2018 Half Year Financial Results

Kuwait Energy plc Group

For the six month period ended 30 June 2018

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge the condensed consolidated financial statements for the six month period ended 30 June 2018 has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

For and on behalf of the board

Manssour Aboukhamseen
Chairman

30 September 2018

INDEPENDENT REVIEW REPORT TO KUWAIT ENERGY PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended June 30, 2018 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement letter dated 16 August 2018 and in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended June 30, 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

INDEPENDENT REVIEW REPORT TO KUWAIT ENERGY PLC (CONTINUED)

Emphasis of Matter –Going Concern

We draw attention to Note 2 of the condensed consolidated interim financial statements. The Group's ability to continue as a going concern is mainly dependent on its ability to refinance the US$ 250 million of Senior Notes, which fall due for repayment on 3 August 2019.

This condition, along with other matters set out in Note 2 indicates the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. These condensed consolidated interim financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Deloite SA

Mark Valentin
Partner

Robert Purdy
Director

30 September 2018

KUWAIT ENERGY PLC

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six month period ended 30 June 2018

	Notes	Six month period ended 30 June		Year ended 31 December
		2018 Unaudited	2017 Unaudited	2017 Audited
		US$ 000's	US$ 000's	US$ 000's
Continuing Operations				
Revenue		108,129	95,398	203,391
Cost of sales		(42,643)	(49,201)	(97,159)
Gross profit		65,486	46,197	106,232
Exploration expenditure written off	6	-	(1,531)	(20,074)
Net impairment of oil and gas assets	7	-	-	(69,053)
Loss on assets classified as held for sale	9	-	(1,873)	(2,604)
Other operating expenses		(1,438)	-	-
General and administrative expenses		(15,112)	(13,420)	(22,041)
Operating profit/(loss)		48,936	29,373	(7,540)
Share of results of joint venture		1,951	1,390	2,305
Change in fair value of convertible loans		(1,058)	(15,160)	(28,748)
Finance costs		(11,000)	(6,789)	(13,572)
Other income		289	537	1,226
Foreign exchange (loss)/gain		(175)	254	648
Profit/(loss) before tax		38,943	9,605	(45,681)
Taxation charge	4	(6,472)	(3,938)	(7,140)
Profit/(loss) for the period		32,471	5,667	(52,821)
Attributable to:				
Owners of the Company		32,471	5,663	(52,829)
Non-controlling interests		-	4	8
		32,471	5,667	(52,821)
Earnings/(loss) per share attributable to owners of the Company				
- Basic (cents)	5	9.9	1.7	(16.2)
- Diluted (cents)	5	9.9	1.7	(16.2)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six month period ended 30 June 2018

	Six month period ended 30 June		Year ended 31 December
	2018 Unaudited	2017 Unaudited	2017 Audited
	US$ 000's	US$ 000's	US$ 000's
Profit/(loss) for the period	32,471	5,667	(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	32,471	6,076	(52,567)
Attributable to:			
Owners of the Company	32,471	6,072	(52,575)
Non-controlling interests	-	4	8
	32,471	6,076	(52,567)

Kuwait Energy

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2018

	Notes	30 June 2018 Unaudited US$ 000's	31 December 2017 Audited US$ 000's
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	6	242	1,006
Property, plant and equipment	7	507,843	509,061
Investment in joint venture		3,625	3,474
Other non-current assets		24,909	27,869
		536,619	541,410
Current assets			
Inventories		7,205	7,714
Trade and other receivables	8	147,170	165,824
Cash and cash equivalents		43,626	65,594
Assets classified as held for sale	9	45,528	-
		243,529	239,132
Total assets		780,148	780,542
EQUITY AND LIABILITIES			
Equity			
Share capital		514,171	519,204
Share premium		179,172	181,875
Other reserves		(39,343)	(39,006)
Retained deficit		(446,940)	(479,411)
Equity attributable to owners of the Company		207,060	182,662
Non-controlling interest		4,135	4,239
Total equity		211,195	186,901
Non-current liabilities			
Borrowings		247,474	246,557
Obligations under finance leases		1,386	1,914
Provisions and other non-current liabilities		18,088	16,923
Deferred tax liabilities		716	658
		267,664	266,052
Current liabilities			
Trade and other payables	10	119,426	124,058
Current tax payable		6,655	6,689
Crude oil prepayments	13	-	37,469
Convertible loans	11	154,253	158,204
Obligations under finance leases		1,169	1,169
Derivative financial instrument	12	5,648	-
Liabilities directly associated with assets classified as held for sale	9	14,138	-
		301,289	327,589
Total liabilities		568,953	593,641
Total equity and liabilities		780,148	780,542

