Consolidated Financial Statements

And Independent Auditor's Report

Kuwait Energy plc Group

For the year ended 31 December 2016

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The consolidated financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991. Under company law the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these consolidated financial statements, International Accounting Standard 1 requires that directors:

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the board

Dr Manssour Aboukhamseen
Executive Chairman

27 April 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KUWAIT ENERGY PLC

We have audited the consolidated financial statements of Kuwait Energy plc for the year ended 31 December 2016 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. If we become aware of any apparent material misstatements we consider the implications for our report.

Opinion on consolidated financial statements

In our opinion the consolidated financial statements:

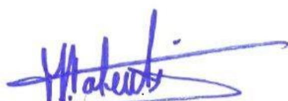
- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Deloitte SA



Mark Valentin
Partner

Robert Purdy
Director

Geneva, Switzerland

27 April 2017

KUWAIT ENERGY PLC

Kuwait Energy

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2016

	Notes	Year ended 2016 US$ 000's	Year ended 2015 US$ 000's
Continuing Operations			
Revenue	6	138,895	155,642
Cost of sales	7	(106,556)	(129,087)
Gross profit		32,339	26,555
Exploration expenditure written off	12	-	(14,218)
Impairment of oil and gas assets	13	(94,337)	(69,010)
Profit on farm-out of working interest	13	-	33,876
General and administrative expenses	8	(18,970)	(18,221)
Operating loss		(80,968)	(41,018)
Share of results of Joint Venture	14	1,451	445
Change in fair value of convertible loans	23	(24,774)	(9,261)
Other income		1,335	1,231
Foreign exchange loss		(2,340)	(1,851)
Finance costs	9	(9,365)	(9,654)
Loss before tax		(114,661)	(60,108)
Taxation charge	10	(1,456)	(2,259)
Loss for the year		(116,117)	(62,367)
Attributable to:			
Owners of the Company		(116,145)	(62,220)
Non-controlling interests		28	(147)
		(116,117)	(62,367)
Loss per share attributable to owners of the Company			
- Basic (cents)	11	(35.6)	(19.1)
- Diluted (cents)	11	(35.6)	(19.1)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	Year ended 2016 US$ 000's	Year ended 2015 US$ 000's
Loss for the year		(116,117)	(62,367)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of retirement benefit obligation	25	(30)	445
Other comprehensive (loss)/income for the year		(30)	445
Total comprehensive loss for the year		(116,147)	(61,922)
Attributable to:			
Owners of the Company		(116,175)	(61,775)
Non-controlling interests		28	(147)
		(116,147)	(61,922)

No taxation charge arose on any item of other comprehensive income and there was no other comprehensive income from the investment in Joint Venture in either the current or prior years.

KUWAIT ENERGY PLC

Kuwait Energy

CONSOLIDATED BALANCE SHEET
As at 31 December 2016

	Notes	2016 US$ 000's	2015 US$ 000's
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	12	27,692	32,663
Property, plant and equipment	13	509,369	621,571
Investment in Joint Venture	14	4,424	5,528
Other non-current assets	15	4,991	22,754
		546,476	682,516
Current assets			
Inventories	16	23,709	24,411
Trade and other receivables	17	94,983	48,198
Cash and cash equivalents	18	58,311	105,297
Assets classified as held for sale	19	126,144	-
		303,147	177,906
Total assets		849,623	860,422
EQUITY AND LIABILITIES			
Equity			
Share capital	20	560,852	559,835
Share premium	20	205,929	205,491
Other reserves	21	(105,567)	(105,613)
Retained deficit		(426,582)	(310,437)
Equity attributable to owners of the Company		234,632	349,276
Non-controlling interest		4,437	5,645
Total equity		239,069	354,921
Non-current liabilities			
Borrowings	22	244,860	243,326
Convertible loans	23	117,198	117,329
Obligations under finance leases	24	2,937	3,911
Provisions and other non-current liabilities	25	15,549	15,458
Deferred tax liabilities	10	463	163
		381,007	380,187
Current liabilities			
Trade and other payables	26	144,368	119,659
Current tax payable		2,473	1,849
Crude oil prepayment	27	40,000	-
Convertible loans	23	19,075	2,071
Obligations under finance leases	24	1,169	1,735
Liabilities directly associated with assets classified as held for sale	19	22,462	-
		229,547	125,314
Total liabilities		610,554	505,501
Total equity and liabilities		849,623	860,422

The consolidated financial statements were approved by the board of directors and authorised for issue on 27 April 2017. They were signed on its behalf by:

Dr Manssour Aboukhamseen
Executive Chairman

Kuwait Energy

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Share capital	Share premium	Other reserves (note 21)	Retained deficit	Total	Non-controlling interest	Total equity
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Balance at 1 January 2015	557,808	204,760	(106,609)	(248,217)	407,742	8,770	416,512
Loss for the year	-	-	-	(62,220)	(62,220)	(147)	(62,367)
Other comprehensive income for the year	-	-	445	-	445	-	445
Total comprehensive income/(loss) for the year	-	-	445	(62,220)	(61,775)	(147)	(61,922)
Issue of shares for acquisition of non-controlling interest (note 20)	2,027	731	220	-	2,978	(2,978)	-
Share-based payment charges	-	-	331	-	331	-	331
Balance at 31 December 2015	559,835	205,491	(105,613)	(310,437)	349,276	5,645	354,921
(Loss)/profit for the year	-	-	-	(116,145)	(116,145)	28	(116,117)
Other comprehensive loss for the year	-	-	(30)	-	(30)	-	(30)
Total comprehensive (loss)/income for the year	-	-	(30)	(116,145)	(116,175)	28	(116,147)
Issue of shares for acquisition of non-controlling interest (note 20)	797	347	92	-	1,236	(1,236)	-
Issue of shares under employee incentive scheme (note 20)	220	91	(311)	-	-	-	-
Share-based payment charges	-	-	295	-	295	-	295
Balance at 31 December 2016	560,852	205,929	(105,567)	(426,582)	234,632	4,437	239,069

Kuwait Energy

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	Year ended 2016 US$ 000's	Year ended 2015 US$ 000's
OPERATING ACTIVITIES			
Loss for the year		(116,117)	(62,367)
Adjustments for:			
Share in results of joint venture		(1,451)	(445)
Depreciation, depletion and amortisation		62,394	69,147
Exploration expenditure written off		-	14,218
Impairment of oil and gas assets		94,337	69,010
Profit on farm-out of working interest		-	(33,876)
Tax charge		1,456	2,259
Foreign exchange loss		2,340	1,851
Change in fair value of convertible loans		24,774	9,261
Finance costs		9,365	9,654
Interest income		(548)	(1,177)
Provision for retirement benefit obligation		627	1,487
Operating cash flow before movement in working capital		77,177	79,022
(Increase)/decrease in trade and other receivables		(47,171)	58,776
Increase/(decrease) in trade and other payables		2,722	(25,807)
Crude oil prepayment		40,000	-
(Increase)/decrease in inventories		(749)	1,793
Tax paid		(532)	(9,624)
Net cash generated by operating activities		71,447	104,160
INVESTING ACTIVITIES			
Purchase of intangible exploration and evaluation assets		(2,503)	(10,596)
Purchase of oil & gas assets		(83,297)	(205,922)
Purchase of other fixed assets		(142)	(10,802)
Increase in capital inventory stores		(42)	(4,562)
Proceeds from farm-out of working interests	13	3,500	43,190
Proceeds from disposal of other fixed assets		60	-
(Additions to)/ withdrawal from decommissioning fund		(150)	300
Investment in Joint Venture		(945)	(945)
Dividend received from joint venture		3,500	4,000
Interest received		655	1,157
Net cash used in investing activities		(79,364)	(184,180)
FINANCING ACTIVITIES			
Proceeds from finance lease		-	5,902
Repayment of obligations under finance leases		(1,766)	(489)
Finance costs paid		(34,636)	(34,342)
Net cash used in financing activities		(36,402)	(28,929)
Effect of foreign currency translation on cash balances		(2,282)	(1,746)
Net decrease in cash and cash equivalents		(46,601)	(110,695)
Cash and cash equivalents at beginning of the year		105,297	215,992
Cash balances classified as held for sales		(385)	-
Cash and cash equivalents at end of the year	18	58,311	105,297

1. INCORPORATION AND ACTIVITIES

Kuwait Energy plc ("the Company") is a company incorporated on 12 September 2011 in Jersey in accordance with the Commercial Companies Law in the Bailiwick of Jersey.

