

23 April 2020

**Gulf Keystone Petroleum Ltd. (LSE: GKP)**  
 ("Gulf Keystone", "GKP", "the Group" or "the Company")

## 2019 Full Year Results Announcement

*2019 production growth targets met, \$99 million returned to shareholders  
 2020 focus on preservation of liquidity*

Gulf Keystone Petroleum, a leading independent operator and producer in the Kurdistan Region of Iraq ("Kurdistan" or "Kurdistan Region") announces its results for the year ended 31 December 2019.

**Jón Ferrier, Gulf Keystone's Chief Executive Officer, said:**

*"2019 saw a step change in activity at Shaikan; we delivered production and controlled expenditures in line with guidance, returned just under \$100 million to our shareholders, and maintained a strong balance sheet with cash of \$164 million at 22 April 2020.*

*The current oil price and macro-economic uncertainty continues to have profound, far-reaching effects. We have taken concrete steps to protect value and assure the viability and financial strength of our business, both for today and the longer-term. As previously announced, we have suspended guidance and, while we were on-track to achieve 55,000 bopd in Q3 2020, we have stopped further expansion activity and are currently demobilising the team until circumstances improve. While we have secured ongoing production operations, we continue to closely monitor market dynamics and will take appropriate further actions to preserve value.*

*We continue to focus on strict financial discipline and maintaining our strong balance sheet. GKP remains underpinned by Shaikan, which continues to perform in line with expectations, and we look forward to resuming expansion activity and delivering the underlying value of the field for all stakeholders upon resolution of the outstanding payments from the Kurdistan Regional Government ("KRG") and an improvement in economic conditions."*

## Highlights to 31 December 2019 and post reporting period

### Operational

- Robust safety performance during a period of increased operational activity.
- GKP remains committed to the welfare of all personnel and the safety of our operations. To limit the risk and transmission of COVID-19, only location essential personnel are working at GKP sites and offices.
- Average gross production in 2019 of 32,883 bopd, in line with original guidance.
- Gross production from the field in 2020 to date of c.38,000 bopd.
- As a result of COVID-19, the focus on cost control and overdue payments from the KRG, operations have been reduced to focus on minimum safety critical activities required for production.
- Once macro conditions improve, including resolution of outstanding payments from the KRG, the Company will restart expansion activity to increase production to 55,000 bopd.

### Financial

- In 2019, the Company achieved its production, capital expenditures, operating costs and G&A costs guidance.
- Profit after tax of \$43.5 million (FY 2018: \$79.9 million) and revenue of \$206.7 million (FY 2018: \$250.6 million) were down, as Brent oil prices averaged \$64 per barrel in 2019 compared to \$71 per barrel in 2018.
- Net capital investment in Shaikan of \$90.0 million (FY 2018: \$35.4 million).
- Maiden dividend and share buyback programmes returned \$79 million in 2019. Subsequent completion of the share buyback programme brought total returns to \$99 million.
- Cash balance of \$190.8 million at year end (2018: \$295.6 million).

## Outlook

- The Company is actively focused on maintaining a robust financial position and is targeting a major reduction of costs across the business, while maintaining a strong focus on safety and long-term asset reliability. These actions are being taken in response to the current oil price environment and in anticipation of a protracted recovery:
  - net Capex for 2020 include expenditures incurred to date and remaining firm commitments and are expected to be \$40-\$48 million (\$50-\$60 million gross), a c.50% reduction compared to 2019;
  - targeted Opex and G&A savings of at least 20%; and
  - in process of reducing expatriate workforce by c.60%.
- The KRG has committed to paying for monthly production by the 15<sup>th</sup> day of each following month starting with March 2020, for which payment was recently received. Dialogue with the KRG is continuing relating to payment of outstanding invoices for November 2019 to February 2020 aggregating \$93.7 million gross (\$73.3 million net to GKP).
- Guidance for 2020 suspended until the outlook becomes clearer.
- Resumption of distributions is dependent on an improvement in macro-economic conditions, resolution of outstanding payments from the KRG and a clear operational outlook.
- With a strong balance sheet, limited capital commitments and an existing low-cost production base, GKP is well placed to navigate through these challenging conditions and, if necessary, to withstand a lower oil price throughout 2020 and 2021.

The Company's 2019 Full Year Results presentation is available on the investor relations section of the website: <https://www.gulfkeystone.com/>

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## Notes to Editors:

Gulf Keystone Petroleum Ltd. (LSE: GKP) is a leading independent operator and producer in the Kurdistan Region of Iraq. Further information on Gulf Keystone is available on its website [www.gulfkeystone.com](http://www.gulfkeystone.com)

## Disclaimer

This announcement contains certain forward-looking statements that are subject to the risks and uncertainties associated with the oil & gas exploration and production business. These statements are made by the Company and its Directors in good faith based on the information available to them up to the time of their approval of this announcement but such statements should be treated with caution due to inherent risks and uncertainties, including both economic and business factors and/or factors beyond the Company's control or within the Company's control where, for example, the Company decides on a change of plan or strategy. This announcement has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed. This announcement should not be relied on by any other party or for any other purpose.

## CHAIRMAN'S STATEMENT

During 2019, the Company increased investment in Shaikan to grow production and delivered material returns to shareholders. The Company maintained a sharp focus on operational delivery to achieve production guidance and made good progress on development activities to increase production at Shaikan to 55,000 bopd. Over the last 12 months, the Company returned c.\$100 million to shareholders through the combination of dividends and value accretive share buy-back programmes, whilst maintaining a strong balance sheet throughout.

The Kurdistan Region of Iraq ("KRI") remained a safe and secure environment for us throughout 2019. The Company has closely monitored the Coronavirus ("COVID-19") situation, taken appropriate actions and the priority remains the welfare of staff, contractors and local communities, and safe operations. While Brent crude averaged approximately \$64 per barrel over the course of 2019, slightly down from 2018's average oil price of \$71 per barrel, recent events have pushed current crude oil prices down to below \$20 per barrel. The impact of COVID-19 on oil demand and surplus global oil supply are expected to place continued pressure on oil prices for several more months.

With the extraordinary impact of the recent global outbreak of COVID-19, delay in payments from the Kurdistan Regional Government ("KRG") and the economic backdrop, the Company suspended guidance and stopped expansion activities, which were otherwise on track to achieve 55,000 bopd in Q3 2020.

Gulf Keystone is in a strong financial position and has flexibility to manage through what is expected to be an extended period of uncertainty, with a large cash position, low-cost production and limited capital expenditure commitments. The Company continues to respond to the evolving macro environment and has implemented a number of cost-saving initiatives; Capex forecast for 2020 is down significantly from 2019 and we are targeting Opex and G&A savings of 20% to further bolster liquidity.

The Board recognises the importance of distributions to shareholders and intends to consider the appropriateness and timing of the ordinary dividend and any share buyback once macro-economic conditions improve, outstanding payments from the KRG are resolved and there is a clearer operational outlook.

With the oil and gas sector in Kurdistan being the single largest contributor to the region's economy and future growth, the Company is closely aligned with our host's strategic focus on the continuing safe and sustainable operations and development of the sector. We share a common purpose with the Ministry of Natural Resources ("MNR") to develop the Shaikan Field over time. The eventual improvement of the investment environment and resolution of outstanding payments from the KRG will provide the foundation for the resumption of investment in Shaikan.

Gulf Keystone is committed to high standards across all aspects of Environment, Social and Governance ("ESG"). These are issues that have never been more important to get right, not only for the respect of our planet and those who we work with and around, but also because of the need for companies to remain relevant to investors, who are increasingly conscious of ESG related matters. We have identified four key priorities for our sustainability initiatives, those being: reducing emissions; the safety and development of our people; the safety and development of the local communities; and the quality of the local environment. Our Sustainability Report which will be included in the 2019 annual report will set out the framework and culture in place to address these areas, including some case studies of what we have, and intend to achieve.

The year saw changes to the Board. In June 2019, we announced that CFO, Sami Zouari would be leaving the Company and in September, Garrett Soden stepped down from the Board as a Non-Executive Director. I would like to reiterate my thanks to both Sami and Garrett for their significant contributions to the Company. We were very pleased to welcome Ian Weatherdon as CFO in January 2020, who brings a wealth of sector finance experience to the Board and senior management team.

On behalf of the Board, it leaves me to thank all our stakeholders for their continued support. While there are many challenges ahead of us, with a strong balance sheet, we are well placed to successfully manage through these turbulent times and deliver the significant underlying value of the Shaikan asset for the benefit of all stakeholders. Finally, I wish you and your families good health.

**Jaap Huijskes**  
**Non-Executive Chairman**

## CEO STATEMENT

2019 was a milestone year for the Company, seeing a step change in operational activity at Shaikan. Our focus during the period continued to be on creating value for our shareholders by achieving safe and sustainable production growth, whilst also returning c.\$100 million to our shareholders over the last 12 months and maintaining a robust financial position, with cash of \$164 million as at 22 April 2020. The start of 2020 however has been marked by a series of extraordinary events of geopolitical significance, principally the COVID-19 pandemic and the precipitous drop in the oil price related in part to a collapse in global demand as economies went into shutdown.

Looking back on 2019, and building on the commercial foundations laid in 2018, the Company achieved a number of important operational targets, meeting guidance and yielding significant results for the business. As operator of the Shaikan Field, the Company manages its development, remaining focused on capital discipline and controlling costs. The Shaikan Field is a low-cost asset; at current production levels breakeven can be achieved to cover all operating, general and administrative costs and interest payments with a Brent price just below \$35 per barrel.

The Shaikan Field performed in line with expectations, enabling Gulf Keystone to achieve full-year gross average production of 32,883 bopd, within the original 2019 gross production guidance of 32,000 – 38,000 bopd.

The first well of a multi-well drilling campaign, SH-12, was completed and subsequently brought online in November. The SH-9 well, originally designed to test the reservoir crest, was spud in October and ultimately completed as an oil producer. We also performed tubing workovers on the SH-1 and SH-3 wells that led to material production uplifts.

