13, ESPs are included as capex items for Phase X, while they are included as opex items for Phase 1-2.)

**Table 5.13: Development Cost Components (Best Case Estimate)**

Development Cost Components	Unit Cost (US\$ MM)	Total (US\$ MM)
<b>Phase X Capex</b>		
Jurassic well, Phase X, 2017*	19.0	19.0
Capex, Phase X		24.0
New ESPs installed in existing wells, Phase X	6.5	26.0
<b>Total Phase X Capex</b>		<b>69.0</b>
<b>Phase 1-2</b>		
Well, Jurassic, Cretaceous & Disposal	23.0	805.0
Well, Triassic	41.0	205.0
Well, Permian	45.0	45.0
Owners Pre-Dev, Phase 1-2	15.0	15.0
Infrastructure, Phase 1-2		28.6
Flowline, Phase 1-2	4.0	160.0
CPF Train 1	358.2	358.2
CPF Train 2	268.2	268.2
CPF Train 3	268.2	268.2
Export pipeline, Phase 1-2		63.0
<b>Total Phase 1-2</b>		<b>2,216.2</b>
<b>Opex (all phases, not factored for part years)</b>		
Opex, Variable, \$ per bbl	0.33	200.3
Opex, Fixed, per yr (for 2017, before 2X factor for Phase 1-2)	45.7	2,271.1
Opex, Fixed, per yr (for 2022+)	91.4	
Opex, G&A, per yr	22.5	606.5
ESP Replacement, Phase 1-2	6.5	1,106.9
<b>Total Opex</b>		<b>4,184.7</b>



**Well Costs.** The costs of the various well types estimated by GKP and used in GKP's project forecasts are presented in Table 5.13. Costs were provided by GKP for development wells that target various formations (Jurassic, etc.). These well costs provided by GKP appear reasonable, when compared with actual costs of wells drilled to date.

**Surface Facilities Costs.** The components of surface facilities that contribute the most capex are the process trains, of which there are three. Cost estimates for the plant reflect the improved project definition following completion of FEED studies in early 2016.

Table 5.14 presents forecasts of capital and operating costs (in 2016 US\$) for each of the low, best and high forecasts.

**Table 5.14: Capex and Opex Forecasts for Shaikan Phase 1-2 Development.**

Year	Low Case		Best Case		High Case	
	Capex (US\$ MM)	Opex (US\$ MM)	Capex (US\$ MM)	Opex (US\$ MM)	Capex (US\$ MM)	Opex (US\$ MM)
1 Jul. to 31 Dec 2016	11.5	30.6	11.5	30.6	11.5	30.6
2017	54.2	72.5	54.2	72.7	54.2	72.9
2018	398.1	72.5	398.1	72.7	371.1	72.9
2019	543.9	94.8	543.9	95.0	543.9	93.3
2020	453.0	127.0	453.0	127.8	426.0	126.0
2021	176.7	150.8	176.7	153.5	176.7	149.8
2022	0.0	167.7	0.0	171.5	0.0	167.8
2023	54.0	166.3	54.0	171.5	54.0	167.8
2024	54.0	168.9	54.0	175.2	54.0	171.5
2025	27.0	171.8	27.0	178.9	54.0	175.2
2026	99.0	172.9	99.0	179.4	99.0	178.9
2027	54.0	177.9	54.0	183.9	54.0	184.5
2028	99.0	181.1	99.0	186.7	99.0	188.2
2029	27.0	186.2	27.0	191.5	108.0	193.8
2030	99.0	187.7	99.0	192.7	153.0	201.2
2031	54.0	185.6	54.0	190.2	108.0	203.0
2032	27.0	183.5	27.0	187.8	81.0	204.9
2033	54.0	177.7	54.0	181.8	81.0	203.0
2034	0.0	175.6	0.0	179.5	27.0	203.0
2035	0.0	168.0	0.0	171.6	27.0	197.5
2036	0.0	162.3	0.0	165.7	0.0	193.8
2037	0.0	154.7	0.0	157.9	0.0	186.3
2038	0.0	149.0	0.0	152.1	0.0	180.8
2039	0.0	143.3	0.0	146.2	0.0	175.2
2040	0.0	137.7	0.0	140.4	0.0	169.6
2041	0.0	132.0	0.0	134.6	0.0	162.8
2042	0.0	126.4	0.0	128.8	0.0	156.1
1 Jan. to 30 Jun. 2043	0.0	63.2	0.0	64.3	0.0	77.6
<b>Total</b>	<b>2,285.2</b>	<b>4,087.6</b>	<b>2,285.2</b>	<b>4,184.7</b>	<b>2,582.2</b>	<b>4,487.7</b>



## 5.12. Shaikan Economic Evaluation

ERCE has carried out economic evaluations of the Shaikan Phase 1-2 development based on production forecasts presented in Table 5.10 to Table 5.12 and on costs presented in Table 5.14.

The industry standard discounted cash flow method using a point-forward analysis of nominal net cash flows from 1 July 2016 was used in this evaluation. Projected estimates of production, price and costs through the remaining life of the field were audited. These were used to estimate net cash flows, subject to the terms of the Shaikan PSC. The net cash flows were then discounted to determine the industry standard economic metrics to determine viability and profitability of the assets.

The sections below describe the main terms of the Shaikan PSC and other related commercial terms from an economic perspective, and itemise assumptions that have been made when incorporating them into the cash flow model.

The PSC (2007) as amended by the First Amendment (2010) allows for the KRG to back in up to 20% and a Third Party Participation nominated by the KRG to take up to a maximum of 15%. Under this scenario, GKP's interest would be diluted to 54.4% (comprising 51.0% for GKP and 3.4% for the interest held in trust by TKI). ERCE has been informed by GKP that it has entered in to an agreement with Kurdistan Ministry of Natural Resources (MNR) dated 16 March 2016 (the March Agreement) which confirms the KRG's back in right of 20%. In addition, the new agreement assigns half of the Third Party interest (7.5%) to the non-government contractors pro rata to their existing working interests with the remaining 7.5% to be held by the MNR. Also the Capacity Building Value for GKP and TKI is reduced from 40% to 30%.

The March Agreement has still to be ratified by all parties through an amendment to the PSC. If amended, GKP's working interest under the PSC will be 58.0% (comprising 54.375% for GKP and 3.625% for TKI) with a cost exposure of 64.0% and the Capacity Building Value for GKP and TKI will be reduced from 40% to 30%.

GKP has requested that ERCE's Base Case economic evaluation is based on the terms set out in the March Agreement. ERCE has also run economic sensitivity cases under the terms of the current PSC assuming both fully diluted and undiluted interests. These were the fiscal terms assumed in the 2014 Listing CPR and also the CPR issued in September 2015.

### 5.12.1. Shaikan Base Case Fiscal Terms

**Government Royalty.** A royalty is payable to the KRG on all production from the Contract Area. This is applied at a rate of 10.00% on all export crude oil and is payable in cash or, if the KRG nominates, in kind.

**Cost Recovery.** The Contractor is entitled to up to 40.00% of Export Crude Oil after the deduction of Royalties for the recovery of Petroleum Costs. Unrecovered costs are carried forward for recovery in the following period but not beyond the termination of the Contract. All Available Petroleum not used for cost recovery shall be deemed Profit Petroleum. Brought forward balances relating to past costs and unrecovered costs have been provided by GKP and accounted for in the cash flow modelling.



**Profit Sharing and Capacity Building Payments.** Profit Petroleum (Profit Crude Oil and Profit Natural Gas) is the amount of Available Petroleum available after the deduction of Royalty and Cost Recovery. The Contractor is entitled to a share of the Profit Petroleum during production, determined by the R-Factor, as follows:

- $R = X / Y$ , where
- $X$  = Cumulative Revenues received by the Contractor (Cost Recovery and Profit Share),
- $Y$  = Cumulative Petroleum Costs incurred by the Contractor, from the date of the Contract.

The Contractor Share of Profit Crude Oil is determined as follows, namely at an upper level of 30% prior to breakeven reducing linearly to 15% for  $R$  above two:

- $R < 1$ : Profit Share = 30%
- $1 < R < 2$ : Profit Share =  $30 - (30 - 15) * (R - 1) / (2 - 1)\%$
- $R > 2$ : Profit Share = 15%

Capacity Building Payments (CBP) comprise 30% of the respective parties' share of Profit Petroleum, payable to the KRG and are not cost recoverable.

**Taxation.** Each Contractor entity is free of all tax on the income, assets and activity arising from the Contract (including Withholding Tax, Additional Profits Tax, Surface Tax and Windfall Profits Tax) and the KRG indemnifies each entity against any assessment of tax. The KRG share of Profit Petroleum is deemed to include the Corporate Income Tax (CIT) levied on and due from the Contractor entities, which is paid by the KRG on behalf of the Contractor.

**GKP Participation and Paying Interest.** GKP's working interest is 58.0% (comprising 54.375% for GKP and 3.625% for TKI) with a cost exposure of 64.0%.

