

# OPERATIONAL ACTIVITY REPORT –

YTD Activities for  
June 2017



Part of the Gas Processing Facility at Siba, Iraq  
taken in April 2017

## Who We Are

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

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

## Key Highlights

- Kuwait Energy in the reporting period of YTD June 2017 has experienced one **recordable Lost Time Incident** ("LTI") in its operated areas, this was the LTI at Block 9 (Iraq) reported in the last Operational Activity Report ("OAR"). The LTI at Block 9 has been the **lone incident in over 4.7million man-hours worked YTD** in Kuwait Energy's operated areas.
- **Average daily WI production** for the period was **27,405 boepd**. **The total WI production volume for the period stands at nearly 5 mboe, in line with expectations for the period.**
- At **Block 9 (Iraq)**, Kuwait Energy on the 21 April 2017 spud its 4<sup>th</sup> well - Faihaa-4. At the end of the reporting period drilling at Faihaa-4 was near 60% of the target depth.
- In **Basra (Iraq)** the Company on 18 May 2017 completed the official **signing of the farm-out of 20% WI of the Siba (Iraq) concession** to Kuwait Energy's key regional partner – Egyptian General Petroleum Company ("EGPC").
- Kuwait Energy received a **second Iraqi cargo payment** on 9 May 2017 of **350 kbbl (Kuwait Energy's share) of Basra Light Crude Oil**. This payment covered Block 9 (Iraq) production for the period 2H 2016 and the value of the cargo was approximately US\$17 million.
- Linked to the successful second Iraqi cargo payment Kuwait Energy on 15 May 2017 received a **second drawdown from the Vitol Forward Sales Agreement of US\$20 million**. The funds will **primarily aid in the development of the Block 9 (Iraq) concession**.

## Financial Reporting

Under the US\$250m Senior Notes reporting requirements, Kuwait Energy is required to provide quarterly unaudited management accounts within 90 days of the end of the first three quarters of the financial year and audited financial statements within 120 days of the end of each financial year, all of which are available on the Kuwait Energy website ([www.kuwaitenergy.co](http://www.kuwaitenergy.co)). The most recent financial report was issued in mid-June for unaudited Q1 2017 financials and the **next financial report will be for the 1H 2017 accounts, scheduled to be issued by the end of September 2017.**

# OPERATIONAL ACTIVITY

## Health, Safety, Sustainability and Environment

Kuwait Energy classifies its recordable incidents as Fatalities, Lost Time Incidents (“LTI”), Restricted Work Incidents and Medical Treatment Incidents.

Kuwait Energy in the reporting period has only experienced the single **LTI incident** at the Block 9 concession in Iraq, which was described in the last Operational Activity Report. The LTI at Block 9, Iraq, has been **the lone incident in 4.7 million man-hours worked YTD** in Kuwait Energy’s operated areas.

The table below provides the number of days without LTI at the end of the reporting period, compared to figures at the end of 2016 for the countries in which Kuwait Energy operates:

Country	Days without LTI (at the end of June 2017)	Days without LTI (at the of end of 2016)
Iraq	105	816
Egypt	501	320
Yemen	1,123	576