Other operational targets achieved during the period, include the planned maintenance and debottlenecking works at PF-1 and PF-2 - which were completed in June and October respectively - and the commissioning of the PF-1 export pipeline in December. This was particularly important as it marked the end of export by trucking from the field, resulting in increased operating efficiencies, lower transportation costs and the elimination of Health, Safety, Security and Environment ("HSSE") risks associated with the transportation of the crude oil by road tankers, as well as the reduction in carbon emissions.

On commercial matters, in February 2019 the Company renewed its Crude Oil Sales Agreement with the KRG for a further 24 months. In recent months, we have experienced delays in receipt of payments from the KRG. While we have received payment for March 2020 production, Gulf Keystone remains in dialogue with the KRG, who recently provided a proposal with regard to the payment timing of outstanding invoices for the period November 2019 to February 2020.

The Company recently suspended guidance and stopped further expansion activity, which was otherwise on track to deliver 55,000 bopd in Q3 2020 as guided.

While we have secured ongoing production operations, we continue to closely monitor market dynamics and will take appropriate further actions to preserve value. The Shaikan Field continues to perform well with average 2020 gross production to date of c.38,000 bopd.

Gulf Keystone aims to operate to high ESG standards. While the term 'ESG' is relatively new, Gulf Keystone has been successfully conducting activities under this banner since its arrival in Kurdistan in 2007. The oil industry is integral to the national economy where oil and gas revenues are a large part of the KRG's annual budget and underpins the social fabric of the region; both part of the 'S' of 'ESG'. Gulf Keystone directly plays its part in positively contributing to society as a significant employer in the region actively developing its local workforce who are key to the success of the business.

We aspire to be at the forefront of "HSSE" performance in Kurdistan, evidenced by our strong safety track record. Whilst, as previously reported, it was disappointing to incur our first Lost Time Incident ("LTI") in 530 days, an open HSSE reporting culture along with safe and reliable operations are of the utmost importance to the Company.

In order to materially lower its emissions, the Company is committed to the elimination of routine flaring of associated gas and, with our partner Kalegran B.V. (a subsidiary of MOL Hungarian Oil & Gas plc ("MOL")), is reviewing a number of gas management solutions. Following the results of the SH-9 well, the Company has agreed with MOL and the MNR that currently the most feasible option for the phased reduction of routine flaring involves the development of surface facilities to sweeten the gas and to remove sulphur. The Company will also look to replace diesel power generation with gas, and potentially supply the remaining gas for power generation elsewhere in the region. The phased elimination of routine flaring is expected to gradually halve CO<sub>2</sub> emissions from today's levels of 38 kg per bbl by 2025, contingent upon the restart of the investment programme. The parties are currently working together on integrating this revised gas management solution into a new Field Development Plan ("FDP") which is expected to be submitted to the MNR in due course. This will be followed by a period of consultation, prior to approval.

We remain focused on maintaining a conservative financial profile while generating value for our shareholders. We believe that our conservative approach enables us to manage through turbulent times and that our plan to deliver material production growth at Shaikan, balanced with the return of excess capital to investors, underpins our investment case. We continue to take concrete steps to protect value and assure the viability and financial strength of our business, both for today and the longer-term.

I would like to give my thanks to the KRG, our partner MOL, our staff and all who have helped us deliver solid progress over the past year and I look forward to keeping all our stakeholders updated during the course of 2020.

**Jón Ferrier**  
**Chief Executive Officer**

## FINANCIAL REVIEW

### Key financial highlights

	Year ended 31 December 2019 \$'000	Year ended 31 December 2018 \$'000
Gross average production (bopd)	32,883	31,563
Realised price (\$/bbl)	42.9	49.0
Revenue	206.7	250.6
Operating costs (\$m) <sup>(1)</sup>	(37.4)	(30.7)
Operating costs per bbl (\$/bbl) <sup>(1)</sup>	(3.9)	(3.2)
General and administrative expenses (\$m)	(19.5)	(17.8)
Incurred in relation to the Shaikan Field	(10.0)	(7.9)
Corporate G&A	(9.5)	(9.9)
Profit from operations (\$m)	49.0	78.2
Profit after tax (\$m)	43.5	79.9
Basic earnings per share (cents)	19.25	34.84
EBITDA (\$m) <sup>(1)</sup>	122.2	150.1
Capital investment (\$m) <sup>(1)</sup>	90.0	35.4
Net cash (\$m) <sup>(1)</sup>	86.4	191.2
Net (decrease)/increase in cash (\$m)	(104.6)	135.2
Revenue receipts (\$m)	155.7	224.7

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

A key element of Gulf Keystone's strategy is to maintain a conservative financial position. The Company has a strong balance sheet, with \$164.1 million of cash at 22 April 2020 and no debt repayment until 2023, which provides financial flexibility to navigate through these uncertain times.

#### Revenues

2019 revenue was \$206.7 million (2018: \$250.6 million). The year-on-year decrease was driven by a lower Brent price, which led to a lower realised oil price of \$42.9 per bbl (2018: \$49.0 per bbl). There were no MNR liability offsets recognised in 2019 (2018: \$16.2 million). All sales were made under the terms of the Crude Oil Sales Agreement signed in early 2019 which covers the period until 31 December 2020.

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

The Group's operating costs increased to \$37.4 million (2018: \$30.7 million) due to plant maintenance and costs associated with the ramp up of production. While gross operating costs per bbl increased to \$3.9 per bbl from \$3.2 per bbl - as the increase in production lagged behind the increase in costs - costs per bbl were at the bottom of the stated 2019 guidance of \$3.8 - \$4.6 per bbl.

Other cost of sales components included: depreciation, depletion and amortisation ("DD&A") of oil and gas assets, capacity building charge, production bonuses, and certain other costs such as trucking and oil inventory movements. Cost of sales decreased to \$138.2 million (2018: \$154.5 million), which was mostly driven by the final production bonus of \$16.0 million in 2018 (2019: nil). Trucking costs have now been eliminated with the completion of the pipeline from PF-1 to the main regional export pipeline which became operational in December 2019.

General and administrative expenses ("G&A") increased from \$17.8 million in 2018 to \$19.5 million in 2019, with the Shaikan Field related G&A contributing \$10.0 million (2018: \$7.8 million) of this amount. The increase is in line with guidance of a 10% increase. The rise in the Shaikan Field G&A goes hand in hand with higher levels of activity in the field. The G&A amount includes \$1.9 million of share-based payments (2018: \$1.8 million) and \$0.8 million (2018: \$0.4 million) of depreciation costs.

#### Net finance costs and other gains

The Group incurred finance costs of \$11.2 million (2018: \$13.9 million) and generated \$6.0 million in interest income (2018: \$4.4 million).

In 2018, a release of past liabilities in relation to Algerian operations resulted in a \$10.2 million gain. Other losses in 2019 consisted of an exchange loss of \$0.7 million (2018: \$0.7 million gain).

#### **A solid financial foundation underpinning the Group's strategy**

### Cash flows

The Group generated cash from operating activities of \$83.7 million (2018: \$158.2 million). The reduction in revenue coupled with the expected increase in costs, related principally to the ramp-up of production, resulted in Group EBITDA of \$122.2 million, down from \$150.1 million in 2018.

The Group finished the year with a cash balance of \$190.8 million (2018: \$295.6 million) after incurring significant asset development costs and distributing capital to its shareholders. The Group has notes outstanding with a principal balance of \$100.0 million that do not mature until July 2023.

In 2019, the Group received revenue payments of \$155.7 million (2018: \$224.7 million). As at the end of 2019, there were five months of oil revenue outstanding (2018: three months) amounting to \$90.2 million (2018: \$53.2 million). Subsequent to year-end, the Company has received payments for three of those outstanding months, totalling \$47.8 million. The Company remains in dialogue with the KRG regarding the payment timing of the currently outstanding invoices of November 2019 to February 2020, aggregating \$93.7 million gross (\$73.3 million net to GKP). The KRG has committed to paying for monthly production by the 15th day of each following month starting with March 2020, for which payment was recently received.

At the June 2019 Annual General Meeting ("AGM"), shareholders approved the distribution of a total cash dividend of \$50.0 million. The total dividend amount paid was \$49.1 million as the dividend attributable to treasury shares held by the Group as a result of share buy-back was not paid out.

To the date of this report, the Group had completed two share buy-back programmes for an aggregate amount of \$50.0 million. In 2019, the Group bought back 10.5 million shares for a cost of \$29.8 million. At year-end, the second buy-back programme was in progress and the remaining \$20.2 million of buy-backs were completed in March 2020.

### Capital investment

In 2019, net capital investment in Shaikan amounted to \$90.0 million, within the stated 2019 guidance of \$88-104 million. Investment included the export pipeline from PF1 to the main regional export pipeline, SH-12 and SH-9 wells, SH-1 and SH-3 workovers, production facilities expansion work, various studies and reservoir engineering including certain long lead items for the 75,000 bopd programme.

In line with Gulf Keystone's strategy of maintaining a conservative financial position, the Company has delayed further expansion of Shaikan until the macro-economic environment improves, including resolution of outstanding KRG payments.

Net 2020 capital expenditure forecast include expenditures incurred to date and remaining firm commitments and are estimated to be \$50 - \$60 million (\$40 - \$48 million net), a c.50% reduction from 2019. While Gulf Keystone has a low-cost structure, the Company is targeting operating costs and G&A reductions of at least 20% and is in the process of reducing its expatriate workforce by c.60%.

**Ian Weatherdon**  
**Chief Financial Officer**

## OPERATIONAL REVIEW

It is hard to start any review of operations without acknowledging the impact that the COVID-19 pandemic has had to date and could have going forward. The Company's production operations continue despite the challenges imposed by COVID-19, with average gross production in 2020 to date of c.38,000 bopd. As previously announced, the Company has suspended its expansion programme. At the time of suspension, we were on track to deliver 55,000 bopd in Q3 2020.