**Net Entitlement.** GKP "Net Entitlement Reserves" are the sum of GKP's share of cost recovery oil plus GKP's portion of the Contractor's share of profit oil under the PSC terms in Kurdistan. GKP's profit oil is net of royalty and is calculated before deductions for Capacity Building Payments. The evaluation of Net Entitlement Barrels includes an additional entitlement from "Tax Barrels" arising from the deemed Corporate Income Tax under the PSC paid on GKPI's behalf from the Government's share of Profit Petroleum.

#### 5.12.2. General Economic Modelling Assumptions

**Brent Oil Price Assumptions.** ERCE has assumed a base case Brent oil price forecast and also evaluated a range of sensitivities (Table 5.15). GKP instructed ERCE to apply the following assumptions:

- Fiscal point: Shaikan production facility
- All crude oil sales deemed export sales, trucking to Fishkabour and then by pipeline to Ceyhan until 2020 when trucking will cease and all export sales will be via a new pipeline spur.
- Brent crude oil price differentials have been applied, and include all tariffs, fees and any quality banking discounts. These are netback prices and there are no additional associated costs assumed – hence no additional cost recovery for tariffs/fees.



- Transport deductions of \$5.66 per stb were assumed, as advised by GKP.
- GKP has requested ERCE to use a Shaikan quality discount to Brent for pipeline exports as shown in Table 5.16.

The oil price discount to Brent arises from oil quality considerations, notably the API gravity and sulphur content of the Shaikan crude. The MNR of the KRG currently purchases Shaikan crude at a discount of \$14.7 / stb. GKP has informed ERCE that a Heads of Terms Agreement has been concluded with the MNR dated 23 February 2016, which provides that the discount applicable (\$14.7 / stb) is subject to revision and the retroactive application of a Quality Bank pricing formula. The exact timing of the application of this term of the Agreement is unclear but GKP continues to press the MNR on the introduction of a Quality Bank and the adjustment of the current discount applicable, potentially based on an independent third party valuation. GKP has accordingly commissioned Channoil Consulting Limited (Channoil) to carry out a study of the Shaikan crude, and to produce forecasts of the discount to gain a better understanding of netback potentials from Shaikan crude.

Channoil was provided with the Low, Best and High case production forecasts prepared by ERCE, detailing the relative contributions from the three reservoir intervals; Triassic, Jurassic and Cretaceous. Crude oils from the three reservoir intervals have different quality factors and hence the blend of these affects the overall export stream and hence the discount. To date, production has been from the Jurassic only. Channoil carried out a marketing assessment of the Shaikan crude and prepared forecasts of discount to Brent corresponding to ERCE's Low, Best and High production forecast cases.

GKP has made the assumption that the current discount of \$14.7 /stb will continue for the remainder of 2016 for all three production forecast cases. GKP has further assumed that a discount of \$12.9 /stb will apply to all three production forecast cases for 2017 and 2018 and that the discounts will follow the forecasts prepared by Channoil from 2019 onwards. These assumptions made by GKP regarding oil price discounts are shown in Table 5.16. GKP has requested ERCE to use these discount forecasts in our evaluation. ERCE has not independently verified the validity of these discount forecasts.

ERCE has also carried out an economic sensitivity case based on the assumption that the current discount of \$14.7 /stb will continue into the future.

**Table 5.15: Brent Oil Price Assumptions**



Base Case ERCE Brent Assumptions (\$/bbl)	2H16E	2017E	2018E	2019E	2020E	2021E	2022E	2023E+
Real (Constant \$, 2016)	46	53	60	65	68	70	70	70
Nominal (\$ of the day)	46	54	62	69	74	77	79	+2.0% pa

Low Case ERCE Brent Assumptions (\$/bbl)	2H16E	2017E	2018E	2019E	2020E	2021E	2022E	2023E+
Real (Constant \$, 2016)	38	41	42	44	45	45	45	45
Nominal (\$ of the day)	38	42	44	47	49	50	51	+2.0% pa

High Case ERCE Brent Assumptions (\$/bbl)	2H16E	2017E	2018E	2019E	2020E	2021E	2022E	2023E+
Real (Constant \$, 2016)	53	64	73	80	86	90	90	90
Nominal (\$ of the day)	53	65	76	85	93	99	101	+2.0% pa



**Table 5.16: Shaikan Oil Price Discount to Brent Crude**

	Shaikan Oil Price Discount to Brent Crude (\$/stb, Real 2016)		
	Low	Base	High
2016	14.70	14.70	14.70
2017	12.90	12.90	12.90
2018	12.90	12.90	12.90
2019	11.30	14.50	16.80
2020	11.50	15.00	17.70
2021	11.50	15.30	18.30
2022	9.90	13.40	16.10
2023	9.90	13.40	16.10
2024	9.90	13.40	16.10
2025	9.90	13.40	16.10
2026	9.70	13.10	15.80
2027	9.80	13.20	15.90
2028	9.90	13.30	16.00
2029	9.90	13.40	16.10
2030	10.00	13.50	16.20
2031	10.10	13.50	16.30
2032	10.10	13.60	16.30
2033	10.20	13.70	16.40
2034	10.20	13.70	16.50
2035	10.20	13.70	16.50
2036	10.20	13.80	16.50
2037	10.30	13.80	16.60
2038	10.30	13.80	16.60
2039	10.30	13.90	16.60
2040	10.30	13.90	16.70
2041	10.40	13.90	16.70
2042	10.40	13.90	16.70
2043	10.40	14.00	16.80

**Inflation and Cost Escalation.** An annual inflation rate of 2.0% per annum has been applied. Capital and operating costs have been estimated as at 1 July 2016 real terms and inflated at the 2.0% per annum inflation rate, unless the Shaikan PSC stipulates otherwise. The currency of the Shaikan PSC is the US Dollar. All prices and costs have been denominated in US dollars and all cash flows calculated accordingly.

**Discount Rate and Inflation.** A 10% nominal discount rate, discounting to the mid-year point has been applied to all future net cash flows with effect from 1 July 2016. Discount rates of 5%, 15% and 20% have also been used to calculate the sensitivity of the economic metrics to the discount rate.

### 5.12.3. Economic Evaluation Results

The results of the economic evaluation are presented in the following sections. These constitute point forward discounted cash flows from 1 July 2016. Though net present values form an integral part of the fair market value estimations, without consideration for other economic criteria they are not to be constructed as ERCE's opinion of fair market value.



**Base Case Fiscal Terms and GKP oil quality discount forecast.** Economic evaluations have been undertaken at the 1P, 2P and 3P Reserves levels for Shaikan. In addition, economic evaluation sensitivities to the oil price have been undertaken at the low case and high case price scenarios as sensitivities to the base case. ERCE has used the oil quality discount forecasts requested by GKP. Furthermore, net present value (NPV) sensitivities to Discount Rates ranging from 0.00% to 20.00% have been evaluated for the various economic price scenarios and Reserve levels stated above. A summary of the results is shown in Table 5.17. Summary cash flows at the 1P, 2P and 3P levels with the base case economic oil price with 58% working interest net to GKP are presented in Table 5.21 to Table 5.23.

**Sensitivity 1: Historical Oil Quality Discount.** (Constant oil quality discount price of \$14.7 /stb.) In this sensitivity ERCE has replaced the Channoil oil quality differential with a single oil quality discount of \$14.7 /stb in the 1P, 2P and 3P Reserves cases for Shaikan. A summary of the results is shown in Table 5.18. This sensitivity is included for comparative purposes as a discount price of \$14.7 / stb has been used in all previous CPRs prepared by ERCE.

**Sensitivity 2: Historical Fiscal Model Basis Scenario 1.** (Undiluted 80% working interest and 40% CBP.) Economic sensitivities have been undertaken at the 1P, 2P and 3P Reserves levels for Shaikan with an undiluted GKP interest, i.e. no State or third party participation. This sensitivity assumes the CBP is 40% as described in the PSC as currently amended. A summary of the results is shown in Table 5.19. This sensitivity has been included for comparative purposes with previous CPRs prepared by ERCE.

**Sensitivity 3: Historical Fiscal Model Basis Scenario 2.** (Diluted 54.4% working interest and 40% CBP.) Economic sensitivities have been undertaken at the 1P, 2P and 3P Reserves levels for Shaikan with a fully diluted 54.4% GKP interest as described in the PSC as currently amended but before incorporation of the terms of the March Agreement, i.e. full State back in of 20% and Third Party participation of 15%. This sensitivity also assumes the CBP is 40% as described in the PSC as currently amended. A summary of the results is shown in Table 5.20. This sensitivity has been included for comparative purposes with previous CPRs prepared by ERCE.

