



OPERATIONAL QUARTERLY ACTIVITY REPORT

Second Quarter 2016 (Q2 2016)

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AT A GLANCE

Who We Are

Kuwait Energy is an independent oil and gas company actively engaged in the exploration, appraisal, development and production of hydrocarbons. Since establishment in 2005, we have built a high-quality, diversified portfolio of oil and gas assets in the MENA region across Iraq, Egypt, Yemen and Oman. Our MENA portfolio consists of 10 exploration, development and production assets, of which we operate seven.

Kuwait Energy has its registered office in Jersey, its head office in Bahrain, its regional operational hub in Kuwait and area offices in Basra, Baghdad, Cairo and Sana'a.

Key Highlights

- **No recordable Lost Time Incident ("LTI")** took place in Kuwait Energy's operated areas during this quarter.
- **Average daily Working Interest ("WI") production** for Q2 2016 is **23,942 boepd**; a decrease of 7.1%, as compared to Q1 2016 (25,747 boepd) mainly due to natural production decline in ERQ and Abu Sennan in Egypt.
- **Faihaa-1 well in Block 9, Iraq continues to produce steadily** with Q2 2016 average daily WI production of **3,246 boepd** (*YTD average daily WI production of 3,321 boepd*); a slight decrease from last quarter's production rate as the well continues to stabilize. The daily production from Faihaa-1 commenced on 12 October 2015; with regular crude export started on the 28th of that same month.
- **Faihaa-2 well in Block 9** was spud on 3 January 2016 and reached target depth on **25 May 2016**. Extensive testing has been ongoing with **expected production to commence in August 2016**. All formation tops matched the original design prognosis. Furthermore, the Mishrif Reservoir at Faihaa-2 has shown **better reservoir quality with a thicker and a higher (larger) Net Pay zone**.
- Kuwait Energy is expected to be **allocated its first cargo from Iraq in September 2016** covering its production of oil in Block 9 from October 2015 to March 2016 for a gross amount of US\$13.9 million (Kuwait Energy's Share: 60%). As for Q2 2016 production; Kuwait Energy has already invoiced the Iraqi government for production during this period, for a gross amount of US\$10.0 million.
- In Abu Sennan in Egypt, **Al Jahraa SE-1X** new exploration well proved to be a **successful discovery** with an initial production rate of around **1,000 bopd (gross)** from the AR-E formation. Kuwait Energy is now engaged with the Egyptian General Petroleum Corporation (EGPC) to attain the Development License associated with this discovery. Once obtained, commercial production will commence. Furthermore, to improve productivity from the existing ASH-1X well, a sidetracking commenced on 16 July 2016.
- **Siba's Engineering, Procurement and Construction (EPC) works** is gaining momentum and **progressing with construction activities** on the ground. However, **delays to the planned first gas date are expected** due to non-controllable prevailing conditions.
- Since the end of April 2015, **Block 5 production in Yemen** has been shut down. Kuwait Energy continues to monitor the situation and is **operationally-ready to commence production for when the situation permits**.

Financial Reporting

Under the US\$250 million Senior Notes reporting requirements, Kuwait Energy is required to provide quarterly unaudited management accounts within 90 days of the end of the first three quarters of the financial year and audited financial statements within 120 days of the end of each financial year, all of which are available on the Kuwait Energy website (www.kuwaitenergy.co). The most recent financial report was issued at the end of June 2016 for Q1 2016 financials and the **next financial report will be for Q2 2016 scheduled to be issued by the end of September 2016**.

OPERATIONAL ACTIVITY

Health, Safety, Sustainability and Environment

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

No recordable incident took place in Kuwait Energy's operated areas during the second quarter of 2016. Only one LTI incident took place year-to-date on 15 February 2016 Area A in Egypt, which was reported in last quarter's report.

The table below provides the number of days without LTI at the end of Q2 2016 compared to figures at the end of Q1 2016 for the countries in which Kuwait Energy operates.