In 2019, the Company significantly increased activity in the field. The project to expand production to 55,000 bopd began in earnest with activities including two well workovers, facilities expansion, pipeline installation and the restart of drilling activities. We delivered average gross production for the year of 32,883 bopd; within our original guidance of 32,000 – 38,000 bopd. The Shaikan Jurassic reservoir continues to perform in line with expectations, achieving a significant milestone early in 2020 with total gross cumulative production of 70 Million Stock Tank Barrels ("MMstb"). As at 31 December 2019, remaining estimated 2P reserves were 578 MMstb.

To prepare for the increase in total processing capacity to 55,000 bopd and commensurate ramp-up in production in Q3 2020, initial debottlenecking activities were completed as planned at PF-1 in June 2019 and at PF-2 in October 2019. The remaining debottlenecking activities, including installation of the pumps, coolers and separation vessels were mostly completed in early 2020, however some remaining work and commissioning was outstanding at the time that we had to suspend construction as a precaution for COVID-19. No further shutdowns of the processing facilities will be required for the eventual completion of activities.

Another significant achievement during the year was the completion and connection of the PF-1 pipeline and export station to the main regional export pipeline on 10 December 2019. This means all oil is now exported via pipeline from Shaikan, providing greater operating efficiencies, lower HSSE risks and CO<sub>2</sub> emissions, an end to trucking costs and improved netbacks by c.\$1 per barrel.

The 2019 drilling programme started later than planned due to necessary re-certification work on the drilling rig to meet Gulf Keystone's safety standards. Despite the delayed start, we saw improvements in operating efficiencies through the year. In November 2019, we completed the drilling of SH-12 and brought the well on-stream with an electrical submersible pump ("ESP"). This well was perforated in the deeper Butmah reservoir to test the response from that zone, and the main SAM reservoir remains to be perforated. The deferral of that activity is the main reason production rates from the field are reduced, with current production at c.36,000 bopd.

The 2019 workovers on the SH-1 and SH-3 wells resulted in material production uplifts. Production from SH-1 increased by 105% to 7,800 bopd and SH-3 by 40% to 6,200 bopd. Both wells continue to perform well.

In order to assess the gas reinjection potential of the Jurassic horizon and possible impact on the longer-term gas management plan, the drilling sequence was changed to drill SH-9 following SH-12. Results from the well indicate a more complex structure at the crest of the field and the location of the secondary gas cap was not found. As a consequence, SH-9 has been completed as an oil producer, providing additional well capacity to PF-1.

In order to maintain field development and production momentum throughout 2019, Gulf Keystone evaluated various gas management options. In consideration of the results of SH-9, MOL and the MNR have agreed in principle to change the base case gas management plan to the sweetening and export of produced gas along with elemental sulphur recovery from the waste stream. The sweet gas would be used to reduce the burning of diesel to generate power at the Shaikan PFs, with the remainder potentially supplied to local power stations or for other domestic requirements.

The FDP, which defines the phased development of the field to deliver the vision of 110,000 bopd, is being revised to reflect the new gas management project, with the intent to resubmit it in due course to the MNR for review and subsequent approval. While the revised base case gas management plan has been agreed in principle, the Company, MOL and the MNR will continue to work together to consider other gas handling solutions. These solutions may reduce costs, accelerate the timing of reduced flaring and/or optimise the ramp-up of production.

With the restart of the investment programme, gas management project activities will follow the MNR's approval of the FDP. With this approval, preparations will commence for FEED ("Front End Engineering and Design"). Currently, FEED is not expected to begin until 2021 at the earliest, and the current total estimated duration of the project has been extended by three years to 60-66 months. Initial capital cost estimates for the revised solution are about \$275-\$375 million (+/-40% accuracy), up \$50 - \$75 million compared to the previous gas reinjection plan. Despite this, the NPV of the project is not expected to be adversely impacted; in fact near-term cash flow is improved due to continued production and the deferral of capital expenditures.



## **ESG**

Since commencing operations in Kurdistan, we have aspired to be at the forefront of ESG initiatives. We will present, through the Sustainability Report – part of the 2019 Annual Report, a detailed review of the work we have undertaken in this area, the goals we are seeking to attain, and the culture and governance we have in place to attain these goals. We are focusing on: a) reducing emissions; b) the safety and development of our people; c) the safety and development of the local communities; and d) the quality of the local environment. The gas management solution forms a key part of the Company's commitment to reduce emissions. Given the current relatively high volume of gas being routinely flared, not addressing the issue of flaring is simply not an option and is where the Company is focusing considerable efforts in order to bring about the single biggest change to its environmental footprint. The Company plans to reduce routine flaring by implementing the gas management plan, which is expected to significantly lower all emissions. We have a target to reduce our CO<sub>2</sub> emissions from a current level of c.38kg/bbl to less than half this figure by 2025, contingent upon the restart of the investment programme. This will put us below the global average for CO<sub>2</sub> emissions per barrel produced. Furthermore, the Company continues to remediate inactive drilling sites through the use of landscaping and has an effective waste management programme in place with cradle-to-grave traceability.

The energy sector plays an important role in the Kurdistan economy and Gulf Keystone is proud of its considerable contributions to the development of the region. Significant historical and continuing investments, and the sharing of oil production with the KRG have had a positive impact on local communities and the economy. The Company also employs a local employee workforce. During 2019, c.75% of Kurdistan-based staff were local employees and around a third were from the local villages surrounding Shaikan. GKP is committed to the development of staff, including management development and engineering apprenticeship programmes. The Company has also adopted proactive community investment programmes in agriculture and education with initiatives including training farmers on agriculture practices; training and equipment for beekeeping and English-language training.

**Stuart Catterall**  
**Chief Operating Officer**

## Consolidated Income Statement

For the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
Revenue	2	206,741	250,554
Cost of sales	3	(138,184)	(154,534)
<b>Gross profit</b>		<b>68,557</b>	96,020
General and administrative expenses	4	(19,531)	(17,813)
<b>Profit from operations</b>		<b>49,026</b>	78,207
Finance revenue	7	6,046	4,441
Finance costs	7	(11,153)	(13,873)
Other (losses) and gains	6	(661)	10,925
<b>Profit before tax</b>		<b>43,258</b>	79,700
Tax credit	8	271	189
<b>Profit after tax for the year</b>		<b>43,529</b>	79,889
<b>Profit per share (cents)</b>			
Basic	9	19.25	34.84
Diluted	9	18.37	33.87

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 \$'000	2018 \$'000
Profit after tax for the year	43,529	79,889
Items that may subsequently be reclassified to profit or (loss):		
Exchange differences on translation of foreign operations	597	(800)
<b>Total comprehensive profit for the year</b>	<b>44,126</b>	79,089

**Consolidated Balance Sheet**

As at 31 December 2019

	Notes	2019 \$'000	2018 \$'000
<b>Non-current assets</b>			
Intangible assets	10	454	84
Property, plant and equipment	11	407,602	380,537
Deferred tax asset	18	849	559
		<b>408,905</b>	<b>381,180</b>
<b>Current assets</b>			
Inventories	13	31,040	14,190
Trade and other receivables	14	103,181	67,909
Cash and cash equivalents		190,762	295,566
		<b>324,983</b>	<b>377,665</b>
<b>Total assets</b>		<b>733,888</b>	<b>758,845</b>
<b>Current liabilities</b>			
Other payables	15	(83,981)	(81,478)
Provisions	17	-	(4,155)
		<b>(83,981)</b>	<b>(85,633)</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	(1,989)	-
Borrowings	16	(98,192)	(97,795)
Provisions	17	(29,807)	(22,600)
		<b>(129,988)</b>	<b>(120,395)</b>
<b>Total liabilities</b>		<b>(213,969)</b>	<b>(206,028)</b>
<b>Net assets</b>		<b>519,919</b>	<b>552,817</b>
<b>Equity</b>			
Share capital	19	229,430	229,430
Share premium	19	871,675	920,728
Treasury shares	19	(29,749)	-
Exchange translation reserve		(3,221)	(3,818)
Accumulated losses		(548,216)	(593,523)
<b>Total equity</b>		<b>519,919</b>	<b>552,817</b>

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2020 and signed on its behalf by:

**Jón Ferrier**  
Chief Executive Officer

**Ian Weatherdon**  
Chief Financial Officer

**Consolidated Statement of Changes in Equity**  
For the year ended 31 December 2019

Notes	Attributable to equity holders of the Company					
	Share capital \$'000	Share premium \$'000	Exchange translation reserve \$'000	Accumulated losses \$'000	Treasury shares \$'000	Total equity \$'000
<b>Balance at 1 January 2018</b>	<b>229,430</b>	<b>920,728</b>	<b>(3,018)</b>	<b>(675,254)</b>	<b>-</b>	<b>471,886</b>
Net profit for the year	-	-	-	79,889	-	79,889
Other comprehensive loss for the year	-	-	(800)	-	-	(800)
<b>Total comprehensive (loss) or profit for the year</b>	<b>-</b>	<b>-</b>	<b>(800)</b>	<b>79,889</b>	<b>-</b>	<b>79,089</b>
Dividend	-	-	-	-	-	-
Employee share schemes	23	-	-	1,842	-	1,842
<b>Balance at 31 December 2018</b>	<b>229,430</b>	<b>920,728</b>	<b>(3,818)</b>	<b>(593,523)</b>	<b>-</b>	<b>552,817</b>
Net profit for the year	-	-	-	43,529	-	43,529
Other comprehensive profit for the year	-	-	597	-	-	597
<b>Total comprehensive profit for the year</b>	<b>-</b>	<b>-</b>	<b>597</b>	<b>43,529</b>	<b>-</b>	<b>44,126</b>
Employee share schemes	-	-	-	1,860	-	1,860
Share buy-back	19	-	-	-	(29,831)	(29,831)
Dividend Paid	24	(49,053)	-	-	-	(49,053)
Share options exercised	-	-	-	(82)	82	-
<b>Balance at 31 December 2019</b>	<b>229,430</b>	<b>871,675</b>	<b>(3,221)</b>	<b>(548,216)</b>	<b>(29,749)</b>	<b>519,919</b>

