



# QUARTERLY ACTIVITY REPORT

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Third Quarter 2015 (Q3 2015)

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# AT A GLANCE

## Who We Are

Kuwait Energy (the Company) is an independent, MENA focused oil and gas exploration and production company established in 2005, with its principal regional office in Kuwait and incorporated in Jersey. Operations are focused on Egypt, Iraq, Yemen, and Oman.

## Key Highlights

- No recordable incidents took place in Q3 2015 in Kuwait Energy's operated and non-operated areas.
- Average daily Working Interest ("WI") production for Q3 2015 is 23,522 boepd. This represents a decrease of 5.6%, as compared to Q3 2014 (24,921 boepd) and a decrease of 2.9%, as compared to Q2 2015 (24,223 boepd), due to the shutting down of activities in Yemen.
- Revenue decreased by 18.3% as compared to Q2 2015 (from US\$ 44.2 million to US\$ 36.1 million in Q3 2015), mainly due to the decline in oil prices.
- Completed the farm out of a 10.0% WI in Block 9, Iraq to Egyptian General Petroleum Corporation.
- Signed an amendment to the Exploration, Development and Production Service Contract for Block 9, Iraq to enable early production.
- Awarded Engineering, Procurement and Construction (EPC) contract for Siba gas field, Iraq.

## Oil Prices Movement during Q3 2015

Brent oil prices started the quarter at a price of US\$ 57/bbl and decreased to US\$ 48/bbl by early August. Oil price increased to US\$ 52/bbl by end of August and in September, the oil price fell again below US\$ 50/bbl. The increase in global supply of oil exerted downward pressure on the prices. The decrease in expected oil demand from emerging markets paired with the forecast additional supply from Iran are likely to have contributed to the oil price decrease.<sup>1</sup>

<sup>1</sup> Eia.gov

# OPERATIONAL ACTIVITY

## Health, Safety, Sustainability and Environment

Kuwait Energy classifies its recordable incidents as Lost Time Incidents – Fatalities and Injuries, Restricted Work Incidents and Medical Treatment Incidents.

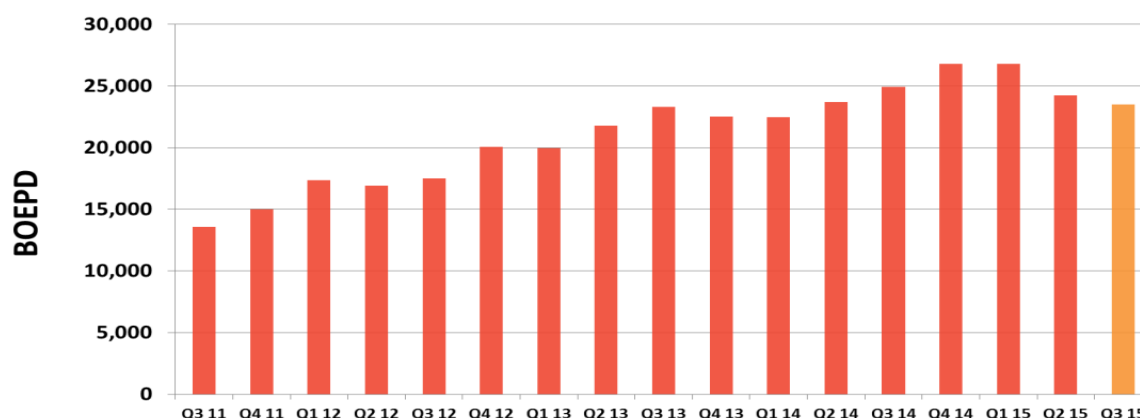
No recordable incidents took place during Q3 2015. The table provides the number of days without LTI at the end of Q3 2015, for countries in which Kuwait Energy operates.

Country	Days without LTI
Iraq	358
Yemen	118
Egypt	840

## Production

Kuwait Energy achieved a quarterly average daily Working Interest production of 23,522 barrels of oil equivalent per day ("boepd"), 2.9% less than the previous quarter and 5.6% less than the corresponding quarter of last year. This is mainly due to the shutting down of activities in Yemen due to the security situation.

