2018 First Quarter Financial Results

Kuwait Energy plc Group

For the three month period ended 31 March 2018

Contents	**Page**
Statement of directors' responsibilities	3
Condensed consolidated income statement for the three months ended 31 March 2018	4
Condensed consolidated statement of comprehensive income for the three months ended 31 March 2018	5
Condensed consolidated balance sheet as at 31 March 2018	6
Condensed consolidated statement of changes in equity for the three months ended 31 March 2018	7
Condensed consolidated statement of cash flows for the three months ended 31 March 2018	8
Notes to the condensed consolidated financial statements	9-18

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge the condensed consolidated financial statements for the three month period ended 31 March 2018 has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

For and on behalf of the board

Manssour Aboukhamseen
Executive Chairman

28 June 2018

CONDENSED CONSOLIDATED INCOME STATEMENT
For the three month period ended 31 March 2018

	Notes	Three month period ended 31 March 2018 Unaudited US$ 000's	Three month period ended 31 March 2017 Unaudited US$ 000's	Year ended 31 December 2017 Audited US$ 000's
Continuing Operations				
Revenue		51,727	46,333	203,391
Cost of sales		(21,068)	(21,697)	(92,489)
Gross profit		30,659	24,636	110,902
Exploration expenditure written off	6	-	-	(20,074)
Net impairment of oil and gas assets	7	-	-	(69,053)
Loss on assets classified as held for sale	10	-	-	(2,604)
Other operating expenses		(907)	(961)	(4,670)
General and administrative expenses		(7,526)	(3,866)	(22,041)
Operating profit/(loss)		22,226	19,809	(7,540)
Share of results of joint venture		580	450	2,305
Change in fair value of convertible loans		(5,870)	(3,324)	(28,748)
Finance costs		(2,946)	(3,364)	(13,572)
Other income		198	149	1,226
Foreign exchange (loss)/gain		(55)	244	648
Profit/(loss) before tax		14,133	13,964	(45,681)
Taxation charge	4	(2,734)	(2,328)	(7,140)
Profit/(loss) for the period		11,399	11,636	(52,821)
Attributable to:				
Owners of the Company		11,399	11,636	(52,829)
Non-controlling interests		-	-	8
		11,399	11,636	(52,821)
Earnings/(loss) per share attributable to owners of the Company				
- Basic (cents)	5	3.5	3.6	(16.2)
- Diluted (cents)	5	3.5	3.6	(16.2)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three month period ended 31 March 2018

	Three month period ended 31 March		Year ended 31 December
	2018 Unaudited	2017 Unaudited	2017 Audited
	US$ 000's	US$ 000's	US$ 000's
Profit/(loss) for the period	11,399	11,636	(52,821)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of retirement benefit obligation	-	409	254
Other comprehensive income for the period	-	409	254
Total comprehensive income/(loss) for the period	11,399	12,045	(52,567)
Attributable to:			
Owners of the Company	11,399	12,045	(52,575)
Non-controlling interests	-	-	8
	11,399	12,045	(52,567)

KUWAIT ENERGY PLC

CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 March 2018

	Notes	31 March 2018 Unaudited US$ 000's	31 December 2017 Audited US$ 000's
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	6	-	1,006
Property, plant and equipment	7	493,053	509,061
Investment in joint venture		4,054	3,474
Other non-current assets		27,904	27,869
		525,011	541,410
Current assets			
Inventories		8,065	7,714
Trade and other receivables	8	147,539	165,824
Cash and cash equivalents	9	54,625	65,594
Assets classified as held for sale	10	43,045	-
		253,274	239,132
Total assets		778,285	780,542
EQUITY AND LIABILITIES			
Equity			
Share capital		519,531	519,204
Share premium		182,042	181,875
Other reserves		(39,400)	(39,006)
Retained deficit		(468,012)	(479,411)
Equity attributable to owners of the Company		194,161	182,662
Non-controlling interest		4,179	4,239
Total equity		198,340	186,901
Non-current liabilities			
Borrowings		246,989	246,557
Obligations under finance leases		1,650	1,914
Provisions and other non-current liabilities		17,212	16,923
Deferred tax liabilities		686	658
		266,537	266,052
Current liabilities			
Trade and other payables	11	124,248	124,058
Current tax payable		9,395	6,689
Crude oil prepayments		-	37,469
Convertible loans	12	162,690	158,204
Obligations under finance leases		1,169	1,169
Liabilities directly associated with assets classified as held for sale	10	15,906	-
		313,408	327,589
Total liabilities		579,945	593,641
Total equity and liabilities		778,285	780,542