The condensed set of financial statements were approved by the board of directors and authorised for issue on 30 September 2018. They were signed on its behalf by:

Manssour Aboukhamseen
Chairman

Abby Badwi
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 30 June 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	-	-	-	32,471	32,471	-	32,471
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	32,471	32,471	-	32,471
Purchase of treasury shares[1]	-	-	(8,256)	-	(8,256)	-	(8,256)
Cancellation of treasury shares[2]	(5,387)	(2,883)	8,270	-	-	-	-
Issue of shares for acquisition of non-controlling interest	65	31	8	-	104	(104)	-
Issue of shares under employee incentive scheme	289	149	(438)	-	-	-	-
Share based payment charges	-	-	79	-	79	-	79
Balance at 30 June 2018	514,171	179,172	(39,343)	(446,940)	207,060	4,135	211,195

[1] The Group has purchased treasury shares for an amount of US$8.3 million by paying US$5.0 million in cash and settling an amount of US$3.3 million due from a related party (see note 8).

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six month period ended 30 June 2018

	Note	Six month period ended 30 June		Year ended 31 December
		2018 Unaudited	2017 Unaudited	2017 Audited
		US$ 000's	US$ 000's	US$ 000's
OPERATING ACTIVITIES				
Profit/(loss) for the period		32,471	5,667	(52,821)
Adjustments for:				
Share in results of joint venture		(1,951)	(1,390)	(2,305)
Depreciation, depletion and amortisation		24,555	30,395	56,780
Exploration expenditure written off		-	1,531	20,074
Net impairment of oil and gas assets		-	-	69,053
Tax charge		6,472	3,938	7,140
Foreign exchange loss/(gain)		175	(254)	(648)
Change in fair value of convertible loans		1,058	15,160	28,748
Finance costs		11,000	6,789	13,572
Interest income		(28)	(299)	(628)
Provision for retirement benefit obligation		3,928	470	3,102
Operating cash flow before movement in working capital		77,680	62,007	142,067
Decrease/(increase) in trade and other receivables		4,772	(24,918)	(47,588)
Decrease in trade and other payables		(1,709)	(1,791)	(13,394)
Settlement of crude oil prepayments	13	(37,469)	7,488	(2,531)
(Increase)/decrease in inventories		(601)	260	483
Tax paid		(6,447)	(2,729)	(2,729)
Net cash generated by operating activities		36,226	40,317	76,308
INVESTING ACTIVITIES				
Purchase of intangible exploration and evaluation assets		(1,084)	(2,181)	(2,714)
Purchase of oil & gas assets		(33,896)	(51,703)	(81,364)
Purchase of other fixed assets		(92)	(22)	(199)
Proceeds from farm-out of working interests		-	40,625	50,625
Dividend received from joint venture		1,800	1,255	3,255
Interest received		28	299	628
Net cash used in investing activities		(33,244)	(11,727)	(29,769)
FINANCING ACTIVITIES				
Purchase of treasury shares		(4,983)	-	-
Repayment of obligations under finance leases		(596)	(596)	(1,192)
Finance costs paid		(18,311)	(19,334)	(38,382)
Net cash used in financing activities		(23,890)	(19,930)	(39,574)
Effect of foreign currency translation		(154)	218	318
Net (decrease)/increase in cash and cash equivalents		(21,062)	8,878	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		(906)	-	-
Cash and cash equivalents at end of the period		43,626	67,189	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 consolidated 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 is 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 as of and for the six months ended 30 June 2018 ("the half-year 2018") 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 these condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statement for the year ended 31 December 2017, other than the adoption of IFRS 9 - Financial Instruments ("IFRS 9") and IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") from 1 January 2018. The adoption of these standards are summarised below:

IFRS 9 Financial Instruments
IFRS 9 replaced the old standard of IAS 39 - Financial Instruments: Recognition and Measurement in its entirety. 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. The Group has adopted the IFRS 9 retrospectively with no restatement of comparative information in accordance with the standard. The Group has undertaken an assessment of the classification and measurement requirements and has not identified any significant impact on the Group's financial statements.