The Company and its subsidiaries (together referred to as "the Group") have been established with the objective of exploration, production and commercialisation of crude oil and natural gas.

The Company's registered address is Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted the following new and revised standards and interpretation. The adoption has not had any significant impact on the amounts reported in these consolidated financial statements but may impact the accounting for future transactions and arrangements.

IFRS 10, IFRS 12 and IAS 28 (amendments)	Investment Entities: Applying the Consolidation Exemption
IAS 1 (amendments)	Disclosure Initiative
IFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
IAS 16 and IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 27 (amendments)	Equity Method in Separate Financial Statements
Annual Improvements to IFRSs: 2012-2014 Cycle	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting

Standards not yet adopted

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IAS 7 (amendments)	Disclosure Initiative
IAS 12 (amendments)	Recognition of Deferred tax Assets for Unrealised Losses
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The directors do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future years, except that:

a) IFRS 9 will impact both the measurement and disclosures of financial instruments which applies for periods beginning on or after 1 January 2018; and
b) The Group has not yet assessed the potential impact of IFRS 15 and 16 on its financial results, which applies for periods beginning on or after 1 January 2018 and 2019 respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis, except for the financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. These consolidated financial statements are presented in US Dollars ("US$"), which is the Company's functional and presentation currency, rounded off to the nearest thousand. The principal accounting policies adopted are set out below.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as detailed in note 31. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern

These consolidated financial statements have been prepared on the basis that the Group will continue as a going concern and, as such, has sufficient assets and working capital to satisfy its financial obligations as they fall due. In making this determination, management has made estimates of future revenues, and costs (both quantum and timing of payments), and made assumptions on reserve status, the likelihood and timing for accessing reserves and continued availability of financing. This process involves making various assumptions and judgements about each of the factors affecting the determination of cash flows, production rates and fair values. Changes in any of these assumptions or judgments could result in a significant difference from those used by management.

During the year, the Group was funded principally by a combination of its cash balances (see note 18), equity (see notes 20, 21 and the consolidated statement of changes in equity), borrowings (see note 22), convertible loans (see note 23) and cash generated from operating activities. As at 31 December 2016, the Group had a cash balance of US$ 58.3 million.

In December 2016 the Group signed an agreement for a secured crude oil prepayment facility of up to US$ 100 million. The drawdowns on the facility will be repayable by the delivery of the Group's crude oil entitlement in Iraq. The first drawdown of US$ 40 million was received in December 2016 (see note 27). The proceeds from the facility will primarily be used for accelerating the development of certain assets for additional production.

The Group has significant levels of planned capital expenditure during the next 12 months including field development expenditures in Iraq. The Group has signed a farm-out agreement to assign to Egyptian General Petroleum Corporation (EGPC) a 20% paying (15% revenue) interest in one of the Group's key oil & gas fields. Under the terms of the farm-out agreement, EGPC will settle the consideration owed for the farm-out by paying the Group's share of costs of a major related contract with any balance being payable from allocation of cost recovery receivable when production commences from this field. This farm-out, which is subject to certain conditions precedent, including written approval of the assignment by the Iraqi government, will materially reduce the Group's contractual payment commitments in 2017.

Therefore, after making enquiries and on the assumption that the farm-out outlined above proceeds to completion, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2016 consolidated financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognised in the consolidated income statement as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement year adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in earnings. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised 2008) are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with "IFRS 5 Non-current Assets Held for Sale and Discontinued Operations", which are measured at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement year (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

The measurement period is the year from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as at the acquisition date and is subject to a maximum of one year.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Interest in joint arrangements

A joint arrangement is one in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Most of the Group's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group reports its interests in joint operations using proportionate consolidation – the Group's share of the assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

A joint venture, which normally involves the establishment of a separate legal entity, is a contractual arrangement whereby the parties that have joint control of the arrangement have the rights to the arrangement's net assets. The results, assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting.

Where the Group transacts with its joint operations, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint operation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of financial assets that are recorded at other than fair value through profit and loss.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit and loss" (FVTPL); "held to maturity investments"; "available for sale (AFS) financial assets" and "loans and receivables". Loans and receivables are disclosed in the consolidated balance sheet in the following categories: "cash and cash equivalents" and "trade and other receivables". The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents
Cash and cash equivalents comprise cash, bank balances and short-term deposits with an original maturity of three months or less.

Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each consolidated 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 asset have been impacted. For trade and other receivables, objective evidence of impairment could include: (i) significant financial difficulty of the issuer or counterparty; or (ii) default or delinquency in interest or principal payments; or (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation. For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter year to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Treasury shares
Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. Such treasury shares may be acquired and held by the Company or by other member of the consolidated group. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Treasury shares held by the Company are not entitled to any cash dividend that the Company may propose.

Trade payables
Trade payables are recognised initially at fair value, net of transaction costs incurred. Trade payables are subsequently stated at amortised cost.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred, unless such costs relate to facilities in which case they are capitalised as non-current assets. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the year of the borrowings using the effective interest method.

Convertible loans
The convertible loans currently held by the Group are designated as "fair value through profit or loss". These borrowings are initially and subsequently measured at fair value and any change in the fair value is recognised in the income statement. The transaction costs paid on these borrowings are also recognised in the income statement.

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

Other borrowing costs are calculated on the accrual basis and are recognised in the consolidated income statement in the period in which they are incurred.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of International Accounting Standard ("IAS") 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Non Financial Assets.

In addition, for financial reporting purposes, fair value measurement are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Oil and gas assets

The Group adopts the successful efforts method of accounting for exploration and evaluation expenditure. Pre-licence costs are expensed in the period in which they are incurred. All licence acquisition, exploration and evaluation costs and directly attributable administration costs are initially capitalised as intangible exploration and evaluation assets in cost centres by well, field or exploration area, as appropriate. Borrowing costs are capitalised insofar as they relate to qualifying assets.

These costs are then written off as exploration costs in the income statement unless commercial reserves have been established (see below) or the determination process has not been completed and there are no indications of impairment.

Tangible non-current assets used in acquisition, exploration and evaluation are classified with tangible non-current assets as property, plant and equipment. To the extent that such tangible assets are consumed in exploration and evaluation the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Upon successful conclusion of the appraisal programme and determination that commercial reserves exist, associated costs are transferred to tangible non-current assets as property, plant and equipment. Exploration and evaluation costs carried forward are assessed for impairment as described below.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities is amortised in accordance with the Group's depletion and amortisation accounting policy.

Proceeds from the farm-out of exploration and evaluation assets are credited against the relevant cost centre. Any overall surplus arising in a cost centre is credited to the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and gas assets (continued)

Depreciation, depletion and amortisation
Depreciation, depletion and amortisation is provided on oil and gas assets in production using the unit of production method, which is the ratio of oil and gas production in the year to the estimated quantities of proven and probable entitlement reserves at the end of the year plus the production in the year, generally on a field-by-field basis, or a grouping of fields where those fields are reliant on a common infrastructure. Costs used in the unit of production calculation comprise the net book value of capitalised costs, together with estimated future development costs required to recover the proven and probable reserves remaining. The effects of changes in estimates in the unit of production calculations are accounted for prospectively.

Impairment of oil and gas assets
Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the higher of fair value less costs to sell or value in use. The value in use is calculated as the estimated future cash flows based on management's expectations of future oil and gas prices and the future costs of developing and producing the proved and probable reserves, discounted using a discount rate adjusted for the risk specific to each asset. Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single cash-generating unit for impairment purposes.

Any identified impairment is charged to the consolidated income statement. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the consolidated income statement, net of any depletion, depreciation and amortisation that would have been charged since the impairment.

Commercial reserves
Proven and probable oil and gas reserves as defined in the Society of Petroleum Engineers' Petroleum Resources Management System ("PRMS") are considered as commercial reserves.

Proven reserves include reserves that are confirmed with a high degree of certainty through an analysis of the development history and a volume method analysis of the relevant geological and engineering data. Proven reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced.

Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced.

These reserves are being calculated under existing economic and operating conditions, i.e., prices and costs as at the date the estimate is made. Prices include consideration of changes in existing prices provided by contractual arrangements and management's forecast of future prices.