The condensed set of financial statements were approved by the board of directors and authorised for issued on 28 June 2018. They were signed on its behalf by:

Manssour Aboukhamseen
Executive Chairman

KUWAIT ENERGY PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three month period ended 31 March 2018

	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
Balance at 1 January 2017	560,852	205,929	(105,567)	(426,582)	234,632	4,437	239,069
(Loss)/profit for the year	-	-	-	(52,829)	(52,829)	8	(52,821)
Other comprehensive income for the year	-	-	254	-	254	-	254
Total comprehensive (loss)/income for the year	-	-	254	(52,829)	(52,575)	8	(52,567)
Cancellation of treasury shares	(41,936)	(24,232)	66,168	-	-	-	-
Issue of shares for acquisition of non-controlling interest	121	69	16	-	206	(206)	-
Issue of shares under employee incentive scheme	167	109	(276)	-	-	-	-
Share based payment charges	-	-	399	-	399	-	399
Balance at 31 December 2017	519,204	181,875	(39,006)	(479,411)	182,662	4,239	186,901
Profit for the period	-	-	-	11,399	11,399	-	11,399
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	11,399	11,399	-	11,399
Issue of shares for acquisition of non-controlling interest	38	18	4	-	60	(60)	-
Issue of shares under employee incentive scheme	289	149	(438)	-	-	-	-
Share based payment charges	-	-	40	-	40	-	40
Balance at 31 March 2018	519,531	182,042	(39,400)	(468,012)	194,161	4,179	198,340

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the three month period ended 31 March 2018

	Note	Three month period ended 31 March		Year ended 31 December
		2018	2017	2017
		Unaudited	Unaudited	Audited
		US$ 000's	US$ 000's	US$ 000's
OPERATING ACTIVITIES				
Profit/(loss) for the period		11,399	11,636	(52,821)
Adjustments for:				
Share in results of joint venture		(580)	(450)	(2,305)
Depreciation, depletion and amortisation		12,468	14,282	56,780
Exploration expenditure written off		-	-	20,074
Net impairment of oil and gas assets		-	-	69,053
Tax charge		2,734	2,328	7,140
Foreign exchange loss/(gain)		55	(244)	(648)
Change in fair value of convertible loans		5,870	3,324	28,748
Finance costs		2,946	3,364	13,572
Interest income		(67)	(91)	(628)
Provision for retirement benefit obligation		319	182	3,102
Operating cash flow before movement in working capital		35,144	34,331	142,067
Decrease/(increase) in trade and other receivables		17,552	(13,086)	(47,588)
Increase/(decrease) in trade and other payables		3,940	2,154	(13,394)
Settlement of crude oil prepayments		(37,469)	-	(2,531)
(Increase)/decrease in inventories		(360)	90	483
Tax paid		-	-	(2,729)
Net cash generated by operating activities		18,807	23,489	76,308
INVESTING ACTIVITIES				
Purchase of intangible exploration and evaluation assets		(685)	(34)	(2,714)
Purchase of oil & gas assets		(12,422)	(44,082)	(81,364)
Purchase of other fixed assets		(68)	(34)	(199)
Proceeds from farm-out of working interests		-	3,500	50,625
Dividend received from joint venture		-	-	3,255
Interest received		67	91	628
Net cash used in investing activities		(13,108)	(40,559)	(29,769)
FINANCING ACTIVITIES				
Repayment of obligations under finance leases		(298)	(298)	(1,192)
Finance costs paid		(14,855)	(13,975)	(38,382)
Net cash used in financing activities		(15,153)	(14,273)	(39,574)
Effect of foreign currency translation		(55)	232	318
Net (decrease)/increase in cash and cash equivalents		(9,509)	(31,111)	7,283
Cash and cash equivalents at beginning of the period		65,594	58,311	58,311
Cash balance classified as assets held for sale		(1,460)	-	-
Cash and cash equivalents at end of the period	9	54,625	27,200	65,594

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 2017, 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 2017 in this report does not constitute statutory accounts. This information has been derived from the statutory accounts for the year ended 31 December 2017, a copy of which is available on the Company's website and in process of filing 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 three months 2018 financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union (EU).

