

TRADING AND OPERATIONAL UPDATE REPORT

For 2017



Photo of trucks leaving Block 9 (Iraq) with cargo of produced crude en route to Bin Ummar collection facility

Issued 7th February 2018

Who We Are

Kuwait Energy (the “Company”) 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.

2017 Key Highlights

- **Two incidents** categorised as a **recordable Lost Time Incident (“LTI”)** took place in 2017 within **Kuwait Energy’s** operated concessions.
- **Average daily WI production** for the year is **26,819 boepd**. The **total WI production volume** for the year stands at **9.8 mmbbls**.
- At **Block 9 (Iraq)**, **Kuwait Energy completed the drilling of two wells (Faihaa-3 and Faihaa-4) whilst spudding a third well (Faihaa-5)**. Production from the completed **Faihaa-4 well began in early February 2018**; whilst **Faihaa-5 is expected to be online in Q2 2018**.
- **Siba (Iraq)**, the Company on 1 November 2017 signed a drilling contract for 4 new production wells with the oilfield services firm **Schlumberger**. The additional wells are scheduled to be drilled and completed in 2018 and are necessary to allow the concession to reach the gas production plateau of **100 mmscfd**. Initial gas production at **Siba (of 25 mmscfd)** is **scheduled to commence towards the end of 1H 2018**.
- In Basra (Iraq), 2017 saw **Kuwait Energy being assigned** by the Iraqi State Oil Marketing Company (“SOMO”) **crude cargo shipments totalling 1.2 mmbbls (Kuwait Energy’s share)** of Basra Light - with a **total value of approximately US\$60m**. These crude payments going forward are expected to increase as the Company’s Iraqi production increases in 2018 and beyond. The Company anticipates it will receive its **next Iraqi crude cargo payment of approximately 0.8 mmbbls in Q1 2018**.
- In Cairo (Egypt), on 9 September 2017 **Kuwait Energy finalised the farm-out of 25% of its shares in the Abu Sennan (Egypt) concession to a new partner - GlobalConnect**. **Kuwait Energy** by the year-end holds a 25% revenue interest in the concession and remains the operator of the **Abu Sennan** concession.
- Operations in 2017 remained on hold at both **Mansuriya (Iraq)** and **Yemen**.

FINANCIAL UPDATE

The numbers below are preliminary and unaudited (so are subject to material change upon further review) and correspond to the year ending 31 December 2017.

2017 Financial Highlights

- The Company closed the year with a **cash balance of US\$64 million**.
- **Net debt** for the Company at the end of 2017 was **US\$344 million**.
- **Revenue** from business operations for the year was **US\$200 million**.
- **Trade receivables balance** as of year-end was **US\$126 million**. The next Iraqi crude payment shipment due in Q1 2018 of approximately 0.8 mmbbls will reduce this balance by an estimated US\$50 million.
- **Operating costs** for 2017 are expected to be around **US\$5/boe**.
- **Cash capital expenditure** for the year was **US\$82 million** – the majority of which related to the construction of the Siba gas plant and Block 9 concession (both in Iraq).

Next Financial Update

The most recent financial report was issued at the end of December for the unaudited 9-month 2017 financials and the **next financial report will be the audited Year-End 2017 accounts which are expected to be issued before the end of April 2018**. The Company intends to have a **market call and webinar** to accompany the year-end results and will be in contact with its various stakeholder groups with further details and information in the weeks prior to the release of the year-end audited accounts.

OPERATIONAL ACTIVITY

Health, Safety, Sustainability and Environment

Kuwait Energy classifies its recordable incidents as being either a **Fatality, Lost Time Incident (“LTI”), Restricted Work Incident or Medical Treatment Incident**.

Kuwait Energy in 2017 had **two incidents that were classified as LTI on its operated assets**. The first LTI of the year occurred in March at **Block 9 (Iraq)** – when two local workers crossed a mine barricade triggering of an ERW. The second LTI occurred in August at the **Siba (Iraq)** concession when a rigger fell off scaffolding that hadn’t been approved or authorised for use on the site. The two incidents in Iraq, although unfortunate, have been **the sole LTI incidents in over 8.6 million man-hours worked** during 2017 in **Kuwait Energy’s** operated areas.

