



KUWAIT ENERGY PLC GROUP

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine month period ended 30 September 2016

		Nine month period ended 30 September		Year ended 31 December
		2016	2015	2015
		Unaudited	Unaudited	Audited
	Notes	US\$ 000's	US\$ 000's	US\$ 000's
<b>Continuing Operations</b>				
Revenue		97,446	125,162	155,642
Cost of sales		(80,506)	(108,145)	(129,087)
<b>Gross profit</b>		<b>16,940</b>	<b>17,017</b>	<b>26,555</b>
Exploration expenditure written off	5	-	(2,519)	(14,218)
Impairment of oil and gas assets	6	-	-	(69,010)
Profit on farm-out of working interest		-	35,000	33,876
General and administrative expenses		(11,657)	(14,319)	(18,221)
<b>Operating profit/(loss)</b>		<b>5,283</b>	<b>35,179</b>	<b>(41,018)</b>
Share of results of Joint Venture		(767)	2,071	445
Fair value loss on convertible loans		(10,118)	(12,296)	(9,261)
Other income		1,049	1,084	1,231
Foreign exchange loss		(42)	(1,789)	(1,851)
Finance costs		(6,975)	(7,004)	(9,654)
<b>(Loss)/profit before tax</b>		<b>(11,570)</b>	<b>17,245</b>	<b>(60,108)</b>
Taxation charge		(837)	(1,768)	(2,259)
<b>(Loss)/profit for the period</b>		<b>(12,407)</b>	<b>15,477</b>	<b>(62,367)</b>
<b>Attributable to:</b>				
Owners of the Company		(12,430)	15,481	(62,220)
Non-controlling interests		23	(4)	(147)
		(12,407)	15,477	(62,367)
<b>(Loss)/earnings per share attributable to owners of the Company</b>				
- Basic (cents)	4	(3.8)	4.7	(19.1)
- Diluted (cents)	4	(3.8)	4.7	(19.1)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine month period ended 30 September 2016

	Nine month period ended 30 September		Year ended 31 December
	2016	2015	2015
	Unaudited	Unaudited	Audited
	US\$ 000's	US\$ 000's	US\$ 000's
<b>(Loss)/profit for the period</b>	<u>(12,407)</u>	<u>15,477</u>	<u>(62,367)</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Re-measurement of retirement benefit obligation	-	-	445
<b>Other comprehensive income for the period</b>	<u>-</u>	<u>-</u>	<u>445</u>
<b>Total comprehensive (loss)/income for the period</b>	<u>(12,407)</u>	<u>15,477</u>	<u>(61,922)</u>
<b>Attributable to:</b>			
Owners of the Company	(12,430)	15,481	(61,775)
Non-controlling interests	23	(4)	(147)
	<u>(12,407)</u>	<u>15,477</u>	<u>(61,922)</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2016

		30 September 2016 Unaudited US\$ 000's	31 December 2015 Audited US\$ 000's
	Notes		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible exploration and evaluation assets	5	33,624	32,663
Property, plant and equipment	6	691,832	621,571
Investment in Joint Venture		3,706	5,528
Other non-current assets		4,954	22,754
		<u>734,116</u>	<u>682,516</u>
<b>Current assets</b>			
Inventories		24,404	24,411
Trade and other receivables	7	75,045	48,198
Cash and cash equivalents	8	26,792	105,297
		<u>126,241</u>	<u>177,906</u>
<b>Total assets</b>		<u>860,357</u>	<u>860,422</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		560,824	559,835
Share premium		205,910	205,491
Other reserves		(105,614)	(105,613)
Retained deficit		(322,867)	(310,437)
<b>Equity attributable to owners of the Company</b>		<u>338,253</u>	<u>349,276</u>
<b>Non-controlling interest</b>		<u>4,482</u>	<u>5,645</u>
<b>Total equity</b>		<u>342,735</u>	<u>354,921</u>
<b>Non-current liabilities</b>			
Borrowings		244,468	243,326
Convertible loans		120,355	117,329
Obligations under finance leases		3,184	3,911
Provisions		15,243	15,458
Deferred tax liabilities		463	163
		<u>383,713</u>	<u>380,187</u>
<b>Current liabilities</b>			
Trade and other payables	9	128,340	119,659
Current tax payable		1,855	1,849
Convertible loans		2,545	2,071
Obligations under finance leases		1,169	1,735
		<u>133,909</u>	<u>125,314</u>
<b>Total liabilities</b>		<u>517,622</u>	<u>505,501</u>
<b>Total equity and liabilities</b>		<u>860,357</u>	<u>860,422</u>