The accounting policies used in the preparation of this 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 2017, except for the adoption of IFRS 9 - Financial Instruments ("IFRS 9") and IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") from 1 January 2018. The key changes to the Group's accounting policy resulting from its adoption of IFRS 9 and IFRS 15 are summarised as below:

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 effective from 1 January 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets, as well as new rules for hedge accounting. It replaces the old standard of IAS 39 in its entirety.

The classification and measurement of financial assets, except equity instruments and derivatives, are now based on a combination of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. The classification and measurement of financial liabilities is materially consistent with that required by IAS 39 with the exception of the treatment of modification or exchange of financial liabilities which do not result in de-recognition. No material impact as a result of IFRS 9's classification and measurement requirements has been identified.

The new impairment model requires the recognition of 'expected credit losses', in contrast to the requirement to recognise 'incurred credit losses' under IAS 39. The Group has undertaken an assessment of the classification and measurement requirements, as well as the new impairment model, and no significant impact on the financial statements has been identified.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 effective from 1 January 2018. IFRS 15 supersedes IAS 11 - Construction Contracts, IAS 18 – Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in scope of other standards. The new standard established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The adoption of IFRS 15 is resulting in no material change in the revenue recognition policy of the Group and no adjustment in its financial results of the Group. However, the Group may include increased qualitative disclosures regarding the terms of the Group's sales arrangements, including the basis for determining pricing, significant payment terms, and elements of variable consideration, if required.

2. ACCOUNTING POLICIES (CONTINUED)

Going concern

As at 31 March 2018, the Group was funded principally by a combination of its cash balances, equity, borrowings, convertible loans and cash generated from operating activities. The Group has significant levels of planned capital expenditure during the next 12 months including field development expenditures in Iraq, although much of this is discretionary. The Group entered into a farm-out agreement with Dragon Oil (a wholly owned subsidiary of Emirates National Oil Company Limited, the national company of Dubai), a partner in the Iraq Block 9 field, to assign a 8.57% participating interest in the Iraq Block 9 field for a cash consideration of US$100 million (see note 10). Further, the Group has received an irrevocable notice of conversion from Qatar First Bank holding 50% of the convertible loan principal, to convert the principal and part of the premium amounts outstanding into ordinary shares of the Company. This Block 9 farm-out, which is subject to the Iraqi government, and conversion of convertible loan into ordinary shares of the Company will materially improve the Group's liquidity position.

Management has performed detailed cash flow scenario analysis including a number of downside scenario sensitivities and available mitigation factors. Management's analysis concluded that in the event of one or more of these reasonable worst case scenarios occurring there are available mitigating actions within the control of the Directors that would allow the Company to meet its commitments and liabilities as they fall due within the going concern assessment period. Although it falls outside the going concern assessment period, management have also considered the maturity of the US$250 million senior secures notes in 2019 and made an assessment of the refinancing options available.

Therefore, after making enquiries 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 this condensed set of financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing this condensed set of financial statements.

3. SEGMENTAL INFORMATION

Information reported to the Group's Executive Management, the chief operating decision maker, for the purposes of resource allocation and assignment of segment performance is specifically focused on the geographical area, namely Egypt, Iraq 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 liabilities of a corporate nature comprising the Company's external debt and other non-attributable corporate liabilities. The unallocated capital expenditure for each period 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.