The IFRS 9 impairment model requires the recognition of 'expected credit losses', in contrast to the requirement to recognise 'incurred credit losses' under IAS 39. Given the short-term nature of majority of its financials assets including trade receivables which are due from counterparties without material credit risk concerns, at the time of transition the implementation of this standard has not had any significant impact on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers
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 Group has elected to apply the 'modified retrospective' transition approach when adopting IFRS 15 with no restatement of comparatives as permitted by the standard.

2. ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

IFRS 15 Revenue from Contracts with Customers (continued)
Under IFRS 15 the Group recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the oil and gas underlying the particular performance obligation is transferred to the customer. The transfer of control of oil and gas sold or delivered under service contract by the Group typically coincides with the title passing to the customer and the customer taking physical possession. The Group satisfies its performance obligation at a point of time. The accounting policy for revenue under IFRS 15 does not, therefore, represent a significant change from the Group's previous accounting policy for recognising revenue from contracts with customers and therefore there was no cumulative adjustment to opening retained earnings for the period.

Disclosure of disaggregated revenue information under IFRS 15 has not had an impact on the information as the Group's revenue in the condensed consolidated income statement solely relate to revenue from contracts with customers.

At 30 June 2018, the Group has recognised an embedded derivative (note 12) for which adopted accounting policy is as below:

Embedded derivatives
Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss (FVTPL).

Embedded derivatives are initially recognised at fair value at the date of its recognition and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in condensed consolidated income statement immediately. An embedded derivative with a positive fair value is recognised as a financial asset while a derivative with a negative fair value is recognised as a financial liability.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded relates is more than 12 months and is not expected to be realised or settled within 12 months. Other embedded derivative are presented as current assets or current liabilities.

Going concern
These condensed 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 expenses, for both quantum and timing of the related receipts and payments, and made assumptions on reserve status, the likelihood and timing for accessing reserves and continued availability of financing.

The above 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.

The most significant assumption and judgement within these condensed consolidated financial statements relates to the US$ 250 million of Senior Notes, which fall due for repayment on 3 August 2019. As this event falls within the next 12 months it is considered to represent a material uncertainty and is discussed in more detail below.

The Group has been funded principally by a combination of its cash balances, cash generated from operating activities, crude oil prepayment facility, convertible loans, borrowings, and equity.

During the period under review, Qatar First Bank (QFB), one of the two holders of the Company's US$ 100 million of convertible loan notes, irrevocably elected to convert its entire principal holding amount of US$ 50.0 million into shares on the terms set out under the convertible loan notes, rather than be paid out in cash at term.

2. ACCOUNTING POLICIES (CONTINUED)

Going concern (continued)

Since the period end, the events having a bearing on going concern, are set out below in chronological order being the:

- first repayment of a US$ 17.0 million principal amount to the Abraaj Group (Abraaj) of its $50 million principal holding of the Company's convertible loans on 1 July 2018;
- amendment and renewal of the US$ 100.0 million crude oil prepayment facility with Vitol SA, on 23 August 2018 and the subsequent US$ 50.0 million drawdown under this facility on 30 August 2018;
- announcement on 5 September 2018 of the start of the commercial export of gas and condensates from the Siba field to the Oil Marketing Company of Iraq;
- the signing of a EGP 200 million (approximately US$ 11.0 million) working capital facility for the Egypt operations secured over the Egyptian General Petroleum Corporation (EGPC) receivables on 20 September 2018;
- announcement on 24 September 2018 of an all cash offer by United Energy Group (UEG) to buy the entire issued share capital of the Group Holding Company as well as assuming all its debts;
- second repayment of US$16.5 million principal to Abraaj under the convertible loans in September 2018.

On 19 September 2018, the Group received written notice from Dragon Oil that, pursuant to its rights under the Block 9 farm-out agreement dated 11 February 2018, it was invoking its option to terminate the farm-out agreement as the Backstop Date of 11 May 2018, which had expired and the transaction had not completed. The impact of this termination is that the farm-out and arbitration agreements entered into between the Group and Dragon Oil (see note 7) will both automatically terminate. Since 19 September 2018 Management has received positive statements from both Dragon Oil and the authorities in Iraq and management remains confident that, subject to the requisite regulatory approvals, 15% of Block 9 will be transferred to Dragon Oil and US$ 100 million, plus net funded expenditure, paid to the Group.