The table below provides the number of days without an LTI in **Kuwait Energy’s** countries of operation both at the end of the 2017 and at the end of 2016:

Country	Days without LTI (at the end of 2017)	Days without LTI (at the of end of 2016)
Iraq	144	816
Egypt	685	320
Yemen	941	576

Production

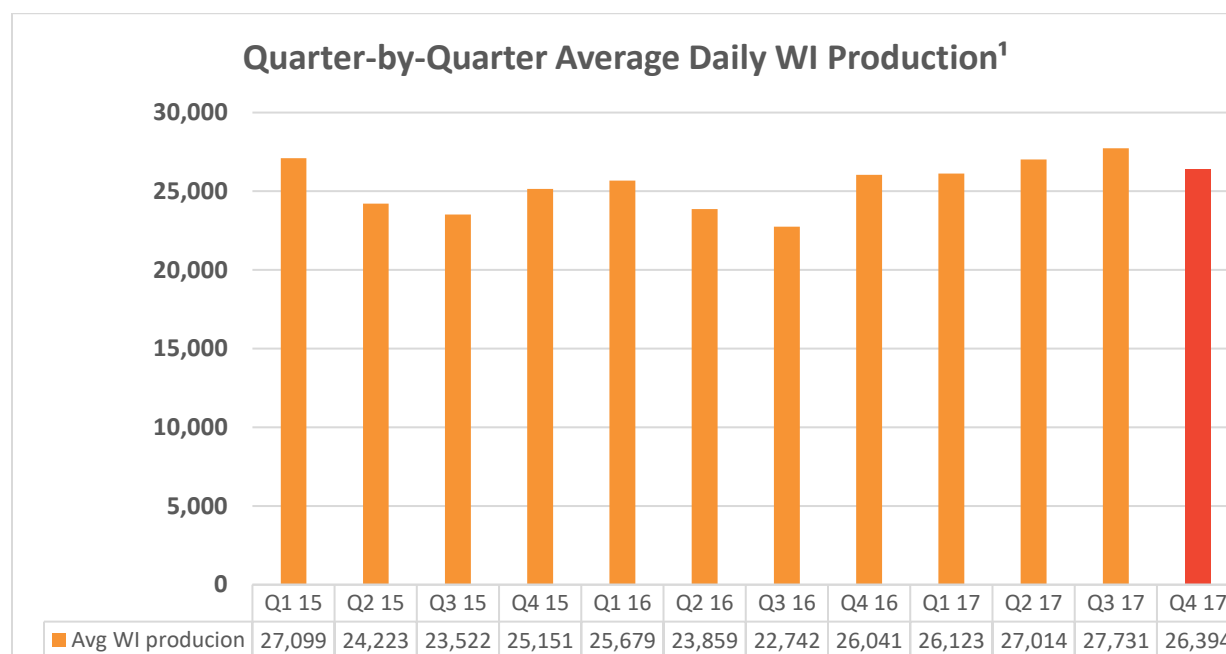
For 2017, **Kuwait Energy** achieved an **average daily WI production of 26,819 boepd**, an **increase of 9.7% on the 2016 average** (24,451 boepd). **Total WI production for the year was 9.8 mmboe** an **increase on last year’s total** (8.9 mmboe).

The Company’s production growth in 2017 has been primarily driven by the expansion of activities at **Block 9 (Iraq)**. **Average WI production at Block 9** for the year was **9,583 boepd** (from 3 producing wells). With the February **start-up of Faihaa-4, anticipated start-up of Faihaa-5 and first gas at Siba**, the Company envisages a **substantial increase in production** from its Iraqi activities by the end of 1H 2018.

In Egypt, **production targets for the year were exceeded**, primarily due to our work over and well management program, with the **average daily WI production for 2017 being 14,859 boepd**. A prime example of the Company’s successful Egyptian work over programme can be seen at the **Burg El Arab** development – where **average daily WI production increased throughout the year** (1,051 boepd in Q1 2017 to an average of 1,462 boepd for Q4 2017).

Our **Yemen production remains suspended**; however, the Company is positioned to restart activities when the situation in the area permits.

The chart below shows the **quarter-by-quarter average daily WI production** of the Company from Q1 2015 to Q4 2017:



¹2017 figures have been updated to take into consideration the farm-down of Abu Sennan effective 31 December 2016

Kuwait Energy's daily average WI share of production for all of 2017 compared to 2016, and a comparison of the last two quarters daily production averages per asset are shown in the tables below (in boepd):

Year on Year Comparison			
	2017 ¹	2016	% Change
Abu Sennan	867	1,772	-51.1
BEA	1,257	1,363	-7.8
Area A	4,654	5,055	-7.9
ERQ	8,081	9,843	-17.9
Egypt Total	14,859	18,033	-17.6
Iraq Total (Block 9)	9,583	3,974	141.1
Oman Total (Karim Small Fields)	2,377	2,444	-2.7
Yemen Total ²	0	0	-
Production Total	26,819	24,451	9.7