These estimates, made by the Group's engineers and annually evaluated by independent reservoir engineers, are reviewed annually and revised, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in, among other things, reservoir performance, prices, economic conditions and governmental restrictions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use. Depreciation commences when the other fixed assets are ready for their intended use and is calculated based on the estimated useful lives of the applicable assets on a straight-line basis, on the following basis:

Office equipment	5 years
Motor vehicles	5 years
Building	10 years
Fixtures and fittings	10 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised.

The gain or loss arising on the disposal or retirement of other fixed assets is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Inventories

Crude oil inventories are valued at fair value less costs to sell. Any changes arising on the revaluation of inventories are recognised in the consolidated income statement. Other inventories comprising mainly of spare parts, materials and supplies are valued at cost, determined on a weighted average cost basis, less allowance for any obsolete or slow-moving items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

Crude oil prepayments

In the ordinary course of business, the Group enters into long-term oil supply contracts. The contract terms may be such that buyer is required to enter into an agreement to prepay for oil cargos. Such prepayment agreements may be subject to various settlement and financing terms and as such the accounting treatment for each agreement is assessed on a contract by contract basis.

The Group has entered into a long term oil supply contract and an associated prepayment facility agreement for Block 9 in Iraq. The expected settlement terms of any prepayments outstanding are assessed at each balance sheet date to determine the classification of the prepayment received as a financial or non-financial liability. The Group considers the prepayments drawn down under these agreements to relate to normal sales which will be settled within 12 months of the drawdown by the delivery of a non-financial item in accordance with the Group's expected oil entitlement from the Block 9 risk service contract. Only in exceptional circumstances would the Group expect or be obliged to settle in cash or another financial asset, such as a dramatic, unexpected fall in the oil price between drawdown and settlement dates.

Accordingly, prepayments received are recorded as non-financial liabilities, unless evidence exists that settlement will be in cash. When the expectation for repayment of a prepayment changes from settlement in physical delivery of oil to settlement in cash, the non-financial liability will be re-classified as a financial liability. The interest applicable to facility drawdowns will always be settled in cash and is considered to be a separate financial liability, which will be recognised and measured at the amount payable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such an asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured.

Revenue represents the value of sales exclusive of related sales taxes of oil and gas arising from upstream operations when the oil has been lifted and the title has passed. Revenue generated under Production Sharing Contracts and Risk Service Contracts is recognised upon Group's share of the oil or gas produced volume delivered to third parties.

Interest income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Taxation

The Group is subject to various forms of taxation in the countries in which it operates. The Group is subject to income tax within scope of IAS 12 Income Taxes in Egypt and Iraq. At Area A in Egypt, income tax is levied on taxable profits, and in Iraq at Block 9, Siba and Mansuriya tax is levied on remuneration fees and other income arising under production service contracts. The primary forms of taxation for all other assets are production related and are deducted at source as government share of oil in line with production sharing contract terms. These production taxes are not considered to constitute income tax as defined by IAS 12, and accordingly government share is netted against revenue in line with the nature of the transaction. The taxation charge represents the sum of current tax and deferred tax.

The computation of the Group's income tax expense and liability involves the interpretation of applicable tax laws and regulations in the countries in which it operates. Therefore, judgement is required to determine provisions for income taxes. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future years.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax (continued)
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 of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee
Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs (see above).

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the consolidated balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the consolidated income statement in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the consolidated income statement on disposal of the investment.

Contingencies

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated financial statements unless the outflow of resources embodying economic benefits is probable and the amount of the obligation can be measured reliably. They are disclosed as contingent liabilities unless the possibility of an outflow of resources embodying economic benefits is remote.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A decommissioning provision is calculated as the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. The cost of recognising the decommissioning provision is included as part of the cost of the relevant property, plant and equipment and is thus charged to the consolidated income statement on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. The unwinding of the discount on the decommissioning provision is included within finance costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. 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. The share options granted to employees are treated as cancelled when employees cease to contribute to the scheme.

Employee Benefits

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the group’s obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting year less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the year in which they arise.

A liability for a termination benefit is recognised when the entity can no longer withdraw the offer of the termination benefit.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is 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 year in which the estimate is revised if the revision affects only that year or both current and future years.

Critical accounting judgements

Recoverability of exploration and evaluation costs
The carrying value of intangible exploration and evaluation assets ("E&E") represent active exploration projects. Under the Group's accounting policy for E&E costs, such costs are capitalised as intangible assets, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset with which question is associated, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. Note 12 discloses the carrying amounts of the Group's E&E assets as well as details of impairment charges arising during the year.

The key areas in which management have applied judgement are as follows: the Group's intention to proceed with a future work programme for a prospect or licence; the likelihood of licence renewal or extension, including Abu Sennan in Egypt where license extensions have been applied for and have not yet been granted; and the success of a well result or geological or geophysical survey. In addition, the Group holds exploration costs related to Block 49 in Yemen with a carrying value of US$ 21.7 million (2015: US$ 20.9 million) where since 2015 the political and security situation has become unstable. Further details are provided in note 12.

Recognition of assets held for sale
The Group has signed agreements to farm-down a portion of its interests in the Siba, Iraq and Abu Sennan, Egypt. Management has exercised judgement in determining that this disposal met the requirements of IFRS 5 and that the associated assets and liabilities should be transferred to held for sale. The critical judgement in determining that the assets were held for sale was regarding the point that management were committed to the sale and the sale was highly probable. Both farm-out agreements have been signed during 2016, and currently awaiting final government approval which is expected during 2017. Once these approval are received, respective farm-outs will be recognised in the Group's consolidated financial statements.

Crude oil prepayments
The Group entered into a long term oil supply contract and an associated prepayment facility agreement for the Block 9 in Iraq. The Group considers the prepayments drawn down under these agreements as non-financial liability, as it relates to normal sales which will be settled within 12 months of the drawdown by the delivery of a non-financial item in accordance with the Group's expected oil entitlement from the Block 9 risk service contract. When the expectation for repayment of a prepayment changes from settlement in physical delivery of oil to settlement in cash, the non-financial liability will be re-classified as a financial liability.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of oil and gas properties
Determining whether oil and gas properties are impaired requires management to estimate the future net revenue from oil and gas reserves attributable to the Group's interest in that field. This requires significant estimates to be made including, future oil and gas prices, production volumes, capital and operating expenditures and an asset specific discount rate. The Group also operates in certain countries with heightened geopolitical exposure and risk of challenge in respect of licence terms. In particular, the following areas of estimation uncertainty and judgements were considered.

(a) The Group has assumed, based on past precedent, that the Block 5 license expiry date in Yemen will be further extended to compensate for new force majeure claims accruing after 7 March 2016 until the date of resuming production, without which there would be a material additional impairment charge; and
(b) The Group has a carrying value of US$ 33.5 million (2015: US$ 31.4 million) for the Mansuriya field which is located in North East Iraq. On-site operations at the Mansuriya field have been put on hold since mid-2014, due in part to the security situation and in part to contract amendment issues. If the security situation deteriorates from the currently existing or further delays are encountered in planned development, there could be a material additional impairment charge.

Further details of the Group's oil and gas assets and related impairment charges during the year are provided in note 13.

Commercial reserves
Calculation of the recoverable value of oil and gas properties and depletion calculations require estimates to be made of quantities of commercial oil and gas reserves, which are based on estimates determined by Kuwait Energy's qualified petroleum engineers and are subject to third party review. Management believes these reserves to be commercially productive and will provide revenues to the Group adequate to recover remaining net un-depreciated and un-depleted capitalised oil and gas properties as at 31 December 2016.

Convertible loans fair value
As outlined in note 23, the total finance charge associated with the Group's convertible loans, which are held at fair value, depends on the exercise of certain conversion or prepayment options by the lenders and the Company, which are future events and inherently uncertain. At the balance sheet date the Group has assessed the fair values of the loans based on their best estimate of the relative likelihood of the occurrence of each conversion or prepayment option.

5. SEGMENTAL INFORMATION

The information reported to the Group's Executive Management for the purposes of resource allocation and assignment of segment performance is specifically focused on the geographical area, namely Egypt, Iraq, Yemen and rest of the world (included in others).

The Group has one class of business, being the exploration, development, production and sale of crude oil and natural gas. Therefore all information is being presented for geographical segments. All of the segment revenue reported below is from external customers. No revenue or assets arose in or relate to Jersey, the Company's country of domicile, in either year.