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

	Egypt	Iraq	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
31 March 2018				
Segment revenues	34,939	16,788	-	51,727
Segment results	20,269	8,626	(324)	28,571
Unallocated corporate expenses				(6,345)
Operating profit				22,226
Share of results of joint venture				580
Change in fair value of convertible loans				(5,870)
Finance costs				(2,946)
Other income				198
Foreign exchange loss				(55)
Profit before tax				14,133
Taxation charge				(2,734)
Profit for the period				11,399
Segment assets	227,887	501,279	49,119	778,285
Property, plant and equipment	124,720	367,612	721	493,053
Segment liabilities	27,972	106,073	445,900	579,945
Other segment information:				
Capital expenditure:				
Intangible exploration and evaluation assets	685	-	-	685
Property, plant and equipment	4,418	31,110	-	35,528
Depreciation, Depletion and Amortisation	8,436	3,978	54	12,468

3. SEGMENTAL INFORMATION (CONTINUED)

	Egypt	Iraq	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
31 March 2017				
Segment revenues	27,235	19,098	-	46,333
Segment results	13,548	10,396	(961)	22,983
Unallocated corporate expenses				(3,174)
Operating profit				19,809
Share of results of joint venture				450
Change in fair value of convertible loans				(3,324)
Finance costs				(3,364)
Other income				149
Foreign exchange gain				244
Profit before tax				13,964
Taxation charge				(2,328)
Profit for the period				11,636
Segment assets	223,599	528,577	105,176	857,352
Intangible exploration and evaluation assets	5,987	-	21,739	27,726
Property, plant and equipment	110,422	372,292	46,552	529,266
Segment liabilities	34,407	106,159	465,598	606,164
Other segment information:				
Capital expenditure:				
Intangible exploration and evaluation assets	-	-	34	34
Property, plant and equipment	480	33,485	214	34,179
Depreciation, Depletion and Amortisation	8,081	6,116	85	14,282

3. SEGMENTAL INFORMATION (CONTINUED)

	Egypt	Iraq	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
31 December 2017				
Segment revenues	111,174	92,217	-	203,391
Segment results	69,693	16,216	(73,927)	11,982
Loss on assets classified as held for sale				(2,604)
Unallocated corporate expenses				(16,918)
Operating loss				(7,540)
Share of results of joint venture				2,305
Fair value loss on convertible loans				(28,748)
Finance costs				(13,572)
Other income				1,226
Foreign exchange gain				648
Loss before tax				(45,681)
Taxation charge				(7,140)
Loss for the year				(52,821)
Segment assets	236,007	499,479	45,056	780,542
Intangible exploration and evaluation assets	1,006	-	-	1,006
Property, plant and equipment	127,049	381,238	774	509,061
Segment liabilities	25,200	85,587	482,854	593,641
Other segment information:				
Capital expenditure:				
Intangible exploration and evaluation assets	2,811	-	(3,249)	(438)
Property, plant and equipment	16,743	97,162	5,446	119,351
Exploration expenditure written off	1,619	-	18,455	20,074
Net impairment of oil and gas assets	(15,632)	33,884	50,801	69,053
Depreciation, Depletion and Amortisation	29,524	26,965	291	56,780

4. TAXATION

Tax charge for the three month period is US$2.7 million (31 March 2017: US$ 2.3 million, 31 December 2017: US$ 7.1 million). Corporation tax in the Company's country of domicile is calculated at 0% on assessable profits for all the periods, 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 jurisdiction and comprises the reminder of the charge.

5. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit for the period after taxation attributable to owners of the Company of US$ 11.4 million (31 March 2017: US$ 11.6 million, 31 December 2017: loss of US$ 52.8 million) and a weighted average number of shares, net of treasury shares, of 327.1 million (31 March 2017: 326.6 million, 31 December 2017: 326.9 million).

There was no difference between basic and diluted earnings/(loss) per share for all the periods presented. The only potential dilutive instruments were the outstanding Employee Incentive Scheme (EIS) share awards, which have no material dilution impact on earnings/(loss) 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 future events.

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

	E&E assets
Cost	US$ 000's
As at 1 January 2017	27,692
Additions	(438)
Transfer to Property, plant and equipment	(6,174)
Exploration expenditure written off	(20,074)
As at 31 December 2017	1,006
Additions	685
Transfer to Property, plant and equipment	(1,691)
As at 31 March 2018	-

As at 31 March 2018, exploration costs of US$ nil (31 December 2017: US$ 1.0 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.

During the period ended 31 March 2018, US$ 1.7 million (31 December 2017: US$ 6.2 million) exploration costs associated with proven commercial reserves in Egypt were transferred to property, plant and equipment.

