



OPERATIONAL QUARTERLY ACTIVITY REPORT

Year-End 2016 (Q4 2016)

Who We Are

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

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

Key Highlights

- **No recordable Lost Time Incident ("LTI")** took place in Kuwait Energy's operated areas during the quarter with two of Kuwait Energy's main operated areas (SIBA, Block 9) **achieving over three million man-worked hours since the last LTI**, and another main operated area (Burg El Arab) **achieving over two million hours**.
- **Average daily Working Interest ("WI") production** for 2016 is **24,573 boepd (Q4 average WI production was 26,041 boepd)**; a decrease of 1.7%, as compared to 2015 mainly due to Egyptian natural decline and suspension of Yemen production. **The total 2016 WI production volume was just under 9 mmboe (Q4 production was approximately 2.4 mmboe), which is above the target set for the year.**
- Kuwait Energy **received its first Iraqi oil cargo of 525 kbbl (gross)**. This payment covered Kuwait Energy's Block 9 entitlement from October 2015 to June 2016. Having gone through the full payment cycle from billing the Iraqi government for Block 9 production to having payment in the Kuwait Energy bank account the Company is now able to **forecast and factor into its planning future Iraqi payments**.
- **Kuwait Energy signed a US\$100 million finance facility in the form of a Forward Sales Agreement with Vitol**. The initial drawdown of US\$40 million was received in December 2016 and will be used primarily to **finance the expedited drilling of Block 9**.
- Kuwait Energy, on **24 October 2016, signed a Farm-Out Agreement for 20% cost and 15% revenue interest of its Siba (Iraq) asset** to the Egyptian General Petroleum Company ("EGPC"), strengthening the company's ties with a key strategic regional partner. The agreement remains subject to pre-emption and Iraqi government approvals.
- Kuwait Energy also **announced the signing, on 15 December 2016, of a Farm-Out Agreement with Global Connect for a 25% cost and revenue interest in Abu Sennan (Egypt)**. The agreement not only brings a new partner to the area, but also provides a partner with a wealth of experience to assist in future development and exploration. The agreement remains subject to pre-emption and Egyptian government approvals.

Financial Reporting

All of our quarterly and annual financial reports are available on the Kuwait Energy website (www.kuwaitenergy.co). The most recent financial report was issued on 30th September 2016 for unaudited 9 month 2016 financials, and the **next financial report will be for the audited YE 2016 accounts scheduled to be issued in April 2017**.

OPERATIONAL ACTIVITY

Health, Safety, Sustainability and Environment

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

No recordable incident took place in Kuwait Energy's operated areas during Q4 2016 meaning that **only one LTI** incident taking place **during the whole of 2016** (on 15 February 2016 in Area A, Egypt).

The table below provides the number of days without LTI at the end of Q4 2016 compared to figures at the end of Q3 2016 for the countries in which Kuwait Energy operates.

Country	Days without LTI (as of Q4 2016)	Days without LTI (as of Q3 2016)
Iraq	816	724
Yemen	576	484
Egypt	320	228