Other operations include discontinued operations, unallocated expenditure and net liabilities of a corporate nature. The liabilities comprise the Company's external debt and other non-attributable corporate liabilities. The unallocated capital expenditure for the year comprises the acquisition of non-attributable corporate assets.

Revenue from two customers (2015: one customer) each exceeded 10 per cent of the Group's consolidated revenue and amounted to US$ 105.5 million and US$ 33.4 million arising from sales of crude oil (2015: US$ 146.8 million), across all operating segments.

The following is an analysis of the Group's revenue and results by reportable segments:

	Egypt	Iraq	Yemen	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
31 December 2016					
Segment revenues	105,533	33,362	-	-	138,895
Segment operating loss	(22,076)	(42,342)	(4,306)	(12,244)	(80,968)
Share of results of Joint Venture					1,451
Fair value loss on convertible loans					(24,774)
Other income					1,335
Foreign exchange loss					(2,340)
Finance costs					(9,365)
Loss before tax					(114,661)
Taxation charge					(1,456)
Loss for the year					(116,117)
Segment assets	238,473	473,265	79,385	58,500	849,623
E&E assets	5,988	-	21,704	-	27,692
PP&E	118,023	344,924	45,412	1,010	509,369
Segment liabilities	37,357	103,987	21,309	447,901	610,554
Other information:					
Impairment of oil and gas assets	39,787	54,550	-	-	94,337
Additions to E&E	1,670	-	833	-	2,503
Additions to PP&E	16,772	144,558	(352)	121	161,099
Depreciation, Depletion and Amortisation	47,179	14,569	-	646	62,394

5. SEGMENTAL INFORMATION (CONTINUED)

	Egypt	Iraq	Yemen	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
31 December 2015					
Segment revenues	146,774	-	8,868	-	155,642
Segment operating profit/(loss)	(5,498)	8,533	(34,338)	(9,715)	(41,018)
Share of results of Joint Venture					445
Fair value loss on convertible loans					(9,261)
Other income					1,231
Foreign exchange loss					(1,851)
Finance costs					(9,654)
Loss before tax					(60,108)
Taxation charges					(2,259)
Loss for the year					(62,367)
Segment assets	288,959	401,718	86,198	83,547	860,422
E&E assets	11,792	-	20,871	-	32,663
PP&E	202,805	371,467	45,764	1,535	621,571
Segment liabilities	48,210	52,878	22,828	381,585	505,501
Other information:					
Exploration expenditure written off	2,590	-	11,628	-	14,218
Impairment of oil and gas assets	35,810	24,656	8,544	-	69,010
Additions to E&E	8,037	-	2,705	-	10,742
Additions to PP&E	59,532	163,113	(410)	30	222,265
Depreciation, Depletion and Amortisation	62,869	-	5,213	1,065	69,147

6. REVENUE

	Year ended 2016	Year ended 2015
	US$ 000's	US$ 000's
Oil sales	137,310	153,844
Gas sales	1,585	1,798
	138,895	155,642

7. COST OF SALES

	Year ended 2016	Year ended 2015
	US$ 000's	US$ 000's
Operating costs	47,048	60,152
Depletion and amortisation of oil and gas assets (note 13)	60,257	67,757
Crude oil inventory movement	(749)	1,178
	106,556	129,087

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 2016	Year ended 2015
	US$ 000's	US$ 000's
Staff costs charged to administrative expenses	7,133	5,048
Professional and consultancy fees	3,953	3,331
Depreciation of other fixed assets (note 13)	2,137	1,390
Others	5,747	8,452
	18,970	18,221

A proportion of the Group's staff costs are recharged to the Group's joint venture partners, a proportion is allocated to operating costs and a proportion is capitalised into the cost of fixed assets under the Group's accounting policy for oil and gas assets, with the remainder classified as an administrative overhead cost in the income statement, as shown above.

9. FINANCE COSTS

	Year ended 2016	Year ended 2015
	US$ 000's	US$ 000's
Borrowing costs on senior guaranteed notes and bank loans	25,785	25,669
Other finance costs	539	452
Less: amount capitalised in cost of qualifying assets	(16,959)	(16,467)
	9,365	9,654

Finance cost of US$ 17.0 million (2015: US$ 16.5 million) have been capitalised to property, plant and equipment during the year using a weighted average interest rate of 10.6% (2015: 10.6%).

10. TAXATION

	Year ended 2016	Year ended 2015
	US$ 000's	US$ 000's
Tax on profit on ordinary activities		
Current tax:		
Foreign tax	1,156	2,096
Total current tax	1,156	2,096
Deferred tax:		
Foreign tax	300	163
Total current tax	300	163
Total taxation charge	1,456	2,259

Corporation tax in the Company's country of domicile is calculated at 0% on assessable profits for all years shown, this rate being the applicable statutory tax rate for international businesses that are tax resident in Jersey.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Factors affecting the tax charge for the year

The difference between the amount of total tax shown above and the amount calculated by applying the standard rate of Jersey corporation tax to the loss before tax is as follows:

	Year ended 2016	Year ended 2015
	US$ 000's	US$ 000's
Loss on ordinary activities before tax	(114,661)	(60,108)
Tax on Company profit on ordinary activities at corporation tax rate of 0%	-	-
Income tax arising in Egypt, Area A and Iraq, Block 9	1,456	2,259
Total taxation charge for the year	1,456	2,259

Deferred taxation

Deferred tax liability on fixed asset temporary differences:		
At 1 January	163	-
Charge to income statement	300	163
At end of the year	463	163

There are no material unrecognised deferred tax assets at either year end. No deferred tax has been recognised in respect of temporary differences arising on unremitted earnings of subsidiaries where the Group is in a position to control the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such unremitted earnings of subsidiaries amounted to US$94.3 million (2015: US$89.6 million). The associated unrecognized deferred tax liability has been measured as US$4.7 million (2015: US$4.5 million).

The Group operates in jurisdictions where tax law is subject to varying interpretations and potentially inconsistent enforcement. As a result, there can be practical uncertainties in applying tax legislation to the Group's activities. Whilst the Group considers that it operates in accordance with applicable tax law, there are potential tax exposures in respect of its operations, the impact of which cannot be reliably estimated but could be material.

11. LOSS PER SHARE

a) Loss per share

The loss and weighted average number of shares used in the calculation of basic loss per share are as follows:

		Year ended 2016	Year ended 2015
Loss for the year attributable to owners of the Company	US$'000	(116,145)	(62,220)
Weighted average number of shares, net of treasury shares	'000	326,637	326,060
Basic loss per share attributable to owners of the Company	cents	(35.6)	(19.1)

b) Diluted loss per share

There was no difference between basic and diluted loss per share for either of the years shown.

The only potential dilutive instruments were the outstanding Employee Incentive Scheme (EIS) share awards, which have no dilution impact on loss per share, together with shares to be issued on conversion of convertible loans (note 23) which are not included in the calculation for either year as the number of shares that could be exercised is dependent on certain future events.

12. INTANGIBLE EXPLORATION AND EVALUATION ('E&E') ASSETS

	E&E assets
Cost	US$ 000's
As at 1 January 2015	46,488
Additions	10,742
Exploration expenditure written off	(14,218)
Transfer to Property, plant and equipment	(10,349)
As at 31 December 2015	32,663
Additions	2,503
Transfer to Property, plant and equipment	(1,485)
Transfer to assets held for sale (note 19)	(5,989)
As at 31 December 2016	27,692

As at 31 December 2016, exploration costs of US$ 27.7 million (2015: US$ 32.7 million) were capitalised pending further evaluation of whether or not the related oil and gas properties are commercially viable, in line with the Group's accounting policy for oil and gas assets.

As at 31 December 2016, the Group held exploration costs of US$ 21.7 million (2015: US$ 20.9 million) related to Block 49 in Yemen. In 2015 the political and security situation became unstable and the work of operations on site was put on hold and force majeure was declared on Block 49. There has been no incursion at the site and control of assets has been maintained. Management have made a significant judgement to continue capitalising the costs associated with Block 49. In making this judgement, management have considered the existence of significant contingent resources certified by the Group's third party reservoir engineer and believes that the situation will be resolved so that the Group can continue its exploration and appraisal programme on the resources discovered to date.

During 2016, US$ 1.5 million of exploration costs associated with proven commercial reserves of Abu Sennan in Egypt were transferred to property, plant and equipment (2015: US$ 10.3 million).