For the 12 months from the date of approving this half year review, the Group has significant levels of planned operating and capital expenditure, predominantly in Iraq at the Block 9 and Siba fields. In addition, the third and final payment of convertible loan principal, US$ 16.5 million, will fall due to Abraaj in November 2018.

Also within the next 12 months, the US$ 250.0 million of Senior Notes issued on 4 August 2014 (Senior Notes) will fall due for repayment, 3 August 2019. Along with its advisers, management has therefore been analysing the best options for both the mechanism and timing of the refinancing of the Senior Notes.

This analysis has included a detailed review of both the Group's operational cash flows, under a range of scenarios, and the realizable value and liquidity of the various assets within its portfolio.

Further, the Company announced that it had appointed an adviser, Tudor, Pickering, Holt & Co to manage and advise on a process to solicit interest in the Company and its assets, pursuant to which the Company has received credible, qualified and current offers for the various assets within its portfolio, as well as the offer from UEG to acquire the whole of the Company for cash, discussed below.

Management notes that, subject to completion of the all cash offer for the Company, announced 24 September 2018, UEG has undertaken to assume all the Notes, both those currently in issue or those reissued following a refinancing. There are no restrictions under this offer around the refinancing of the Notes.

Management's conclusion is therefore that in the event of one or more reasonable worst-case scenarios occurring, including a further delay to receipt of the Dragon Oil farm-in proceeds, termination of the Dragon Oil farm-out agreement, that the sale to UEG does not complete or that the Notes cannot be refinanced, there are available mitigating actions, such as the sale of assets discussed above, which are 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.

Therefore, after performing the analyses described above and considering the mitigating actions available, 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 and therefore the Group's reportable segment under IFRS 8 are Egypt, Iraq and others.

Unallocated expenditure and liabilities in other operations include amounts of a corporate nature that are not specifically attributable to a geographic area. The liabilities comprise the Group'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 table presents the Group's revenue, results and certain asset and liability information by reportable segments:

	Egypt	Iraq	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
30 June 2018				
Segment revenues	74,364	33,765	-	108,129
Segment operating profit/(loss)	41,086	18,043	(792)	58,337
Unallocated corporate expenses				(9,401)
Operating profit				48,936
Share of results of joint venture				1,951
Change in fair value of convertible loans				(1,058)
Finance costs				(11,000)
Other income				289
Foreign exchange loss				(175)
Profit before tax				38,943
Taxation charge				(6,472)
Profit for the period				32,471
Total assets	209,773	525,460	44,915	780,148
Intangible exploration and evaluation assets	242	-	-	242
Property, plant and equipment	120,750	386,706	387	507,843
Total liabilities	30,392	92,476	446,085	568,953
Other segment information:				
Capital expenditure:				
Intangible exploration and evaluation assets	1,084	-	-	1,084
Property, plant and equipment	8,838	53,410	-	62,248
Depreciation, Depletion and Amortisation	16,985	7,181	389	24,555

3. SEGMENTAL INFORMATION (CONTINUED)

	Egypt	Iraq	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
30 June 2017				
Segment revenues	54,775	40,623	-	95,398
Segment operating profit/(loss)	24,602	20,176	(1,993)	42,785
Loss on assets classified as held for sale				(1,873)
Unallocated corporate expenses				(11,539)
Operating profit				29,373
Share of results of joint venture				1,390
Change in fair value of convertible loans				(15,160)
Finance costs				(6,789)
Other income				537
Foreign exchange gain				254
Profit before tax				9,605
Taxation charge				(3,938)
Profit for the period				5,667
Total assets	229,795	502,889	135,479	868,163
Intangible exploration and evaluation assets	4,389	-	22,145	26,534
Property, plant and equipment	104,926	385,334	46,675	536,935
Total liabilities	40,520	91,334	491,018	622,872
Other segment information:				
Capital expenditure:				
Intangible exploration and evaluation assets	1,717	-	441	2,158
Property, plant and equipment	1,703	54,059	414	56,176
Exploration expenditure written off	1,531	-	-	1,531
Depreciation, Depletion and Amortisation	16,585	13,649	161	30,395

