CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT

KUWAIT ENERGY PLC GROUP

FOR THE YEAR ENDED 31 DECEMBER 2017

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The consolidated financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991. Under company law the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these consolidated financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- Make an assessment of the Group's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the board

Dr Manssour Aboukhamseen
Executive Chairman

11 April 2018

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the group's affairs as at 31 December 2017 and of the group's loss for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been properly prepared in accordance the Companies (Jersey) Law 1991.**

We have audited the consolidated financial statements of Kuwait Energy plc (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *the carrying value of Property, Plant and Equipment ("PP&E"); and* • *adoption of the going concern basis of accounting.*
Materiality	The materiality that we used for the group financial statements was U$$6.3 million (2016: US$6.8 million) which represents approximately 2.4% of net assets prior to net impairment of oil and gas assets and approximately 2.9% of revenue.
Scoping	The Group comprises three operational reporting units, Egypt, Iraq and Yemen, alongside the corporate head office and the Oman JV. All of the components were included in our assessment of the risks of material misstatement. Full scope audits were performed on all of the operational business units and the corporate head office and specified audit procedures were performed on the Oman JV. The materialities applied to components ranged from US$3.1 million to US$4.4 million.
Significant changes in our approach	There have been no significant changes in our approach to the audit in 2017.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of oil and gas property, plant and equipment

Key audit matter description	The group's principal activity is the development, commercialisation and production of crude oil and natural gas and as at 31 December 2017, the group held US$ 499 million of oil and gas production and development assets within property, plant and equipment ("PP&E"). In 2017 Kuwait Energy recognised a net impairment charge of US$ 69.1 million against the value of its oil and gas PP&E assets, of which US$50.8 million relates to Block 5 in Yemen, US$ 33.9 million relates to Mansuriya in Iraq and an impairment reversal of US$15.6 million relating to the BEA fields in Egypt. Please refer to note 13 for further details. As described in notes 3 and 4 of the Consolidated Financial Statements, the assessment of the carrying value of PP&E assets requires management to compare it against the recoverable amount of the asset. The calculation of the recoverable amount requires judgement in estimating future oil and gas prices, the applicable asset discount rate and the cost and production profiles of reserves estimates. Given the judgemental nature of the determination of the recoverable amounts of the oil and gas PP&E, we also considered there to be a fraud risk that the assumptions applied to the valuation are inappropriate.
How the scope of our audit responded to the key audit matter	We examined management's assessment of impairment indicators, which concluded that continued volatility in the oil price and in some of the locations in which the Group operates represented an indicator of impairment for the Group's oil and gas assets. Our work to assess management's key assumptions included, but was not limited to, the following procedures: • benchmarking and analysis of oil price assumptions against forward curves and other market data; • agreement of hydrocarbon production profiles and proven and probable reserves to third-party reserve reports; • verification of estimated future costs by agreement to approved budgets and assessment of their appropriateness with reference to field production profiles; • recalculation and benchmarking of discount rates applied, with involvement from Deloitte industry valuation specialists; and • consideration of evidence that could indicate management bias in the assumptions selected and the application of professional scepticism to address the risk of fraud.

Key observations	The assumptions made by management when determining the PP&E assets' recoverable amount fall within a reasonable range, although we note that the discount rates applied are towards the lower end of this range. Overall, we are satisfied that the recoverability of the assets has been assessed in accordance with the requirements of IAS 36 Impairment of Assets.

Adoption of the going concern basis of accounting

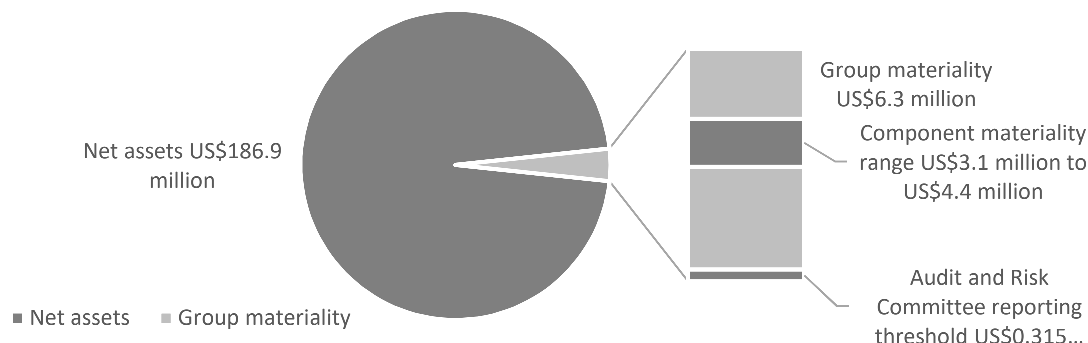
Key audit matter description	The group is dependent upon its ability to generate sufficient cash-flows to meet convertible loan repayments and to fund its capex programme for its development and production assets. Delays in achieving commercial production from the Siba field in Iraq, a long cash collection period in Egypt and commodity price volatility in the oil and gas sector continues to place pressure on these cash-flows. The adoption of the going concern basis of accounting is also dependent upon group specific considerations, such as the performance of the Group's operating assets, the achievement of commercial production from the Siba field, the receipt of cash from the farm-down of Block 9 in Iraq and the available debt facilities. After performing a detailed forecast of liquidity and covenant compliance for a period of 12 months from the date of approval of the 2017 Consolidated Financial Statements, management have concluded that the going concern basis of accounting remains appropriate and that there are no material uncertainties. Please refer to note 3 for further details.
How the scope of our audit responded to the key audit matter	Management's going concern forecasts include a number of assumptions related to future cash-flows and associated risks. Our audit work has focused on evaluating and challenging the reasonableness of these assumptions and their impact on the forecast period. Specifically, we obtained, challenged and assessed management's going concern forecasts, and performed procedures, including: • Verifying the consistency of key inputs relating to future costs and production to other financial and operational information obtained during our audit; • Challenging management as to the reasonableness of pricing assumptions applied, based on benchmarking to market data; • Performing sensitivity analysis on management's "base case", including applying downside scenarios such as lower oil prices, repayment rather than conversion of one of the convertible loans, delays in the start-up of Siba and receipt of the Block 9 farm down proceeds, and considering the mitigating actions highlighted by management in the event that they are required; and • Review of the going concern disclosure in the Consolidated Financial Statements.
Key observations	We are satisfied that the going concern assumption remains appropriate given the headroom available in management's base case, together with the mitigating actions available to management should a liquidity shortfall arise in reasonable downside scenarios as discussed in note 3. We concur with management's judgement that there are no material uncertainties that may cast significant doubt over the group's ability to continue as a going concern.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	US$6.3 million (2016: US$6.8 million)
Basis for determining materiality	2.4% of net assets prior to the impairment of PP&E assets.
Rationale for the benchmark applied	We have determined materiality based on the net asset position of the Group, reflecting the long-term value of the Group in its portfolio of development assets, particularly those in Iraq which have not yet reached commercial production, and their associated reserves and resources. We have determined that using a balance sheet metric, rather than a profit-based metric, will provide a more stable base for materiality, whilst also reflecting the value of the Group.