In 2015, unsuccessful exploration expenditure written off amounted to US$ 14.2 million. This includes write-off of unsuccessful exploration expenditure of US$ 2.6 million related to Area A in Egypt and US$ 11.6 million relating to Block 82 in Yemen, where the licence has been relinquished due to unsuccessful exploration activities.

13. PROPERTY PLANT AND EQUIPMENT

	Oil and gas assets	Other fixed assets	Total
Cost	US$ 000's	US$ 000's	US$ 000's
As at 1 January 2015	860,200	18,424	878,624
Additions	210,954	11,311	222,265
Acquisition of assets	16,769	-	16,769
Transfer	6,074	(6,074)	-
Disposal	(37,066)	-	(37,066)
Transfer from Intangible exploration and evaluation assets	10,349	-	10,349
As at 31 December 2015	1,067,280	23,661	1,090,941
Additions	160,957	142	161,099
Disposal	-	(622)	(622)
Transfer from Intangible exploration and evaluation assets	1,485	-	1,485
Transfer to assets held for sale (note 19)	(194,962)	(103)	(195,065)
As at 31 December 2016	1,034,760	23,078	1,057,838
Accumulated Depreciation, depletion, amortisation and impairment			
As at 1 January 2015	347,764	8,323	356,087
Charge for the year	67,757	1,390	69,147
Disposal	(24,874)	-	(24,874)
Impairment	69,010	-	69,010
As at 31 December 2015	459,657	9,713	469,370
Charge for the year	60,257	2,137	62,394
Impairment	94,337	-	94,337
Disposal	-	(562)	(562)
Transfer to assets held for sale (note 19)	(77,070)	-	(77,070)
As at 31 December 2016	537,181	11,288	548,469
Carrying amount			
As at 31 December 2016	497,579	11,790	509,369
As at 31 December 2015	607,623	13,948	621,571

Other fixed assets include carrying amount of US$ 6.8 million (2015: US$ 7.5 million) in respect of assets held under finance leases (note 24).

Additions
The additions to oil and gas assets mainly relate to Siba and Block 9 in Iraq, and include US$ 17.0 million (2015: US$ 16.5 million) of finance costs on qualifying assets capitalised during the year (see note 9) and US$ 2.4 million (2015: US$ 1.7 million) of fair value loss on convertible loans capitalised (see note 23).

Farm-out and disposal
In 2015, the Group completed the farm-out of a 10% participating interest in the Iraq Block 9 exploration, development and production service contract to EGPC, resulting in a profit of US$ 33.9 million. The cash inflow arising on the farm-out was US$43.2 million. The Group now has a 60% working interest share in Block 9.

During first half of 2015, the Group disposed of its interest in Yemen Block 43. Following the disposal, the related costs of US$ 24.9 million and accumulated depletion of US$ 24.9 million have been removed with no consolidated income statement impact.

13. PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Impairment

The Group has undertaken a review of the recoverable amount of its assets in accordance with IAS 36 *Impairment of assets,* primarily because the reduction in the oil price assumption used in estimating the future cash flows represents an indicator of impairment. The review led to the recognition of an impairment loss of US$ 94.3 million (2015: US$ 69.0 million), including US$ 7.2 million (2015: US$ 10.6 million) on Burg-El-Arab (BEA) and US$ 32.6 million (2015: US$ 25.2 million) on the Abu Sennan fields in Egypt, US$ 54.5 million (2015: US$ 16.9 million) on Siba, nil (2015: US$ 7.8 million) on Mansuriya fields in Iraq and nil (2015: US$ 8.5 million) on the Block 5 field in Yemen, which has been recognised in the consolidated income statement. The recoverable amount of the assets that have been impaired in this year, based on a value in use basis calculation are: BEA US$ 48.2 million, Abu Sennan US$ 32.0 million, Siba US$ 298.3 million.

In 2016 the key assumptions and judgements used in the impairment test included pre-tax discount rates of 11% for the assets in Egypt, 12% for the assets in Iraq other than the Mansuriya field, 14% for assets in Yemen and the Mansuriya field in Iraq and a Brent oil price of US$ 55/bbl in 2017, US$ 65/bbl in 2018, US$ 70/bbl in 2019, inflated at 2.0% per annum thereafter (2015: US$ 45/bbl in 2016, US$ 60/bbl in 2017, US$ 70/bbl in 2018, US$ 80/bbl in 2019, inflated at 1.5% per annum thereafter). The oil price assumptions are the Group's best estimate based on conditions prevailing at the balance sheet date and take into consideration external forecasts. For each US$ 1/bbl fall in oil price assumptions, the impairment charge would increase by approximately US$ 6-7 million. If the discount rate had been increased by 1% for all assets, it would have increased the impairment charge by approximately US$ 16.3 million.

In Yemen, the Block 5 license expired on 8 June 2015. However, production was interrupted on several occasions due to sabotage of the main oil export pipeline and no production has been possible since 7 April 2015 due to closure of the port at Ras Isa. For lost production days, the Group has filed a number of notices of force majeure to the Yemeni Government, represented by Yemen Company for Investment in Oil and Minerals (YICOM). YICOM has agreed to extend the Block 5 license expiry date to settle force majeure claims up to and including 7 March 2016. The force majeure claims settlement with YICOM specifically excludes any new force majeure claims that may accrue after 7 March 2016, which will be subject to further claims. However, based on the force majeure mechanism of the contract and the agreed license extension by YICOM to settle previous force majeure claims, the Group has calculated the impairment charge for Block 5 on the assumption that the licence expiry date will be further extended to compensate for new force majeure claims accruing after 7 March 2016 until the date of resuming production.

The Group, along with other partners of Block 5, has a firm intention to maintain the facilities at the field in operational condition until such time as it becomes possible to resume production, even if there is further delay. Non-Yemeni employees have been withdrawn for their safety and security and the Sana'a office is currently closed, however the Block 5 field facility remains available for the use of the Group and essential Yemeni employees remain on site.

In Iraq, as at 31 December 2016 the Group held oil and gas assets with a carrying value of US$ 33.5 million (2015: US$ 31.4 million) in relation to the Mansuriya field located in North East Iraq. Due to the security situation, on-site operations at the Mansuriya field have been put on hold since mid-2014. Nonetheless, front end engineering and design studies has progressed and ordered some long-lead items, majority of which has been received. During the latter part of 2016, meetings were held with the Iraq government to explore a new work plan and the resumption of site works. The discussions also raised amending the terms of existing contract to compensate for delays due to the security situation. A letter has been received from the Ministry of Oil (Midland Oil Company) suggesting the formation of a team to review the terms of the contract. To date, no agreement has been reached with the Iraq government on these issues despite both sides recognising that Mansuriya can supply much needed gas to Iraq. Management have made a significant judgement in assessing recoverable amount of Mansuriya. In making this judgement, management have considered the existence of reserves associated with the planned development that assumes no contract amendments, certified by the Group's third party reservoir engineer, and believes that planned development will be funded by combination of internal accruals and external financing. If the security situation deteriorates from the currently existing or further delays are encountered, it may be necessary to revisit the reserves. Management believes that in the longer term the situation will be resolved and that no additional impairment is required.

13. PROPERTY PLANT AND EQUIPMENT (CONTINUED)

A request for arbitration has been filed against the Group (pursuant to the ICC Rules of Arbitration) under which the claimant asserts that it has a right to an increased non-controlling share in one of the Group's key oil and gas assets. The arbitration is at an early stage. The Group has filed its answer to the request for arbitration and the arbitration tribunal has been constituted. No substantive written submissions have been filed. Management believe that the claimant's position will not be vindicated, and we are firmly committed to vigorously rebutting the claim.

14. INVESTMENT IN JOINT VENTURE

The Group owns a 20% equity interest in Medco L.L.C. ("Medco"), a jointly controlled entity incorporated in Oman. Medco is the operator of the Karim Small fields (KSF) in Oman and has a 75% working interest in production. In accordance with IFRS 11 Joint Arrangements, the Group has determined its interest in Medco to be a Joint Venture and accordingly accounts for it using the equity method. The Group has provided a bank guarantee of US$ 4.0 million (2015: US$ 7.5 million) to perform work obligations under the new service contract (see note 18).