Manssour Aboukhamseen  
Executive Chairman

15 December 2016

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine month period ended 30 September 2016

	Share capital	Share premium	Other reserves	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
<b>Balance at 1 January 2015 (audited)</b>	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 minority interest	2,027	731	220	-	2,978	(2,978)	-
Share based payment charges	-	-	331	-	331	-	331
<b>Balance at 31 December 2015 (audited)</b>	559,835	205,491	(105,613)	(310,437)	349,276	5,645	354,921
(Loss)/profit for the period	-	-	-	(12,430)	(12,430)	23	(12,407)
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive (loss)/income for the period	-	-	-	(12,430)	(12,430)	23	(12,407)
Issue of shares for acquisition of minority interest	769	328	89	-	1,186	(1,186)	-
Issue of shares under employee incentive scheme	220	91	(311)	-	-	-	-
Share based payment charges	-	-	221	-	221	-	221
<b>Balance at 30 September 2016 (unaudited)</b>	560,824	205,910	(105,614)	(322,867)	338,253	4,482	342,735

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine month period ended 30 September 2016

		Nine month period ended 30 September		Year ended 31 December
		2016	2015	2015
		Unaudited	Unaudited	Audited
	Note	US\$ 000's	US\$ 000's	US\$ 000's
<b>OPERATING ACTIVITIES</b>				
(Loss)/profit for the period		(12,407)	15,477	(62,367)
Adjustments for:				
Share in results of joint venture		767	(2,071)	(445)
Depreciation, depletion and amortisation		48,171	65,010	69,147
Exploration expenditure written off		-	2,519	14,218
Impairment of oil and gas assets		-	-	69,010
Profit on farm-out of working interest		-	(35,000)	(33,876)
Tax charge		837	1,768	2,259
Foreign exchange loss		42	1,789	1,851
Fair value loss on convertible loans		10,118	12,296	9,261
Finance costs		6,975	7,004	9,654
Interest income		(401)	(967)	(1,177)
Provision for retirement benefit obligation		469	505	1,487
<b>Operating cash flow before movement in working capital</b>		54,571	68,330	79,022
(Increase)/decrease in trade and other receivables		(26,946)	32,995	58,776
Decrease in trade and other payables		(2,628)	(31,912)	(25,807)
(Increase)/decrease in inventories		(384)	1,290	1,793
Tax paid		(532)	(9,624)	(9,624)
<b>Net cash generated by operating activities</b>		24,081	61,079	104,160
<b>INVESTING ACTIVITIES</b>				
Purchase of intangible exploration and evaluation assets		(2,446)	(9,213)	(10,596)
Purchase of oil & gas assets		(68,834)	(115,052)	(205,922)
Purchase of other fixed assets		(132)	(7,625)	(10,802)
Decrease/(increase) in capital inventory stores		391	(5,310)	(4,562)
Proceeds from farm-out of working interests		-	43,190	43,190
Proceeds from disposal of other fixed assets		60	-	-
(Additions to)/ withdrawal from decommissioning and retirement benefit obligation fund		(114)	1,050	300
Net increase in liquid investment		-	(50,000)	-
Investment in Joint Venture		(945)	-	(945)
Dividend received from joint venture		2,000	2,000	4,000
Interest received		503	743	1,157
<b>Net cash used in investing activities</b>		(69,517)	(140,217)	(184,180)
<b>FINANCING ACTIVITIES</b>				
Proceeds from finance lease		-	5,902	5,902
Repayment of obligations under finance leases		(1,468)	-	(489)
Finance costs paid		(31,551)	(31,274)	(34,342)
<b>Net cash used in financing activities</b>		(33,019)	(25,372)	(28,929)
Effect of foreign currency translation		(50)	(1,513)	(1,746)
<b>Net decrease in cash and cash equivalents</b>		(78,505)	(106,023)	(110,695)
Cash and cash equivalents at beginning of the period		105,297	215,992	215,992
<b>Cash and cash equivalents at end of the period</b>	8	26,792	109,969	105,297

**NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS**

For the nine month period ended 30 September 2016

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**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.

These condensed set of financial statements do not include all of the information required for a full annual financial report and are to be read in conjunction with the Group's financial statements for the year ended 31 December 2015, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The financial information for the year ended 31 December 2015 in this report does not constitute statutory accounts. This information has been derived from the statutory accounts for the year ended 31 December 2015, a copy of which has been filed with the Jersey Registrar of Companies. The auditor's report on these accounts was unqualified and did not draw attention to any matters by way of emphasis.