In 2017, unsuccessful exploration expenditure written off amounted to US$ 20.1 million. This includes write-off of unsuccessful exploration expenditure of US$ 1.6 million related to Abu Sennan in Egypt and US$ 18.5 million relating to Block 49 in Yemen.

7. 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 2017	1,034,760	23,078	1,057,838
Additions	119,152	199	119,351
Disposal	-	(47)	(47)
Transfer from Intangible exploration and evaluation assets	6,174	-	6,174
As at 31 December 2017	1,160,086	23,230	1,183,316
Additions	35,460	68	35,528
Transfer from Intangible exploration and evaluation assets	1,691	-	1,691
Transfer to assets held for sale (note 10)	(52,126)	(11)	(52,137)
As at 31 March 2018	1,145,111	23,287	1,168,398
Accumulated Depreciation, depletion, amortisation and impairment			
As at 1 January 2017	537,181	11,288	548,469
Charge for the year	55,020	1,760	56,780
Impairment reversal	(15,632)	-	(15,632)
Impairment	84,685	-	84,685
Disposal	-	(47)	(47)
As at 31 December 2017	661,254	13,001	674,255
Charge for the period	12,044	424	12,468
Transfer to assets held for sale (note 10)	(11,378)	-	(11,378)
As at 31 March 2018	661,920	13,425	675,345
Carrying amount			
As at 31 March 2018	483,191	9,862	493,053
As at 31 December 2017	498,832	10,229	509,061

Other fixed assets include a carrying amount of US$ 5.9 million (31 December 2017: US$ 6.1 million) in respect of assets held under finance leases.

The additions to oil and gas assets mainly relate to Siba and Block 9 in Iraq, and include US$ 4.3 million (31 December 2017: US$ 17.1 million) of finance costs on qualifying assets capitalised during the period and US$ 0.7 million (31 December 2017: US$ 3.5 million) of fair value loss on convertible loans capitalised.

In accordance with IAS 36 *Impairment of Assets* the Company has made an assessment for indicators of impairment and has not identified any significant indicators. Based on this review, the Group believes no impairment is required at 31 March 2018. In 2017, the Group recognised an impairment loss of US$84.7 million, including US$33.9 million on the Mansuriya field in Iraq and US$50.8 million on the Block 5 field in Yemen, in the consolidated income statement, due to re-classification of 2P reserve of these assets to contingent resources. Further, in 2017, primarily due to increase in commercial reserve used in estimating the future cash flows of certain impaired assets, the Group recognised an impairment reversal of US$15.6 million on BEA fields in Egypt, in the consolidated income statement.

8. TRADE AND OTHER RECEIVABLES

	31 March 2018 Unaudited	31 December 2017 Audited
	US$ 000's	US$ 000's
Trade receivables	106,052	124,946
Other receivables	24,779	27,786
Advance due from joint venture partners	9,091	6,458
Prepayments, deposits and advances	4,309	3,326
Amount due from a related party (see note 14)	3,308	3,308
	147,539	165,824

Trade receivables includes US$ 26.3 million (31 December 2017: US$ 55.6 million) arising in Iraq, to be settled by having physical delivery of crude oil that will be sold under the crude oil prepayment agreement.

The Group's trade receivables includes US$ 37.0 million (31 December 2017: US$ 39.9 million) arising in Egypt which is past due at the reporting date and 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. Subsequent to 31 March 2018, the Group has collected US$44 million which recovered substantially all the past due balance outstanding at 31 March 2018.

Ageing of past due but not impaired

	31 March 2018 Unaudited	31 December 2017 Audited
	US$ 000's	US$ 000's
61 – 90 days	17,229	16,459
91 – 120 days	7,719	7,945
121 – 180 days	8,693	12,329
> 180 days	3,341	3,120
Total	36,982	39,853

9. CASH AND CASH EQUIVALENTS

	31 March 2018 Unaudited	31 December 2017 Audited
	US$ 000's	US$ 000's
Cash and cash equivalents	54,625	65,594
	54,625	65,594