Production

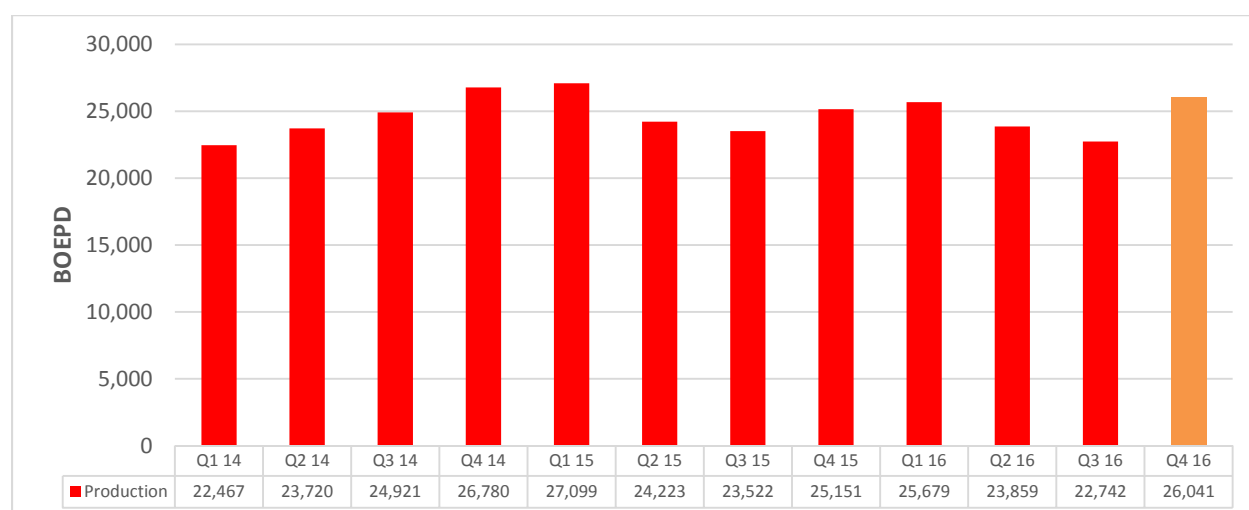
Kuwait Energy achieved **2016 average daily WI production of 24,573 boepd**. The **Q4 2016 average daily WI production** stood at **26,041 boepd**; a **jump of 14.6%** from the previous quarter (22,742 boepd) primarily due to the **commencement of Faihaa-2 production on 1 October 2016**. Production in 2016 was slightly lower than the previous year predominantly due to the continued suspension of Yemen based activities since April 2015, and the natural decline of the Company's mature Egyptian assets. It is worth noting that **Kuwait Energy's WI 2016 exit production was 25,736 boepd**.

The success of the **Block 9, Iraq Fast-Track development initiative** has allowed Kuwait Energy to expedite the development of the asset and this is reflected in **the rise of the Company's daily WI production in the country**. Iraqi average daily WI production **grew from under 3,000 boepd (~5,000 boepd gross) during the first 9 months of the year to over 6,400 boepd (~11,000 boepd gross) in Q4 2016**.

Faihaa-2 well in Block 9, Iraq has seen its **average daily WI production rise to 3,600 boepd (~6,000 boepd gross)**, a significant increase from its reported initial production due to an increase in choke size. Currently (as of 22 January 2017), Faihaa-2 is producing at **6,800 boepd gross**.

In Egypt, **production targets for 2016 were exceeded**, with **Egyptian average daily WI production of over 18,000 boepd** (Q4 was over 17,000 boepd) which was **above the forecasted volumes for the period**. The exceeded target is mainly down to the Company's workover and well management program.

The chart below shows **quarter-by-quarter daily WI average production** of the Company from Q1 2014 to Q4 2016:



Kuwait Energy's **daily average WI share of production for Q4 2016 compared to Q3 2016, and 2016 compared to 2015** per asset is shown in the table below (in boepd):

Asset/Country	Q4 2016	Q3 2016	% Change	2016	2015	% Change
Abu Sennan	1,721	1,648	4.4%	1,879	2,994	-37.2%
BEA	1,072	1,267	-15.4%	1,380	1,496	-7.8%
Area A	5,089	5,071	0.4%	5,055	4,567	10.7%
ERQ	9,198	9,467	-2.8%	9,842	11,885	-17.2%
Egypt Total	17,080	17,453	-2.1%	18,155	20,942	-13.3%
Iraq Total (B9)	6,487	2,894	124.2%	3,974	537	640.0%
Oman Total (KSF)	2,475	2,380	4.0%	2,444	2,533	-3.5%
Block 5	0	0	-	0	910	-100.0%
Block 43	0	0	-	0	66	-100.0%
Yemen Total*	0	0	-	0	976	-100.0%
Production Total	26,041	22,727	14.6%	24,573	24,988	-2.0%

* Yemen production has been suspended since April 2015

Development & Exploration

The main development and exploration activities during 2016 included the **drilling and completion of Faihaa-2 and the drilling of Faihaa-3** in Block 9, Iraq (with Faihaa-3 first oil production expected in Q1 2017); and the **commencement of production from exploration well Al Jahraa SE-1X**, a successful discovery from Q2 2016. The table below provides the status of the development and exploration wells at the end of 2016:

Country	Basin/Area	Well name	No. of Wells	Cost Interest	Status at End of Q4 2016
Q4 2015 Carry-over wells					
Oman	Karim Small Fields	Ilham-P22, SIMSIM-P13	2	15%	On production
Q1 2016					
Iraq	Block 9	Faihaa-2	1	60%	Producing
Oman	Karim Small Fields	Various	10	15%	Producing
Q2 2016					
Egypt	Abu Sennan	Al-Jahraa SE-1X	1	78%	Producing
Oman	Karim Small Fields	Various	8	15%	Producing
Q3 2016					
Iraq	Block 9	Faihaa-3	1	60%	Spud 31 st August
Oman	Karim Small Fields	Various	10	15%	Producing
Q4 2016					
Oman	Karim Small Fields	Various	8	15%	Producing / Under Completion
Egypt	Abu Sennan	ASH-1X ST2	1	78%	Producing
Total for 2016			40		

RESERVES AND RESOURCES

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

Kuwait Energy is currently working on its 2016 audited Reserve and Resources Report and will publish the updated volume figures in due course. It is worth noting that the valuation of a private E&P company is most commonly based on its audited reserves and associated economic models.

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

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

Notes:

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

Detailed Reserves & Resources by Asset

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

Notes:

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OUTLOOK

Operations

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

In Iraq, the **Faihaa-3 well** in Block 9 is scheduled to be online in Q1 2017, and is anticipated to add to production volumes from the block.

Having successfully received our first Iraqi payment, **Kuwait Energy was able to sign the Vitol Forward Sale Agreement** in December 2016. This Agreement will allow Kuwait Energy to finance the next stage of Block 9's development with the drilling of more wells in 2017, and **provides the Company with a buyer for its future Iraqi crude payments**. Additionally Kuwait Energy **anticipates another Iraqi crude payment** in 1H 2017.

In 2016, the Faihaa field production offloading capacity was limited to around 12,000 bopd gross; however with the ongoing **upgrade of the offloading facilities** this will **increase to around 20,000 bopd gross** in 2017.

The Siba Gas Plant's Engineering, Procurement and Construction (**EPC**) works are ongoing and progressing on the ground with **production anticipated for mid-2017**. With the **Farm-Out to EGPC**, Kuwait Energy has brought in a key regional partner who will add value to both the business and asset going forward. The agreement remains subject to pre-emption rights and government approvals.

In Egypt, Kuwait Energy will continue its **well management and workover program** to optimize production from its mature asset portfolio.

With the recent **Farm-Out of Abu Sennan**, Global Connect is expected to bring in a wealth of technical knowledge in the development of the asset, and allows both Kuwait Energy and Global Connect to combine expertise and resources **for future exploration within the area**. The agreement remains subject to pre-emption rights and government approvals.

In Yemen, Kuwait Energy continues to monitor the situation and is **operationally-ready to commence production when the situation permits**.

Sustainability

As part of our HSE efforts, Kuwait Energy continues to apply the leading HSE auditing programs; as shown by the Groups **recertification of the ISO 14001 and OHSAS 18001 certification** during 2016.

GLOSSARY

Abbreviation	Definition
1P	Proven reserves
2C	Contingent resources mid-case recoverable volume
2P	Proven plus probable reserves
3P	Proven, probable and possible reserves
Barrel or Bbl	The standard of crude oil or other petroleum product contains 42 US gallons, 35 Imperial gallons or 159 litres.
BEA	Burg El Arab
Boepd	Barrels of oil equivalent per day
Bopd	Barrels of oil per day
EGPC	Egyptian General Petroleum Corporation (Egypt State Oil Company)
ERQ	East Ras Qattara
GCA	Gaffney, Cline & Associates (Reserves & Resources Auditors)
1H	First half
HSSE	Health, Safety, Sustainability and Environment
KSF	Karim Small Fields
LTI	Lost Time In Incidents
MENA	Middle East and North Africa
Mmbbl	Million barrels
Mmboe	Million barrels of oil equivalent
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
RRR	Reserves Replacement Ratio
US\$	United States Dollars
WI	Working Interest: a company's interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms
YE	Year-End

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