**2. ACCOUNTING POLICIES****Basis of preparation**

The annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this nine months 2016 financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

The accounting policies used in the preparation of these condensed set of financial statements are consistent with those used in the preparation of the annual consolidated financial statement for the year ended 31 December 2015.

**Going concern**

The directors are satisfied 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 these condensed financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these condensed financial statements.

**3. SEGMENTAL INFORMATION**

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.

Other operations include 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.

There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss in the period.

## NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

For the nine month period ended 30 September 2016

**3. SEGMENTAL INFORMATION (CONTINUED)**

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

	Egypt US\$ 000's	Iraq US\$ 000's	Yemen US\$ 000's	Others US\$ 000's	Total US\$ 000's
<b>30 September 2016 (Unaudited)</b>					
Segment revenues	77,330	20,116	-	-	97,446
Segment operating profit/(loss)	8,663	6,547	(3,497)	(6,430)	5,283
Share of results of Joint Venture	-	-	-	(767)	(767)
Fair value loss on convertible loans					(10,118)
Other income					1,049
Foreign exchange loss					(42)
Finance costs					(6,975)
Loss before tax					(11,570)
Taxation charge					(837)
Loss for the period					(12,407)
Segment assets	268,484	494,507	79,250	18,116	860,357
E&E assets	11,975	-	21,649	-	33,624
PP&E	177,410	467,888	45,412	1,122	691,832
Segment liabilities	32,572	81,310	21,604	382,136	517,622
Other information:					
Additions to E&E	1,669	-	777	-	2,446
Additions to PP&E	11,413	105,825	(352)	121	117,007
Depreciation, Depletion and Amortisation	38,233	9,405	-	533	48,171
<b>30 September 2015 (Unaudited)</b>					
Segment revenues	116,294	-	8,868	-	125,162
Segment operating profit/(loss)	18,421	35,000	(9,694)	(8,548)	35,179
Share of results of Joint Venture	-	-	-	2,071	2,071
Fair value loss on convertible loans					(12,296)
Other income					1,084
Foreign exchange loss					(1,789)
Finance costs					(7,004)
Profit before tax					17,245
Taxation charge					(1,768)
Profit for the period					15,477

## NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

For the nine month period ended 30 September 2016

**3. SEGMENTAL INFORMATION (CONTINUED)**

	Egypt US\$ 000's	Iraq US\$ 000's	Yemen US\$ 000's	Others US\$ 000's	Total US\$ 000's
<b>31 December 2015 (Audited)</b>					
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	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

**4. (LOSS)/EARNINGS PER SHARE**

The calculation of basic (loss)/earnings per share is based on the loss for the period after taxation attributable to owners of the Company of USD 12.4 million (30 September 2015: profit of USD 15.5 million, 31 December 2015: USD 62.2 million) and a weighted average number of shares, net of treasury shares, of 326.6 million (30 September 2015: 326.1 million, 31 December 2015: 326.1 million).

There was no difference between basic and diluted (loss)/earnings per share for any of the periods shown. The only potential dilutive instruments were the outstanding Employee Incentive Scheme (EIS) share awards, which have no material dilution impact on earnings per share, together with shares to be issued on conversion of convertible loan which are not included in the calculation for either period as the number of shares that could be exercised is dependent on certain future events.

## NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

For the nine month period ended 30 September 2016

**5. INTANGIBLE EXPLORATION AND EVALUATION ('E&E') ASSETS**

	<b>E&amp;E assets</b>
<b>Cost</b>	US\$ 000's
<b>As at 1 January 2015 (audited)</b>	46,488
Additions	10,742
Exploration expenditure written off	(14,218)
Transfer to Property, plant and equipment	(10,349)
<b>As at 31 December 2015 (audited)</b>	32,663
Additions	2,446
Transfer to Property, plant and equipment	(1,485)
<b>As at 30 September 2016 (unaudited)</b>	33,624

As at 30 September 2016, exploration costs of US\$ 33.6 million (31 December 2015: US\$ 32.7 million) were capitalised pending further evaluation of whether or not the related oil and gas properties are commercially viable.