The chart below shows quarter-by-quarter daily Working Interest average production of the Company from Q3 2011 to Q3 2015:



Kuwait Energy's daily average WI share of production for Q3 2015 compared to Q2 2015 and Q3 2014 per asset is shown in the table below (in boepd):

	Q3 2015 <sup>2</sup>	Q2 2015 <sup>2</sup>	% Change
Burg El Arab	1,441	1,563	-7.8
Abu Sennan	3,439	3,401	1.1
Area A	4,557	4,611	-1.2
East Ras Qattara	11,600	12,076	-3.9
<b>Egypt Total</b>	<b>21,036</b>	<b>21,652</b>	<b>-2.9</b>
Block 5	0	73	-100
Block 43	0	0	0
<b>Yemen Total</b>	<b>0</b>	<b>73</b>	<b>-100</b>
Oman	2,486	2,498	-0.5
<b>Production Total</b>	<b>23,522</b>	<b>24,223</b>	<b>-2.9</b>

	Q3 2015 <sup>2</sup>	Q3 2014	% Change
Burg El Arab	1,441	1,111	29.7
Abu Sennan	3,439	965	256.4
Area A	4,557	4,475	1.8
East Ras Qattara	11,600	11,201	3.6
<b>Egypt Total</b>	<b>21,036</b>	<b>17,751</b>	<b>18.5</b>
Block 5	0	4,337	-100.0
Block 43	0	339	-100.0
<b>Yemen Total</b>	<b>0</b>	<b>4,676</b>	<b>-100.0</b>
Oman	2,486	2,493	-0.3
<b>Production Total</b>	<b>23,522</b>	<b>24,921</b>	<b>-5.6</b>

<sup>2</sup> Figures adjusted taking into account the acquisition of 25% WI in Burg El Arab.

## Exploration

No exploration wells spud in Q3 2015.

The following table summarizes the exploration drilling activities for 2015:

Country	Basin/ Area	Well Name	Cost Interest	Well Status at end Q3 2015
<b>2014 Carry-over wells</b>				
<b>Egypt</b>	Abu Sennan	ASH-1X	78%	Tested successfully Alam AlBuieb reservoir with rates 2,755 bopd and 2.7 MMscf of gas on 64" choke; current rate 170 bopd.
<b>Iraq</b>	Block 9	Faihaa-1	60%	Mishrif ~3,600 bopd at 64/64" choke, Yamama ~8800 bopd at 64/64" choke.
<b>Q1 2015</b>				
<b>Egypt</b>	Area A	EY-3X	70%	Dry hole.
<b>Q2 &amp; Q3 2015</b>				
No Exploration wells spud.				
<b>Total (2015 wells spud)</b>		<b>1</b>		

## Development

The main development activities during Q3 2015 included the drilling of 17 development wells, 12 in Oman, 4 in Egypt and 1 in Iraq. The table below provides the status of the development wells at the end of Q3 2015:

Country	Basin/Area	Well name	No. of Wells	Cost Interest	Status at end Q3 2015
<b>Q4 2014 Carry-over wells</b>					
Iraq	Siba	Siba-4	1	60%	Initial rate ~6000 bcpd @ 64/64" choke, 28 MMscf/d after acid job.
Egypt	Abu Sennan	Al Jahraa-4	1	78%	Initial rate 1,373 bopd, 1.1 MMscf/d, production restricted down to 622 bopd , 0.4 MMscf/d; maximum rate 1,561 bopd, 1.4 MMscf/d (lifted with nitrogen); current rate (Al Jahraa-04 long string) 151 bopd on 128/64" choke size, Al Jahraa-4 short string 513 bopd on 64/64" choke size.
Oman	Karim Small Fields	Ilham-P14, SMP-103	2	15%	On production.
<b>Q1 2015</b>					
Iraq	Siba	Siba-5	1	60%	Canceled the drilling (weak foundation).
Oman	Karim Small Fields	Various	10	15%	On production.
<b>Q2 2015</b>					
Egypt	Abu Sennan	ASA-3	1	78%	Initial rate 588 bopd, 0.21 MMscf/d, production restricted down to 513 bopd , 0.05 MMscf/d; maximum rate 1,047 bopd, 0.18 MMscf/d; current rate 345 bopd, 0.05 MMscf/d on 128/64" choke size.
Oman	Karim Small Fields	Various	11	15%	On production.
<b>Q3 2015</b>					
Iraq	Siba	Siba-6	1	60%	Drilling.
Egypt	Area A	Yusr-63	1	70%	Initial rate 44 bopd, high watercut.
		SHNW-11	1	70%	Initial rate 470 bopd, 0.4 MMscf/d, production increased to actual 589 bopd, 0.39 MMscf/d on 64/64" choke size, current rate 521 bopd, 0.4 MMscf/d on 64/64" choke size.
	BEA	BEA NW-2	1	100%	Initial rate 156 bopd, production increase to 254 bopd, 0.01 MMscf on 128/64" choke size, current rate 238 bopd.
		BEA-19	1	100%	Drilling.
Oman	Karim Small Fields	Various	12	15%	10 on production & 2 drilling.
<b>Total wells spud (2015)</b>			<b>44</b>		

# RESERVES AND RESOURCES

As at 31 December 2014<sup>3</sup>, Kuwait Energy's working interest Proven and Probable ("2P") reserves are approximately 671 mmboe. Working interest contingent resources ("2C") is approximately 760 mmboe and the best estimate of risked prospective resources ("P50") is approximately 32 mmboe. However, figures for reserves and resources shown in the table below are adjusted to take into account the acquisition of an additional 25% WI in Burg El Arab and the farm out of 10% in Block 9.

Classification	Category	YE13	Production	Exploration adds	Revisions	Acquisitions and Divestments	YE14	YE14-Net Entitlement
Reserves	<u>1P</u>	90.5		145.3	30.9	-24.1	235.1	63.3
	<u>2P</u>	213.1	-7.5	436.7	76.6	-118.4	600.5	99.8
	<u>3P</u>	300.7		890.5	143.5	-240.3	1,086.8	139.2
Contingent resources	<u>2C</u>	853.0		0.0	-93.0	-98.4	661.6	
Prospective resources	<u>Best</u>	37.1		0.0	0.7	-8.5	29.3	

## Notes:

- Reserves replacement ratio takes into account acquisition or divestment activities during the year.
- Proven Reserves Replacement Ratio (RRR) = 2021%
- Proven plus Probable Reserves Replacement Ratio (RRR) = 5246%
- Reserves and Resources estimates are Kuwait Energy working interest.
- Prospective Resources estimates are risked.
- Total may not exactly equal the sum of the individual entries due to rounding.
- 2014 production is based on actuals up to November 2014 and an estimate for December 2014.
- Excludes Karim Small Fields (Oman) which cannot be included in external reserves reporting as per contract.
- Reserves Replacement Ratio considers acquisitions and divestment.
- Eurasia assets (Ukraine and Russia) were divested in 2014.
- YE14 volumes were adjusted to reflect the acquisition of 25% in Burg El Arab and farm out of 10% in Block 9.

<sup>3</sup> Audited by Gaffney, Cline & Associates ("GCA") as at 31 December 2014.

# FINANCIALS

At the end of Q3 2015, the current debt of the Company is US\$350 million with cash as at end of the quarter of US\$160.0 million including US\$100.0 million in short term fixed deposits. The net debt is US\$190.0 million.

The Company achieved Q3 2015 revenue of US\$36.1 million (based on management accounts) a decrease of

18.3%, as compared to the previous quarter primarily due to a lower oil price.

The Q3 2015 capital expenditure was US\$ 37.6 million, US\$59 million was collected from Egyptian General Petroleum Corporation during the Q3 2015.