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 operating profit/(loss)	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)
Total 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
Total 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 six month period is US$6.5 million (30 June 2017: US$ 3.9 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$ 32.5 million (30 June 2017: US$ 5.7 million, 31 December 2017: loss of US$ 52.8 million) and a weighted average number of shares, net of treasury shares, of 326.6 million (30 June 2017: 326.8 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	1,084
Transfer to Property, plant and equipment	(1,848)
As at 30 June 2018	242

As at 30 June 2018, exploration costs of US$ 0.2 million (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 six month ended 30 June 2018, US$ 1.8 million (31 December 2017: US$ 6.2 million) of exploration costs associated with proven commercial reserves in Egypt were transferred to property, plant and equipment.

During the year ended 31 December 2017, unsuccessful exploration expenditure written off amounted to US$ 20.1 million. This included unsuccessful exploration expenditure of US$ 1.6 million for Abu Sennan in Egypt and US$ 18.5 million for 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	62,156	92	62,248
Transfer from Intangible exploration and evaluation assets	1,848	-	1,848
Transfer to assets held for sale (note 9)	(52,126)	(11)	(52,137)
As at 30 June 2018	1,171,964	23,311	1,195,275
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	23,428	1,127	24,555
Transfer to assets held for sale (note 9)	(11,378)	-	(11,378)
As at 30 June 2018	673,304	14,128	687,432
Carrying amount			
As at 30 June 2018	498,660	9,183	507,843
As at 31 December 2017	498,832	10,229	509,061

Other fixed assets include a carrying amount of US$ 5.8 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$ 8.6 million (31 December 2017: US$ 17.1 million) of finance costs on qualifying assets capitalised during the period and US$ 0.1 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 30 June 2018. In 2017, the Group recognised an impairment loss of US$84.7 million in the consolidated income statement, including US$33.9 million on the Mansuriya field in Iraq and US$50.8 million on the Block 5 field in Yemen, due to re-classification of 2P reserves of these assets to contingent resources. Further, in 2017, primarily due to increase in the commercial reserve used in estimating the future cash flows of certain impaired assets, the Group recognised an impairment reversal in the consolidated income statement of US$15.6 million on BEA fields in Egypt. The net impairment in the year ended 31 December 2017 was US$69.1million.

A request for arbitration was filed by Dragon Oil (a wholly owned subsidiary of Emirates National Oil Company Limited, the national oil company of Dubai), a partner in the Iraq Block 9 field, against the Group (pursuant to the ICC Rules of Arbitration) under which Dragon Oil asserts that it has a right to an increased non-controlling share in the Iraq Block 9 field. In February 2018, the Group entered into an agreement to settle this dispute with Dragon Oil. Pursuant to settlement agreement, the Group signed a farm-out agreement with Dragon Oil to assign them a 15% participating interest in the Iraq Block 9 exploration, development and production service contract ("EDPSC"), with an effective date of 1 January 2018. Under the terms of the agreement, a 6.43% participating interest in Block 9 will be assigned to Dragon Oil in settlement of a dispute with Dragon Oil in relation to a non-controlling interest in 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. This 15% interest of Block 9 has been classified as a disposal group held for sale (see note 9 and 14e).

8. TRADE AND OTHER RECEIVABLES

	30 June 2018	31 December 2017
	US$ 000's	US$ 000's
Trade receivables	117,182	124,946
Other receivables	17,732	27,786
Advance due from joint venture partners	9,626	6,458
Prepayments, deposits and advances	2,630	3,326
Amount due from a related party	-	3,308
	147,170	165,824

During the six month ended 30 June 2018, the Group has settled US$3.3 million amount due from Mohamad Al Howqal, former SVP – HSSE of the Group against purchase consideration of treasury shares (see note 33b of 2017 annual accounts).

Trade receivables includes US$ 43.3 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 to a third party under the long-term sales agreement.

The Group's trade receivables includes US$ 25.6 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 expected credit loss provision as the debtor is without material credit risk concern, has no past default experience and the amounts are still considered fully recoverable. In making the judgement about recoverability, factors considered include strong track record of ultimate settlement and the debtor being a government company. Subsequent to 30 June 2018, the Group has collected US$19.4 million out of the past due balance outstanding at 30 June 2018.