**6. PROPERTY PLANT AND EQUIPMENT**

	Oil and gas assets	Other fixed assets	Total
<b>Cost</b>	US\$ 000's	US\$ 000's	US\$ 000's
<b>As at 1 January 2015 (audited)</b>	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
<b>As at 31 December 2015 (audited)</b>	1,067,280	23,661	1,090,941
Additions	116,875	132	117,007
Disposal	-	(561)	(561)
Transfer from Intangible exploration and evaluation assets	1,485	-	1,485
<b>As at 30 September 2016 (unaudited)</b>	1,185,640	23,232	1,208,872
<b>Accumulated Depreciation, depletion, amortisation and impairment</b>			
<b>As at 1 January 2015 (audited)</b>	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
<b>As at 31 December 2015 (audited)</b>	459,657	9,713	469,370
Charge for the period	46,518	1,653	48,171
Disposal	-	(501)	(501)
<b>As at 30 September 2016 (unaudited)</b>	506,175	10,865	517,040
<b>Carrying amount</b>			
As at 30 September 2016 (unaudited)	679,465	12,367	691,832
As at 31 December 2015 (audited)	607,623	13,948	621,571

The additions to oil and gas assets mainly relate to Siba and Block 9 in Iraq, and include US\$ 12.7 million (31 December 2015: US\$ 16.5 million) of finance costs on qualifying assets capitalised during the period and US\$ 0.7 million (31 December 2015: US\$ 1.7 million) of fair value loss on convertible loans capitalised.

## NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

For the nine month period ended 30 September 2016

**7. TRADE AND OTHER RECEIVABLES**

	30 September 2016 Unaudited US\$ 000's	31 December 2015 Audited US\$ 000's
Trade receivables	52,969	30,167
Advance due from joint venture partners	11,353	5,444
Other receivables	5,579	8,331
Prepayments, deposits and advances	2,656	2,609
Amount due from a related party	2,488	1,647
	<u>75,045</u>	<u>48,198</u>

Included in the Group's trade receivables balance are debtors of US\$ 14.4 million in Iraq (31 December 2015: nil) and US\$ 7.0 million (31 December 2015: US\$ 1.6 million) 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.

Subsequent to the period end, the Group has collected US\$13.6 million from Iraq through the crude oil sale mechanism.

Ageing of past due but not impaired

	30 September 2016 Unaudited US\$ 000's	31 December 2015 Audited US\$ 000's
61 – 90 days	13,119	1,599
91 – 120 days	2	-
121 – 180 days	8,328	-
> 180 days	-	-
Total	<u>21,449</u>	<u>1,599</u>

**8. CASH AND CASH EQUIVALENTS**

	30 September 2016 Unaudited US\$ 000's	31 December 2015 Audited US\$ 000's
Cash and cash equivalents	26,792	105,297
	<u>26,792</u>	<u>105,297</u>

Cash and cash equivalents includes US\$ 4.0 million (31 December 2015: US\$ 7.5 million) which is restricted against issue of letters of guarantee.

**9. TRADE AND OTHER PAYABLES**

	30 September 2016 Unaudited US\$ 000's	31 December 2015 Audited US\$ 000's
Trade Payables and accruals	115,387	95,001
Joint venture partners payables	8,018	13,658
Accrued interest payable	4,164	10,251
Salaries and bonus payables	771	749
	<u>128,340</u>	<u>119,659</u>

## NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

For the nine month period ended 30 September 2016

**10. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

	30 September 2016 Unaudited US\$ 000's	31 December 2015 Audited US\$ 000's
a) Contingent liabilities - letters of guarantee	4,000	7,500
b) Capital commitments	35,525	46,725
c) Agreement to purchase shares	6,273	7,121

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

**11. FAIR VALUE OF FINANCIAL INSTRUMENTS**

As at 30 September 2016 and 31 December 2015 the convertible loans were only the financial instrument carried at fair value and were classified as level 3. There was no financial instrument classified as level 1 and level 2.

The following table shows a reconciliation of movements in the fair value of convertible loan categorised within Level 3 between the beginning and the end of the reporting period.

	30 September 2016 Unaudited US\$ 000's	31 December 2015 Audited US\$ 000's
As at 1 January	119,400	117,829
Change in fair value	10,769	10,974
Payment	(7,269)	(9,403)
As end of the period	122,900	119,400

**12. SUBSEQUENT EVENTS**

- Subsequent to the period end, the Group has signed a farm-out agreement to assign to EGPC a 20% paying (15% revenue) interest in the gas development and production service contract for the Siba contract area in Iraq, with an effective date of 1 January 2016. This assignment, which is subject to certain conditions precedent including the written approval of the assignment by the Iraqi government, will materially reduce the Group's contractual payment commitments in 2016 and 2017.
- Subsequent to the period end, the Group has signed an agreement with Vitol for a senior secured crude oil revolving prepayment facility of up to US\$ 100 million, 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). The proceeds of the facility will primarily be used for accelerating the development of certain assets to bring additional production online.