We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of US$ 0.315 million (2016: US$ 0.342 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The Group comprises three operational reporting units, Egypt, Iraq and Yemen, alongside the corporate head office and the Oman JV. All of the components were included in our assessment of the risks of material misstatement. Full scope audits were performed on those operations and business units audited by the Group team and by the component teams in Egypt and Yemen. Specified audit procedures were performed on the Oman JV. The materialities applied to components ranged from US$3.1 million to US$4.4 million.

The Group team directly performed the audit work on certain locations including Iraq, Kuwait and the consolidation process. The Group team planned and oversaw the work performed by component auditors; this included the audit partner and audit director visiting Egypt to direct and review the audit work performed there.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

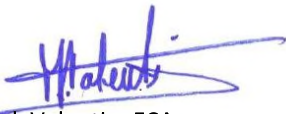
This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

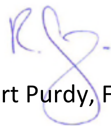
Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

For and on behalf of Deloitte SA





Mark Valentin, FCA   Robert Purdy, FCA

Statutory Auditor

Geneva, Switzerland

11 April 2018

KUWAIT ENERGY PLC

Kuwait Energy

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2017

	Notes	Year ended 2017 US$ 000's	Year ended 2016 US$ 000's
Continuing Operations			
Revenue	6	203,391	138,895
Cost of sales	7	(97,159)	(106,556)
Gross profit		106,232	32,339
Exploration expenditure written off	12	(20,074)	-
Net impairment of oil and gas assets	13	(69,053)	(94,337)
Loss on assets classified as held for sale	19	(2,604)	-
General and administrative expenses	8	(22,041)	(18,970)
Operating loss		(7,540)	(80,968)
Share of results of joint venture	14	2,305	1,451
Change in fair value of convertible loans	23	(28,748)	(24,774)
Other income		1,226	1,335
Foreign exchange gain/(loss)		648	(2,340)
Finance costs	9	(13,572)	(9,365)
Loss before tax		(45,681)	(114,661)
Taxation charge	10	(7,140)	(1,456)
Loss for the year		(52,821)	(116,117)
Attributable to:			
Owners of the Company		(52,829)	(116,145)
Non-controlling interests		8	28
		(52,821)	(116,117)
Loss per share attributable to owners of the Company			
- Basic (cents)	11	(16.2)	(35.6)
- Diluted (cents)	11	(16.2)	(35.6)

KUWAIT ENERGY PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	Year ended 2017 US$ 000's	Year ended 2016 US$ 000's
Loss for the year		(52,821)	(116,117)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of retirement benefit obligation	25	254	(30)
Other comprehensive income/(loss) for the year		254	(30)
Total comprehensive loss for the year		(52,567)	(116,147)
Attributable to:			
Owners of the Company		(52,575)	(116,175)
Non-controlling interests		8	28
		(52,567)	(116,147)

No taxation charge arose on any item of other comprehensive income and there was no other comprehensive income from the investment in joint venture in either the current or prior years.

KUWAIT ENERGY PLC

CONSOLIDATED BALANCE SHEET
As at 31 December 2017

	Notes	2017 US$ 000's	2016 US$ 000's
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	12	1,006	27,692
Property, plant and equipment	13	509,061	509,369
Investment in joint venture	14	3,474	4,424
Other non-current assets	15	27,869	4,991
		541,410	546,476
Current assets			
Inventories	16	7,714	23,709
Trade and other receivables	17	165,824	94,983
Cash and cash equivalents	18	65,594	58,311
Assets classified as held for sale	19	-	126,144
		239,132	303,147
Total assets		780,542	849,623
EQUITY AND LIABILITIES			
Equity			
Share capital	20	519,204	560,852
Share premium		181,875	205,929
Other reserves	21	(39,006)	(105,567)
Retained deficit		(479,411)	(426,582)
Equity attributable to owners of the Company		182,662	234,632
Non-controlling interest		4,239	4,437
Total equity		186,901	239,069
Non-current liabilities			
Borrowings	22	246,557	244,860
Convertible loans	23	-	117,198
Obligations under finance leases	24	1,914	2,937
Provisions and other non-current liabilities	25	16,923	15,549
Deferred tax liabilities	10	658	463
		266,052	381,007
Current liabilities			
Trade and other payables	26	124,058	144,368
Current tax payable		6,689	2,473
Crude oil prepayments	27	37,469	40,000
Convertible loans	23	158,204	19,075
Obligations under finance leases	24	1,169	1,169
Liabilities directly associated with assets classified as held for sale	19	-	22,462
		327,589	229,547
Total liabilities		593,641	610,554
Total equity and liabilities		780,542	849,623

The consolidated financial statements were approved by the board of directors and authorised for issue on 11 April 2018. They were signed on its behalf by:

Dr Manssour Aboukhamseen
Executive Chairman

KUWAIT ENERGY PLC

Kuwait Energy

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital (note 20)	Share premium	Other reserves (note 21)	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 2016	559,835	205,491	(105,613)	(310,437)	349,276	5,645	354,921
(Loss)/profit for the year	-	-	-	(116,145)	(116,145)	28	(116,117)
Other comprehensive loss for the year	-	-	(30)	-	(30)	-	(30)
Total comprehensive (loss)/income for the year	-	-	(30)	(116,145)	(116,175)	28	(116,147)
Issue of shares for acquisition of non-controlling interest (note 20)	797	347	92	-	1,236	(1,236)	-
Issue of shares under employee incentive scheme (note 20)	220	91	(311)	-	-	-	-
Share-based payment charges	-	-	295	-	295	-	295
Balance at 31 December 2016	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 (note 21)	(41,936)	(24,232)	66,168	-	-	-	-
Issue of shares for acquisition of non-controlling interest (note 20)	121	69	16	-	206	(206)	-
Issue of shares under employee incentive scheme (note 20)	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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	Year ended 2017 US$ 000's	Year ended 2016 US$ 000's
OPERATING ACTIVITIES			
Loss for the year		(52,821)	(116,117)
Adjustments for:			
Share in results of joint venture		(2,305)	(1,451)
Depreciation, depletion and amortisation		56,780	62,394
Exploration expenditure written off		20,074	-
Net impairment of oil and gas assets		69,053	94,337
Tax charge		7,140	1,456
Foreign exchange (gain)/loss		(648)	2,340
Change in fair value of convertible loans		28,748	24,774
Finance costs		13,572	9,365
Interest income		(628)	(548)
Provision for retirement benefit obligation		3,102	627
Operating cash flow before movement in working capital		142,067	77,177
Increase in trade and other receivables		(47,588)	(47,171)
(Decrease)/increase in trade and other payables		(13,394)	2,722
(Decrease)/increase in crude oil prepayments		(2,531)	40,000
Decrease/(increase) in inventories		483	(749)
Tax paid		(2,729)	(532)
Net cash generated by operating activities		76,308	71,447
INVESTING ACTIVITIES			
Purchase of intangible exploration and evaluation assets		(2,714)	(2,503)
Purchase of oil & gas assets		(81,364)	(83,489)
Purchase of other fixed assets		(199)	(142)
Proceeds from farm-out of working interests	13	50,625	3,560
Investment in joint venture		-	(945)
Dividend received from joint venture		3,255	3,500
Interest received		628	655
Net cash used in investing activities		(29,769)	(79,364)
FINANCING ACTIVITIES			
Repayment of obligations under finance leases		(1,192)	(1,766)
Finance costs paid		(38,382)	(34,636)
Net cash used in financing activities		(39,574)	(36,402)
Effect of foreign currency translation on cash balances		318	(2,282)
Net increase/(decrease) in cash and cash equivalents		7,283	(46,601)
Cash and cash equivalents at beginning of the year		58,311	105,297
Cash balances classified as held for sales		-	(385)
Cash and cash equivalents at end of the year	18	65,594	58,311

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 has no single ultimate controlling shareholder or any individual shareholder holding more than 20% of the shares of the Company.