**Consolidated Cash Flow Statement**  
For the year ended 31 December 2019

	Notes	2019 \$'000	2018 \$'000
<b>Operating activities</b>			
Cash generated from operations	20	87,892	161,483
Interest received		5,897	4,441
Interest paid		(10,068)	(7,713)
<b>Net cash generated from operating activities</b>		<b>83,721</b>	<b>158,211</b>
<b>Investing activities</b>			
Exit costs of Algerian operation		(11,060)	-
Purchase of intangible assets		(390)	(66)
Purchase of property, plant and equipment		(96,926)	(20,589)
<b>Net cash used in investing activities</b>		<b>(108,376)</b>	<b>(20,655)</b>
<b>Financing activities</b>			
Payment of Dividends		(49,053)	-
Share Buy Back		(29,831)	-
Payments in lieu of share options exercises		(99)	-
Payment of leases		(972)	-
Issue costs of new notes		-	(2,366)
<b>Net cash from financing activities</b>		<b>(79,955)</b>	<b>(2,366)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(104,610)</b>	<b>135,190</b>
Cash and cash equivalents at beginning of year		295,566	160,456
Effect of foreign exchange rate changes		(194)	(80)
<b>Cash and cash equivalents at end of the year being bank balances and cash on hand</b>		<b>190,762</b>	<b>295,566</b>

In early 2019, the Group paid \$11.1 million in final settlement of liabilities relating to its exit from activities in Algeria.

## **Summary of Significant Accounting Policies**

### **General information**

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

## Adoption of new and revised Standards

### Amendments to International Financial Reporting Standards ("IFRS") that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

<i>IFRS 16 Leases</i>	<p>IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 supersedes IAS 17 <i>Leases</i>. The date for the initial application of IFRS for the Group is 1 January 2019.</p> <p>IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.</p> <p>As a result of the adoption of IFRS 16, the Group:</p> <ul style="list-style-type: none"> <li>a) Recognises right-of-use assets and lease liabilities, initially measured at the present value of the future lease payments;</li> <li>b) Recognises depreciation of right-to-use assets and interest on lease liabilities in the consolidated statement of profit and loss;</li> <li>c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and (interest presented within operating activities) in the consolidated cash flow statement.</li> <li>d) For short-term leases (lease term less than 12 months) and leases of low value, the Group has opted to recognise lease expense on a straight line basis as permitted by IFRS 16.</li> <li>e) Lease liabilities were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease (if available), or the incremental borrowing rate at 1 January 2019, or start of the lease, whichever is earlier.</li> </ul> <p>Under the transition rules of IFRS16 the Group has adopted the cumulative catch-up approach. The Group has not restated any prior year figures and made any necessary adjustments between assets and liabilities through opening retained earnings. The Group's implementation of IFRS 16 has led to the recognition of right of use assets \$405,000 and a lease liability of \$465,000 at 1 January 2019. The reconciliation between operating lease commitments at 31 December 2018 and the opening balance for the lease liabilities at 1 January 2019 is as follows:</p> <table data-bbox="587 1720 1385 2033"> <tr> <td></td><td style="text-align: right;">\$'000</td></tr> <tr> <td>Operating lease commitments at 31 December 2018</td><td style="text-align: right;">3,871</td></tr> <tr> <td>Short term leases</td><td style="text-align: right;">(3,341)</td></tr> <tr> <td>Effect of discounting</td><td style="text-align: right;">(65)</td></tr> <tr> <td>Total lease liabilities recognised on adoption of IFRS 16 at 1 January 2019</td><td style="text-align: right;">465</td></tr> <tr> <td>Of which:</td><td></td></tr> <tr> <td>Current lease liabilities</td><td style="text-align: right;">447</td></tr> <tr> <td>Non-current liabilities</td><td style="text-align: right;">18</td></tr> </table>		\$'000	Operating lease commitments at 31 December 2018	3,871	Short term leases	(3,341)	Effect of discounting	(65)	Total lease liabilities recognised on adoption of IFRS 16 at 1 January 2019	465	Of which:		Current lease liabilities	447	Non-current liabilities	18
	\$'000																
Operating lease commitments at 31 December 2018	3,871																
Short term leases	(3,341)																
Effect of discounting	(65)																
Total lease liabilities recognised on adoption of IFRS 16 at 1 January 2019	465																
Of which:																	
Current lease liabilities	447																
Non-current liabilities	18																

IFRIC 23 Uncertainty over Income Taxes treatments	The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The judgements and estimates made to separately recognise and measure the effect of each uncertain tax treatment are re-assessed whenever circumstances change or when there is new information that affects those judgements. The Group has re-assessed its tax exposure and the key estimates taken in determining the positions recorded for adopting IFRIC 23. As of 1 January 2019, the tax exposure has been determined by reference to the uncertainty that the tax authority may not accept the Group's proposed treatment of tax positions. The adoption of the interpretation had no material impact on the group.
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### **New and revised IFRSs issued but not yet effective**

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

IAS 1 and IAS 8	<i>Definition of material</i>
IFRS 3	<i>Definition of a business</i>
IFRS 17	<i>Insurance Contracts</i>
Annual Improvements Standards 2018-20	<i>Amendments to IFRS first time adoption of IFRS, IFRS 9 financial instruments and illustrative example accompanying IFRS16.</i>
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

### **Statement of compliance**

The financial statements have been prepared in accordance with IFRS as adopted by the European Union.

### **Basis of accounting**

The financial statements have been prepared under the historical cost basis, except for the valuation of hydrocarbon inventory and the valuation of certain financial instruments, which have been measured at fair value, and on the going concern basis. Equity-settled share-based payments are initially recognised at fair value, but are not subsequently revalued. The principal accounting policies adopted are set out below.

### **Going Concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, the Executive Review and the Operational Review. The financial position of the Group at the year end and its cash flows and liquidity position are included in the Financial Review.

As at 22 April 2020, the Group had \$164.1 million of cash. The Group continues to closely monitor and manage its liquidity. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Shaikan block, cost contingencies, disruptions to revenue receipts, etc. In response to the recent developments in 2020 around COVID-19 outbreak and oil price decrease, the Group ran a number of stress tests which included \$30/bbl Brent oil price prevailing for the duration of the going concern period and reduction in the frequency of revenue receipts from the KRG. The Group's forecasts, taking into account the applicable risks and the stress test scenarios, show that it has sufficient financial resources for the 12 months from the date of approval of the 2019 Annual Report and Accounts.

Based on the analysis performed, the directors have a reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future. Thus, the going concern basis of accounting is used to prepare the annual consolidated financial statements.



## Basis of consolidation

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

## Non-IFRS measures

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

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

The non-IFRS measures may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group’s operating results as reported under IFRS. An explanation of the relevance of each of the non-IFRS measures and a description of how they are calculated is set out below. Additionally, a reconciliation of the non-IFRS measures to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations is set out below, where applicable. The Group does not regard these non-IFRS measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS.

### Operating costs

Operating costs is a useful indicator of the Group’s costs incurred to produce Shaikan oil. Operating costs, in comparison with cost of sales, exclude certain non-cash accounting adjustments, contractual Production Sharing Contract (“PSC”) payments and transportation costs.

	<b>Year Ended 31 December 2019 \$ million</b>	<b>Year Ended 31 December 2018 \$ million</b>
Cost of sales	<b>138.2</b>	154.5
Depreciation of oil & gas assets	<b>(72.5)</b>	(70.7)
Production bonus	-	(16.0)
Capacity building payments	<b>(15.3)</b>	(17.0)
Transportation costs	<b>(12.0)</b>	(14.3)
Working capital movement	<b>(1.0)</b>	(5.8)
Operating costs	<b>37.4</b>	30.7

#### Gross operating costs per barrel (unaudited)

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

	Year Ended 31 December 2019	Year Ended 31 December 2018
Gross production (MMbbls)	12.0	11.5
Gross operating costs (\$ million)	46.7	36.8
Gross operating costs per barrel (\$ per bbl)	3.9	3.2

#### EBITDA

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

	Year Ended 31 December 2019 \$ million	Year Ended 31 December 2018 \$ million
Profit after tax	43.5	79.9
Finance costs	11.2	13.9
Interest revenue	(6.0)	(4.4)
Tax credit	(0.3)	(0.2)
Depreciation of oil and gas assets	72.5	70.7
Depreciation and amortisation	1.3	0.4
Gains from discontinued operations (Algeria)	-	(10.2)
EBITDA	122.2	150.1

#### Capital Investment

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

	Year Ended 31 December 2019 \$ million	Year Ended 31 December 2018 \$ million
Additions to oil and gas assets	90.0	35.7
Capital Investment	90.0	35.7

## Net Cash

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

	<b>Year Ended 31 December 2019 \$ million</b>	<b>Year Ended 31 December 2018 \$ million</b>
Outstanding New Notes	<b>(98.2)</b>	(97.8)
Unamortised issue costs	<b>(1.8)</b>	(2.2)
Accrued interest	<b>(4.4)</b>	(4.4)
Cash and cash equivalents	<b>190.8</b>	295.6
Net Cash	<b>86.4</b>	191.2

## **Joint arrangements**

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

## **Sales revenue**

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

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

As the payment mechanism for sales is developing within the Kurdistan Region of Iraq, the Group currently considers that revenue can best be reliably measured when the cash receipt is assured. The assessment of whether cash receipt is reasonably assured is based on management's evaluation of the reliability of the KRG's payments to the international oil companies operating in the Kurdistan Region of Iraq.