Quarter on Quarter Comparison ¹		
Q4 2017	Q3 2017	% Change
952	848	12.3
1,462	1,276	14.6
4,463	4,716	-5.4
7,225	7,831	-7.7
14,102	14,671	-3.9
10,059	10,606	-5.2
2,233	2,454	-9.0
0	0	-
26,394	27,731	-4.8

¹ 2017 production total and quarter on quarter data reflective of the 25% farm-out of Abu Sennan to GlobalConnect effective 31 December 2016

² Yemen production has been suspended since April 2015

Development & Exploration

The main development and exploration activity in the year has been **the drilling at the Block 9 (Iraq) concession where the Company has completed the drilling on two new wells, Faihaa-3 and Faihaa-4, and started the drilling on a third well, Faihaa-5.** The table below provides the status of the development and exploration wells for the reporting period:

Country	Basin/Area	Well Name	No. of Wells	Cost Interest	Status at end of 2017
2016 Carry-over Wells					
Iraq	Block 9	Faihaa-3	1	60%	Production commenced on 12 February 2017, current production has stabilized at a rate of approximately 2,650 bbls (Gross) on a 40/64" choke size as of year-end.
Oman	Karim Small Fields	WRDM-K29	1	15%	Producing.
2017					
Iraq	Block 9	Faihaa-4	1	60%	Spud 21 April 2017 with drilling completed on 9 September. Production began in early February 2018.
Iraq	Block 9	Faihaa-5	1	60%	Spud 16 November 2017. Production is expected in Q2 2018.
Egypt	Abu Sennan	Al Jahraa SE-2X	1	53%	Exploration well spud 25 April 2017. The well has been on production since 12 July 2017 producing at a rate of 100 boepd.
Egypt	Abu Sennan	Al Jahraa-9	1	53%	Development well spud 10 June 2017 with the rig released on 20 August 2017 - however tests have shown the produced liquids to be 100% water.
Egypt	Area A	South Kheir 1X	1	70%	Exploration well spud 11 December 2017.
Oman	Karim Small Fields	KM-P14/P15/P16/P17/P18/P19, SMPH-11, GZ-P10, HJ SW-P2/P3, WRDM-K33, SL-P2/P3, JDRK-15/17, SMPH-14/30, NSM-P6	18	15%	NSM-P6 on drilling.
Total for 2017			23		

RESERVES AND RESOURCES

As of 31 December 2016, **Kuwait Energy's** WI Proven and Probable ("2P") reserves were 810 **mmboe**; a decrease from the previous year by 1%. The WI contingent resources ("2C") was **1,040 mmboe** and the best estimate of risked prospective resources ("P50") was **28 mmboe**.

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

Classification	Category	Kuwait Energy Reserves and Resources (in mmboe)						
		Year-End 2015	2016 Production	Exploration Adds	Revisions	Acquisitions & Divestments	Year-End 2016	Year-End 2016 Net Entitlement
Reserves	1P	312	-8	0	33	-9	328	91
	2P	818		0	21	-21	810	142
	3P	1,651		0	38	-25	1,656	215
Contingent Resources	2C	942		0	181	-84	1,040	
Prospective Resources	Best	34		0	0	-6	34	

Year-End 2016		Year-End 2015	
Total	1P RRR = 301%	1P RRR = 780%	
	2P RRR = -5%	2P RRR = 1986%	

Notes:

- Audited figures by GCA as of 31 December 2016.
- Excludes **KSF**, Oman which cannot be included in external reserves reporting as per the service contract.
- Reserves Replacement Ratio considers acquisitions and divestment.
- Prospective Resources estimates are risked.
- N/E stands for Net Entitlement.
- Totals may not exactly equal the sum of the individual entries due to rounding to nearest whole number.
- 20% working interest in **Siba**, Iraq, was farmed out to EGPC effective 1 January 2016.
- 25% working interest in **Abu Sennan**, Egypt, was farmed out to GlobalConnect effective 31 December 2016.