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.

2. ADOPTION OF NEW AND REVISED STANDARDS

In current year, the Group has adopted the following new and revised standards and interpretation. The adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

IAS 7 (amendments)	Disclosure initiative: The amendments require an entity to provide disclosure that enable users of financial statement to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. A reconciliation between the opening and closing balances of such liabilities is provided in note 30. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 30, the application of these amendments has had no impact on the Group's consolidated financial statements.
IAS 12 (amendments)	Recognition of Deferred tax Assets for Unrealised Losses
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to: IFRS 12

Standards not yet adopted

At the date of authorisation of these consolidated financial statements, the Group has not applied the following Standards and Interpretations that have been issued but not yet effective and in some cases had not yet been adopted by the EU:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers (and the related clarification)
IFRS 16	Leases
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IAS 40 (amendments)	Transfers of Investment Property
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to: IFRS 1 and IAS 28
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 22	Foreign Currency Transactions and Advanced Consideration
IFRIC 23	Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future years, except as noted below:

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

IFRS 9 Financial Instrument
The Group will adopt IFRS 9 Financial Instruments for periods beginning on or after 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 is now based on 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 does not expect a significant impact on the financial statements.

The new standard will also expand the Group's disclosure requirements on financial instruments. Extended disclosures in the initial period of adoption will also be required.

IFRS 15 Revenue from Contracts with Customers
The Group will adopt IFRS 15 Revenue from Contracts with Customers for periods beginning on or after 1 January 2018. IFRS 15 address the principles of revenue recognition arising from contracts with customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for adoption. The Group does not expect adoption of the standard to have material impact on the financial results of the Group. However, the Group will 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 any).

IFRS 16 Leases
The Group will adopt IFRS 16 Lease for periods beginning on or after 1 January 2019. IFRS 16 requires all leases over a low value threshold and with lease terms longer than one year to be recognised in the lessee's balance sheet in the form of right-of-use asset, with a corresponding financial liability. Current contracts classified as 'operating leases' are reported as off-balance sheet items. The cash flow statements will be affected as payments for the principal portion of the lease liability will be presented within financing activities. The Company is in the process of identifying all lease agreements that exist across the Group and yet to complete its full assessment of the expected financial impact of transition to IFRS 16.

Changes in accounting policy

The Group's accounting policies are consistent with the prior year.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis, except for the financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. These consolidated financial statements are presented in US Dollars ("US$"), which is the Company's functional and presentation currency, rounded off to the nearest thousand. The principal accounting policies adopted are set out below.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as detailed in note 32. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going concern

These 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 costs (both quantum and timing of payments), and made assumptions on reserve status, the likelihood and timing for accessing reserves and continued availability of financing. This 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 Group was funded principally by a combination of its cash balances (see note 18), equity (see notes 20, 21 and the consolidated statement of changes in equity), borrowings (see note 22), convertible loans (see note 23) and cash generated from operating activities. At 31 December 2017, the Group had a cash balance of US$ 65.6 million and US$20 million remaining availability, subject to certain conditions, to draw down additional amounts from a secured crude oil prepayment facility.

The Group has significant levels of planned capital expenditure during the next 12 months including field development expenditures in Iraq. 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 15% participating interest in the Iraq Block 9 field for a cash consideration of US$100 million (see note 34). 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 partner approval, 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. These included a reduction in the assumed oil prices to a reasonable worst case, repayment rather than conversion of one of the outstanding convertible loans, delays in the start-up of Siba and delays in the receipt of the Block 9 farm down proceeds. 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 $250 million senior secures notes in 2019 and made an assessment of the refinancing options available.

Therefore, after performing the various cash flow scenario analyses described above and considering the mitigating actions available in reasonable worst case downside scenarios, 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 these consolidated financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognised in the consolidated income statement as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement year adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in earnings. Changes in the fair value of contingent consideration classified as equity are not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)
The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised 2008) are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with "IFRS 5 Non-current Assets Held for Sale and Discontinued Operations", which are measured at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement year (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

The measurement period is the year from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as at the acquisition date and is subject to a maximum of one year.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Interest in joint arrangements

A joint arrangement is one in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Most of the Group's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group reports its interests in joint operations using proportionate consolidation – the Group's share of the assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

A joint venture, which normally involves the establishment of a separate legal entity, is a contractual arrangement whereby the parties that have joint control of the arrangement have the rights to the arrangement's net assets. The results, assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting.

Under the equity method of accounting, an investment in joint venture is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligation or made payments on behalf of the joint venture.

Where the Group transacts with its joint operations, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint operation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of financial assets that are recorded at other than fair value through profit and loss.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit and loss" (FVTPL); "held to maturity investments"; "available for sale (AFS) financial assets" and "loans and receivables". Loans and receivables are disclosed in the consolidated balance sheet in the following categories: "cash and cash equivalents" and "trade and other receivables". The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents
Cash and cash equivalents comprise cash, bank balances and short-term deposits with an original maturity of three months or less.

Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each consolidated balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. For trade and other receivables, objective evidence of impairment could include: (i) significant financial difficulty of the issuer or counterparty; or (ii) default or delinquency in interest or principal payments; or (iii) it becoming probable that the borrower will enter bankruptcy or financial re-organisation. For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter year to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities.'

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on the re-measurement recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Treasury shares
Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. Such treasury shares may be acquired and held by the Company or by other member of the consolidated group. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Treasury shares held by the Company are not entitled to any cash dividend that the Company may propose.

Trade payables
Trade payables are recognised initially at fair value, net of transaction costs incurred. Trade payables are subsequently stated at amortised cost.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred, unless such costs relate to facilities in which case they are capitalised as non-current assets. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the year of the borrowings using the effective interest method.

Convertible loans
The convertible loans currently held by the Group are designated as "fair value through profit or loss". These borrowings are initially and subsequently measured at fair value and any change in the fair value is recognised in the income statement. The fair value recognised in profit or loss incorporates any interest paid on the convertible loans and is included in the 'change in fair value of convertible loans' line item in the consolidated income statement. Fair value is determined in the manner described in Note 23. The transaction costs paid on these borrowings are also recognised in the income statement.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial amount of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other borrowing costs are calculated on the accrual basis and are recognised in the consolidated income statement in the period in which they are incurred.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of International Accounting Standard ("IAS") 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Non-Financial Assets.

In addition, for financial reporting purposes, fair value measurement are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Oil and gas assets

The Group adopts the successful efforts method of accounting for exploration and evaluation expenditure. Pre-licence costs are expensed in the period in which they are incurred. All licence acquisition, exploration and evaluation costs and directly attributable administration costs are initially capitalised as intangible exploration and evaluation assets in cost centres by well, field or exploration area, as appropriate. Borrowing costs are capitalised insofar as they relate to qualifying assets.