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

- For the crude oil sales via Fishkhabour route, the point of sale is the point that the crude oil is unloaded into the export pipeline at Fishkhabour;
- For the crude oil sales via the Kurdish Export Pipeline, the point of sale is the point that the crude oil is injected into the Kurdish Export Pipeline;
- GKP recognises revenue for its share of the revenue on a cash-assured basis and these amounts of recognised revenue may be lower than the Company's entitlement under the Shaikan PSC, giving rise to unrecognised revenue amounts;
- From 15 November 2017 till December 2020 when all of the Group's exports started being sold via the Kurdish Export Pipeline, the Group performed transportation services in respect of the KRG's share of export oil sales. It recharges all of these transportation costs at nil mark-up to the KRG and these recharged transportation costs are recognised as revenue; and
- Under the Shaikan PSC and the bilateral agreement between GKPI and the MNR signed on 16 March 2016 ("Bilateral Agreement"), the Group is entitled to offset certain costs (including capacity building payments and production bonuses) against amounts owed by the KRG to GKPI. In these instances, the Group recognises revenue and a reduction in the liability to the KRG.

To the extent that revenue arises from test production during an evaluation programme, an amount is charged from exploration and evaluation costs to cost of sales so as to reflect a zero net margin.

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

## **Interest Revenue**

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective rate of interest applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## **Property, plant and equipment other than oil and gas assets**

Property, plant and equipment ("PPE") are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided at rates calculated to write each asset down to its estimated residual value over its expected useful life as follows:

Fixtures and equipment - 20% straight-line

## **Intangible assets other than oil and gas assets**

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

Computer software - 33% straight-line

## **Oil and gas assets**

### *Pre-licence costs*

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

### *Exploration and evaluation costs*

The Group follows the successful efforts method of accounting for exploration and evaluations ("E&E") costs. Expenditures directly associated with evaluation or appraisal activities are initially capitalised as intangible assets in cost pools by well, field or exploration area, as appropriate. Such costs include licence acquisition, technical services and studies, seismic acquisition, exploration and appraisal well drilling, payments to contractors, interest payable and directly attributable administration and overhead costs.

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

E&E costs are transferred to development and production asset within property, plant and equipment upon the approval of development programme by the relevant authorities and the determination of commercial reserves existence.

### *Development and production assets*

Development and production assets are accumulated on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined above. The cost of development and production assets includes the cost of acquisition and purchases of such assets, directly attributable overheads, and costs for future restoration and decommissioning. These costs are capitalised as part of the property, plant and equipment and depreciated based on the Group's depreciation of oil and gas assets policy.

### *Depreciation of oil and gas assets*

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

Commercial reserves are proven and probable ("2P") reserves together with, where considered appropriate, a risked portion of 2C contingent resources, which are estimated using standard recognised evaluation techniques. The reserves estimate is based on values from ERC Equipoise – CPR August 2016 and confirmation letter dated April 2017. CPR volume estimates at 31 December 2016 were adjusted by GKP for production in 2017, 2018 and 2019.

#### *Impairment of PPE and intangible non-current assets*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, or group of assets, is estimated in order to determine the extent of the impairment loss (if any).

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

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

Any impairment identified is immediately recognised as an expense.

#### **Borrowing costs**

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

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

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

#### **Taxation**

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

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

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

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

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

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

## Foreign currencies

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

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

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

## Inventories

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

## Financial instruments

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

### *Trade receivables*

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

### *Cash and cash equivalents*

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

### *Liquid investments*

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

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

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

### *Derivative financial instruments*

The Group may enter into derivative financial instruments.

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

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

#### *Impairment of financial assets*

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

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

#### *Financial liabilities and equity*

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

#### *Equity instruments*

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

#### *Borrowings*

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

#### *Trade payables*

Trade payables are stated at amortised cost. The average maturity for trade and other payables is one to three months.

#### **Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

#### *Decommissioning provision*

Provision for decommissioning is recognised in full when there is an obligation to restore the site to its original condition. The amount recognised is the present value of the estimated future expenditure for restoring the sites of drilled wells and related facilities to their original status. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas asset. The amount recognised is reassessed each year in accordance with local conditions and requirements. Any change in the present value of the estimated expenditure is dealt with prospectively. The unwinding of the discount is included as a finance cost.

#### **Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 23. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserve.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the period. Details regarding the determination of the fair value of cash-settled share-based transactions are set out in Note 23.

## **Leases**

The Group assesses whether a contract contains a lease at inception of the contract. The Group recognises a right-of-use asset and corresponding lease liability in the statement of financial position for all lease arrangements longer than twelve months, where it is the lessee and has control of the asset. For all other leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the future lease payments from the commencement date of the lease. The lease payments are discounted using the interest rate implicit in the lease or, if not readily determinable, the company specific incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is recognised in creditors as current or non current liabilities depending on underlying lease terms.

The right-of-use assets are initially recognised on the balance sheet at cost, which comprises the amount of the initial measurement of the corresponding lease liability, adjusted for any lease payments made at or prior to the commencement date of the lease and any lease incentive received.

For short-term leases (periods less than 12 months) and leases of low value, the Group has opted to recognise lease expense on a straight line basis.

## **Critical accounting estimates and judgements**

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

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

## ***Key estimates***

### ***Reserves estimates***

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



### *Carrying value of producing assets*

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

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

In line with the Group's accounting policy on impairment, management performs an impairment review of the Group's oil and gas assets at least annually with reference to indicators as set out in IAS 36. The Group assesses its group of assets, called a cash generating unit (CGU), for impairment, if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where indicators are present, management calculates the recoverable amount using key assumptions such as future oil and gas prices, estimated production volume, pre-tax discount rates that reflect the current market assessment of the time value of money and risks specific to the asset, commercial reserves, inflation and transportation fees. The key assumptions are subject to change based on market trends and economic conditions. The CGU's recoverable amount is the higher of the fair value less cost of disposal and value in use. Where the CGU's recoverable amount is lower than the carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The Group's sole CGU at 31 December 2019 was Shaikan with a carrying value of \$403.7 million.

Following the results of SH-9, the Group, MOL and the MNR have agreed in principle to change the base case gas management plan from gas reinjection to the sweetening and export of produced gas along with elemental sulphur recovery from the waste stream. These results, although confirmed in 2020, were considered to provide further information on the gas management plan at the balance sheet date. Accordingly, a full impairment valuation was calculated taking into account this change but no write down was indicated. The Group also performed additional sensitivity analysis to model the effects of the significant decrease in oil prices and the COVID-19 outbreak during 2020. These, together with other possible changes to key assumptions and available management mitigating actions, indicated that no impairment would arise.

The assumptions and estimates in the valuation model include:

- Commodity prices that are based on latest internal forecasts, benchmarked with external sources of information, to ensure they are within the range of available analyst forecasts and the long-term corporate economic assumptions thereafter. For the impairment analysis, the base case Brent oil price of \$60/bbl real was used, based on conditions prevailing as at 31 December 2019. A stress test based on Brent oil price of \$30/bbl for 2020, \$40/bbl for 2021 followed by \$50/bbl real for the full life of field was included in the assessment.
- Discount rates that are adjusted to reflect risks specific to the Shaikan Field and the KRI. The impairment analysis was based on 15% discount rate.
- Operating costs and capital expenditure that are based on financial budgets and internal management forecasts. Costs assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated therewith.
- Commercial reserves and production profiles; and
- Timing of revenue receipts.

## **Significant accounting judgement**

### *Revenue*

The recognition of revenue, particularly the recognition of revenue from exports, is considered to be a key accounting judgement. The Group began commercial production from the Shaikan Field in July 2013 and historically made sales to both the domestic and export markets. However, as the payment mechanism for sales to the export market continues to develop within the Kurdistan Region of Iraq, the Group considers that revenue can be only reliably measured when the cash receipt is assured. The assessment of whether cash receipts are reasonably assured is based on management's evaluation of the reliability of the MNR's payments to the international oil companies operating in the Kurdistan Region of Iraq. The Group also recognised payables to the MNR that were offset against amounts receivable from the MNR for previously unrecognised revenue in line with the terms of the Shaikan PSC.

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

## **Notes to the Consolidated Financial Statement**

### **1. Geographical Information**

The Group's non-current assets excluding deferred tax assets and other financial assets by geographical location are detailed below:

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Kurdistan	<b>407,808</b>	380,339
United Kingdom	<b>248</b>	282
	<b>408,056</b>	380,621

### *Information about major customers*

Included in revenues are \$206.7 million, which arose from sales to the Group's largest customer (2018: \$250.6 million).

### **2. Revenue**

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Oil sales	<b>202,871</b>	243,711
Transportation revenue	<b>3,870</b>	6,843
	<b>206,741</b>	250,554

The Group accounting policy for revenue recognition is set out in the Summary of Significant Accounting Policies, with revenue recognised on a cash-assured basis.

During 2019, the cash-assured values recognised as oil sales were the invoiced revenue for the year amounting to \$202.9 million (2018: \$227.5 million). The MNR liability offset revenue recognised was nil (2018: \$16.2 million). The oil sales price was calculated using the monthly Brent price less an average discount of \$21.7 (2018: \$22.3) per barrel for quality, pipeline tariff and transportation costs.

From November 2017 until mid December 2019, the Group performed transportation services in respect of the KRG's share of export oil sales. It recharged all of these transportation costs at nil mark-up to the KRG.

### 3. Cost of Sales

	2019 \$'000	2018 \$'000
Oil production costs	53,696	69,479
Depreciation of oil and gas assets	72,514	70,744
Transportation costs	11,974	14,311
	<b>138,184</b>	<b>154,534</b>

Oil production costs represent the Group's share of gross production expenditure for the Shaikan Field for the year and include capacity building charges of \$15.3 million (2018: \$17.0 million) and Shaikan PSC production bonus of nil (2018: \$16.0 million). All costs are included with no deferral of costs associated with unrecognised sales in accordance with the Group's revenue policy. Production and DD&A costs related to revenue arrears recognised in 2018 have been charged to the income statement in prior periods when the oil was lifted.

A unit-of-production method has been used to calculate the DD&A charge for the year. This is based on full entitlement production, commercial reserves and costs for Shaikan. Commercial reserves are proven and probable ("2P") reserves, estimated using standard recognised evaluation techniques.