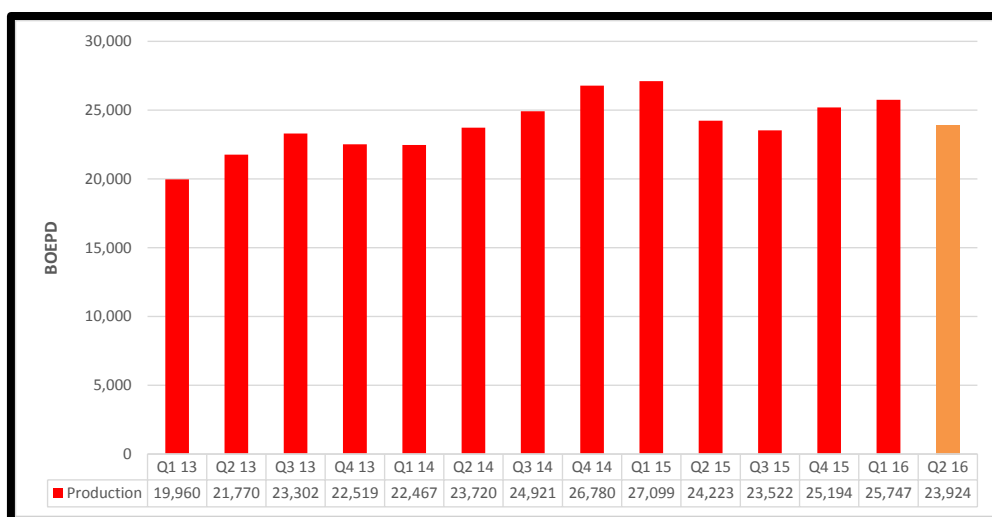
Country	Days without LTI (as of Q2 2016)	Days without LTI (as of Q1 2016)
Iraq	632	541
Yemen	392	301
Egypt	136	45

Production

Kuwait Energy achieved **YTD average daily WI production of 24,828 boepd**. The **Q2 2016 average daily WI production** stood at **23,924 boepd**; 7.1% lower than the previous quarter (25,747 boepd) due to natural production decline in ERQ and Abu Sennan in Egypt. Furthermore, Work-Overs were carried out for wells in Abu Sennan, BEA and Area A. Production in Yemen remains shut down since April 2015 as a consequence of the political situation that continue to prevent cargo ships from entering the oil export port.

The Group continues to produce steadily in Iraq with YTD average daily WI production of **3,321 boepd** from Faihaa-1 well in Block 9. The Group anticipates **at least similar production rates** from Faihaa-2 well, expected to start producing in August 2016.

The chart below shows **quarter-by-quarter daily WI average production** of the Company from Q1 2013 to Q2 2016:



Kuwait Energy's daily average WI share of production for Q2 2016 compared to Q2 2015 and Q1 2016 per asset is shown in the table below (in boepd):

	Q2 2016	Q1 2016	% Change	Q2 2016	Q2 2015	% Change
Abu Sennan	1,788	2,363	-24.3%	1,788	3,401	-47.4%
BEA	1,509	1,677	-10.0%	1,509	1,563	-3.5%
Area A	5,013	5,045	-0.6%	5,013	4,611	8.7%
ERQ	9,989	10,725	-6.9%	9,989	12,076	-17.3%
Egypt Total	18,299	19,809	-7.6%	18,299	21,652	-15.5%
Block 5	0	0	0.0%	0	73	-100.0%
Yemen Total	0	0	0.0%	0	73	-100.0%
Block 9	3,246	3,396	-4.4%	3,246	0	-
Iraq Total	3,246	3,396	-4.4%	3,246	0	-
Oman Total (KSF)	2,379	2,541	-6.4%	2,379	2,498	-4.8%
Production Total	23,924	25,747	-7.1%	23,924	24,223	-1.2%

Development & Exploration

The main development and exploration activities during Q2 2016 included the **continued drilling of Faihaa-2** in Block 9, Iraq and the **drilling of Al Jahraa SE-1X exploration well** which proved to be a **successful discovery**. The table below provides the status of the development and exploration wells at the end of Q2 2016:

Country	Basin/Area	Well name	No. of Wells	Cost Interest	Status at end Q2 2016
Q4 2015 Carry-over wells					
Oman	Karim Small Fields	Ilham-P22, SIMSIM-P13	2	15%	On production
Q1 2016					
Iraq	Block 9	Faihaa-2	1	60%	Testing
Oman	Karim Small Fields	Various	10	15%	Producing
Q2 2016					
Egypt	Abu Sennan	Al-Jahraa SE-1X	1	78%	Discovery. Awaiting approval to produce.
Oman	Karim Small Fields	Various	8	15%	Producing / Under Completion
Total wells spud (2016)			20		

RESERVES AND RESOURCES

As at 31 December 2015, Kuwait Energy's WI Proven and Probable ("2P") reserves are **818 mmboe**; a significant increase from the previous year by almost 22%. The WI contingent resources ("2C") is **942 mmboe** and the best estimate of risked prospective resources ("P50") is **34 mmboe**.

It is worth noting that the valuation of a private E&P company is most commonly based on its audited reserves and associated economic models.

Classification	Category	Kuwait Energy Reserves and Resources (in mmboe)						
		YE14	2015 Production	Exploration Adds	Revisions	Acquisitions & Divestments	Year-End 2015	YE15 Net Entitlement
Reserves	1P	259		0	97	-37	312	85
	2P	671	-8	1	264	-110	818	137
	3P	1,232		2	667	-242	1,651	218
Contingent Resources	2C	759		0	266	-84	942	
Prospective Resources	Best	32		0	2	0	34	

Total	YE15		YE14	
	1P RRR =	780%	1P RRR =	2,337%
	2P RRR =	1,986%	2P RRR =	6,186%

Notes:

- Audited figures by GCA as of 31 December 2015.
- Excludes KSF, Oman which cannot be included in external reserves reporting as per the service contract.
- Reserves Replacement Ratio considers acquisitions and divestment.
- Prospective Resources estimates are risked.
- N/E stands for Net Entitlement.
- Totals may not exactly equal the sum of the individual entries due to rounding to nearest whole number.
- 10% of Block 9, Iraq was divested to EGPC effective 1 July 2013.
- 25% of BEA, Egypt was acquired from Gharib Oil effective 15 January 2015.
- 2015 production is based on actuals up to November 2015 and an estimate for December 2015.

Detailed Reserves & Resources by Asset

Asset	Country	WI Reserves and Resources (mmboe)		
		1P	2P	2C
Block 9	Iraq	224	671	871
Siba	Iraq	30	59	15
Mansuriya	Iraq	42	52	19
Iraq Total	Iraq	295	783	906
Abu Sennan	Egypt	1	6	-
Burg El Arab	Egypt	3	6	14
Area A	Egypt	3	11	2
East Ras Qattara	Egypt	6	9	2
Egypt Total	Egypt	13	31	18
Block 5	Yemen	3	4	7
Block 49	Yemen	-	-	12
Yemen Total	Yemen	3	4	18
Karim Small Fields	Oman	-	-	-
Total		312	818	942

Notes:

- Audited figures by GCA as of 31 December 2015.
- Excludes KSF, Oman which cannot be included in external reserves reporting as per the service contract.
- Reserves Replacement Ratio considers acquisitions and divestment.
- Prospective Resources estimates are risked.
- N/E stands for Net Entitlement.
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- 2015 production is based on actuals up to November 2015 and an estimate for December 2015.

OUTLOOK

Operations

Kuwait Energy continues the focus on the MENA region with its presence in Iraq, Egypt, Yemen and Oman.

In Iraq, **Faihaa-2 well** in Block 9 was spud on 3 January 2016 and **reached target depth on 25 May 2016**. Extensive testing has been ongoing since then with **expected production to commence in August 2016**. All formation tops matched the original design prognosis. Furthermore, the Mishrif Reservoir at Faihaa-2 has a shown better reservoir quality with a thicker and a higher (larger) Net Pay zone than the data obtained for Mishrif at Faihaa-1. This was expected given the location of Faihaa-2 at the extreme north-western corner of the block. Testing of Yamama-D, Yamama-C and Yamama-B has been completed and testing of Yamama-A is currently ongoing.