Movement in investment in Joint Venture

	2016	2015
	US$ 000's	US$ 000's
At 1 January	5,528	8,138
Additional investment during the year	945	945
Share of results of Medco	1,451	445
Dividend received from Medco	(3,500)	(4,000)
At end of the year	4,424	5,528

15. OTHER NON-CURRENT ASSETS

	2016	2015
	US$ 000's	US$ 000's
Decommissioning fund	4,991	4,841
Advance to contractors	-	17,913
	4,991	22,754

The decommissioning fund is the amount held in an escrow account to settle environmental restoration obligation at Block 5 in Yemen.

In 2015 an advance of US$ 17.9 million was made to a contractor. In 2016, the related work has been completed and this has been capitalised to oil and gas assets.

16. INVENTORIES

	2016	2015
	US$ 000's	US$ 000's
Crude oil	2,389	1,640
Spare parts, materials and supplies	21,320	22,771
	23,709	24,411

Crude oil is measured at fair value. Spare parts, materials and supplies are used in operations and are not held for re-sale.

17. TRADE AND OTHER RECEIVABLES

	2016	2015
	US$ 000's	US$ 000's
Trade receivables	77,836	30,167
Advance due from joint venture partners	6,429	5,444
Other receivables	5,244	8,331
Prepayments, deposits and advances	3,025	2,609
Amount due from a related party (note 32b)	2,449	1,647
	94,983	48,198

All the trade receivables are denominated in US$. The average credit period on sales is 60 days. No interest is charged on the overdue trade receivables.

Trade receivables includes US$ 19.7 million (2015: nil) arising in Iraq, to be settled by having crude oil physically delivered. The Group will sell this crude oil as part of crude oil prepayment agreement (see note 27).

The Group's trade receivables includes carrying value of US$ 24.0 million (2015: US$ 1.6 million) arising in Egypt which are past due at the reporting date for which the Group has not made any provision as there has not been a significant change in credit quality and the amounts are still considered recoverable. In making the judgement about recoverability, factors considered include strong track record of ultimate settlement. During 2016, past due trade receivables balance increased considering volatility of exchange rate between Egyptian Pound and US$. Subsequent to the year end, the Group has recovered materially all the past due balance outstanding at 31 December 2016.

Ageing of past due but not impaired

	2016	2015
	US$ 000's	US$ 000's
61 – 90 days	14,729	1,599
91 – 120 days	2,371	-
121 – 180 days	6,903	-
> 180 days	-	-
Total	24,003	1,599

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Management believes that there is no credit provision required as all the trade receivables are fully collectible. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value due to their short term nature.

18. CASH AND CASH EQUIVALENTS

	2016	2015
	US$ 000's	US$ 000's
Cash and cash equivalents	58,311	105,297
	58,311	105,297

Cash and cash equivalents includes US$ 4.0 million (2015: US$ 7.5 million) which is restricted against issue of letters of guarantee.

19. ASSETS HELD FOR SALE

Siba farm-out
In October 2016 the Group signed a farm-out agreement with an effective date of 1 January 2016 to assign a 20% paying and 15% revenue interest in the Iraq Siba area gas development and production service contract. Following completion of certain conditions precedent, including the written approval of the assignment by the Iraqi government, the Group will have a 40% paying and 30% revenue interest in Siba. Under the terms of the farm-out agreement, the farmee will settle the consideration by paying the Group's share of costs of a major related contract with any balance being payable from their allocation of cost recovery receivable when production commences from this field. Once this farm-out is completed, it will materially reduce the Group's contractual payment commitments in 2017.

Abu Sennan farm-out
In December 2016 the Group signed a farm-out agreement to assign a 25% interest in Abu Sennan in Egypt with an effective date of 31 December 2016. Under the terms of this farm-out agreement the Group has received an advance of US$ 3.5 million. Following the completion of pre-emption and government approvals, the Group will have a 25% revenue interest and 53% cost interest in Abu Sennan.

Both farm-outs are expected to complete in 2017. The assets and liabilities held for sale are carried at the fair value of the sales consideration for each farm-out. The fair value of the deferred consideration was calculated by discounting expected receipts based on management's best estimate of timing.

The major classes of assets and liabilities comprising the assets classified as held for sale:

	Egypt	Iraq	Total
	US$ 000's	US$ 000's	US$ 000's
Intangible exploration and evaluation assets	5,989	-	5,989
Property, plant and equipment	16,011	101,984	117,995
Inventories	1,493	-	1,493
Trade and other receivables	262	20	282
Cash and cash equivalents	94	291	385
Total assets classified as held for sale	23,849	102,295	126,144
Trade and other payables	3,435	19,027	22,462
Total liabilities directly associated with assets classified as held for sale	3,435	19,027	22,462
Net assets of disposal groups	20,414	83,268	103,682

20. SHARE CAPITAL

The authorised share capital of the Company consists of 451.2 million shares of GBP 1 each, amounting to GBP 451.2 million (2015: 451.2 million). The issued and paid up share capital as at 31 December 2016 consists of 359.2 million Shares (2015: 358.5 million).

During 2016, the Company issued 0.5 million (2015: 1.4 million) shares to the shareholders of Kuwait Energy Company K.S.C.C. (KEC) for acquisition of non-controlling interests in KEC and 0.2 million (2015: nil) shares to employees as part of the employee incentive scheme.

21. OTHER RESERVES

	Treasury shares	Merger Reserve	Retirement benefit obligation reserve	Share based compensation reserve	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
As at 1 January 2015	(73,749)	(33,809)	949	-	(106,609)
Acquisition of minority interest	-	220	-	-	220
Other comprehensive income for the year	-	-	445	-	445
Share-based payments charges	-	-	-	331	331
As at 31 December 2015	(73,749)	(33,589)	1,394	331	(105,613)
Acquisition of minority interest	-	92	-	-	92
Other comprehensive loss for the year	-	-	(30)	-	(30)
Issue of shares	-	-	-	(311)	(311)
Share-based payments charges	-	-	-	295	295
As at 31 December 2016	(73,749)	(33,497)	1,364	315	(105,567)

22. BORROWINGS

In 2014, the Group issued US$ 250 million of 9.5% senior guaranteed unsecured notes maturing in 2019 (the "Notes"). Interest on the Notes is paid semi-annually in arrears on 4 February and 4 August. The Notes are listed on the Global Exchange Market of the Irish Stock Exchange. The Notes are callable in whole, or, in part, at the option of the Group prior to maturity, subject to certain conditions being satisfied.

Movement in carrying value of the Notes measured at amortised cost:

	2016	2015
	US$ 000's	US$ 000's
Par value payable on maturity	250,000	250,000
Unamortised initial transaction fees	(5,140)	(6,674)
Non-current portion	244,860	243,326
Interest accrued and payable within 12 months (included in trade and other payables)	9,896	9,896
Carrying value as at end of the year	254,756	253,222

As at 31 December 2016, the fair value of the Notes was US$ 232.8 million (2015: US$ 230.2 million).

23. CONVERTIBLE LOANS

	2016	2015
	US$ 000's	US$ 000's
Non-current portion	117,198	117,329
Current portion	19,075	2,071
	136,273	119,400

Movement in convertible loan

	2016	2015
	US$ 000's	US$ 000's
As at 1 January	119,400	117,829
Change in fair value*	27,211	10,974
Payment	(10,338)	(9,403)
As at 31 December	136,273	119,400

*Of this amount US$ 2.4 million (2015: US$ 1.7 million) has been capitalised to qualifying assets in the year, see note 13, resulting in a net charge to the consolidated income statement of US$ 24.8 million (2015: US$ 9.3 million).

During 2012, the Group entered into unsecured financing arrangements with Abraaj Capital and Qatar First Bank for US$ 150 million each (total value of US$ 300 million). Under the arrangements, the group has drawn down an amount of US$ 100 million, of which US$ 83 million was drawn down in 2012 and US$ 17 million was drawn down in 2013. There is no remaining availability to draw down additional amounts. The loans are repayable in three equal instalments payable at six month intervals starting from November 2017.

A variety of conversion options exist including: if the Group undertakes a public offering of shares raising at least US$ 150 million of equity, there is mandatory conversion; if no such public offering has occurred by the 36 month following the first draw down of each loan, a period which has now elapsed, the Company has the option for early repayment together with a prepayment premium.

The loans carry a coupon interest of 8%-10.5%, and if there is no conversion, the outstanding loans, without additional interest, are repaid in cash as per the repayment schedule.

Should a conversion option be exercised, the outstanding loans and an additional interest uplift will be converted into equity shares of the Company based on the fair value of the shares on the conversion date. The additional interest uplift is 5.5%-8% if conversion is within 36 months of the first draw down and 9.5%-10% if conversion is after this time.