### 4. General and Administrative Expenses

	2019 \$'000	2018 \$'000
Depreciation and amortisation	1,318	383
Auditor's remuneration for audit fees (see below)	253	252
Other general and admin costs (including staff costs)	17,960	17,178
	<b>19,531</b>	<b>17,813</b>

Of \$19.5 million of general and administrative expenses, \$10.0 million were incurred in relation to the Shaikan Field (2018: \$7.9 million).

	2019 \$'000	2018 \$'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	228	224
Fees payable to the Company's auditor for other services to the Group - audit of the Company's subsidiaries pursuant to legislation	25	28
Total audit fees	<b>253</b>	<b>252</b>
Corporate finance services	13	-
Other assurance services (including half year review)	73	70
Total fees	<b>339</b>	<b>322</b>

## 5. Staff costs

The average number of employees and contractors (including Executive directors) employed by the Group was 407 (2018: 362), reflecting part-time, shift-work and rotational working arrangements.

Staff costs were as follows:

	2019 \$'000	2018 \$'000
Wages and salaries	35,812	25,582
Social security costs	3,454	2,263
Share-based payment (see note 23)	2,224	1,842
	<u>41,490</u>	<u>29,687</u>

Staff costs include the costs relating to contractors who are long-term workers in key positions.

A proportion of staff costs is allocated to cost of sales and a proportion is capitalised as Oil and gas assets under the Group's accounting policy for Property, plant and equipment, with the remainder classified as general and administrative costs in the income statement. The net staff cost recognised as cost of sales and general and administrative expense in the income statement is \$28.5m (2018: \$25.7m). Capitalised staff costs went up from \$4.0 million in 2018 to \$13.0 million in 2019, reflecting the increase in the Group's development activities.

## 6. Other gains

	2019 \$'000	2018 \$'000
Other gains	-	10,215
Exchange (losses) and gains	(661)	710
	<u>(661)</u>	<u>10,925</u>

In 2018, the Group received final clearance from Sonatrach in relation to Ferkane Permit (Block 126) in Algeria which resulted in a release of past liabilities and recognition of \$10.2 million in other gains.

## 7. Finance costs and finance revenue

	2019 \$'000	2018 \$'000
Notes interest charged during the year (see note 16)	(10,397)	(13,150)
Finance Lease interest	(67)	-
Unwinding of discount on provisions (see note 17)	(689)	(723)
Total finance costs	<u>(11,153)</u>	<u>(13,873)</u>
Finance revenue	6,046	4,441
Net finance costs	<u>(5,107)</u>	<u>(9,432)</u>

## 8. Tax

	2019 \$'000	2018 \$'000
Current year charged	-	-
Adjustment in respect of prior year	-	-
Deferred UK corporation tax credit (see note 18)	271	189
Tax credit attributable to the Company and its subsidiaries	<u>271</u>	<u>189</u>

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

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

UK corporation tax is calculated at 19.00% (2018: 19.00%) of the estimated assessable profit for the year of the UK subsidiary.

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

All deferred tax arises in the UK.

The tax credit for the year can be reconciled to the profit per the income statement as follows:

	2019 \$'000	2018 \$'000
Profit before tax	<u>43,258</u>	<u>79,700</u>
Tax at the Bermudian tax rate of 0% (2018:0%)	-	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	271	189
Tax credit for the year	<u>271</u>	<u>189</u>

## 9. Profit per share

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

	<b>2019</b> <b>\$'000</b>	2018 \$'000
<b>Profit</b>		
Profit after tax for the purposes of basic and diluted profit per share	<b>43,529</b>	79,889
	<b>2019</b> <b>Number</b> <b>(000s)</b>	2018 Number (000s)

Number of shares

Basic weighted average number of ordinary shares	<b>226,178</b>	229,317
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The Group followed the steps specified by IAS 33 in determining whether potential common shares are dilutive or anti-dilutive.

### Reconciliation of dilutive shares:

	<b>2019</b> <b>Number</b> <b>(000s)</b>	2018 Number (000's)
Number of shares		
Basic weighted average number of ordinary shares outstanding	<b>226,178</b>	229,317
Effect of dilutive potential ordinary shares	<b>10,775</b>	6,528
Diluted number of ordinary shares outstanding	<b>236,953</b>	235,845

The weighted average number of ordinary shares in issue excludes shares held by Employee Benefit Trustee ("EBT") and the Exit Event Trustee, and shares held in Treasury following the share buy-back programmes carried out in 2019.

The diluted number of ordinary shares outstanding including share options is calculated on the assumption of conversion of all potentially dilutive ordinary shares. During the year ended 31 December 2019, there were 0.3 million (2018: 0.3 million) share options that were excluded from the calculation of diluted earnings because they were anti-dilutive.

## 10. Intangible assets

	Computer software \$'000
<b>Year ended 31 December 2018</b>	
Opening net book value	63
Additions	66
Amortisation charge	(46)
Foreign currency translation differences	1
<b>Closing net book value</b>	<b>84</b>
<b>At 31 December 2018</b>	
Cost	1,102
Accumulated amortisation	(1,018)
<b>Net book value</b>	<b>84</b>
<b>Year ended 31 December 2019</b>	
Opening net book value	84
Additions	390
Amortisation charge	(26)
Foreign currency translation differences	6
<b>Closing net book value</b>	<b>454</b>
<b>At 31 December 2019</b>	
Cost	1,498
Accumulated amortisation	(1,044)
<b>Net book value</b>	<b>454</b>

The amortisation charge of \$26,000 (2018: \$46,000) for computer software has been included in general and administrative expenses (note 4).

## 11. Property, plant and equipment

	Oil and Gas Assets \$'000	Fixtures and Equipment \$'000	Right of Use Assets \$'000	Total \$'000
<b>Year ended 31 December 2018</b>				
Opening net book value	416,908	565	-	417,473
Additions	35,715	644	-	36,359
Disposals at cost	(126,584)	(399)	-	(126,983)
Revision to decommissioning asset	(2,229)	-	-	(2,229)
Depreciation charge	(70,744)	(337)	-	(71,081)
Depreciation on disposals	126,584	399	-	126,983
Foreign currency translation differences	-	15	-	15
<b>Closing net book value</b>	<b>379,650</b>	<b>887</b>	<b>-</b>	<b>380,537</b>
<b>At 31 December 2018</b>				
Cost	600,048	6,201	-	606,249
Accumulated depreciation	(220,398)	(5,314)	-	(225,712)
<b>Net book value</b>	<b>379,650</b>	<b>887</b>	<b>-</b>	<b>380,537</b>
<b>Year ended 31 December 2019</b>				
Opening net book value	379,650	887	-	380,537
Additions	90,041	755	3,528	94,324
Disposals at cost	-	-	(35)	(35)
Revision to decommissioning asset	6,518	-	-	6,518
Depreciation charge	(72,514)	(381)	(911)	(73,806)
Depreciation on disposals	-	-	15	15
Foreign currency translation differences	1	49	(1)	49
<b>Closing net book value</b>	<b>403,696</b>	<b>1,310</b>	<b>2,596</b>	<b>407,602</b>
<b>At 31 December 2019</b>				
Cost	696,608	7,005	3,492	707,105
Accumulated depreciation	(292,912)	(5,695)	(896)	(299,503)
<b>Net book value</b>	<b>403,696</b>	<b>1,310</b>	<b>2,596</b>	<b>407,602</b>

The net book value of oil and gas assets at 31 December 2019 is comprised of property, plant and equipment relating to the Shaikan block and has a carrying value of \$403.7 million (2018: \$379.7 million).

The additions to the Shaikan asset during the year include costs for the work on the export pipeline from PF-1 to Kurdish Export Pipeline, SH-12 and SH-9 wells, SH-1 and SH-3 workovers, production facilities expansion work and various studies and reservoir engineering, as well as certain long lead items for the 75k programme and recurring capital costs.

The DD&A charge of \$72.5 million on oil and gas assets (2018: \$70.7 million) has been included within cost of sales (note 3). The depreciation charge of \$1.3 million on fixtures and equipment and right of use assets (2018: \$0.3 million) has been included in general and administrative expenses (note 4).

Additions during the year include capitalised staff costs of \$13.0 million (2018: \$4.0 million).

Right of use assets at 31 December 2019 consisted of \$2.5 million of Buildings and \$0.1 million of Equipment.

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



## 12. Group companies

Details of the Company's subsidiaries and joint operations at 31 December 2019 is as follows:

Name of subsidiary	Place of incorporation	Proportion of ownership interest	Principal activity
Gulf Keystone Petroleum (UK) Limited 6th floor New Fetter Place 8-10 New Fetter Lane London EC4A 1AZ	United Kingdom	100%	Management services, geological, geophysical and engineering services
Gulf Keystone Petroleum International Limited Cedar House, 3rd Floor 41 Cedar Avenue Hamilton HM12 Bermuda	Bermuda	100%	Exploration, evaluation, development and production activities in Kurdistan

Name of joint operation	Place of incorporation	Proportion of ownership interest	Principal activity
Shaikan	Kurdistan	80% <sup>(1)</sup>	Production and development activities

<sup>(1)</sup> 75% is held directly by Gulf Keystone Petroleum International Limited, with 5% originally owned by Texas Keystone, Inc. ("TKI") held in trust until formal transfer of the share to GKPI is completed

## 13. Inventories

	2019 \$'000	2018 \$'000
Warehouse stocks and materials	30,135	13,534
Crude oil	905	656
	<b>31,040</b>	<b>14,190</b>

Inventories at 31 December 2019 include write downs to net realisable value of \$1.0 million (2018: \$0.6 million) included in cost of sales.