These costs are then written off as exploration costs in the income statement unless commercial reserves have been established (see below) or the determination process has not been completed and there are no indications of impairment.

Tangible non-current assets used in acquisition, exploration and evaluation are classified with tangible non-current assets as property, plant and equipment. To the extent that such tangible assets are consumed in exploration and evaluation the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Upon successful conclusion of the appraisal programme and determination that commercial reserves exist, associated costs are transferred to tangible non-current assets as property, plant and equipment. Exploration and evaluation costs carried forward are assessed for impairment as described below.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities is amortised in accordance with the Group's depletion and amortisation accounting policy.

Proceeds from the farm-out of exploration and evaluation assets are credited against the relevant cost centre.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and gas assets (continued)

Depreciation, depletion and amortisation
Depreciation, depletion and amortisation is provided on oil and gas assets in production using the unit of production method, which is the ratio of oil and gas production in the year to the estimated quantities of proven and probable entitlement reserves at the end of the year plus the production in the year, generally on a field-by-field basis, or a grouping of fields where those fields are reliant on a common infrastructure. Costs used in the unit of production calculation comprise the net book value of capitalised costs, together with estimated future development costs required to recover the proven and probable reserves remaining. The effects of changes in estimates in the unit of production calculations are accounted for prospectively.

Impairment of oil and gas assets
Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the higher of fair value less costs to sell or value in use. The value in use is calculated as the estimated future cash flows based on management's expectations of future oil and gas prices and the future costs of developing and producing the proved and probable reserves, discounted using a discount rate adjusted for the risk specific to each asset. The Group concluded that each asset block is a single individual cash generating unit ("CGU"), as each block generates separate cash inflows and the blocks are not related or dependent upon each other. Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single cash-generating unit for impairment purposes.

Any identified impairment is charged to the consolidated income statement. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the consolidated income statement, net of any depletion, depreciation and amortisation that would have been charged since the impairment.

Commercial reserves
Proven and probable oil and gas reserves as defined in the Society of Petroleum Engineers' Petroleum Resources Management System ("PRMS") are considered as commercial reserves.

Proven reserves include reserves that are confirmed with a high degree of certainty through an analysis of the development history and a volume method analysis of the relevant geological and engineering data. Proven reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced.

Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced.

These reserves are being calculated under existing economic and operating conditions, i.e., prices and costs as at the date the estimate is made. Prices include consideration of changes in existing prices provided by contractual arrangements and management's forecast of future prices.

These estimates, made by the Group's engineers and annually evaluated by independent reservoir engineers, are reviewed annually and revised, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in, among other things, reservoir performance, prices, economic conditions and governmental restrictions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use. Depreciation commences when the other fixed assets are ready for their intended use and is calculated based on the estimated useful lives of the applicable assets on a straight-line basis, on the following basis:

Office equipment	5 years
Motor vehicles	5 years
Building	10 years
Fixtures and fittings	10 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised.

The gain or loss arising on the disposal or retirement of other fixed assets is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Inventories

Crude oil inventories are valued at fair value less costs to sell. Any changes arising on the revaluation of inventories are recognised in the consolidated income statement. Other inventories comprising mainly of spare parts, materials and supplies are valued at cost, determined on a weighted average cost basis, less allowance for any obsolete or slow-moving items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

Crude oil prepayments

In the ordinary course of business, the Group enters into long-term oil supply contracts. The contract terms may be such that buyer is required to enter into an agreement to prepay for oil cargos. Such prepayment agreements may be subject to various settlement and financing terms and as such the accounting treatment for each agreement is assessed on a contract by contract basis.

The Group has entered into a long term oil supply contract and an associated prepayment facility agreement for Block 9 in Iraq. The expected settlement terms of any prepayments outstanding are assessed at each balance sheet date to determine the classification of the prepayment received as a financial or non-financial liability. The Group considers the prepayments drawn down under these agreements to relate to normal sales which will be settled within 12 months of the drawdown by the delivery of a non-financial item in accordance with the Group's expected oil entitlement from the Block 9 risk service contract. Only in exceptional circumstances would the Group expect or be obliged to settle in cash or another financial asset, such as a dramatic, unexpected fall in the oil price between drawdown and settlement dates.

Accordingly, prepayments received are recorded as non-financial liabilities, unless evidence exists that settlement will be in cash. When the expectation for repayment of a prepayment changes from settlement in physical delivery of oil to settlement in cash, the non-financial liability will be re-classified as a financial liability. The interest applicable to facility drawdowns will always be settled in cash and is considered to be a separate financial liability, which will be recognised and measured at the amount payable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such an asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit (loss) and other comprehensive income (loss).

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured.

Revenue represents the value of sales exclusive of related sales taxes of oil and gas arising from upstream operations when the oil has been lifted and the title has passed. Revenue generated under Production Sharing Contracts and Risk Service Contracts is recognised upon Group's share of the oil or gas produced volume delivered to third parties.

Interest income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Operating profit

Operating profit is stated after charging impairments, exploration expenditure write-offs and profit or losses on farm-out of working interests but before foreign exchange gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

The Group is subject to various forms of taxation in the countries in which it operates. The Group is subject to income tax within scope of IAS 12 Income Taxes in Egypt and Iraq. At Area A in Egypt, income tax is levied on taxable profits, and in Iraq at Block 9, Siba and Mansuriya tax is levied on remuneration fees and other income arising under production service contracts. The primary forms of taxation for all other assets are production related and are deducted at source as government share of oil in line with production sharing contract terms. These production taxes are not considered to constitute income tax as defined by IAS 12, and accordingly government share is netted against revenue in line with the nature of the transaction. The taxation charge represents the sum of current tax and deferred tax.

The computation of the Group's income tax expense and liability involves the interpretation of applicable tax laws and regulations in the countries in which it operates. Therefore, judgement is required to determine provisions for income taxes. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future years.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax
Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee
Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in US$, which is the functional and presentation currency of the Company.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the consolidated balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the consolidated income statement in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in the consolidated income statement on disposal of the investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in US$ using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in the consolidated income statement in the year in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A decommissioning provision is reviewed annually by an internal expert and calculated as the net present value of the Group's share of the expenditure, measured using a current market-based discount rate which may be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. The cost of recognising the decommissioning provision is included as part of the cost of the relevant property, plant and equipment and is thus charged to the consolidated income statement on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. The unwinding of the discount on the decommissioning provision is included within finance costs.

Contingencies
A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated financial statements unless the outflow of resources embodying economic benefits is probable and the amount of the obligation can be measured reliably. They are disclosed as contingent liabilities unless the possibility of an outflow of resources embodying economic benefits is remote.

Share-based payments
Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The share options granted to employees are treated as cancelled when employees cease to contribute to the scheme.

Employee benefits
Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting year less the fair value of plan assets. These are unfunded plans where the Group meets the benefit payment obligation as it falls due. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the year in which they arise.

A liability for a termination benefit is recognised when the entity can no longer withdraw the offer of the termination benefit.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or both current and future years.