**Table 5.17: Economic Evaluation of Shaikan Reserves with 58% Diluted GKP Interest (with GKP oil price discount)**

Shaikan Reserves Category	Economic Limit (Year)	GKP Net Entitlement (MMstb)	NPVs Net to GKP at 1 July 2016 (US\$ million Nominal)					Gross Field Reserves (MMstb)
			NPV0 (US\$ MM)	NPV5 (US\$ MM)	NPV10 (US\$ MM)	NPV15 (US\$ MM)	NPV20 (US\$ MM)	
Economic Base Case Oil Price								
1P	2029	79	812	501	306	180	99	238
2P	2043	161	3,067	1,759	1,089	708	477	622
3P	2043	203	4,615	2,374	1,364	849	559	951
Economic Low Case Oil Price								
1P	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2P	2043	204	1,285	615	264	71	(37)	622
3P	2043	274	2,939	1,317	599	251	70	951
Economic High Case Oil Price								
1P	2035	89	1,698	1,169	829	603	449	286
2P	2043	137	3,846	2,275	1,475	1,019	738	622
3P	2043	171	5,576	2,960	1,778	1,171	825	951

**Table 5.18: Sensitivity 1 - Historical Oil Quality Discount.**

Sensitivity: \$14.7 Differential	Economic Limit (Year)	GKP Net Entitlement (MMstb)	NPVs Net to GKP at 1 July 2016 (US\$ million Nominal)					Gross Field Reserves (MMstb)
			NPV0 (US\$ MM)	NPV5 (US\$ MM)	NPV10 (US\$ MM)	NPV15 (US\$ MM)	NPV20 (US\$ MM)	
Economic Base Case Oil Price								
1P	2029	78	737	449	268	151	76	238
2P	2043	163	3,014	1,724	1,063	688	460	622
3P	2043	205	4,551	2,334	1,336	828	541	951

**Table 5.19: Sensitivity 2 - Historical Fiscal Model Basis Scenario 1**

Shaikan Reserves Category	Economic Limit (Year)	GKP Net Entitlement (MMstb)	NPVs Net to GKP at 1 July 2016 (US\$ million Nominal)					Gross Field Reserves (MMstb)
			NPV0 (US\$ MM)	NPV5 (US\$ MM)	NPV10 (US\$ MM)	NPV15 (US\$ MM)	NPV20 (US\$ MM)	
Economic Base Case Oil Price								
1P	2029	100	893	542	321	180	89	238
2P	2043	203	3,427	1,960	1,208	782	522	622
3P	2043	256	5,144	2,641	1,514	938	614	951

**Table 5.20: Sensitivity 3 - Historical Fiscal Model Basis Scenario 2**

Shaikan Reserves Category	Economic Limit (Year)	GKP Net Entitlement (MMstb)	NPVs Net to GKP at 1 July 2016 (US\$ million Nominal)					Gross Field Reserves (MMstb)
			NPV0 (US\$ MM)	NPV5 (US\$ MM)	NPV10 (US\$ MM)	NPV15 (US\$ MM)	NPV20 (US\$ MM)	
Economic Base Case Oil Price								
1P	2029	68	611	368	216	119	56	238
2P	2043	142	2,531	1,459	904	587	392	622
3P	2043	179	3,737	1,940	1,121	699	458	951



Table 5.21: Cash Flow for Base Case Price Scenario and 1P Reserves with Base Case fiscal terms and GKP oil price discount

ERCE Shaikan 1P					Net to Gulf Keystone (GKP W.I. - Fully Diluted 58%)											
Year	Crude Oil Price	Gross Oil Production Rate	Gross Production	Gross Cumulative Production	Cost Recovery Revenue	Profit Petroleum Revenue	Operating Costs	Capex and Abandex	Bonuses and CBP	Net Cash Flow	Cumulative Net Cash Flow	NPV 5%	NPV 10%	NPV 15%	NPV 20%	GKP Entitlement Barrels
	(US\$/stb)	(Mstb/d)	(MMstb/yr)	(MMstb)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(MMstb)
2016	46	34	6	6	38	15	(20)	(7)	(13)	13	13	13	12	12	12	2
2017	54	36	13	19	107	43	(48)	(35)	(13)	55	68	52	50	48	46	4
2018	62	36	13	33	132	53	(49)	(265)	(32)	(160)	(93)	(146)	(133)	(121)	(111)	4
2019	69	36	13	46	146	59	(65)	(369)	(18)	(247)	(340)	(214)	(186)	(163)	(143)	4
2020	74	53	19	65	229	93	(88)	(331)	(28)	(125)	(465)	(103)	(86)	(72)	(60)	6
2021	77	78	29	93	359	145	(107)	(150)	(44)	204	(262)	160	127	101	82	9
2022	79	77	28	122	377	152	(121)	(25)	(46)	338	76	252	191	146	113	9
2023	80	66	24	146	328	132	(123)	(61)	(40)	236	312	168	121	89	66	8
2024	82	57	21	166	288	116	(127)	(59)	(35)	184	496	124	86	60	43	7
2025	84	49	18	184	255	102	(132)	(37)	(31)	158	654	102	67	45	31	6
2026	85	43	16	200	229	89	(135)	(91)	(27)	65	720	40	25	16	11	5
2027	87	38	14	214	206	79	(142)	(55)	(24)	65	784	38	23	14	9	5
2028	89	34	12	227	188	71	(147)	(91)	(21)	(1)	783	(1)	(0)	(0)	(0)	4
2029	91	31	11	238	171	65	(154)	(32)	(19)	29	812	16	9	5	3	4
Total			238		3,054	1,215	(1,457)	(1,611)	(389)	812		501	306	180	99	79



Table 5.22: Cash Flow for Base Case Price Scenario and 2P Reserves with Base Case fiscal terms and GKP oil price discount

Net to Gulf Keystone (GKP W.I. - Fully Diluted 58%)																
ERCE Shaikan 2P																
Year	Crude Oil Price	Gross Oil Production Rate	Gross Production	Gross Cumulative Production	Cost Recovery Revenue	Profit Petroleum Revenue	Operating Costs	Capex and Abandex	Bonuses and CBP	Net Cash Flow	Cumulative Net Cash Flow	NPV 5%	NPV 10%	NPV 15%	NPV 20%	GKP Entitlement Barrels
	(US\$/stb)	(Mstb/d)	(MMstb/yr)	(MMstb)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(US\$ MM)	(MMstb)
2016	46	38	7	7	42	17	(20)	(7)	(13)	18	18	18	18	18	18	2
2017	54	38	14	21	113	46	(48)	(35)	(14)	62	81	59	57	54	52	5
2018	62	38	14	35	139	56	(49)	(265)	(33)	(151)	(70)	(137)	(125)	(114)	(105)	5
2019	69	38	14	49	154	62	(65)	(369)	(19)	(237)	(308)	(205)	(178)	(156)	(137)	5
2020	74	59	22	70	259	105	(89)	(314)	(31)	(70)	(378)	(58)	(48)	(40)	(34)	7
2021	77	101	37	107	467	188	(109)	(125)	(57)	365	(13)	286	227	181	147	12
2022	79	109	40	147	533	215	(124)	-	(64)	559	546	417	316	242	187	14
2023	80	109	40	187	543	217	(126)	(40)	(65)	529	1,075	376	271	199	148	14
2024	82	109	40	227	231	272	(132)	(40)	(82)	250	1,325	169	116	82	58	9
2025	84	109	40	267	158	277	(137)	(21)	(83)	194	1,518	125	82	55	38	7
2026	85	98	36	303	217	226	(140)	(77)	(68)	158	1,677	97	61	39	26	7
2027	87	89	32	335	190	207	(147)	(43)	(62)	145	1,821	85	51	31	19	7
2028	89	81	30	365	232	177	(152)	(80)	(53)	124	1,945	69	40	23	14	7
2029	91	75	27	392	181	171	(159)	(22)	(51)	120	2,065	63	35	19	11	6
2030	92	69	25	417	247	143	(163)	(84)	(43)	100	2,165	51	26	14	8	6
2031	94	64	23	441	211	139	(164)	(47)	(42)	98	2,263	47	23	12	6	5
2032	96	59	22	462	189	134	(165)	(24)	(40)	93	2,356	43	20	10	5	5
2033	98	55	20	482	212	119	(163)	(48)	(36)	83	2,440	36	17	8	4	5
2034	100	51	19	501	195	115	(164)	(31)	(34)	80	2,520	33	14	6	3	4
2035	102	48	18	519	189	109	(160)	(29)	(33)	76	2,596	30	12	5	2	4
2036	104	45	17	535	185	103	(158)	(27)	(31)	72	2,669	27	11	4	2	4
2037	106	42	15	551	179	98	(154)	(25)	(30)	69	2,738	25	9	4	1	4
2038	108	40	15	565	174	94	(151)	(24)	(28)	66	2,803	23	8	3	1	4
2039	110	38	14	579	170	90	(148)	(22)	(27)	63	2,866	20	7	3	1	3
2040	113	36	13	592	166	87	(145)	(21)	(26)	61	2,927	19	6	2	1	3
2041	115	34	12	604	162	83	(142)	(20)	(25)	58	2,985	17	5	2	1	3
2042	117	32	12	616	157	80	(138)	(19)	(24)	56	3,041	16	5	1	0	3
2043	119	30	5	622	79	38	(71)	(9)	(11)	26	3,067	7	2	1	0	1
2044	-	-	-	622	-	-	-	-	-	-	3,067	-	-	-	-	-
Total			622		5,974	3,667	(3,581)	(1,868)	(1,124)	3,067		1,759	1,089	708	477	161