## Production

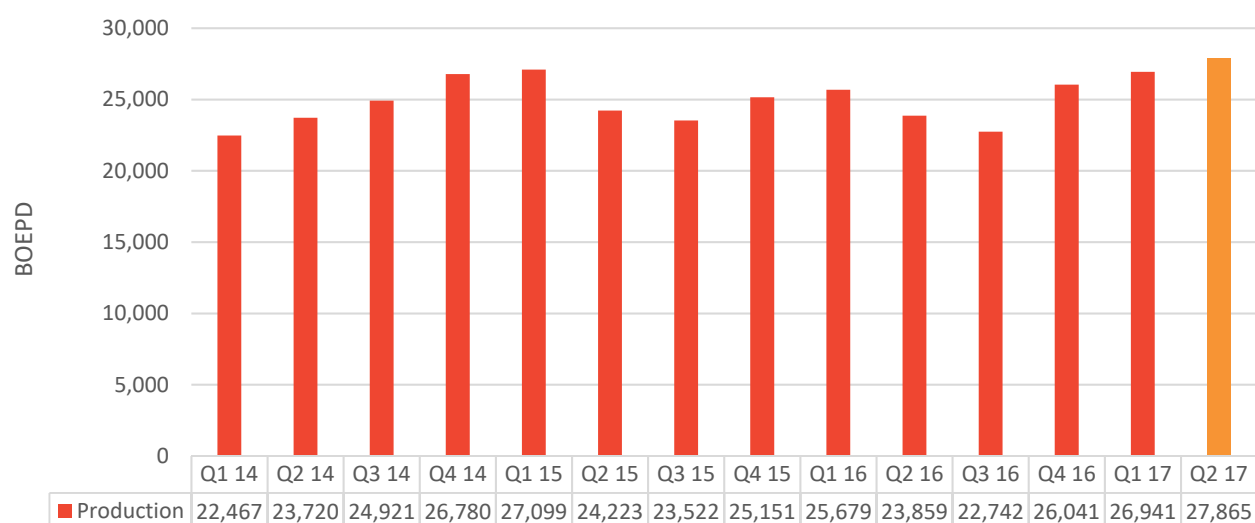
For the YTD June 2017 reporting period, Kuwait Energy achieved an **average daily WI production of 27,405 boepd**, an **increase of 11.5%** on the **2016 average daily WI production (24,573 boepd)**. **Total WI production for the reporting period was 4.96 mmboe**, an **increase of over 9%** on the corresponding period last year (4.54 mmboe).

A large part of the Company’s production growth is attributable to the expansion of Iraq activities at Block 9. **Exit WI production** for the reporting period (30 June 2017) at Block 9 was **10,853 boepd**. These levels will increase throughout the year as we continue to drill more wells on the concession, with the **completion of the next well, Faihaa-4, anticipated to be finalised in Q3 2017**.

In Egypt, **production targets for the reporting period were exceeded**, with **Egyptian average daily WI production for the reporting period of 16,173 boepd**. The exceeded Egyptian target is primarily due to our efficient work over and well management program.

Our Yemen production remains suspended due to the on-going civil conflict; however, the Company is positioned to restart activities when the situation in the area permits.

The chart below shows **quarter-by-quarter daily WI average production** of the Company from Q1 2014 to Q2 2017:



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

YTD Average Comparison			
	YTD Actual	Corresponding YTD Period - 2016	% Change
Abu Sennan	1,667	1,936	-13.9
BEA	1,143	1,733	-34.0
Area A	4,720	5,029	-6.1
ERQ	8,643	10,357	-16.5
<b>Egypt Total</b>	<b>16,173</b>	<b>19,054</b>	<b>-15.1</b>
<b>Iraq Total (Block 9)</b>	<b>8,822</b>	<b>3,321</b>	<b>165.6</b>
<b>Oman Total (Karim Small Fields)</b>	<b>2,410</b>	<b>2,460</b>	<b>-2.0</b>
<b>Yemen Total*</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Production Total</b>	<b>27,405</b>	<b>24,836</b>	<b>10.3</b>

Quarter on Quarter Comparison		
Q2 2017	Q1 2017	% Difference
1,702	1,633	4.2
1,234	1,051	17.4
4,624	4,816	-4.0
8,451	8,838	-4.4
<b>16,010</b>	<b>16,338</b>	<b>-2.0</b>
<b>9,601</b>	<b>8,033</b>	<b>19.5</b>
<b>2,254</b>	<b>2,569</b>	<b>-12.2</b>
<b>0</b>	<b>0</b>	<b>-</b>
<b>27,865</b>	<b>26,941</b>	<b>3.4</b>

\* Yemen production has been suspended since April 2015

## Development & Exploration

The main development and exploration activity in the period has been **the commencement of drilling of the Faihaa-4 well on Block 9, Iraq, which was spud** on 21 April 2017. 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 March 2017
<b>2016 Carry-over Wells</b>					
Iraq	Block 9	Faihaa-3	1	60%	Production commenced on 12 February 2017 at an initial stabilized rate of 7,200 bbls (Gross) on a 44/64" choke size.
Oman	Karim Small Fields	WRDM-K29	1	15%	Producing
<b>YTD June 2017</b>					
Iraq	Block 9	Faihaa-4	1	60%	Spud 21 April 2017
Egypt	Abu Sennan	Al Jahraa SE-2X	1	53%	Exploration well spud 25 April 2017
Egypt	Abu Sennan	Al Jahraa-9	1	53%	Development well spud 10 June 2017
Oman	Karim Small Fields	KM-P14/KM-P16, SMPH-11, GZ-P10, HJ SW-P2/P3, WRDM-K33, SL-P2/P3	9	15%	SL-P3 on drilling
<b>Total for 2017</b>			<b>12</b>		