Ageing of past due but not impaired

	30 June 2018	31 December 2017
	US$ 000's	US$ 000's
61 – 90 days	17,754	16,459
91 – 120 days	2,342	7,945
121 – 180 days	2,290	12,329
> 180 days	3,165	3,120
Total	25,551	39,853

9. ASSETS HELD FOR SALE

In February 2018, the Group signed a farm-out agreement with Dragon Oil to assign them a 15% participating interest in the Iraq Block 9 EDPSC, with an effective date of 1 January 2018. The Group signed this farm-out agreement per the arbitration settlement agreement entered with Dragon Oil (see note 7). Following completion of this transaction the Group will hold a 45% participating interest in Block 9 and continue as the operator. Under the terms of the Block 9 EDPSC, the transaction is subject to the approval of the Iraqi government, which could either (i) consent to the transfer of the participating interest to Dragon Oil; or (ii) pre-empt the sale.

On 19 September 2018, the Group received written notice from Dragon Oil that, pursuant to its rights under the Block 9 farm-out agreement dated 11 February 2018, it was invoking its option to terminate the farm-out agreement as the Backstop Date of 11 May 2018, which had expired and that the transaction had not completed (see note 14e). Since 19 September 2018 Management has received positive statements from both Dragon Oil and the authorities in Iraq and remains confident that, subject to the requisite regulatory approvals, 15% of Block 9 will be transferred to Dragon Oil. Management has exercised judgement in determining that this disposal meets the requirement of IFRS 5 and that the associated assets and liabilities of the 15% interest in Block 9 should be classified as a disposal group held for sale at the period end. The critical judgement in determining that the assets continue to be held for sale is that management remain committed to the sale and that the sale is highly probable.

Disposal group held for sale is presented separately in the consolidated balance sheet as part of the current assets and liabilities. The disposal group does not meet the criteria for classification as a discontinued operation and consequently remains part of the “Iraq” segment in note 3. The proceeds of disposal are expected substantially to exceed the book value of the net assets and accordingly no impairment loss has been recognised on the reclassification of assets and liabilities as held for sale.

During the year ended 31 December 2017, the Group has completed farm-outs of a 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 (30 June 2017: US$1.9 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 are shown below (31 December 2017: US$ nil):

	30 June 2018
	US$ 000’s
Property, plant and equipment	44,299
Inventories	101
Trade and other receivables	222
Cash and cash equivalents	906
Total assets classified as held for sale	45,528
Trade and other payables	14,138
Total liabilities directly associated with assets classified as held for sale	14,138
Net assets of disposal groups	31,390

10. TRADE AND OTHER PAYABLES

	30 June 2018	31 December 2017
	US$ 000's	US$ 000's
Trade Payables and accruals	103,585	108,303
Joint venture partners payables	3,703	2,963
Accrued interest payable	9,896	10,477
Salaries and bonus payables	2,242	2,315
	119,426	124,058

11. CONVERTIBLE LOANS

	30 June 2018	31 December 2017
	US$ 000's	US$ 000's
As at 1 January	158,204	136,273
Change in fair value	1,203	32,255
Payment	(5,154)	(10,324)
As end of the period	154,253	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$ 0.1 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$ 1.1 million (31 December 2017: US$ 28.8 million).

In March 2018, the Group has received an irrevocable notice of conversion from Qatar First Bank to convert its US$50 million loan 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 the other US$50 million convertible loans principal. The lender's option to request conversion of loan into ordinary shares of the Company prior to the first repayment date, as set out in the loan agreement, expired at the end of June 2018. Following this, as per the cash repayment schedule, the Group has repaid the first instalment of US$17 million principal plus accrued interest in early July 2018 and the remainder of the US$33 million outstanding loan principal plus accrued interest is due to be repaid in the second half of 2018.

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 increasing the liability by US$6.9 million or reducing the liability by US$20.8 million.

12. DERIVATIVE FINANCIAL INSTRUMENT

At 30 June 2018, a separate embedded derivative has been recognised related to the pre-payment option available to the Group for its US$250 million of the senior notes measured at amortised cost. The pre-payment option has a negative fair value at 30 June 2018 amounting to US$5.6 million (31 December 2017: US$ nil) and is recognised as a current financial liability.

13. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	30 June 2018	31 December 2017
	US$ 000's	US$ 000's
a) Capital commitments	24,901	26,015
b) Agreement to purchase shares	-	5,362

Capital commitments include 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 material claims or penalties are disclosed if they are estimated by the directors to have more than a remote chance of being incurred.

14. SUBSEQUENT EVENTS

a) On 23 September 2018, the Company and United Energy Group ("UEG") entered into a transaction agreement, pursuant to which UEG has conditionally agreed to acquire the entire issued share capital of the Company for a base consideration of US$ 490.7 million, which is anticipated to equate to approximately US$1.5 per share, and an additional amount of up to US$ 160.1 million for any shares which are issued in accordance with the terms of the convertible loans. The consideration is subject to adjustment in certain circumstances. By no later than 31 December 2018, UEG is required to demonstrate the availability of financing of the full consideration.

This transaction is to be implemented by the way of a scheme of arrangement under Jersey law and subject to approval from the requisite majority shareholders of the Company at a general meeting and subsequent sanction by the court. The transaction agreement is also subject to approval from the requisite majority shareholders of UEG per the listing rules of the Stock Exchange of Hong Kong Limited. Subject to completion, UEG will assume the US$ 250 million Senior Guaranteed Notes. Failure by a party to fulfil certain conditions may give the other party rights to terminate the transaction agreement and claim break fees from the other.

b) Amounts outstanding under the Group's secured crude oil prepayment facility were fully settled during the six months ended 30 June 2018 and no further drawdown was made under this facility. On 23 August 2018, the Group signed an amendment to this agreement to convert it from a secured crude oil prepayment facility into a new long-term secured revolving credit facility of US$ 100 million. The first drawdown of US$ 50 million under the new facility was received on 30 August 2018, and subject to certain conditions, has further headroom of US$ 50 million available. The proceeds from this facility will be used for general working capital and corporate purposes, including any debt repayment.

c) On 20 September 2018, the Group signed an agreement for an overdraft credit facility of EGP 200 million, equivalent to US$11 million. The proceeds from this facility will be used for the Egyptian operation's working capital.

d) DNO Yemen SA ("DNO"), as operator of Block 43 Yemen, submitted a Request for Arbitration (pursuant to the ICC Rules of Arbitration) under the Block 43 production sharing agreement on 17 July 2017 and on 6 February 2018 the Tribunal was constituted. On 5 July 2018 DNO filed its Statement of Claim. The DNO claims are against the Ministry of Oil Yemen and seek a declaration that DNO properly exercised its right to relinquish its interest in Block 43 together with damages. As against the Company, DNO simply seeks a declaration that the Company is bound by the terms of the JOA during the period during which it held an interest in the Block 43 production sharing agreement. On 6 September 2018 the First Respondent (the Ministry of Oil Yemen) filed its Defense and Counterclaim and the Second Respondent (the Company) filed its Defense. In the event of a negative outcome of the arbitration proceedings, the Group could have a material adverse effect on its financial position. However the arbitration is at a very early stage and the Group is yet to establish the merits of the DNO claim, the Yemen defense and counterclaim.

14. SUBSEQUENT EVENTS (CONTINUED)

e) On 19 September 2018, the Group received written notice from Dragon Oil that, pursuant to its rights under the Block 9 farm-out agreement dated 11 February 2018, it was invoking its option to terminate the farm-out agreement as the Backstop Date of 11 May 2018, which had expired and that the transaction had not completed. The impact of this termination is that the farm-out and arbitration agreements entered into between the Group and Dragon Oil (see note 7) will both automatically terminate.

Since 19 September 2018 Management has received positive statements from both Dragon Oil and the authorities in Iraq and management remains confident that, subject to the requisite regulatory approvals, 15% of Block 9 will be transferred to Dragon Oil and US$ 100 million, plus net funded expenditure, paid to the Group.

Should the above not occur then the expected impact is that the Group will not receive the U$ 100 million and Dragon Oil will resume the arbitration proceedings. The Group denies Dragon's claim and is committed to vigorously defending the claims and believes its position will be vindicated by the Tribunal following a full review of the facts and evidence. Assets and liabilities comprising the assets classified as held for sale at 30 June 2018 (see note 9) shall be re-classified back to the respective line item of the consolidated balance sheet and the carrying amount of 'property, plant and equipment' shall be reduced by US$0.6 million to adjust for depletion that would have been recognised had the asset not been classified as held for sale.