Critical accounting judgements

Recoverability of exploration and evaluation costs

The carrying value of intangible exploration and evaluation assets ("E&E") represent active exploration projects. Under the Group's accounting policy for E&E costs, such costs are capitalised as intangible assets, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset with which question is associated, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. Note 12 discloses the carrying amounts of the Group's E&E assets as well as details of impairment charges arising during the year.

Crude oil prepayments

In 2016 the Group entered into a long term oil supply contract and an associated prepayment facility agreement for the Block 9 in Iraq. The Group considers the prepayments drawn down under these agreements as non-financial liability, as it relates to normal sales which will be settled within 12 months of the drawdown by the delivery of a non-financial item in accordance with the Group's expected oil entitlement from the Block 9 risk service contract. When the expectation for repayment of a prepayment changes from settlement in physical delivery of oil to settlement in cash, the non-financial liability will be re-classified as a financial liability.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment and impairment reversal of oil and gas properties

Determining whether oil and gas properties are impaired, or whether an impairment should be reversed, requires management to estimate the future net revenue from oil and gas reserves attributable to the Group's interest in that field. This requires significant estimates to be made including, future oil and gas prices, production volumes, capital and operating expenditures and an asset specific discount rate. During the ordinary course of business in the jurisdictions in which the Group operates the Company may also receive 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 that are estimated to have more than a remote chance of being incurred are factored into the assessment of the recoverable value of the relevant asset. Further details of the Group's oil and gas assets and related impairment charges during the year are provided in note 13.

Commercial reserves

Calculation of the recoverable value of oil and gas properties and depletion calculations require estimates to be made of quantities of commercial oil and gas reserves, which are based on estimates determined by Kuwait Energy's qualified petroleum engineers and are subject to third party review. Management believes these reserves to be commercially productive and will provide revenues to the Group adequate to recover remaining net un-depreciated and un-depleted capitalised oil and gas properties as at 31 December 2017.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Convertible loans fair value

As outlined in note 23, the total finance charge associated with the Group's convertible loans, which are held at fair value, depends on the exercise of certain conversion or prepayment options by the lenders and the Company, which are future events and inherently uncertain. At the balance sheet date the Group has assessed the fair values of the loans based on their best estimate of the relative likelihood of the occurrence of each conversion or prepayment option.

5. SEGMENTAL INFORMATION

The information reported to the Group's Executive Management, the chief operating decision maker ("CODM"), for the purposes of resource allocation and assignment of segment performance is specifically focused on the geographical area, namely Egypt, Iraq, Yemen 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. Therefore all information is being presented for geographical segments. All of the segment revenue reported below is from external customers. No revenue or assets arose in or relate to Jersey, the Company's country of domicile, in either year.

Other operations include unallocated expenditure and liabilities of a corporate nature comprising the Company's external debt and other non-attributable corporate liabilities. The unallocated capital expenditure for each year comprises the acquisition of non-attributable corporate assets.

100% revenue across all operating segments are from two customers (2016: two customers) each exceeded 10 per cent of the Group's consolidated revenue.

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

	Egypt	Iraq	Yemen	Others	Total
	US$ 000's	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)	67,089	16,216	(73,927)	(16,918)	(7,540)
Share of results of Joint Venture					2,305
Fair value loss on convertible loans					(28,748)
Other income					1,226
Foreign exchange gain					648
Finance costs					(13,572)
Loss before tax					(45,681)
Taxation charge					(7,140)
Loss for the year					(52,821)
Segment assets	236,007	499,479	5,506	39,550	780,542
E&E assets	1,006	-	-	-	1,006
PP&E	127,049	381,238	-	774	509,061
Segment liabilities	25,200	85,587	13,175	469,679	593,641
Other information:					
Net impairment of oil and gas assets	(15,632)	33,884	50,801	-	69,053
Exploration expenditure written off	1,619	-	18,455	-	20,074
Additions to E&E	2,811	-	(3,249)	-	(438)
Additions to PP&E	16,743	97,162	5,389	57	119,351
Depreciation, Depletion and Amortisation	29,524	26,965	-	291	56,780

5. SEGMENTAL INFORMATION (CONTINUED)

	Egypt	Iraq	Yemen	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
31 December 2016					
Segment revenues	105,533	33,362	-	-	138,895
Segment operating loss	(22,076)	(42,342)	(4,306)	(12,244)	(80,968)
Share of results of Joint Venture					1,451
Fair value loss on convertible loans					(24,774)
Other income					1,335
Foreign exchange loss					(2,340)
Finance costs					(9,365)
Loss before tax					(114,661)
Taxation charge					(1,456)
Loss for the year					(116,117)
Segment assets	238,473	473,265	79,385	58,500	849,623
E&E assets	5,988	-	21,704	-	27,692
PP&E	118,023	344,924	45,412	1,010	509,369
Segment liabilities	37,357	103,987	21,309	447,901	610,554
Other information:					
Impairment of oil and gas assets	39,787	54,550	-	-	94,337
Additions to E&E	1,670	-	833	-	2,503
Additions to PP&E	16,772	144,558	(352)	121	161,099
Depreciation, Depletion and Amortisation	47,179	14,569	-	646	62,394

6. REVENUE

	Year ended 2017	Year ended 2016
	US$ 000's	US$ 000's
Oil sales	202,206	137,310
Gas sales	1,185	1,585
	203,391	138,895

7. COST OF SALES

	Year ended 2017	Year ended 2016
	US$ 000's	US$ 000's
Operating costs	41,657	47,048
Depletion and amortisation of oil and gas assets (note 13)	55,020	60,257
Crude oil inventory movement	482	(749)
	97,159	106,556

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 2017	Year ended 2016
	US$ 000's	US$ 000's
Staff costs and employee benefits charged to administrative expenses	9,376	7,133
Professional and consultancy fees	10,213	3,953
Depreciation of other fixed assets (note 13)	1,760	2,137
Others	692	5,747
	22,041	18,970

Total staff costs and employee benefits amount to US$40.1 million (2016: US$42.7 million). A proportion of the Group's staff costs and employee benefits are recharged to the Group's joint venture partners, a proportion is allocated to operating costs and a proportion is capitalised into the cost of fixed assets under the Group's accounting policy for oil and gas assets, with the remainder classified as an administrative overhead cost in the income statement, as shown above.

9. FINANCE COSTS

	Year ended 2017	Year ended 2016
	US$ 000's	US$ 000's
Borrowing costs on senior guaranteed notes and bank loans	25,864	25,785
Other finance costs	4,776	539
Less: amount capitalised in cost of qualifying assets	(17,068)	(16,959)
	13,572	9,365

Finance cost of US$ 17.1 million (2016: US$ 17.0 million) have been capitalised to property, plant and equipment during the year using a weighted average interest rate of 10.6% (2016: 10.6%).

10. TAXATION

	Year ended 2017 US$ 000's	Year ended 2016 US$ 000's
Tax on profit on ordinary activities		
Current tax:		
Foreign tax	6,945	1,156
Total current tax	6,945	1,156
Deferred tax:		
Foreign tax	195	300
Total deferred tax	195	300
Total taxation charge	7,140	1,456

Corporation tax in the Company's country of domicile is calculated at 0% on assessable profits for all years shown, 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 jurisdictions.