Table 5.2.3: Cash Flow for Base Case Price Scenario and 3P Reserves with Base Case fiscal terms and GKP oil price discount

Net to Gulf Keystone (GKP W.L. - Fully Diluted 58%)																	
Year	ERCE Shaikan 3P					Cost Recovery Revenue	Profit Petroleum Revenue	Operating Costs	Capex and Abandex	Bonuses and CBP	Net Cash Flow	Cumulative Net Cash Flow	NPV 5%	NPV 10%	NPV 15%	NPV 20%	GKP Entitlement Barrels
	Crude Oil Price	Gross Oil Production Rate	Gross Production	Gross Cumulative Production	(US\$/stb)												
2016	46	39	7	7	43	17	(20)	(7)	(13)	20	20	20	20	20	19	19	2
2017	54	39	14	22	117	47	(48)	(35)	(14)	67	87	64	61	58	56	56	5
2018	62	39	14	36	144	58	(49)	(247)	(33)	(128)	(41)	(116)	(106)	(97)	(89)	(89)	5
2019	69	39	14	50	158	64	(64)	(369)	(19)	(230)	(270)	(198)	(173)	(151)	(133)	(133)	5
2020	74	59	22	72	259	105	(88)	(295)	(31)	(50)	(321)	(41)	(34)	(29)	(24)	(24)	7
2021	77	101	37	109	467	188	(106)	(125)	(57)	368	47	288	228	183	148	148	12
2022	79	109	40	149	533	215	(121)	-	(64)	562	609	419	317	243	188	188	14
2023	80	109	40	189	541	214	(124)	(40)	(64)	528	1,137	375	271	198	147	147	14
2024	82	109	40	229	169	281	(129)	(40)	(84)	197	1,334	133	92	64	46	46	8
2025	84	109	40	269	176	271	(134)	(41)	(81)	190	1,523	122	80	54	37	37	8
2026	85	109	40	308	217	258	(140)	(77)	(77)	180	1,703	111	70	45	29	29	8
2027	87	109	40	348	190	259	(147)	(43)	(78)	182	1,885	106	64	39	24	24	7
2028	89	109	40	388	233	248	(153)	(80)	(74)	174	2,059	97	55	32	19	19	8
2029	91	109	40	428	250	243	(161)	(89)	(73)	170	2,229	90	49	28	16	16	8
2030	92	109	40	468	299	235	(170)	(129)	(70)	164	2,393	83	43	23	13	13	8
2031	94	109	40	508	268	244	(175)	(93)	(73)	171	2,564	82	41	21	11	11	8
2032	96	109	40	548	251	250	(180)	(71)	(75)	175	2,739	80	38	19	9	9	8
2033	98	109	40	588	255	250	(182)	(73)	(75)	175	2,914	76	35	16	8	8	8
2034	100	109	40	628	239	256	(186)	(53)	(77)	179	3,094	74	32	14	7	7	7
2035	102	109	40	667	238	258	(184)	(53)	(77)	181	3,274	72	30	13	6	6	7
2036	104	109	40	707	213	265	(185)	(28)	(80)	186	3,460	70	28	11	5	5	7
2037	106	109	40	747	209	267	(181)	(28)	(80)	187	3,647	67	25	10	4	4	7
2038	108	109	40	787	207	269	(179)	(28)	(81)	188	3,835	64	23	9	3	3	6
2039	110	109	40	827	205	270	(177)	(28)	(81)	189	4,024	62	21	8	3	3	6
2040	113	109	40	867	203	274	(175)	(28)	(82)	191	4,216	59	19	7	2	2	6
2041	115	99	36	903	197	246	(171)	(25)	(74)	172	4,388	51	16	5	2	2	6
2042	117	90	33	936	191	224	(168)	(23)	(67)	157	4,544	44	13	4	1	1	5
2043	119	82	15	951	95	101	(85)	(10)	(30)	71	4,615	19	5	2	1	1	2
2044	-	-	-	951	-	-	-	-	-	-	4,615	-	-	-	-	-	-
Total			951		6,568	5,878	(3,881)	(2,162)	(1,787)	4,615		2,374	1,364	849	559		203



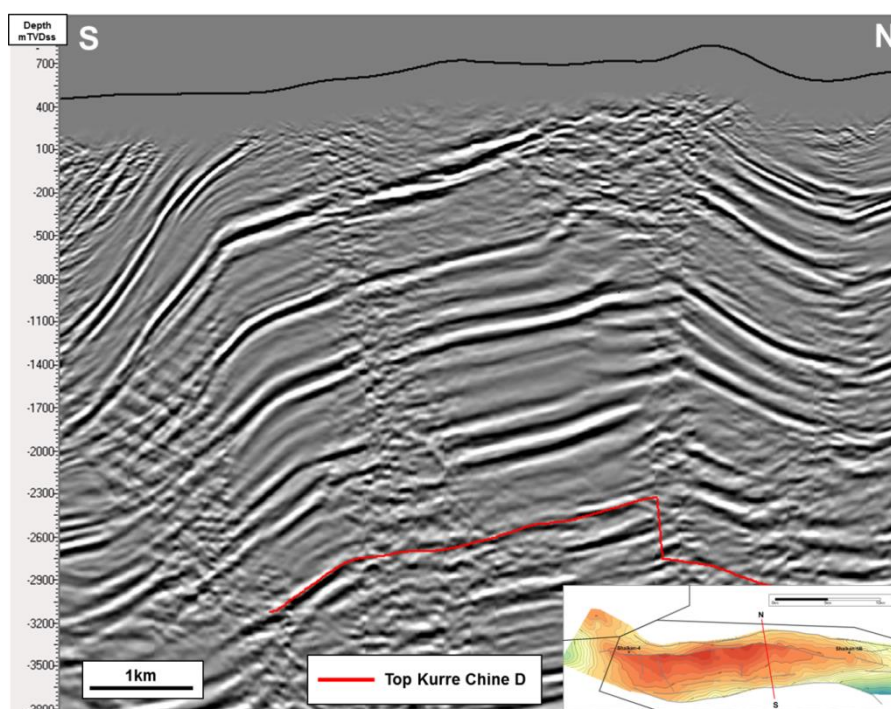


### 5.13. Shaikan Prospective Resources

Within the Shaikan structure there are formations that are potentially hydrocarbon bearing that have not yet been penetrated by a well, or that have been penetrated by one or more wells, but have not been tested for the presence of moveable hydrocarbons and which are therefore prospective for further exploration. ERCE has evaluated two of these opportunities that were selected by GKP for which we have reported Prospective Resources. The formations are the Triassic age Kurre Chine Dolomite formation and the Cretaceous age Qamchuqa formation. Both prospects rely on the same E-W trending anticline which also traps the discovered resources on the block.

#### 5.13.1. Kurre Chine Dolomite

The Kurre Chine Dolomite (KCD) prospect comprises a single interval which lies directly beneath the discovered resources encountered within the shallower Triassic reservoirs (KCA, KCB and KCC). The formation has been penetrated by two wells at Shaikan (Well SH-4 and Well SH-5B). In Well SH-4 the KCD was fully penetrated but no logs were acquired across the KCD due to the presence of a 'fish' in the hole. The open hole DST across the uppermost KCD (behind the fish) together with the lower KCC was inconclusive with regards to fluid flow from the KCD. The formation was only partly penetrated in Well SH-5B (130m section) and tested water.

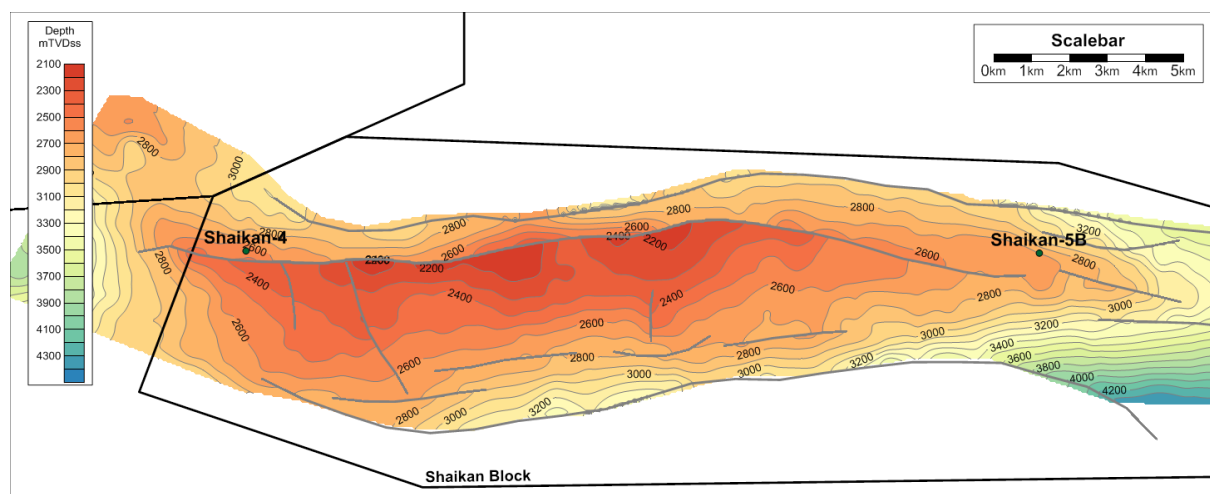


**Figure 5.11: Dip Seismic Line, Kurre Chine D Prospect (PoSDM)**

**Depth Surfaces.** The Top KCD is interpreted by GKP on the post-stack depth migrated 3D seismic data (PoSDM) volume (Figure 5.11), and ties the formation tops from penetrations by Well SH-4 and Well SH-5B. ERCE has reviewed the seismic interpretation carried out by GKP and has accepted the depth grid as a reasonable basis for estimating volumes (Figure 5.12). A seismically defined base reservoir pick (Top Geli Khana) is unreliable due to a lack of well penetrations, poor quality seismic data and a low impedance contrast. Instead, we estimated a range of gross reservoir thicknesses for the KCD and added them to the Top Kurre Chine D depth surface to define a base surface for use in