Detailed Reserves & Resources by Asset

Asset	Country	WI Reserves and Resources (mmboe)		
		1P	2P	2C
Block 9	Iraq	255.5	687.7	975.9
Siba	Iraq	18.2	36.9	10.5
Mansuriya (see notes)	Iraq	41.7	51.9	19.3
Iraq Total	Iraq	315.4	776.6	1,005.6
Abu Sennan	Egypt	0.2	2.6	-
Burg El Arab	Egypt	0.3	6.0	13.9
Area A	Egypt	2.7	11.6	1.7
East Ras Qattara	Egypt	5.0	6.9	2.4
Egypt Total	Egypt	8.2	27.2	18.0
Block 5	Yemen	4.6	6.2	4.4
Block 49	Yemen	-	-	11.7
Yemen Total	Yemen	4.6	6.2	16.1
Karim Small Fields	Oman	-	-	-
Oman Total	Oman	-	-	-
Total		328.2	810.0	1,039.7

Notes:

- Audited figures by GCA as of 31 December 2016.
- Excludes **KSF**, Oman which cannot be included in external reserves reporting as per the service contract.
- Totals may not exactly equal the sum of the individual entries due to rounding to nearest whole number.
- 25% working interest in **Abu Sennan**, Egypt, was farmed out to GlobalConnect effective 31 December 2016.
- The Company in Q4 2017 conducted an internal review of its reserves and resources and as such has decided to reclassify all of its **Mansuriya** reserves as contingent resources.

OUTLOOK

Operations

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

A key milestone for the Company in 2018 will be the **Siba (Iraq)** gas plant coming online. Commercial production is anticipated to commence towards the end of 1H 2018. Once online, the **Siba** gas plant is expected to initially **process 25 mmscfd of gas (Gross)**. The Company now has an agreement with Schlumberger to drill an additional 4 wells at the **Siba** field. After completion of the Schlumberger drilling program, production at the concession is expected to ramp up to the **plateau gas rate of 100 mmscfd in 2019**. In addition to the **Siba** gas production, the facilities will also process associated condensate which is expected to yield an **extra 15,000 boepd (Gross)** when gas production reaches the plateau rate.

In **Block 9 (Iraq)**, the **Faihaa-5** well spudded on 14 November 2017 is anticipated to **begin commercial production in Q2 2018**; currently, the **drilling programme at Faihaa-5 is approximately 70% complete**. The Company also plans to spud the **Faihaa-6** well in **Q2 2018**. With the **completion of Faihaa-6**, the Company should be producing an **estimated 30,000 boepd (Gross)** from the concession. **The Block 9 full Field Development Plan is scheduled to be submitted** to the Iraqi authorities for approval **within the next 12 months**, once approved the Company can begin **the next phase of Block 9's development** and the ramp up of production.

The **Siba production start-up** as well as **the increasing Block 9 production** will have a significant and positive impact on the Company's future cash flows. Currently, the Company is taking receipt of Iraqi **crude payments of about 0.8 mmbbls in size - with the next crude shipment due in Q1 2018**.

In **Egypt**, **Kuwait Energy** will continue its **well management and work over program** to optimize production from its mature assets; whilst also potentially adding to Egyptian reserves and production via its **exploration program**, which has historically yielded a **50% success rate**.

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 HSSE efforts, **Kuwait Energy** continues to apply the leading HSSE auditing programs; as shown by **Egypt's Area A and Cairo Office's renewal of their ISO 14001 and OHSAS 18001 certifications - now valid until April 2018**.

GLOSSARY

Abbreviation	Definition
1H	First half
1P	Proven reserves
2C	Contingent resources mid-case recoverable volume
2H	Second half
2P	Proven plus probable reserves
3P	Proven, probable and possible reserves
Barrel	The standard of crude oil or other petroleum product contains 42 US gallons, 35 Imperial gallons or 159 litres.
Bbls	Barrels
Bcf	Billion cubic feet
Bcpd	Barrels of (oil or gas) condensate per day
BEA	Burg El Arab
BOC	Basra Oil Company
Boe	Barrels of oil equivalent
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
ERW	Explosive Remnants of War
G&A	General and Administrative
GCA	Gaffney, Cline & Associates (Reserves & Resources Auditors)
HSSE	Health, Safety, Sustainability and Environment
KSF	Karim Small Fields
LTI	Lost Time Incidents
M	Metres

Abbreviation	Definition
MENA	Middle East and North Africa
Mmbbl	Million barrels
Mmboe	Million barrels of oil equivalent
Mmscfd	Million metric standard cubic feet per day
Mscf	Thousand standard cubic feet
OEC	Oil Exploration Company (Iraq's Ministry of Oil seismic company)
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
RRR	Reserves Replacement Ratio
Scf	Standard cubic feet
SOMO	State Oil Marketing Company (The Iraqi national company responsible for marketing Iraq's oil)
TOUR	Trading and Operational Activity Report
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
YTD	Year to Date



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