Factors affecting the tax charge for the year

The difference between the amount of total tax shown above and the amount calculated by applying the standard rate of Jersey corporation tax to the loss before tax is as follows:

	Year ended 2017 US$ 000's	Year ended 2016 US$ 000's
Loss on ordinary activities before tax	(45,681)	(114,661)
Tax on Company profit on ordinary activities at corporation tax rate of 0%	-	-
Income tax arising in Egypt, Area A and Iraq, Block 9	6,173	2,497
Prior period tax charge/(credit)	967	(1,041)
Total taxation charge for the year	7,140	1,456

Deferred taxation

	2017	2016
Deferred tax liability on fixed asset temporary differences:		
At 1 January	463	163
Charge to income statement	195	300
At end of the year	658	463

The Group has no recognised deferred tax assets for loss carry forwards, tax credits, etc and the unrecognised amount of deferred tax assets at each year end is not material to the Group's financial statements.

No deferred tax has been recognised in respect of temporary differences arising on unremitted earnings of subsidiaries where the Group is in a position to control the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with such unremitted earnings of subsidiaries amounted to US$105.8 million (2016: US$94.3 million). The associated unrecognised deferred tax liability has been measured as US$5.3 million (2016: US$4.7 million).

The Group operates in jurisdictions where tax law is subject to varying interpretations and potentially inconsistent enforcement. As a result, there can be practical uncertainties in applying tax legislation to the Group's activities. Whilst the Group considers that it operates in accordance with applicable tax law, there are potential tax exposures in respect of its operations, the impact of which cannot be reliably estimated but could be material.

11. LOSS PER SHARE

a) Loss per share

The loss and weighted average number of shares used in the calculation of basic loss per share are as follows:

		Year ended 2017	Year ended 2016
Loss for the year attributable to owners of the Company	US$'000	(52,829)	(116,145)
Weighted average number of shares, net of treasury shares	'000	326,857	326,637
Basic loss per share attributable to owners of the Company	cents	(16.2)	(35.6)

b) Diluted loss per share

There was no difference between basic and diluted loss per share for either of the years shown.

The only potential dilutive instruments were the outstanding Employee Incentive Scheme (EIS) share awards, which have no dilution impact on loss per share, together with shares to be issued on conversion of convertible loans (note 23) which are not included in the calculation for either year as the number of shares that could be exercised is dependent on future events.

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

	E&E assets
Cost	US$ 000's
As at 1 January 2016	32,663
Additions	2,503
Transfer to Property, plant and equipment	(1,485)
Transfer to assets held for sale (note 19)	(5,989)
As at 31 December 2016	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

As at 31 December 2017, exploration costs of US$ 1.0 million (2016: US$ 27.7 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 2017, US$ 6.2 million (2016: US$1.5 million) of exploration costs associated with proven commercial reserves of Abu Sennan in Egypt were transferred to property, plant and equipment.

During 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. The exploration potential in Block 49 was assessed as the work of operations on site was put on hold since March 2015 and force majeure was declared. Based on a review of the geopolitical and security environment and a technical review Block 49 was assessed as not commercially viable. Therefore, the Group has decided to discontinue any exploration and appraisal programme on the Block 49 resources discovered to date and relinquish the license.

13. 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 2016	1,067,280	23,661	1,090,941
Additions	160,957	142	161,099
Disposal	-	(622)	(622)
Transfer from Intangible exploration and evaluation assets	1,485	-	1,485
Transfer to assets held for sale (note 19)	(194,962)	(103)	(195,065)
As at 31 December 2016	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
Accumulated Depreciation, depletion, amortisation and impairment			
As at 1 January 2016	459,657	9,713	469,370
Charge for the year	60,257	2,137	62,394
Impairment	94,337	-	94,337
Disposal	-	(562)	(562)
Transfer to assets held for sale (note 19)	(77,070)	-	(77,070)
As at 31 December 2016	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
Carrying amount			
As at 31 December 2017	498,832	10,229	509,061
As at 31 December 2016	497,579	11,790	509,369

Other fixed assets include carrying amount of US$ 6.1 million (2016: US$ 6.8 million) in respect of assets held under finance leases (note 24).

Additions
The additions to oil and gas assets mainly relate to Siba and Block 9 in Iraq, and include US$ 17.1 million (2016: US$ 17.0 million) of finance costs on qualifying assets capitalised during the year (see note 9) and US$ 3.5 million (2016: US$ 2.4 million) of fair value loss on convertible loans capitalised (see note 23).

Impairment reversal
The Group has undertaken a review of the recoverable amount of its assets in accordance with IAS 36 *Impairment of assets,* primarily because the increase in commercial reserve used in estimating the future cash flows of certain impaired assets represents an indicator of reversal of impairment recognised in prior periods. The review led to the recognition of an impairment reversal of US$15.6 million (2016: nil) on BEA fields in Egypt, in the consolidated income statement.

Impairment
During 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$50.8 million on the Block 5 field in Yemen, in the consolidated income statement, due to re-classification of 2P reserve of these assets to contingent resources. In 2016, primarily due to the reduction in the oil price assumption used in estimating the future cash flows, the Group recognised an impairment loss of US$ 94.3 million including US$ 7.2 million on Burg-El-Arab (BEA) and US$ 32.6 million on the Abu Sennan fields in Egypt and US$ 54.5 million on Siba in Yemen, in the consolidated income statement.

13. PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Impairment (continued)

In 2017 the key assumptions and judgements used in the impairment test included pre-tax discount rates of 11% for the assets in Egypt, 12% for Block 9 and the Siba field in Iraq and a Brent oil price of US$ 58/bbl in 2018, US$ 67/bbl in 2019, US$ 72/bbl in 2020, US$ 75/bbl in 2021, inflated at 2.0% per annum thereafter. In 2016 the Group used pre-tax discount rates of 11% for the assets in Egypt, 12% for the assets in Iraq other than the Mansuriya field, 14% for assets in Yemen and the Mansuriya field in Iraq, and a Brent oil price of US$ 55/bbl in 2017, US$ 65/bbl in 2018, US$ 70/bbl in 2019, inflated at 2.0% per annum thereafter. The oil price assumptions are the Group's best estimate based on conditions prevailing at the balance sheet date and take into consideration external forecasts. For each US$ 1/bbl fall in oil price assumptions, the impairment charge would increase by approximately US$ 1.5-2.5 million. If the discount rate had been increased by 1% for all assets, it would have increased the impairment charge by approximately US$ 1.6 million.

Due to the security situation at the Mansuriya field in Iraq, which is situated north-west of Baghdad, no development activity in the field has been possible since mid-2014. Various meetings were held with the Iraqi government to explore a new work plan, resumptions of site works and amending the terms of existing contract to compensate for delays due to the security situation. The Iraqi government has so far refused to entertain any request for change in terms of contract of the license. Due to the passing of time and in the absence of amended terms the Group's reserves at Mansuriya have been re-classified as contingent resources at 31 December 2017. Consequently, there are no longer any commercial reserves assigned to Mansuriya, so the Group's interest in the field has been assigned a nil valuation and US$33.9 million net book value of the asset has been impaired in full.