our volumetric calculations. The low case thickness was estimated as 130m based on the incomplete interval drilled by well SH-5B (TD in formation), and our high case thickness was set to the full 190m interval seen in Well Ber Bahr-1 located some 30 kilometres to the north-west. The probable anhydritic interval at the top KCD is modelled as the top seal.



**Figure 5.12: Shaikan Top Kurre Chine D Depth Map**

**Fluid Contacts.** The KCD has been penetrated twice within Shaikan, by Well SH-4 and by Well SH-5B. Well SH-4 was tested (DST#1A) across the KCC/KCD boundary and produced some 440 stb/d of oil and 68 bbl/d of water. A PLT was run during the test, but the tool could not reach the KCD due to the fish. Nonetheless, the PLT log indicates that fluids were probably flowing around the fish, and they could possibly have come from the KCD, although this is not conclusive. It is also not clear what the make-up of the fluid was. The KCD interval was also tested in Well SH-5B (DST#1) and flowed water (1,800 bbl/d), defining a WUT at 2,768 mTVDSS.

ERCE used the formation tops from Well SH-4 and Well SH-5B (2,540 mTVDSS and 2,700 mTVDSS) as low and high contacts respectively, with a lognormal distribution fitted to resultant GRVs for input to probabilistic simulation.

**Reservoir and Fluid Parameters.** As with the shallower Triassic intervals, we modelled the KCD as a dual porosity system, with fracture and matrix hydrocarbon volume ranges summed probabilistically. Data for matrix reservoir properties are limited to a partial penetration by the water-bearing Well SH-5B and a complete section encountered by Well BB-1. In the same way as the evaluation in the overlying formations, ERCE has adopted the net pay parameters provided by GKP using a range of porosity cut-offs (3%, 4.5% and 7%) for the low, best and high cases.

The matrix net to gross ratio is significantly different between Wells SH-5B and BB-1. Our volumetric estimates are based on a lognormally distributed range between that estimated from Well SH-5B (2%) and that estimated from Well BB-1 (25%). Matrix porosity is reasonably consistent between Well SH-5B and Well BB-1, and we have based its range on varying the averages derived using porosity cut-off between 3% and 7%. Matrix hydrocarbon saturation is ranged around the values seen in the overlying KCC interval (~70%).

**Table 5.24: Volumetric Input Parameters for Shaikan Kurre Chine D Prospect**

Property	KCD		
	Low	Best	High
<b>Matrix</b>			
GRV (10 <sup>6</sup> m <sup>3</sup> )	3,581	5,639	8,881
N/G (fraction)	0.02	0.07	0.25
Phi (fraction)	0.05	0.07	0.09
So (fraction)	0.65	0.70	0.75
Bo (rb/stb)	1.77	1.95	2.17
<b>Fractures</b>			
GRV (10 <sup>6</sup> m <sup>3</sup> )	3,581	5,639	8,881
N/G (fraction)	0.85	0.90	0.95
Phi (fraction)	0.001	0.003	0.007
So (fraction)	1.00	1.00	1.00
Bo (rb/stb)	1.77	1.95	2.17

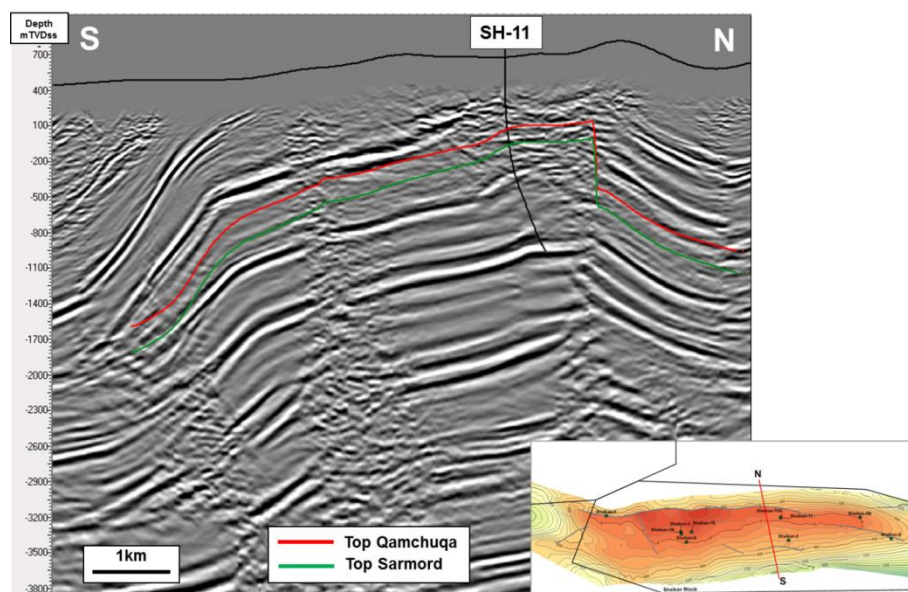
Fracture net to gross was defined using the same approach as the overlying formations by applying 50% shale and 50% anhydrite cut-offs. ERCE used the well log evaluation from Well SH-5B as the basis for this evaluation, but incorporated the shallower sections and results from Well BB-1 to define a range of uncertainty. Fracture porosity, hydrocarbon saturations, Bo and GOR ratio ranges were set to those used for the KCC.

**Recovery Factors.** Recovery factor ranges were estimated between 5% to 20% (lognormal) for the matrix and 60% to 80% (normal) for the fractures. These ranges match those used for discovered resources in the shallower Triassic intervals.

**Risking.** We have estimated a chance of success of 28% for the Kurre Chine D prospect. We have assigned a risk factor of 1.0 for source, which is proven in the area, 0.7 for reservoir, based on mixed results from the wells that have so far penetrated the KCD, 0.8 for trap and 0.5 for seal, based on the observation that the KCD lies directly below the KCC with little evidence for a separating seal.

#### 5.13.2. Qamchuqa

The Qamchuqa formation comprises a thick carbonate interval within the Cretaceous, and lies directly above the discovered hydrocarbons encountered within the Cretaceous Sarmord, Garagu and Chia Gara formations. The formation is penetrated by all wells on the Shaikan structure. Good log suites are only available over the Qamchuqa in four wells (SH-1B, SH-5B, SH-6 and SH-8), which form the basis of the evaluation of matrix properties. While hydrocarbons are recorded in the composite log (cuttings and shows) and evaluated to be present from the electrical logs, no tests have been performed in the Qamchuqa formation in Shaikan.