Unaudited Consolidated Financial Highlights <sup>4</sup>	Q3 2015	Q2 2015	% Change (Q3 2015 versus Q2 2015)	Q3 2014	% Change (Q3 2015 versus Q3 2014)
Revenue	36.1	44.2	-18.3%	80.4	-55.1%
Net Profit/(loss) from continuing operations	25.4	2.5	916.0%	10.3	146.6%
Exploration Capex	0.2	2.2	-90.9%	10.2	-98.0%
Development Capex	37.4	60.2	-37.8%	37.6	-0.6%
General and Administrative Expenses	5.2	4.8	8.3%	8.2	-36.6%
EBITDA	52.1	28.5	82.6%	50.5	3.2%
Working Capital	137.9	117.8	17.1%	258.0	-46.6%
Total Assets	940.0	950.3	-1.1%	965.5	-2.6%
Total Debt <sup>5</sup>	350.0	350.0	0.0%	350.0	0.0%
Earnings/(loss) Per Share (US\$ cents)	7.8	0.8	916.0%	3.1	148.6%
Outstanding shares (number of shares in millions)	358.5	358.5	0.0%	352.0	1.8%

<sup>4</sup> All figures are unaudited and based on management accounts and are in US\$ millions unless otherwise specified.

<sup>5</sup> Excluding fair value loss and unamortized initial transaction cost.



## OUTLOOK

The Company continues the focus on the MENA region with its presence Iraq, Egypt, Yemen and Oman.

**In Iraq**, the Company has announced the commencement of oil production from Faihaa-1 well in Block-9, Iraq in October. Production has begun from the Faihaa-1 well with approximately 5,000 bopd on 32/64 inch choke, compensating for the production shut in Yemen.

**In Yemen**, the Company continues to closely monitor the complex geopolitical situation in Yemen to determine the future of the Block 5 asset and will resume production as soon as lifting constraints have been removed.

**In Egypt**, the Company continues its focus on the drilling and development programs, conducting studies on drilling prospects down to the Jurassic and commencing development plan on Shahad-4, Jurassic discovery in East Ras Qattara.

**Oil Price** EIA forecasts that Brent crude oil prices will average US\$ 54/bbl in 2015 and US\$ 59/bbl in 2016. The current values of futures and options contracts suggest the market expects daily price volatility.<sup>6</sup>

**Sustainability** As part of HSSE, the Company plans to continue working on upgrading protection systems in all Kuwait Energy's operational facilities and living quarters, and increase awareness of positive health and safety culture among the Company staff and relevant contractors.

<sup>6</sup> Source: Eia.gov, 'Short-Term Energy Outlook', September 2015.

# GLOSSARY

Abbreviation	Definition
<b>1P</b>	Proven reserves
<b>2C</b>	Contingent resources mid-case recoverable volume
<b>2P</b>	Proven plus probable reserves
<b>3P</b>	Proven, probable and possible reserves
<b>Barrel</b>	The standard of crude oil or other petroleum product contains 42 US gallons, 35 Imperial gallons or 159 litres.
<b>bbl</b>	Barrel
<b>Bcf</b>	Billion cubic feet
<b>BEA</b>	Burj El Arab
<b>Boe</b>	Barrels of oil equivalent
<b>boepd</b>	Barrels oil equivalent per day
<b>bopd</b>	Barrels of oil per day
<b>EGPC</b>	Egyptian General Petroleum Corporation
<b>ERQ</b>	East Ras Qattara
<b>G&amp;A</b>	General and Administrative
<b>GCA</b>	Gaffney, Cline & Associates
<b>HSSE</b>	Health, safety, sustainability and environment
<b>KSF</b>	Karim Small Fields
<b>LTI</b>	Lost Time In Incidents
<b>MENA</b>	Middle East and North Africa
<b>mbbl</b>	Million barrels
<b>mmboe</b>	Million barrels of oil equivalent
<b>MMscf/d</b>	Million metric standard cubic feet per day
<b>Mscf</b>	Thousand standard cubic feet
<b>Q1</b>	First Quarter
<b>Q2</b>	Second Quarter
<b>Q3</b>	Third Quarter
<b>Q4</b>	Fourth Quarter
<b>scf</b>	Standard cubic feet
<b>US\$</b>	United States Dollars
<b>WI</b>	Working Interest: a company's interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms



**Corporate Affairs**

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