#### 14. Trade and other receivables

	2019 \$'000	2018 \$'000
Trade receivables	97,917	61,251
Other receivables	4,458	5,405
Prepayments and accrued income	806	1,253
	<b>103,181</b>	<b>67,909</b>

Trade receivables comprise invoiced amounts due from the MNR for crude oil sales totalling \$90.2 million as at 31 December 2019 (2018: \$53.2 million). This included past due trade receivables of \$47.8 million (2018: \$40.9 million). November and December 2019 sales were still outstanding as at the time of this report. During 2018, the Group purchased a share of Shaikan revenue arrears from MOL amounting to \$9.1 million. In line with the requirements of IFRS 9, the fair value of this receivable stood at \$7.7 million as at 31 December 2019 (2018: \$8.0 million). The adjustment to the fair value is recognised in Cost of sales (note 3).

Included within Other receivables for 2019 is an amount of nil (2018: \$0.4 million) being the deposits for leased assets which are receivable after more than one year. There are no receivables from related parties as at 31 December 2019 (2018: \$nil) (see note 25). No impairments of other receivables have been recognised during the year (2018: \$nil).

The directors consider that the carrying amount of trade and other receivables approximates their fair value and no amounts are provided against them, except as noted above.

#### 15. Trade and other payables

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

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

##### Current liabilities

	2019 \$'000	2018 \$'000
Trade payables	6,982	11,857
Other payables	29,268	19,552
Current lease liabilities (see note 21)	1,265	-
Accrued expenses	46,466	50,069
	<b>83,981</b>	<b>81,478</b>

There is \$4.4 million interest payable included in Accrued expenses as at 31 December 2019 (2018: \$4.4m) (see note 16).

Other payables include \$10.0 million (2018: \$10.0 million) in relation to the Sheikh Adi PSC bonus that was payable on the declaration of commerciality. It is likely that this liability will be offset against unrecognised Shaikan revenue arrears, in accordance with the principles agreed under the Bilateral Agreement between the Group and the MNR.

##### Non-current liabilities

	2019 \$'000	2018 \$'000
Non-current lease liability (see note 21)	1,989	-
	<b>1,989</b>	<b>-</b>

## 16. Long term borrowings

	2019 \$'000	2018 \$'000
Liability component at 1 January	102,156	99,084
Interest charged during the year	10,397	13,150
Interest paid during the year	(10,000)	(7,713)
Exchange or redemption of Reinstated Notes	-	(100,000)
Issue of New Notes at fair value	-	97,635
Liability component at 31 December	102,553	102,156

Liability component reported in:

	2019 \$'000	2018 \$'000
Current liabilities: (see note 15)	4,361	4,361
Non-current liabilities	98,192	97,795
	102,553	102,156

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

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

In July 2018, the Group redeemed all of the \$100 million Reinstated Notes at a price equal to 100 per cent of the principal, plus accrued and unpaid interest on the Notes up to and including the Redemption Date. The Group also successfully completed the private placement of a 5-year senior unsecured \$100 million bond issue (the "New Notes"). The unsecured New Notes are guaranteed by Gulf Keystone Petroleum International Limited and Gulf Keystone Petroleum (UK) Limited, two of the Company's subsidiaries, and their key terms are summarised as follows:

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

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

	Market price	2019 \$'000	2018 \$'000
New Notes	\$104.91	<b>104,910</b>	102,750
		<b>104,910</b>	102,750

As of 31 December 2019, the Group's remaining contractual liability comprising principal and interest based on undiscounted cash flows at the maturity date of the New Notes is as follows:

	2019 \$'000	2018 \$'000
Within one year	<b>10,000</b>	10,000
Within two to five years	<b>125,639</b>	135,639
	<b>135,639</b>	145,639

## 17. Provisions

	2019 \$'000	2018 \$'000
Current provisions	-	4,155
Non-current provisions	<b>29,807</b>	22,600
	<b>29,807</b>	26,755

	Current Provisions (Algeria) \$'000	Non-current Provisions (Kurdistan) \$'000	Total \$'000
<b>Decommissioning provision</b>			
At 1 January 2019	4,155	22,600	26,755
New provisions and changes in estimates	-	6,518	6,518
Unwinding of discount	-	689	689
Settlement of provisions	(4,155)	-	(4,155)
<b>At 31 December 2019</b>	<b>-</b>	<b>29,807</b>	<b>29,807</b>

The provision for decommissioning is based on the net present value of the Group's share of expenditure which may be incurred in the removal and decommissioning of the wells and facilities currently in place and restoration of the sites to their original state. The expenditure on the Shaikan block in Kurdistan is expected to take place over the next 23 years.

## 18. Deferred tax asset

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

	Accelerated tax depreciation \$'000	Share-based payments \$'000	Tax losses carried forward \$'000	Total \$'000
<b>At 1 January 2018</b>	<b>(68)</b>	<b>136</b>	<b>335</b>	<b>403</b>
(Charge)/credit to income statement	37	202	(50)	189
Exchange differences	1	(18)	(16)	(33)
<b>At 31 December 2018</b>	<b>(30)</b>	<b>320</b>	<b>269</b>	<b>559</b>
(Charge)/credit to income statement	4	470	(203)	271
Exchange differences	(1)	11	9	19
<b>At 31 December 2019</b>	<b>(27)</b>	<b>801</b>	<b>75</b>	<b>849</b>

## 19. Share capital

	2019 \$'000	2018 \$'000
Authorised		
Common shares of \$1 each (2018: \$1 each)	231,605	231,605
Non-voting shares of \$0.01 each	500	500
Preferred shares of \$1,000 each	20,000	20,000
Series A Preferred shares of \$1,000 each	40,000	40,000
	<b>292,105</b>	<b>292,105</b>

	Common shares			
	No. of shares '000	Amount \$'000	Share capital \$'000	Share premium \$'000
Balance 31 December 2017	229,430	1,150,158	229,430	920,728
Balance 31 December 2018	229,430	1,150,158	229,430	920,728
Dividend paid	-	(49,053)	-	(49,053)
Balance 31 December 2019	229,430	1,101,105	229,430	871,675

The company announced on 8 July 2019 that it would undertake a buy back programme to purchase shares up to a maximum value of \$25 million. This programme was successfully completed on 8 October 2019 and a second buy back programme for \$25 million was commenced on 10 December 2019. By 31 December 2019, the Company had under both programmes bought back a total of 10,497,603 shares for a total consideration of \$29,831,168. The second tranche of the buyout was successfully completed on 13 March 2020. During 2019, 82,000 shares were issued from treasury to satisfy share options exercises.

At 31 December 2019, a total of 10,415,603 common shares were held in treasury with a value of \$29.7m.

At 31 December 2019, a total of 0.1 million common shares at \$1.0 each were held by the EBT and Exit Event Trustee (2018: 0.1 million at \$1.0 each). These common shares were included within reserves.

### *Rights attached to share capital*

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

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

## 20. Reconciliation of Profit from operations to Cash generated from operations

	2019 \$'000	2018 \$'000
Profit from operations	49,026	78,207
Adjustments for:		
Depreciation, depletion and amortisation of property, plant and equipment	73,806	71,081
Amortisation of intangible assets	26	46
Share-based payment expense	1,910	1,785
(Increase) in inventories	(16,850)	3,000
(Increase) in receivables	(35,123)	(4,330)
Increase in payables	15,097	11,695
<b>Cash generated from operations</b>	<b>87,892</b>	<b>161,483</b>

## 21. Lease Liabilities

	2019 \$'000
<b>Analysed as:</b>	
Current liabilities	1,265
Non-current liabilities	1,989
	<b>3,254</b>
<b>Lease Maturity Analysis</b>	
Year 1	-
Year 2	-
Year 3	3,254
<b>Amounts payable under leases</b>	
Within one year	1,348
In the second to fifth year inclusive	2,031
	<b>3,379</b>
Less future interest charges	(125)
Net present value of lease obligations	<b>3,254</b>

## 22. Commitments

### *Exploration and development commitments*

Additions to property, plant and equipment are generally funded with the cash flow generated from the Shaikan Field. As at 31 December 2019, capital commitments in relation to the Shaikan Field were estimated to be \$35.3 million (2018: \$29.9 million).

## 23. Share-based payments

	2019 \$'000	2018 \$'000
Total share options charge	2,224	1,842
Capitalised share options charge	(314)	(57)
Share options charge in Income Statement	<u>1,910</u>	<u>1,785</u>

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

The VCP was approved by shareholders in December 2016 and, as of 31 December 2019, two awards of Performance Units have been made to the CEO and former CFO. No further awards of Performance Units are envisaged. Any outstanding awards under the VCP will be allowed to run-off and vest subject to the Company achieving the performance criteria of 8% compound annual growth in Total Shareholder Return ("TSR") on each of five annual Measurement Dates and the plan limits in place, in accordance with the VCP rules.

On 30 April 2019, nil-cost options over 2,087,756 shares were granted to the CEO and nil-cost options over 1,565,817 shares were granted to the former CFO. The overall cap on the VCP scheme has been attained and there will be no further awards of options under the VCP. As defined under the rules of the VCP and subject to the achievement of performance conditions, up to 50% of the number of shares granted under the nil-cost options will vest following the Measurement Date for the financial year ending on 31 December 2019, 50% of the remainder of the number of Shares granted under the nil-cost options may vest following the Measurement Date for the financial year ending on 31 December 2020 with up to the remainder of the number of Shares granted under the nil-cost options vesting following the Measurement Date for the financial year ending on 31 December 2021.

	2019		2018	
	Number of share options '000	Weighted average exercise price (in pence)	Number of share options '000	Weighted average exercise price (in pence)
Outstanding at 1 January	3,364	-	-	-
Granted during the year	<u>3,653</u>	-	<u>3,364</u>	-
Outstanding at 31 December	7,017	-	3,364	-
Exercisable at 31 December	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 7 years.

A charge of \$0.8 million (2018: \$0.6 million) in relation to the VCP is included in the total share options charge.

### Staff Retention Plan

At the 2016 Annual General Meeting ("AGM"), shareholders approved the adoption of the Gulf Keystone Petroleum 2016 Staff Retention Plan ("SRP"), which is designed to reward members of staff through the grant of share options at a zero exercise price.