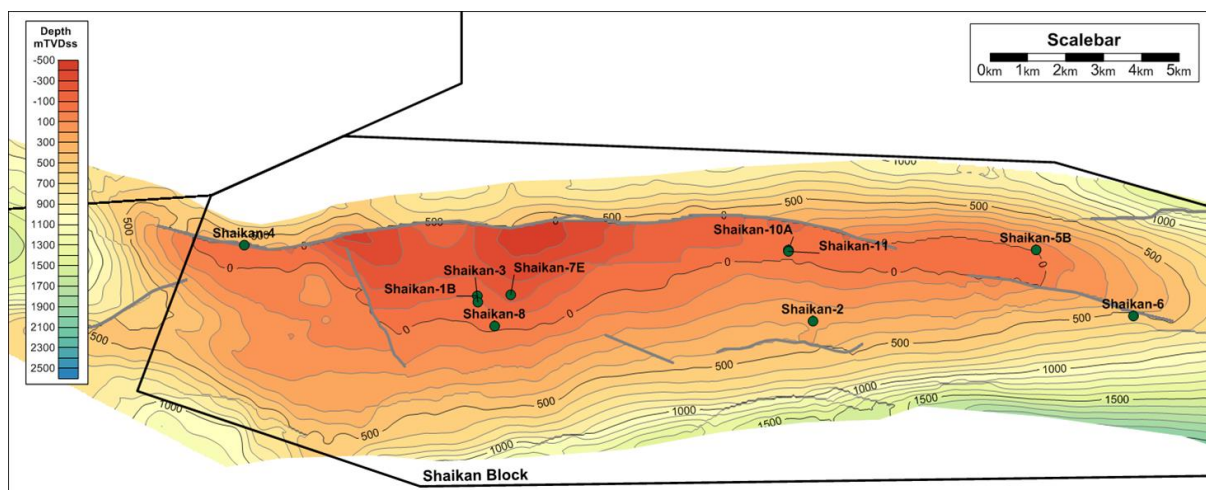


**Figure 5.13: Dip Seismic Line, Qamchuqa Prospect (PoSDM)**

**Depth Surfaces.** The top Qamchuqa horizon cannot be reliably mapped on current 3D seismic data due to poor shallow data quality and a lack of impedance contrast (Figure 5.13). A Top Sarmord seismic interpretation has been generated by GKP and ERCE has adopted this for the basis of our evaluation (Section 0). The grid was tied to the available formation tops with less than 15m correction being required, and forms the base reservoir surface for our volumetric calculations. ERCE derived the Top Qamchuqa depth surface (Figure 5.14) by isochoring upwards from the Top Sarmord depth grid provided by GKP. Well SH-7E was discounted as the formation top was deemed unreliable due to insufficient log data. The Top Qamchuqa is modelled as the top seal with a dip closed anticlinal structure.

**Fluid isotherms and contacts.** As discussed in Section 5.5.1, the production of oil from the Cretaceous reservoirs is interpreted to be dependent upon temperature and, consequently, depth. A range of isotherms below which oil is assumed recoverable (moveable) are set to match those employed by ERCE for the discovered hydrocarbons in the Cretaceous reservoirs of Shaikan (low case 550 mTVDSS, high case 390 mTVDSS). P90 STOIIIP volumes were calculated down to a structural saddle at 608 mTVDSS, spilling NW towards the Sheikh Adi structural high.

A P10 OWC is identified on the logs of Well SH-6 at 790 mTVDSS. Although significantly deeper than the mapped structural spill, a deeper saddle is possible given the uncertain seismic response and resultant interpretation uncertainty. We estimated a P10 GRV using an ODT of 790 mTVDSS, areally truncated at the current saddle location. The low and high isotherms were combined deterministically with low and high case contacts to obtain P90 and P10 GRVs for the moveable oil volume, which were fitted to a lognormal distribution for probabilistic simulation.



**Figure 5.14: Shaikan Top Qamchuqa Depth Map**

**Reservoir and Fluid Parameters.** As with the deeper Cretaceous intervals, the Qamchuqa is modelled as a dual porosity system, with fracture and matrix hydrocarbon ranges summed probabilistically. Data for matrix reservoir properties are based on the four wells in Shaikan that have good log suites (SH-1B, SH-5B, SH-6 and SH-8). In the same way as the evaluation in the overlying formations, ERCE has adopted the net pay parameters provided by GKP using a range of porosity cut-offs (3%, 4.5% and 7%) for the low, best and high cases.

Fracture net to gross ratio was defined using the same approach as the overlying formations, by applying 50% shale and 50% anhydrite cut-offs. In our evaluation, fracture porosity, hydrocarbon saturations, Bo and GOR ratio ranges were set to those used for the Sarmord, Garagu and Chia Gara.

**Table 5.25: Volumetric Input Parameters for Shaikan Qamchuqa Prospect**

Property	Qamchuqa		
	Low	Best	High
<b>Matrix</b>			
GRV (10 <sup>6</sup> m <sup>3</sup> )	1,940	4,689	11,331
N/G (fraction)	0.34	0.45	0.55
Phi (fraction)	0.09	0.10	0.12
So (fraction)	0.67	0.72	0.77
Bo (rb/stb)	1.00	1.00	1.00
<b>Fractures</b>			
GRV (10 <sup>6</sup> m <sup>3</sup> )	1,940	4,689	11,331
N/G (fraction)	1.00	1.00	1.00
Phi (fraction)	0.001	0.003	0.007
So (fraction)	1.00	1.00	1.00
Bo (rb/stb)	1.00	1.00	1.00

**Recovery Factors.** Recovery factors are estimated to be between 20% to 40% for the fractures. In a similar manner to the other Cretaceous reservoirs it is assumed that no oil will be recovered from the matrix.

**Risking.** Well SH-6 penetrated the full Qamchuqa interval below the depth of the isotherm used by ERCE to distinguish between moveable and immovable oil in the other underlying Cretaceous





reservoirs that we evaluated. Drilling and logging results of Well SH-6 indicate the formation to be hydrocarbon bearing, but no attempt was made to flow test the interval and the well results are inconclusive as to whether the hydrocarbons are moveable or not. The only prospect risk therefore relates to producibility and we have accordingly assigned a chance of success of 50%.

#### 5.14. Shaikan In Place Volumes, Reserves and Resources

ERCE has estimated in place and recoverable volumes of oil and gas for Shaikan using a combination of probabilistic and deterministic methods. For each interval (Cretaceous, Jurassic and Triassic), ERCE calculated resources within each reservoir layer and/or zone separately for the matrix and the fractures using Monte Carlo simulation, in which input distribution functions of variables were probabilistically combined in the volumetric equations. The distribution functions were created by fitting normal, log-normal and triangular functions to the ranges of uncertainty in the various properties described in this report as low, best and high cases.

The ranges of uncertainty are quantified in Section 5.6 for GRV, Section 5.3.2 for fracture porosity, Section 5.4 for petrophysical properties, Section 5.7 for fluid properties and 5.10 for recovery factors. Resources in the matrix were then aggregated probabilistically across reservoir layers, while those for the fractures were aggregated deterministically. The reason for this is that the reservoir layers are considered independent with respect to matrix properties but not with respect to the primary uncertainty in the fractures, namely porosity. Total resources for the Jurassic were then estimated by adding matrix and fracture volumes deterministically. The Cretaceous and Triassic intervals were treated in a similar fashion.

The volumetric equations for oil used in this evaluation were:

$$STOIIP = C_1 \times \frac{GRV \times N/G \times \phi \times S_o}{B_o}$$

$$Oil\_Resources = STOIIP \times RF$$

where:

- $STOIIP$  = stock tank oil initially in place (MMstb)
- $C_1$  = conversion constant (6.29 stb/m<sup>3</sup>)
- $GRV$  = gross rock volume (MMm<sup>3</sup>)
- $N/G$  = net to gross ratio (fraction)
- $\phi$  = porosity (fraction)
- $S_o$  = oil saturation (fraction)
- $B_o$  = oil formation volume factor (rb/stb)
- $Oil\_Resources$  = ultimate recovery of oil (MMstb)
- $RF$  = recovery factor (fraction)

The volumetric equations for free gas used in this evaluation were:

$$GIIP = C_2 \times GRV \times N/G \times \phi \times S_g \times E_g$$

$$Gas\_Resources = GIIP \times RF$$

where:

- $GIIP$  = gas initially in place (Bscf)
- $C_2$  = conversion constant (35.317\*10<sup>-3</sup> Mscf/m<sup>3</sup>)





$S_g$  = gas saturation (fraction)

$E_g$  = gas expansion factor (scf/rcf)

$Gas\_Resources$  = ultimate recovery of gas (Bscf)

Solution gas volumes were obtained by multiplying oil volumes with gas oil ratio (GOR) and adjusting for non-hydrocarbon components. Condensate volumes were estimated by multiplying gas volumes with CGR.

The production forecasts shown in Table 5.10, Table 5.11 and Table 5.12 for the Shaikan Phase 1-2 development extend to 30 June 2043 when the licence expires and have been used as input into an economic model, which has been used to estimate the economic cut-off dates for reporting Reserves (Section 5.12.3). GKP has informed ERCE that it is committed to implementing the development plan upon which these forecasts are based. Volumes estimated to be recoverable after the economic cut-off dates but before the end of licence expiry have been classified as Contingent Resources. The actual long term field production profiles will exceed those shown in Table 5.10, Table 5.11 and Table 5.12. Inevitably, some volumes of oil will not be recoverable within the licence period. ERCE has estimated these volumes and has reported them as technically recoverable volumes at gross field level, but has not classified them under the SPE PRMS and has not attributed any of these volumes to GKP as entitlement to volumes potentially recoverable from the field after expiry of the licence is not known.

GKP has identified tentative plans for further developments of Shaikan, with a view to recovering as much oil as possible within the licence period. These volumes have been classified by ERCE as Contingent Resources, contingent on the firming up of development plans.

In following these steps, ERCE made estimates of STOIIP and GIIP for discovered accumulations (Table 5.26) and prospects (Table 5.31) and have made estimates of recoverable volumes. We have classified our estimates of recoverable volumes as Reserves (Table 5.27), Contingent Resources (Table 5.28 and Table 5.29) and Prospective Resources (Table 5.32). Volumes estimated to be recoverable after licence expiry are reported as technically recoverable volumes at gross field level (Table 5.30).