These options are considered to be embedded derivatives which have been determined not to be closely related to the loan arrangements. The group has opted to recognise the convertible loans as financial liabilities at fair value through the income statement based on the Company's best estimate at the consolidated balance sheet date of relevant likelihood of the occurrence of each conversion or prepayment option. The possibility of prepayment option is based on the ongoing discussions with potential investors and lenders for refinancing of convertible loans. The fair value, therefore represents the Company's best estimate of the discounted future cash flows payable for these loans. The change in fair value since the prior period arises as a result of changes in the forecasted cash flows and the likelihood of the occurrence of each conversion or prepayment option.

The convertible loans are classified as Level 3 in the fair value hierarchy in all the years presented. Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs). The group uses a discounted cash flow technique to determine the fair value of the loans. The significant inputs considered in the valuation are likelihood and timing of a conversion event and the discount rate. The discount rate used was in the range of 10-18% (2015: 10-18%). The change in fair value in the year is due to changes to likelihood and timing assumptions in the fair value measurement. Further possible changes in these assumptions could have a maximum impact of increasing the liability by US$ 16.5 million or reducing the liability by US$ 32.7 million.

24. OBLIGATIONS UNDER FINANCE LEASES

	2016	2015
	US$ 000's	US$ 000's
	Minimum lease payments	
Amounts payable under finance leases		
Within one year	1,192	1,766
In the second to fifth years inclusive	3,277	4,469
	4,469	6,235
Less: future finance charges	(363)	(589)
Present value of lease obligation	4,106	5,646
	Present value of minimum lease payments	
Amounts payable under finance leases		
Within one year	1,169	1,735
In the second to fifth years inclusive	2,937	3,911
Present value of lease obligation	4,106	5,646

In 2015, the Group sold its new office building in Egypt, and leased back the sold building under a finance lease for a total lease value of US$ 8.2 million which was settled by a US$ 1.5 million down payment and the remaining lease payments to be paid over a lease term of five years. The Group has the right to buy the leased building at the end of lease period for an agreed nominal sale price of US$ 1 only. The Group's obligations under finance leases are secured by the lessor's rights over the leased asset. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligation is approximately equal to the carrying value.

25. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

	2016	2015
	US$ 000's	US$ 000's
Decommissioning provisions	11,876	12,397
Retirement benefit obligations	3,673	3,061
	15,549	15,458

a) Decommissioning provisions

The movements in the decommissioning provision over the year is as follows:

	2016	2015
	US$ 000's	US$ 000's
As at 1 January	12,397	12,433
Unwinding of discount	286	362
New provision and changes in estimate	(807)	(398)
As at 31 December	11,876	12,397

The provision for decommissioning relates to two of the Group's fields and is based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field (currently estimated as being 2021 and 2023 for the two fields respectively) in the removal and decommissioning of the facilities currently in place. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to base the provision. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. The Group uses a discount rate of 3-5% in arriving at the future value of decommissioning provisions.

25. PROVISIONS AND OTHER NON-CURRENT LIABILITIES (CONTINUED)

b) Retirement benefit obligations

The Group has a post-employment defined benefit obligation towards its qualifying employees in Kuwait which is an End-of-Service (ESB) plan governed by Kuwait Labour Law. The entitlement to these benefits is conditional upon the tenure of employee service, completion of a minimum service year, salary drawn etc. The Group also has a defined benefit obligation in respect of the Block 5 in Yemen. These are unfunded plans where the group meets the benefit payment obligation as it falls due.

The movement in these defined benefit obligations over the year is as follows:

	2016	2015
	US$ 000's	US$ 000's
As at 1 January	3,061	3,264
Current service cost	627	1,486
Re-measurements:		
Experience gains/(loss)	30	(445)
Benefits paid	(45)	(1,244)
As at 31 December	3,673	3,061

The significant actuarial assumptions were as follows:

	2016	2015
	US$ 000's	US$ 000's
Discount rate	4%	4%
Salary growth rate	5%	5%

26. TRADE AND OTHER PAYABLES

	2016	2015
	US$ 000's	US$ 000's
Trade Payables and accruals	118,514	95,001
Advance against farm-out of working interest (note 13)	3,500	-
Joint venture partners payables	7,568	13,658
Accrued interest payable	10,313	10,251
Salaries and bonus payables	4,473	749
	144,368	119,659

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The credit period for trade purchases ranges between 30 and 150 days. No interest is charged on the overdue trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value due to their short term nature.

27. CRUDE OIL PREPAYMENT

In December 2016, the Group signed an agreement for a secured crude oil prepayment facility of up to US$ 100 million (the "Prepayment Agreement"), repayable principally by the delivery of the Group's crude oil entitlement from Block 9, Iraq (in settlement of remuneration fees and costs under the exploration, development and production service contract for Block 9, Iraq). As of 31 December 2016, the Group had drawn-down US$ 40 million from the facility classified as a short-term prepayment. Under the terms of the Prepayment Agreement interest is accrued and settled on semi-annually basis.

Movement in Crude oil prepayment is as below:

	2016	2015
	US$ 000's	US$ 000's
As at 1 January	-	-
Received	40,000	-
Settled	-	-
As at 31 December	40,000	-

The Prepayment Agreement stipulates a pricing calculation with reference to the terms of Block 9 export oil sales agreement, and prepayments are settled through physical deliveries of crude oil. The Group considers the agreement to be a regular way that sale contracts are entered into for the purpose of the delivery of goods within the normal course of business.
Refer to Subsequent Events note 33 for consideration of adherenece to the terms of the facility during the year and subsequent to the year end.

28. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	2016	2015
	US$ 000's	US$ 000's
a) Contingent liabilities - letters of guarantee	4,000	7,500
b) Capital commitments	43,106	46,725
c) Agreement to purchase shares (note 32b)	6,176	7,121

Capital commitments include committed seismic expenditures, exploration and development well drilling as specified in the licence.

29. OPERATING LEASE ARRANGEMENTS

	2016	2015
	US$ 000's	US$ 000's
Minimum lease payments under operating leases recognised in the consolidated income statement	1,134	1,379

At the consolidated balance sheet date, the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2016	2015
Within one year	825	1,124
Between two years and five years	10	329
After five years	-	-
	835	1,453

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one year with an option to extend for a further one year at the then prevailing market rate.

30. FINANCIAL INSTRUMENTS

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 and financial liability are disclosed in note 3 to these consolidated financial statements.

Categories of financial instruments

	2016	2015
	US$ 000's	US$ 000's
Financial assets		
Trade and other receivables*	74,369	47,785
Cash and cash equivalents	58,311	105,297
Financial liabilities		
At amortised cost		
- Borrowings	254,756	253,222
- Obligation under finance lease	4,106	5,646
- Trade and other payable	144,368	119,659
At fair value through profit and loss account (FVTPL)		
-Designated as FVTPL - convertible loans	136,273	119,400

*Excludes US$20.6 million (2015: US$ 0.4 million) trade and other receivables not qualifying as financials assets.

Fair value measurement

Fair value measurement hierarchy for determining and disclosing the fair value of financial instruments is described in note 3. The convertible loans (note 23) and assets held for sale (note 19) were the only financial instrument carried at fair value and were classified as level 3. There was no financial instrument classified as level 1 and level 2.

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements during the year.

Details of movements in the fair value of the convertible loan are provided in note 23.

Management believes that fair values of all financial instruments, other than borrowings (note 22), are not materially different from their carrying values:

(a) For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

(b) Obligation under finance lease (note 24) approximates to carrying value which is recognised at amortised cost.

(c) Financial assets and liabilities that are measured subsequent to initial recognition at fair value are convertible loans (note 23).

Financial risk management objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including commodity price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to international commodity-based markets. As a result, it can be affected by changes in crude oil, natural gas and petroleum product prices, interest rates and foreign exchange rates.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Commodity price risk management
Volatility in oil and gas prices is a pervasive element of the Group's business environment. As a producer, the Group always has a 'long' position on the product. No hedges are currently in place. Additionally, in Iraq the concession contracts are service fee-based, thus mitigating the impact of oil price movement.

The Group is a seller of crude oil and natural gas, which is typically sold under short-term arrangements priced in US$ at current market prices.