The Group is now preparing to commence the **drilling on the Faihaa-3 well**, located south of Faihaa-1, which is expected to **commence in September 2016**. Furthermore, the **demining** of the assigned area of Block 9 has been **completed** and the **2D/3D seismic activities have already commenced** and are being conducted by Iraq's Ministry of Oil seismic company; **Oil Exploration Company (OEC)**. The mobilization has already been completed and we are currently at the testing stage. The **acquisition of the data is expected to commence shortly**.

Following the signing of the **Export Oil Sales Agreement with State Oil Marketing Company (SOMO)**, the Iraqi national company responsible for marketing Iraq's oil, Kuwait Energy is expected to be allocated its **first cargo shipment from Iraq in September 2016**. The shipment will cover gross production of oil from Block 9 from October 2015 to March 2016 for a **gross amount of US\$13.9 million**; where Kuwait Energy's revenue share is 60%.

For the **Q2 2016 production from Block 9**, Kuwait Energy has already invoiced the Iraqi government for a **gross amount of US\$10.0 million** covering gross production from April to June 2016. A shipment, for this payment, is expected to be allocated in Q4 2016.

The Siba Gas Plant's Engineering, Procurement and Construction (**EPC works**) are ongoing and progressing on the ground with the aim to commence production by year-end. However, the EPC work continues to be conducted slower than planned due to non-controllable conditions and hence a delay in the commencement of first gas is now expected. **Kuwait Energy continues to work actively with South Oil Company (SOC) and the contractor to ensure that delays are minimized.**

In Egypt, the Company is keen to **expedite production from Jahraa SE-1X well** in Abu Sennan following the recent discovery and is engaged with EGPC to attain the necessary development license to do so. On 16 July 2016, the Company **completed the rigging up for sidetrack drilling from the already producing ASH-1X well to increase production from the asset.**

In Yemen, the Company remains in discussions with different governmental stakeholders and continues to closely monitor the complex geopolitical situation in the country. **Kuwait Energy remains operationally-ready** and will resume production as soon as lifting constraints have been removed.

Sustainability

As part of our HSSE efforts, Kuwait Energy continues to apply the leading HSSE auditing programmes; working on the recertification of the ISO 14001 and OHSAS 18001 certification.

GLOSSARY

Abbreviation	Definition
1P	Proven reserves
2C	Contingent resources mid-case recoverable volume
2P	Proven plus probable reserves
3P	Proven, probable and possible reserves
Barrel	The standard of crude oil or other petroleum product contains 42 US gallons, 35 Imperial gallons or 159 liters.
Bbl	Barrel
Bcf	Billion cubic feet
BEA	Burg El Arab
Boe	Barrels of oil equivalent
Boepd	Barrels of oil equivalent per day
Bcpd	Barrels of (oil or gas) condensate per day
Bopd	Barrels of oil per day
EGPC	Egyptian General Petroleum Corporation (Egypt State Oil Company)
ERQ	East Ras Qattara
G&A	General and Administrative
GCA	Gaffney, Cline & Associates (Reserves & Resources Auditors)
H1	First half
H2	Second half
HSSE	Health, Safety, Sustainability and Environment
KSF	Karim Small Fields
LTI	Lost Time In Incidents
M	Metres
MENA	Middle East and North Africa

Mbbl	Million barrels
Mmboe	Million barrels of oil equivalent
Mmscfd	Million metric standard cubic feet per day
Mscf	Thousand standard cubic feet
OEC	Oil Exploration Company (Iraq's Ministry of Oil seismic company)
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
RRR	Reserves Replacement Ratio
Scf	Standard cubic feet
SOC	South Oil Company (Iraq's State Oil Company responsible for operations in the South of Iraq)
SOMO	State Oil Marketing Company (The Iraqi national company responsible for marketing Iraq's oil)
US\$	United States Dollars
WI	Working Interest: a company's interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms
YE	Year-End



Investor Affairs Department
Kuwait Energy Plc

Tel: +965 25767700, Fax: +965 25767709

Email: ir@kec.com.kw

Web: www.kuwaitenergy.co

Kuwait Energy plc, Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES, Channel Islands