**Table 5.26: Summary of Discovered Oil and Gas Initially in Place for Shaikan**

Field/ Licence	Formation	STOIIP (MMstb)			Free GIIP (Bscf)			Comments
		Low	Best	High	Low	Best	High	
Shaikan	Cretaceous above isotherm	475	553	645	0	0	0	No recovery reported
	Cretaceous below isotherm	653	842	1,344	0	0	0	
	Jurassic above 1,450 mSS	2,698	3,296	4,100	3	8	15	
	Jurassic below 1,450 mSS	1,791	2,159	2,677	0	0	0	
	Triassic	245	427	823	630	1,037	1,787	Gas is sour and rich

**Table 5.27: Summary of Oil Reserves for Shaikan**

Field	Formation	Gross Field Oil Reserves (MMstb)			GKP WI (%)	GKP Working Interest Oil Reserves (MMstb)			GKP Net Entitlement Oil Reserves (MMstb)		
		1P	2P	3P		1P	2P	3P	1P	2P	3P
Shaikan	Cretaceous	1	3	4	58.0	1	2	2	79	161	203
Shaikan	Jurassic	219	575	883	58.0	127	333	512			
Shaikan	Triassic	18	44	63	58.0	10	25	37			
Shaikan	<b>Total</b>	<b>238</b>	<b>622</b>	<b>951</b>	<b>58.0</b>	<b>138</b>	<b>360</b>	<b>551</b>	<b>79</b>	<b>161</b>	<b>203</b>

**Table 5.28: Summary of Oil Contingent Resources for Shaikan**

Field/ Licence	Formation	Gross Field Oil Contingent Resources (MMstb)			GKP WI (%)	GKP Net WI Oil Contingent Resources (MMstb)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	14	53	175	58.0	8	31	102
	Jurassic	97	80	340		56	46	197
	Triassic	29	106	347		17	61	201
<b>Total</b>		<b>140</b>	<b>239</b>	<b>862</b>		<b>81</b>	<b>138</b>	<b>500</b>

**Table 5.29: Summary of Gas Contingent Resources for Shaikan**

Field/ Licence	Formation	Gross Field Gas Contingent Resources (Bscf)			GKP WI (%)	GKP Net WI Gas Contingent Resources (Bscf)		
		1C	2C	3C		1C	2C	3C
Shaikan	Cretaceous	0	0	0	58.0	0	0	0
	Jurassic	102	305	772		59	177	448
	Triassic	292	648	1,583		169	376	918
<b>Total</b>		<b>394</b>	<b>953</b>	<b>2,355</b>		<b>228</b>	<b>553</b>	<b>1,366</b>

**Note:**

- 1) Gas volumes currently being produced from the Jurassic reservoirs are being flared.

**Table 5.30: Summary of Technically Recoverable Oil Volumes After Licence Expiry**

Field/ Licence	Formation	Gross Field Oil Technically Recoverable Volumes (MMstb)		
		Low	Best	High
Shaikan	Cretaceous	0	0	0
	Jurassic	84	132	219
	Triassic	10	18	35
<b>Total</b>		<b>94</b>	<b>150</b>	<b>254</b>

**Table 5.31: Summary of Undiscovered and Prospective Oil and Gas Initially in Place for Shaikan**

Field/ Licence	Formation	STOIIP (MMstb)		
		Low	Best	High
Shaikan	Qamchuqa	484	1,099	2,584
	Triassic KCD	51	123	316

**Notes**

- 1) Oil has been intersected in the Shaikan Qamchuqa, but volumes are reported as 'prospective' because no flow test has been carried out.

**Table 5.32: Summary of Prospective Resources for Shaikan**

Block/ Licence	Prospect	Gross Field Oil Prospective Resources (MMstb)			GKP WI (%)	GKP Net WI Oil Prospective Resources (MMstb)			COS (%)
		Low	Best	High		Low	Best	High	
Shaikan	Qamchuqa	6	23	85	58.0	4	13	49	50
	Triassic KCD	17	42	105		10	24	61	28



## 6. SPE PRMS Definitions

This section contains extracts from the Petroleum Resources Management System (SPE PRMS), dated 2007, sponsored by the Society of Petroleum Engineers (SPE), the American Association of Petroleum Geologists (AAPG), the World Petroleum Council (WPC) and the Society of Petroleum Evaluation Engineers (SPEE).

### 6.1. Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definitions of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE, and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in resources definitions (2005). SPE also published standards for estimating and auditing reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production, and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The PRMS consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information, and specific chapters are referenced herein.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources.



It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows.

## 6.2. Petroleum Resources Classification Framework

Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbons, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide and sulfur. In rare cases, non-hydrocarbon content could be greater than 50%.

The term “resources” as used herein is intended to encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. Further, it includes all types of petroleum whether currently considered “conventional” or “unconventional.”

Figure 10.1 is a graphical representation of the SPE/WPC/AAPG/SPEE resources classification system. The system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum.

The “Range of Uncertainty” reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the “Chance of Commerciality, that is, the chance that the project that will be developed and reach commercial producing status. The following definitions apply to the major subdivisions within the resources classification:

**TOTAL PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production plus those estimated quantities in accumulations yet to be discovered (equivalent to “total resources”).

**DISCOVERED PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

**PRODUCTION** is the cumulative quantity of petroleum that has been recovered at a given date. While all recoverable resources are estimated and production is measured in terms of the sales product specifications, raw production (sales plus non-sales) quantities are also measured and required to support engineering analyses based on reservoir voidage.



Multiple development projects may be applied to each known accumulation, and each project will recover an estimated portion of the initially-in-place quantities. The projects shall be subdivided into Commercial and Sub-Commercial, with the estimated recoverable quantities being classified as Reserves and Contingent Resources respectively, as defined below.

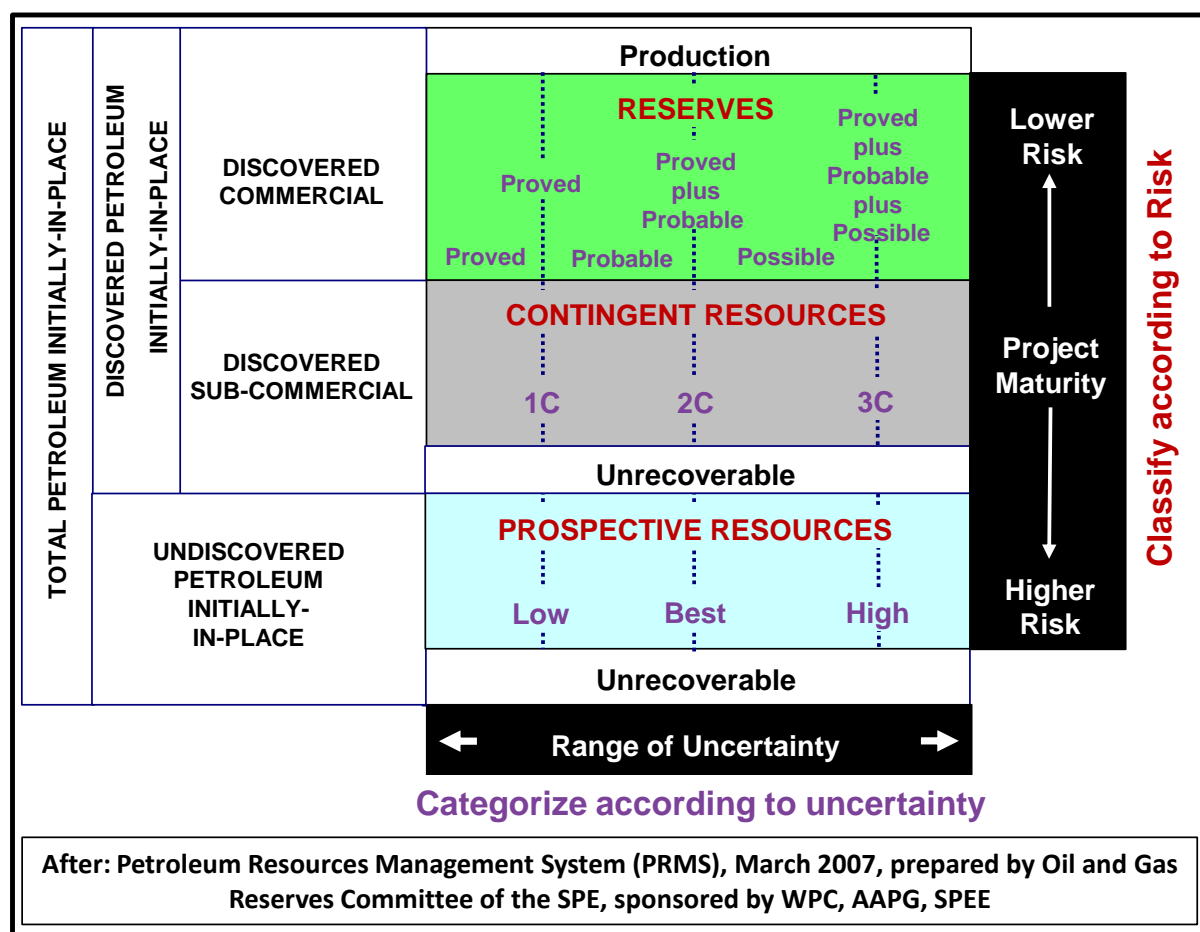


Figure 6.1: SPE PRMS Resources Classification Framework

**RESERVES** are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

**CONTINGENT RESOURCES** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.





Note that for resources to be classified as Contingent Resources they must be discovered

**UNDISCOVERED PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.

**PROSPECTIVE RESOURCES** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity. Prospective Resources can be sub-classified as Prospects, Leads and Plays as follows:

**Prospect:** A potential accumulation that is sufficiently well defined to represent a viable drilling target.

**Lead:** A potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

**Play:** A prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

**UNRECOVERABLE** is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

Estimated Ultimate Recovery (EUR) is not a resources category, but a term that may be applied to any accumulation or group of accumulations (discovered or undiscovered) to define those quantities of petroleum estimated, as of a given date, to be potentially recoverable under defined technical and commercial conditions plus those quantities already produced (total of recoverable resources).