In Yemen, the Block 5 license expired on 8 June 2015. However, production was interrupted on several occasions due to sabotage of the main oil export pipeline and no production has been possible since 7 April 2015 due to closure of the port at Ras Isa. For lost production days, the Group has filed a number of notices of force majeure to the Yemeni Government, represented by Yemen Company for Investment in Oil and Minerals (YICOM). YICOM has agreed to extend the Block 5 license expiry date to settle force majeure claims up to and including 7 March 2016. The force majeure claims settlement with YICOM specifically excludes any new force majeure claims that may accrue after 7 March 2016, which will be subject to further claims. Based on the force majeure mechanism of the contract and the agreed license extension by YICOM to settle previous force majeure claims, the Group believes that the licence expiry date will be further extended to compensate for new force majeure claims accruing after 7 March 2016 until the date of resuming production. The Group, along with other partners of Block 5, has been maintaining the facilities at the field in operational condition until such time as it becomes possible to resume production. However, production resumption has been continuously deferred over the last 3 years for various reasons, and currently there is no certain plan that is approved by partners of Block 5 and endorsed by YICOM that will lead to the resumption of production at Block 5. Therefore, the Group's reserves at Block 5 have been re-classified as contingent resources at 31 December 2017. As there are currently no commercial reserves assigned to Block 5, the recoverable value of the Group's interest has been assigned a nil valuation and US$50.8 million net book value of the asset has been impaired in full. Block 5 contingent resources will be re-classified back to commercial reserves once a certain plan is approved by the partners of Block 5 and is endorsed by YICOM for production resumption. Accordingly potential reversal of the impairment recognised in prior periods will be assessed by the Group at this point.

Gas production plateau rate of 100 mmscf per day under Iraq Siba area gas development and production service contract is expected to delay beyond the scheduled date. The Iraqi government has indicated that the remuneration fees on the gas production from Siba field may be subject to a performance factor until it starts producing gas 100 mmscf per day, which has been considered in computation of recoverable amount of the asset based on a value in use basis. Management believe that no impairment is required for Siba field.

A request for arbitration was filed by Dragon Oil (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. Subsequent to 31 December 2017, the Group has entered into an agreement to settle this dispute with Dragon Oil (see note 34).

14. INVESTMENT IN JOINT VENTURE

The Group owns a 20% equity interest in Medco L.L.C. ("Medco"), a jointly controlled entity incorporated in Oman. Medco is the operator of the Karim Small fields (KSF) in Oman and has a 75% working interest in production. In accordance with IFRS 11 Joint Arrangements, the Group has determined its interest in Medco to be a joint venture and accordingly accounts for it using the equity method.

Movement in investment in joint venture

	2017	2016
	US$ 000's	US$ 000's
At 1 January	4,424	5,528
Additional investment during the year	-	945
Share of results of Medco	2,305	1,451
Dividend received from Medco	(3,255)	(3,500)
At end of the year	3,474	4,424

15. OTHER NON-CURRENT ASSETS

	2017	2016
	US$ 000's	US$ 000's
Decommissioning fund	5,121	4,991
Deferred sales consideration (note 19)	22,748	-
	27,869	4,991

The decommissioning fund is the amount held in an escrow account to settle environmental restoration obligation at Block 5 in Yemen.

16. INVENTORIES

	2017	2016
	US$ 000's	US$ 000's
Crude oil	1,906	2,389
Spare parts, materials and supplies	5,808	21,320
	7,714	23,709

Crude oil is measured at fair value. Spare parts, materials and supplies are used in operations and are not held for re-sale and carried at the lower of costs or net realisable value.

17. TRADE AND OTHER RECEIVABLES

	2017	2016
	US$ 000's	US$ 000's
Trade receivables	124,946	77,836
Other receivables	27,786	5,244
Advance due from joint venture partners	6,458	6,429
Prepayments, deposits and advances	3,326	3,025
Amount due from a related party (note 33b)	3,308	2,449
	165,824	94,983

All the trade receivables are denominated in US$. The average credit period on sales is 60 days. No interest is charged on the overdue trade receivables.

Trade receivables includes US$ 55.6 million (2016: US$ 19.7 million) arising in Iraq, to be settled by having crude oil physically delivered and that will be sold under the crude oil prepayment agreement (see note 27). Subsequent to 31 December 2017, the Group has settled US$46.0 million trade receivables arising in Iraq.

The Group's trade receivables includes carrying value of US$ 39.9 million (2016: US$ 24.0 million) arising in Egypt which are past due at the reporting date 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 the year end, the Group has collected US$ 21.4 million past due balance outstanding at 31 December 2017.

Ageing of past due but not impaired

	2017	2016
	US$ 000's	US$ 000's
61 – 90 days	16,459	14,729
91 – 120 days	7,945	2,371
121 – 180 days	12,329	6,903
> 180 days	3,120	-
Total	39,853	24,003

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Management believes that there is no credit provision required as all the trade receivables are fully collectible. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above. The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value due to their short term nature.

18. CASH AND CASH EQUIVALENTS

	2017	2016
	US$ 000's	US$ 000's
Cash and cash equivalents	65,594	58,311
	65,594	58,311

Cash and cash equivalents includes nil (2016: US$ 4.0 million) which is restricted against issue of letters of guarantee.

19. ASSETS HELD FOR SALE

Siba farm-out

In May 2017 the Group has completed a farm-out transaction relating to its interest in the Iraq Siba area gas development and production service contract. Under the terms of the farm-out agreement, which has an effective date of 1 January 2016, the farmee has been assigned a 20% paying and 15% revenue interest in Siba and the Group retains a 40% paying and 30% revenue interest. The farmee has settled a part of the consideration in cash, and part of the consideration will be settled by paying the Group's share of costs of a major related contract. The balance owed to the group after settlement of this contract will be received from the farmee's allocation of revenue once production commences from this field. The current portion of deferred consideration is included in other receivables (note 17) and the fair value of the non-current portion was calculated by discounting expected receipts based on management's best estimate of timing and is included in other non-current assets (note 15).

Abu Sennan farm-out

In September 2017 the Group has completed a farm-out transaction to assign a 25% interest in Abu Sennan in Egypt with an effective date of 31 December 2016.

During 2017, a loss of US$2.6 million on assets held for sale was recognised in the consolidated income statement, relating to the period between the effective date and completion.

20. SHARE CAPITAL

The authorised share capital of the Company consists of 451.2 million shares of GBP 1 each, amounting to GBP 451.2 million (2016: GBP 451.2 million). The issued and paid up share capital as at 31 December 2017 consists of 326.9 million Shares (2016: 359.2 million).

During 2017, the Company cancelled all 32.5 million shares held as treasury shares at 31 December 2016. Further, during 2017, the Company issued 0.1 million (2016: 0.5 million) shares to the shareholders of Kuwait Energy Company K.S.C.C. (KEC) for acquisition of non-controlling interests in KEC and 0.1 million (2016: 0.2 million) shares to employees as part of the employee incentive scheme.

21. OTHER RESERVES

	Treasury shares	Merger Reserve	Retirement benefit obligation reserve	Share based compensation reserve	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
As at 1 January 2016	(73,749)	(33,589)	1,394	331	(105,613)
Acquisition of minority interest	-	92	-	-	92
Other comprehensive loss for the year	-	-	(30)	-	(30)
Issue of shares	-	-	-	(311)	(311)
Share-based payments charges	-	-	-	295	295
As at 31 December 2016	(73,749)	(33,497)	1,364	315	(105,567)
Acquisition of minority interest	-	16	-	-	16
Cancellation of treasury shares	73,749	(7,581)	-	-	66,168
Other comprehensive loss for the year	-	-	254	-	254
Issue of shares	-	-	-	(276)	(276)
Share-based payments charges	-	-	-	399	399
As at 31 December 2017	-	(41,062)	1,618	438	(39,006)

During 2017, the Company cancelled all 32.5 million shares held as treasury shares at 31 December 2016. No gain or loss was recognised in the consolidated income statement on cancellation of treasury shares.