10. ASSETS HELD FOR SALE

In February 2018, the Group signed a farm-out agreement with Dragon Oil (a wholly owned subsidiary of Emirates National Oil Company Limited, the national company of Dubai), a partner in the Iraq Block 9 field, to assign a 15% participating interest in the Iraq Block 9 exploration, development and production service contract, with an effective date of 1 January 2018. Under the terms of the agreement, 6.43% participating interest in Block 9 will be assigned to Dragon Oil in settlement of a dispute with Dragon Oil in relation to non-controlling interest in the Block 9 plus a balancing payment, and 8.57% participating interest in Block 9 will be assigned to Dragon Oil for a cash consideration of US$100 million. Following completion of this transaction, which is subject to the written approval of the assignment by the Iraqi government, the Group will have 45% participating interest in Block 9 and will continue as an operator.

The proceeds of disposal are expected substantially to exceed the book value of the net assets and accordingly no impairment losses have been recognised on the classification of assets and liabilities as held for sale.

In 2017, the Group has completed farm-out transaction relating to its 20% paying and 15% revenue interest in the Iraq Siba area gas development and production service contract and a 25% interest in the Egypt Abu Sennan area petroleum sharing contract. A loss of US$2.6 million on assets held for sale was recognised in the 2017 consolidated income statement, relating to the period between the effective date and completion.

The major classes of assets and liabilities comprising the assets classified as held for sale (31 December 2017: US$ nil):

	31 March 2018 Unaudited
	US$ 000's
Property, plant and equipment	40,759
Inventories	93
Trade and other receivables	733
Cash and cash equivalents	1,460
Total assets classified as held for sale	43,045
Trade and other payables	15,906
Total liabilities directly associated with assets classified as held for sale	15,906
Net assets of disposal groups	27,139

11. TRADE AND OTHER PAYABLES

	31 March 2018 Unaudited	31 December 2017 Audited
	US$ 000's	US$ 000's
Trade Payables and accruals	112,049	108,303
Joint venture partners payables	5,602	2,963
Accrued interest payable	4,322	10,477
Salaries and bonus payables	2,275	2,315
	124,248	124,058

12. CONVERTIBLE LOANS

	31 March 2018 Unaudited	31 December 2017 Audited
	US$ 000's	US$ 000's
As at 1 January	158,204	136,273
Change in fair value	6,586	32,255
Payment	(2,100)	(10,324)
As end of the period	162,690	158,204

The change in fair value since the prior period arises as a result of changes in the forecasted cash flows, and forecasted likelihood and timing of an equity offering. Of this amount US$ 0.7 million (31 December 2017: US$ 3.5 million) has been capitalised to qualifying assets in the period, see note 7, resulting in a net charge to the income statement of US$ 5.9 million (31 December 2017: US$ 28.8 million).

In March 2018, the Group has received an irrevocable notice of conversion from Qatar First Bank holding 50% of the convertible loan principal, to convert the principal and part of the premium amount outstanding into ordinary shares of the Company under terms of the convertible Murabaha.

KEC SPV 1 (an entity managed and controlled by Abraaj Investment Management Limited) holds other 50% of the convertible loans principal and its amended first repayment date is due by end of June 2018. The loan is repayable in three instalments within six months starting from first repayment date. The lender have option to request conversion of loan into ordinary shares of the Company prior to the first repayment date in certain circumstances as set out in the loan agreement.

The convertible loans are classified as Level 3 in the fair value hierarchy in all the periods 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 weighted average 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% (31 December 2017: 10-18%). Possible changes to the likelihood and timing assumptions in the fair value measurement could have a maximum impact of reducing the liability by US$30.4 million.

13. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	31 March 2018 Unaudited	31 December 2017 Audited
	US$ 000's	US$ 000's
a) Capital commitments	28,972	26,015
b) Agreement to purchase shares	5,396	5,362

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

During the ordinary course of business in the jurisdictions in which the Group operates the Company receives various claims and penalty challenges. All such issues are considered on a case by case basis including their legal and contractual merits, with external advice taken where necessary. Any claims or penalties are disclosed if it is estimated to have more than a remote chance of being incurred.

14. SUBSEQUENT EVENT

Pursuant to shareholders approval in the AGM of the Company held on 13 May 2018, the Company has buy back 4,032,260 shares and cancelled it. Following this cancellation, the Company has 323.2 million shares in issue.