In specialized areas, such as basin potential studies, alternative terminology has been used; the total resources may be referred to as Total Resource Base or Hydrocarbon Endowment. Total recoverable or EUR may be termed Basin Potential. The sum of Reserves, Contingent Resources, and Prospective Resources may be referred to as “remaining recoverable resources.” When such terms are used, it is important that each classification component of the summation also be provided. Moreover, these quantities should not be aggregated without due consideration of the varying degrees of technical and commercial risk involved with their classification

### 6.3. Determination of Discovery Status

A discovery is one petroleum accumulation, or several petroleum accumulations collectively, for which one or several exploratory wells have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons. In this context, “significant” implies that there is evidence of a sufficient quantity of petroleum to justify estimating



the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery. Estimated recoverable quantities within such a discovered (known) accumulation(s) shall initially be classified as Contingent Resources pending definition of projects with sufficient chance of commercial development to reclassify all, or a portion, as Reserves.

Where in-place hydrocarbons are identified but are not considered currently recoverable, such quantities may be classified as Discovered Unrecoverable, if considered appropriate for resource management purposes; a portion of these quantities may become recoverable resources in the future as commercial circumstances change or technological developments occur.

#### **6.4. Determination of Commerciality**

Discovered recoverable volumes (Contingent Resources) may be considered commercially producible, and thus Reserves, if the entity claiming commerciality has demonstrated firm intention to proceed with development and such intention is based upon all of the following criteria:

- Evidence to support a reasonable timetable for development.
- A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria:
- A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.
- Evidence that the necessary production and transportation facilities are available or can be made available:
- Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.

To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.

To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

#### **6.5. Range of Uncertainty**

The range of uncertainty of the recoverable and/or potentially recoverable volumes may be represented by either deterministic scenarios or by a probability distribution.



When the range of uncertainty is represented by a probability distribution, a low, best, and high estimate shall be provided such that:

- There should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.
- There should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
- There should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

When using the deterministic scenario method, typically there should also be low, best, and high estimates, where such estimates are based on qualitative assessments of relative uncertainty using consistent interpretation guidelines. Under the deterministic incremental (risk-based) approach, quantities at each level of uncertainty are estimated discretely and separately.

These same approaches to describing uncertainty may be applied to Reserves, Contingent Resources, and Prospective Resources. While there may be significant risk that sub-commercial and undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable quantities independently of such a risk or consideration of the resource class to which the quantities will be assigned.

## 6.6. Category Definitions and Guidelines

Evaluators may assess recoverable quantities and categorize results by uncertainty using the deterministic incremental (risk-based) approach, the deterministic scenario (cumulative) approach, or probabilistic methods. In many cases, a combination of approaches is used.

Use of consistent terminology (Figure 10.1) promotes clarity in communication of evaluation results. For Reserves, the general cumulative terms low/best/high estimates are denoted as 1P/2P/3P, respectively. The associated incremental quantities are termed Proved, Probable and Possible. Reserves are a subset of, and must be viewed within context of, the complete resources classification system. While the categorization criteria are proposed specifically for Reserves, in most cases, they can be equally applied to Contingent and Prospective Resources conditional upon their satisfying the criteria for discovery and/or development.

For Contingent Resources, the general cumulative terms low/best/high estimates are denoted as 1C/2C/3C respectively. For Prospective Resources, the general cumulative terms low/best/high estimates still apply. No specific terms are defined for incremental quantities within Contingent and Prospective Resources.

Without new technical information, there should be no change in the distribution of technically recoverable volumes and their categorization boundaries when conditions are satisfied sufficiently to reclassify a project from Contingent Resources to Reserves. All evaluations require application of a consistent set of forecast conditions, including assumed future costs and prices, for both classification of projects and categorization of estimated quantities recovered by each project.



The following summarizes the definitions for each Reserves category in terms of both the deterministic incremental approach and scenario approach and also provides the probability criteria if probabilistic methods are applied.

**Proved Reserves** are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

**Probable Reserves** are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

**Possible Reserves** are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Uncertainty in resource estimates is best communicated by reporting a range of potential results. However, if it is required to report a single representative result, the “best estimate” is considered the most realistic assessment of recoverable quantities. It is generally considered to represent the sum of Proved and Probable estimates (2P) when using the deterministic scenario or the probabilistic assessment methods. It should be noted that under the deterministic incremental risk-based approach, discrete estimates are made for each category, and they should not be aggregated without due consideration of their associated risk.



## 7. Nomenclature

### 7.1. Units and their abbreviations

°C	degrees Celsius
°F	degrees Fahrenheit
bbl	barrel
bbl/d	barrels per day
Bscf	thousands of millions of standard cubic feet
boe	barrels of oil equivalent, where 6000 scf of gas = 1 bbl of oil
cm	centimetres
cp	centipoises
ft	feet
g	gram
km	kilometres
m	metres
M MM	thousands and millions respectively
m/s	metres per second
m/s*g/cc	AI units
md	millidarcy
mMDRKB	metres measured depth below Kelly Bushing
mTVDSS	metres true vertical depth subsea
ppm	parts per million
psia	pounds per square inch absolute
psig	pounds per square inch gauge
pu	porosity unit
rcf	cubic feet at reservoir conditions
rb	reservoir barrels
scf	standard cubic feet measured at 14.7 pounds per square inch and 60 degrees Fahrenheit
scf/d	standard cubic feet per day
stb	a stock tank barrel which is 42 US gallons measured at 14.7 pounds per square inch and 60 degrees Fahrenheit
stb/d	stock tank barrels per day



## 7.2. Resources Categorisation

The following are SPE PRMS terms, defined in Section 6:

1P	Proved, a low estimate category of Reserves
2P	Proved + Probable, a best estimate category of Reserves
3P	Proved + Probable +Possible, a high estimate category of Reserves
1C	a low estimate category of Contingent Resources
2C	a best estimate category of Contingent Resources
3C	a high estimate category of Contingent Resources
Low	a low estimate category of Prospective Resources also used as a generic term to describe a low or conservative estimate
Best	a best estimate category of Prospective Resources also used as a generic term to describe a best, or mid estimate
High	high estimate category of Prospective Resources also used as a generic term to describe a high or optimistic estimate





### 7.3. Terms and their abbreviations

AVO	amplitude variation with offset
Bo	oil shrinkage factor or formation volume factor, in rb/stb
Capex	capital expenditure
CGR	condensate gas ratio
COS	geological chance of success for prospective resources
CPI	computer processed information log
DST	drill stem test
Eg	gas expansion factor
FDP	field development plan, dated 2013
FDP Update	field development plan, dated December 2015
FEED	front end engineering and design
FID	final investment decision
FVF	formation volume factor
FWL	free water level
GDT	gas down to
GEF	gas expansion factor
GIIP	gas initially in place
GOC	gas oil contact
GR	gamma ray
GRV	gross rock volume
KB	kelly bushing
k	permeability
kh	permeability thickness
Listing CPR	CPR dated March 2014 in connection with the listing of GKP's
MD	measured depth
MDT	modular formation dynamic tester
MSL	mean sea level
N/G	net to gross ratio
NMO	normal move-out
NPV <sub>xx</sub>	net present value at xx% discount rate
Opex	operating expenditure
ODT	oil down to
OWC	oil water contact
Phi	porosity
Phie	effective porosity
Phit	total porosity
PSC	production sharing contract
PVT	pressure volume temperature experiment
RFT	repeat formation tester
Rs	solution gas oil ratio
Rt	true resistivity
Rw	formation water resistivity
SCAL	special core analysis
Sg	gas saturation
So	oil saturation
s SRD	seconds below seismic reference datum
STOIIP	stock tank oil initially in place
Sw	water saturation
TD	total depth
TVD	true vertical depth
TWT	two way time
Vsh	shale volume
WGR	water gas ratio



WUT	water up to
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