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

	2019		2018	
	Number of share options '000	Weighted average exercise price (in pence)	Number of share options '000	Weighted average exercise price (in pence)
Outstanding at 1 January	1,440	-	1,595	-
Exercised during the year	(248)	-	-	-
Forfeited during the year	(63)	-	(155)	-
Outstanding at 31 December	1,129	-	1,440	-
Exercisable at 31 December	627	-	-	-

The weighted average share price at the date of exercise for share options exercised during 2019 was £2.09.

During 2019 no options (2018: nil) were granted to employees under the Group's SRP.

A charge of \$0.4 million (2018: \$0.8 million) in relation to the SRP is included in the total share options charge.

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

Expiry date	Exercise price (pence)		Options ('000)	
	2019	2018	2019	2018
11 December 2026	-	-	628	939
9 January 2027	-	-	250	250
30 June 2027	-	-	206	206
30 July 2027	-	-	45	45
			<b>1,129</b>	<b>1,440</b>

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 7 years.



### *Long Term Incentive Plan*

Gulf Keystone Petroleum 2014 Long Term Incentive Plan ("LTIP") is designed to reward members of staff through the grant of share options at a zero exercise price, that vests three years after grant, subject to the fulfilment of specified performance conditions. These performance conditions are 50% TSR over the vesting period and 50% the Group's TSR relative to a bespoke group of comparators.

	2019		2018	
	Number of share options '000	Weighted average exercise price (in pence)	Number of share options '000	Weighted average exercise price (in pence)
Outstanding at 1 January	1,614	-	-	-
Granted during the year	1,233	-	1,786	-
Forfeited during the year	(218)	-	(172)	-
Outstanding at 31 December	2,629	-	1,614	-
Exercisable at 31 December	-	-	-	-

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 9 years.

The aggregate of the estimated fair values of the options granted in 2019 is \$1.0 million.

A charge of \$1.0 million (2018: \$0.5 million) in relation to the LTIP is included in the total share options charge.

### Equity-settled share option plan

The Group's share option plan provides for an exercise price at least equal to the closing market price of the Group shares on the date prior to grant. Awards made under the Group's share option plan have a vesting period of at least three years except for awards made under the legacy Long Term Incentive Plan, which vest in equal tranches over a minimum of three years subsequent to the achievement of a number of operational and market-based performance conditions. Options expire if they remain unexercised after a period of 10 years from the date of grant. The options granted in 2015 were made under the recruitment remuneration policy, vest in three equal tranches over two years, and expire if they remain unexercised after a period of 7 years from the date of grant. Options are forfeited if the employee leaves the Group before the options vest. The company has not made any awards during 2019 under this scheme.

	2019		2018	
	Number of share options '000	Weighted average exercise price (in pence)	Number of share options '000	Weighted average exercise price (in pence)
Outstanding at 1 January	326	11,492.6	360	10,149.7
Expired during the year	(26)	-	(34)	-
Outstanding at 31 December	300	11,492.1	326	11,492.6
Exercisable at 31 December	300	11,492.1	326	11,492.6

The options outstanding at 31 December 2019 had a weighted average exercise price of £115 (2018: £115) and a weighted average remaining contractual life of 1 year (2018: 2 years).

A charge of nil (2018: nil) in relation to the equity-settled share option plan is included in the total share options charge.

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

Expiry date	Exercise price (pence)		Options ('000)	
	2019	2018	2019	2018
15 March 2019	3,000	3,000	-	15.9
30 July 2019	3,000	3,000	-	10.0
24 Jun 2020	7,500	7,500	156.3	156.3
22 September 2020	14,750	14,750	2.5	2.5
6 February 2021	17,500	17,500	94.4	94.4
19 June 2021	14,625	14,625	5.5	5.5
7 July 2021	14,625	14,625	2.5	2.5
14 July 2021	14,625	14,625	2.5	2.5
21 July 2021	14,625	14,625	5.0	5.0
19 September 2021	15,250	15,250	2.5	2.5
26 October 2021	14,625	14,625	2.5	2.5
21 January 2022	5,500	5,500	15.0	15.0
20 March 2022	19,450	19,450	4.0	4.0
20 March 2022	25,000	25,000	2.5	2.5
8 July 2023	15,875	15,875	2.5	2.5
24 April 2024	9,975	9,975	2.5	2.5
			<b>300.2</b>	<b>326.1</b>

## 24. Dividend

At the Company's AGM on 21 June 2019, the shareholders approved the distribution of a total cash dividend of \$50 million for the year ended 31 December 2018. The first tranche of c.\$17 million was paid in July 2019, with the second tranche of c.\$32 million paid in October 2019. The first tranche paid was 5.68p per common share, which is equivalent to 7.26 US cents per common share. The second tranche paid was 11.61p per common share, which is equivalent to 14.53 US cents per common share. The total dividend paid was \$49.1 million as the dividend attributable to treasury shares held by the Group as a result of share buy-back was not paid out. The distribution is eligible under Bermudan Law based on the solvency of the Group. As the Group has negative retained earnings this is considered a return of capital and accordingly is presented as a deduction from share premium.

## 25. Related party transactions

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

### *Remuneration of key management personnel*

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

J Ferrier – CEO  
S Zouari – former CFO  
J Barker – HR Director  
S Catterall - Chief Operations Officer  
R Deutscher – Country Manager – Kurdistan Region of Iraq  
N Kernoha – Head of Finance  
G Papineau-Legris – Commercial Director  
A Robinson - Legal Director and Company Secretary  
M Parsley – Subsurface Manager

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

	2019 \$'000	2018 \$'000
Short-term employee benefits	4,898	5,444
Share-based payment - options	1,618	1,132
	<b>6,516</b>	<b>6,576</b>

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

## 26. Financial instruments

	2019 \$'000	2018 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	190,762	295,566
Loans and receivables	102,375	66,656
	<u>293,137</u>	<u>362,222</u>
<b>Financial liabilities</b>		
Trade and other payables	85,970	81,478
Borrowings	98,192	97,795
	<u>184,162</u>	<u>179,273</u>

All financial liabilities, except for Borrowings (see note 16) and non-current lease liability (see note 15), are due to be settled within one year and are classified as current liabilities.

The maturity profile and fair values of the New Notes are disclosed in note 16. The maturity profile of all other financial liabilities is indicated by their classification in the balance sheet as "Current" or "Non-current". Further information relevant to the Group's liquidity position is disclosed in the Directors' Report under "Going Concern".

### *Fair values of financial assets and liabilities*

With the exception of the New Notes, the Group considers the carrying value of all its financial assets and liabilities to be materially the same as their fair value. The fair value of the New Notes, as determined using market values at 31 December 2019, was \$104.9 million (2018: \$102.8 million) compared to the carrying value of \$98.2 million (2018: \$97.8 million).

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

### *Capital Risk Management*

The Group manages its capital to ensure that the entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity structure. The capital structure of the Group consists of cash, cash equivalents, New Notes and equity attributable to equity holders of the parent. Equity comprises issued capital, reserves and accumulated losses as disclosed in Note 19, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

### *Capital Structure*

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

### *Significant Accounting Policies*

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

### *Financial Risk Management Objectives*

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

The Group currently has no currency risk or other hedges against financial risks. The Group does not use derivative financial instruments for speculative purposes.

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

### *Market risk*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, oil prices and changes in interest rates in relation to the Group's cash balances.

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

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

At 31 December 2019, a 10% weakening or strengthening of the US dollar against the other currencies in which the Group's monetary assets and monetary liabilities are denominated would not have a material effect on the Group's net current assets or profit before tax.

### *Interest rate risk management*

The Group's policy on interest rate management is agreed at the Board level and is reviewed on an ongoing basis. The current policy is to maintain a certain amount of funds in the form of cash for short-term liabilities and have the rest on relatively short-term deposits, usually between one and three months, to maximise returns and accessibility. The Group must pay interest on its New Notes semi-annually in cash at 10%.

Based on the exposure to the interest rates for cash and cash equivalents at the balance sheet date, a 0.5% increase or decrease in interest rates would not have a material impact on the Group's profit for the year or the previous year. A rate of 0.5% is used as it represents management's assessment of a reasonable change in interest rates.

### *Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2019, the maximum exposure to credit risk from a trade receivable outstanding from one customer is \$98 million (2018: \$61 million).

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

### *Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the Board of Directors. It is the Group's policy to finance its business by means of internally generated funds, external share capital and debt. The Group seeks to raise further funding as and when required.

## **27. Contingent liabilities**

The Group has a contingent liability of \$27.3 million (2018: \$27.3 million) in relation to the proceeds from the sale of test production in the period prior to the approval of the original Shaikan Field Development Plan ("FDP") in July 2013. The Shaikan PSC does not appear to address expressly any party's rights to this pre-FDP petroleum. The sales were made based on sales contracts with domestic offtakers which were approved by the KRG. The Group believes that the receipts from these sales of pre-FDP petroleum are for the account of the Contractor (GKP and MOL), rather than the KRG and accordingly recorded them as test revenue in prior years. However, the KRG has requested a repayment of these amounts and the Group is currently involved in negotiations to resolve this matter. The Group has received external legal advice and does not consider that a probable material payment is payable to the KRG. This contingent liability forms part of the ongoing Shaikan PSC amendment negotiations and it is likely that it will be settled as part of those negotiations.

## **28. Subsequent Events**

Subsequent to year end, global oil prices have fallen significantly. Contributors to the fall include the negative impact on demand related to the global outbreak of the COVID-19 virus and surplus oil supply. It is not possible to reliably estimate the length or severity of these global developments, and hence their potential financial and operational impact. If the current situation prevails for an extended period of time, this could have a significant adverse impact on the Company's financial results for future periods.

For further information on the Group's assessment of the impact these events may have on the Group's going concern, impairment and viability assessments, please refer to the going concern and carrying value of producing assets sections under the summary of significant accounting policies and the Viability Statement.