# RESERVES AND RESOURCES

As of 31<sup>st</sup> December 2016, Kuwait Energy's WI Proven and Probable ("2P") reserves are **810 mmboe**; a decrease from the previous year by 1%. The WI contingent resources ("2C") is **1,040 mmboe** and the best estimate of risked prospective resources ("P50") is **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)						
		YE15	2016 Production	Exploration Adds	Revisions	Acquisitions & Divestments	Year-End 2016	YE16 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	

	YE16	YE15
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% of Siba, Iraq was divested to EGPC effective 1<sup>st</sup> January 2016.
- 25% of Abu Sennan, Egypt was divested to GlobalConnect effective 31<sup>st</sup> December 2016, the agreement remains subject to completion.

## 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	Iraq	41.7	51.9	19.3
<b>Iraq Total</b>	<b>Iraq</b>	<b>315.4</b>	<b>776.6</b>	<b>1,005.6</b>
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
<b>Egypt Total</b>	<b>Egypt</b>	<b>8.2</b>	<b>27.2</b>	<b>18.0</b>
Block 5	Yemen	4.6	6.2	4.4
Block 49	Yemen	-	-	11.7
<b>Yemen Total</b>	<b>Yemen</b>	<b>4.6</b>	<b>6.2</b>	<b>16.1</b>
Karim Small Fields	Oman	-	-	-
<b>Oman Total</b>	<b>Oman</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>		<b>328.2</b>	<b>810.0</b>	<b>1,039.7</b>

### Notes:

- Audited figures by GCA as of 31<sup>st</sup> 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.

# OUTLOOK

## Operations

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

In Block 9 (Iraq), the **Faihaa-4 well**, which was **spud on 21 April 2017**, has seen drilling activities advance significantly; it is anticipated that **production from the well will commence before the end of Q3 2017**. The Company has commenced the planning for **Faihaa-5 and spudding is expected in Q4 2017**. A direct result of the increased well count at Block 9 is that the Company will have the option to either decrease the periods between crude payments, or alternatively take up the **option of larger crude cargo shipments from the Iraqi State Oil Marketing Company (“SOMO”)**.

Key to the development of the Block 9 asset has been the **Vitol Forward Sales Agreement, signed in December 2016**. **The latest drawdown** from the facility in mid-May 2017 will aid the Company in financing the Faihaa-5 drilling, 3D seismic studies of the Block and future planned drilling activities at the concession.

**The Siba (Iraq) Gas Plant’s Engineering, Procurement and Construction (EPC) works** are ongoing and nearing completion. The Company **anticipates that first gas will now be Q1 2018**, where the facility will initially be processing 50 mmscfd per day, before ramping up to a plateau of 100 mmscfd.

In Egypt, Kuwait Energy will continue its **well management and work over program** to optimize production from its mature assets. The Abu Sennan **Farm-Out to Global Connect**, announced in the last Operation Activity Report (“OAR”), should **receive government and pre-emption approval by the end of Q3 2017**.

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 recertification of their ISO 14001 and OHSAS 18001 certification** in July 2017.



# GLOSSARY

Abbreviation	Definition
1P	Proven reserves
2C	Contingent resources mid-case recoverable volume
2P	Proven plus probable reserves
3P	Proven, probable and possible reserves
Barrel	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
BEA	Burg El Arab
Boe	Barrels of oil equivalent
Boepd	Barrels of oil equivalent per day
Bcpd	Barrels of (oil or gas) condensate 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)
H1	First half
H2	Second half
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
OAR	Operational Activity Report
OEC	Oil Exploration Company (Iraq's Ministry of Oil seismic company)
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
OAR	Quarterly Activity Report
RRR	Reserves Replacement Ratio
Scf	Standard cubic feet
SOC	South Oil Company (Iraq's State Oil Company responsible for operations in the South of Iraq)
SOMO	State Oil Marketing Company (The Iraqi national company responsible for marketing Iraq's oil)
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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