The following table illustrates the sensitivity of the revenue for the year to a reasonably possible change in oil and gas prices by +10%. A positive number below indicates an increase in profit and decrease in price will have the opposite effect.

	Year ended 2016	Year ended 2015
	US$ 000's	US$ 000's
Impact on consolidated income statement and retained deficit	13,890	15,564

For sensitivity of the impairment of oil and gas assets due to possible change in oil and gas prices please see note 13.

Foreign currency risk management
The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2016	2015	2016	2015
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Egyptian Pound	4,261	3,312	1,893	3,294
Kuwaiti Dinar	495	693	91	65

Foreign currency sensitivity analysis

The Group's main foreign currency exposure is to fluctuations in the Kuwait Dinar and Egyptian Pound.

The following table details the Group's sensitivity to a 10% increase and decrease in the US$ against Kuwaiti Dinar and Egyptian Pound. The sensitivity analysis includes only outstanding Kuwaiti Dinar and Egyptian Pound denominated monetary assets and liabilities and adjusts their translation at the year end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and a negative number indicates decrease in profit. All other variables are held constant. There have been no changes in the methods and the assumptions used in the preparation of the sensitivity analysis.

	2016	2015
Impact on consolidated income statement	US$ 000's	US$ 000's
Egyptian Pound	237	2
Kuwaiti Dinar	40	63

30. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

The Group is exposed to interest rate risk as it has placed funds in interest-bearing time deposits with banks, but the Group's exposure to interest rate risk is not significant since in the current year the entities within the Group have not borrowed funds at floating interest rates that could have an impact on the Group's consolidated income statement.

The Group's exposure to interest rates on financial assets and liabilities are detailed in the liquidity risk management section of this note.

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. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

During 2016 100% revenue (2015: 94%) was derived from sales to two customers (2015: one customer) whereby each exceeded 10% of the Group's revenue. Further details of the Group's receivables are provided in note 17. The Group defines counterparties as having similar characteristics if they are related entities.

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Exposure to credit risk

The carrying amount of financial and non-financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2016	2015
	US$ 000's	US$ 000's
Trade and other receivables	94,103	47,785
Cash and cash equivalents	58,311	105,297
	152,414	153,082

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2016	2015
Egypt	58,102	30,167
Iraq	19,734	-
	77,836	30,167

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the management, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

30. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities (including interest). The tables have been drawn up based on the undiscounted cash flows of financial liabilities.

Financial liabilities	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total	Effective interest rate
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's	%
At 31 December 2016						
Borrowings	23,750	297,500	-	-	321,250	10.6%
Obligations under finance lease	1,192	2,384	893	-	4,469	5.0%
Convertible loans	27,250	90,574		-	117,824	15.3%
Trade and other payables	144,368	-	-	-	144,368	-
	196,560	390,458	893	-	587,911	
At 31 December 2015						
Borrowings	23,750	47,500	273,750	-	345,000	10.6%
Obligations under finance lease	1,766	2,384	2,085	-	6,235	5.0%
Convertible loans	10,250	100,499	17,325	-	128,074	14.7%
Trade and other payables	119,659	-	-	-	119,659	-
	155,425	150,383	293,160	-	598,968	

The group has access to financial facilities as described in notes 22 and 23. The group expects to meet its other obligations from operating cash flows (also see going concern section of note 3).

Capital risk management

The Group defines capital as the total equity and net debt of the group. The total equity comprises issued share capital (note 20), share premium, other reserves (note 21) and retained deficit. The primary objective of the Group's capital management policy is to safeguard the Group's ability to continue as a going concern while maximising the return to the shareholders through the optimisation of debt and equity. Kuwait Energy is not subject to any externally imposed capital requirements. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure the Group may put in place new debt facilities, issue new shares for cash, repay debt, engage in active portfolio management or undertake other such restructuring activities as appropriate. No changes to the Group's capital management objectives, policies or processes were made during the year ended 31 December 2016.

The net debt to equity gearing ratio at year end was as follows:

	2016	2015
	US$ 000's	US$ 000's
Total debt (i)	385,239	368,372
Less: Cash and cash equivalents	(58,311)	(105,297)
Net debt	326,928	263,075
Equity attributable to owners of the Company	234,632	349,276
Net debt to equity ratio (%)	139.3	75.3

(i) Debt is defined as borrowings excluding accrued interest, as detailed in note 22, convertible loans as detailed in note 23 and obligations under finance leases as detailed in note 24.

31. SUBSIDIARY AND JOINT VENTURE COMPANIES

a) The principal subsidiaries of the Company as at 31 December 2016 were as follows:

Company's name	Ownership %		Country of incorporation	Country of operations	Type of activity
	31.12.16	31.12.15			
Kuwait Energy International Limited	100	100	Jersey	-	Holding Company
Kuwait Energy Company K.S.C.(Closed)	93.7	91.9	Kuwait	Kuwait	Exploration / development/ production
KEC (Egypt) Ltd	100	100	British Virgin Islands	Egypt	Development/ production
Kuwait Energy Egypt Ltd	100	100	British Virgin Islands	Egypt	Exploration / development/ production
Kuwait Energy (Eastern Desert) Petroleum Services SAE	100	100	Egypt	Egypt	Exploration / development/ production
KEC (Yemen) Ltd	100	100	British Virgin Islands	Yemen	Exploration / development/ production
Kuwait Energy AMED Yemen Ltd	100	100	British Virgin Islands	Yemen	Exploration
Kuwait Energy Iraq Limited	100	100	British Virgin Islands	Iraq	Exploration / development/ production
Kuwait Energy Basra Limited	100	100	British Virgin Islands	Iraq	Exploration / development/ production
KE Netherlands Coöperatief U.A.	100	100	Netherlands	-	Holding Company
Jannah Hunt Oil Company Limited	100	100	British Virgin Islands	Yemen	Development/ production

a) The group has a 20% interest in Medco LLC. Medco LLC is the operator for Karim Small fields in Oman.

32. RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors and executive officers of the Group, their families and companies of which they are the principal owners. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The related party transactions and balances included in the Group's consolidated financial statements are as follows:

a) Compensation of key management personnel:

Key management personnel are considered to be the Board of Directors of the Company.

The remuneration of key management personnel during the year was as follows:

	Year ended 2016	Year ended 2015
	US$ 000's	US$ 000's
Salaries and other short-term benefits	1,521	1,599
Consultancy fees paid to non-executive director	-	24
Post-employment benefits	30	30
	1,551	1,653

b) Agreement to purchase shares

The Deputy CEO of the Group has entered into an agreement with a third party on behalf of the Group to purchase a specified number of shares of the Company held by that third party. Depending on the outcome of certain future events, and unless otherwise agreed, the Group may be required to lend the Deputy CEO the purchase price of the shares, approximately US$ 5.7 million (2015: US$ 6.6 million), until such time as the Deputy CEO is able to sell those shares and repay the loan to the Company.

During 2016 and 2015, under the arrangement described above, the Deputy CEO was required to purchase 403,225 and 806,451 ordinary shares of the Company at a price of KWD 0.620 per share (totalling US$ 0.8 million and US$ 1.6 million respectively). The Company lent the Deputy CEO the funds to complete this transaction until such time as the Deputy CEO is able to sell those shares and repay the loan to the Company. The Company may (subject to shareholder approval) purchase the shares from the Deputy CEO and hold them as treasury shares, with the purchase price being used to repay the loan.

33. SUBSEQUENT EVENTS

Subsequent to 31 December 2016 it became apparent that certain of the security purported to have been granted pursuant to the Prepayment Agreement (see note 27) was possibly unenforceable. It is therefore possible that the Group was not in compliance with all the terms of the Prepayment Agreement and ancillary documentation at all times during 2016 and thereafter. These circumstances were promptly disclosed to the lender upon the Group becoming aware of them. The lender has confirmed in writing that any possible or actual non-compliance with the Prepayment Agreement regarding this issue has been waived. There is also agreement in principle between the lender and the Group that the Prepayment Agreement and related security package will be amended to reflect these circumstances, and the parties have agreed to formally document this agreement by 12 May 2017.

These issues have no impact on the carrying value or classification of the prepayment drawn down as at 31 December 2016 and the Prepayment Agreement continues to operate as originally envisaged on its terms. The Group has complied with all repayment terms since the inception of the arrangement and as at the date of approval of these consolidated financial statements US$ 12.4 million of the first drawdown has been settled in kind through delivery of crude oil.