22. BORROWINGS

In 2014, the Group issued US$ 250 million of 9.5% senior guaranteed unsecured notes maturing in August 2019 (the "Notes"). Interest on the Notes is paid semi-annually in arrears on 4 February and 4 August. The Notes are listed on the Global Exchange Market of the Irish Stock Exchange. The Notes are callable in whole, or, in part, at the option of the Group prior to maturity, subject to certain conditions being satisfied.

Movement in carrying value of the Notes measured at amortised cost:

	2017	2016
	US$ 000's	US$ 000's
Par value payable on maturity	250,000	250,000
Unamortised initial transaction fees	(3,443)	(5,140)
Non-current portion	246,557	244,860
Interest accrued and payable within 12 months (included in trade and other payables)	9,896	9,896
Carrying value as at end of the year	256,453	254,756

As at 31 December 2017, the fair value of the Notes was US$ 216.3 million (2016: US$ 232.8 million).

23. CONVERTIBLE LOANS

	2017	2016
	US$ 000's	US$ 000's
Non-current portion	-	117,198
Current portion	158,204	19,075
	158,204	136,273

<u>Movement in convertible loan</u>

	2017	2016
	US$ 000's	US$ 000's
As at 1 January	136,273	119,400
Change in fair value*	32,255	27,211
Payment	(10,324)	(10,338)
As at 31 December	158,204	136,273

*Of this amount US$ 3.5 million (2016: US$ 2.4 million) has been capitalised to qualifying assets in the period, see note 13, resulting in a net charge to the consolidated income statement of US$ 28.7 million (2016: US$ 24.8 million).

During 2012, the Group entered into unsecured financing arrangements with Abraaj Capital and Qatar First Bank for US$ 150 million each (total value of US$ 300 million). Under the arrangements, the Group has drawn down an amount of US$ 100 million. There is no remaining availability to draw down additional amounts.

If the Group undertakes a public offering of shares raising at least US$ 150 million of equity, there is mandatory conversion; if no such public offering has occurred by the 36 month following the first draw down of each convertible loan, a period which elapsed in 2015 and 2016, the Company has the option for early repayment together with a prepayment premium.

During 2017, the Group and KEC SPV 1 (an entity managed and controlled by Abraaj Investment Management Limited) holding 50% of the convertible loans principal amended certain terms of the convertible loan agreement to defer the first repayment date to mid-2018. The loans are 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. Subsequent to 31 December 2017 (see note 34), the Group has received an irrevocable notice of conversion from Qatar First Bank holding other 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.

23. CONVERTIBLE LOANS (CONTINUED)

The loans carry a coupon interest of 8%-10.5%, and if there is no conversion, the outstanding loans, without additional interest, are repaid in cash as per the repayment schedule. Should a conversion option be exercised, the outstanding loans and an additional interest uplift will be converted into equity shares of the Company based on the fair value of the shares on the conversion date. The additional interest uplift is 5.5%-8% if conversion is within 36 months of the first draw down and 9.5%-10% if conversion is after this time.

These options are considered to be embedded derivatives which have been determined not to be closely related to the loan arrangements. The Group has opted to recognise the convertible loans as financial liabilities at fair value through the income statement based on the Group's best estimate at the consolidated balance sheet date of relevant likelihood of the occurrence of each conversion or prepayment option. The fair value, therefore represents the Group's best estimate of the discounted future cash flows payable for these loans. The change in fair value in each period arises as a result of changes in the forecasted cash flows and the likelihood of the occurrence of each conversion or prepayment option.

The convertible loans are classified as Level 3 in the fair value hierarchy in all the years 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 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% (2016: 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$ 28.5 million.

24. OBLIGATIONS UNDER FINANCE LEASES

	2017	2016
	US$ 000's	US$ 000's
	Minimum lease payments	
Amounts payable under finance leases		
Within one year	1,192	1,192
In the second to fifth years inclusive	2,086	3,277
	3,278	4,469
Less: future finance charges	(195)	(363)
Present value of lease obligation	3,083	4,106
	Present value of minimum lease payments	
Amounts payable under finance leases		
Within one year	1,169	1,169
In the second to fifth years inclusive	1,914	2,937
Present value of lease obligation	3,083	4,106

In 2015, the Group sold its office building in Egypt, and leased back the sold building under a finance lease for a total lease value of US$ 8.2 million which was settled by a US$ 1.5 million down payment and the remaining lease payments to be paid over a lease term of five years. The Group has the right to buy the leased building at the end of lease period for an agreed nominal sale price of US$ 1 only. The Group's obligations under finance leases are secured by the lessor's rights over the leased asset. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligation is approximately equal to the carrying value.

25. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

	2017	2016
	US$ 000's	US$ 000's
Decommissioning provisions	11,685	11,876
Retirement benefit obligations	5,238	3,673
	16,923	15,549

a) Decommissioning provisions

The movements in the decommissioning provision over the year is as follows:

	2017	2016
	US$ 000's	US$ 000's
As at 1 January	11,876	12,397
Unwinding of discount	264	286
New provision and changes in estimate	(455)	(807)
As at 31 December	11,685	11,876

The provision for decommissioning relates to two of the Group's fields and is based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field in the removal and decommissioning of the facilities currently in place. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to base the provision. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. The Group uses a discount rate of 3-5% in arriving at the future value of decommissioning provisions.

b) Retirement benefit obligations

The Group has a post-employment defined benefit obligation towards its qualifying employees in Kuwait which is an End-of-Service (ESB) plan governed by Kuwait Labour Law. The entitlement to these benefits is conditional upon the tenure of employee service, completion of a minimum service year, salary drawn etc. The Group also has a defined benefit obligation in respect of the Block 5 in Yemen. These are unfunded plans where the group meets the benefit payment obligation as it falls due.

The movement in these defined benefit obligations over the year is as follows:

	2017	2016
	US$ 000's	US$ 000's
As at 1 January	3,673	3,061
Current service cost	3,102	627
Re-measurements:		
Experience (gains)/loss	(254)	30
Benefits paid	(1,283)	(45)
As at 31 December	5,238	3,673

The significant actuarial assumptions were as follows:

	2017	2016
	US$ 000's	US$ 000's
Discount rate	4%	4%
Salary growth rate	6%	5%

26. TRADE AND OTHER PAYABLES

	2017	2016
	US$ 000's	US$ 000's
Trade payables and accruals	108,303	118,514
Advance against farm-out of working interest (note 13)	-	3,500
Joint venture partners payables	2,963	7,568
Accrued interest payable	10,477	10,313
Salaries and bonus payables	2,315	4,473
	124,058	144,368

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The credit period for trade purchases ranges between 30 and 150 days. No interest is charged on the overdue trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value due to their short term nature.

27. CRUDE OIL PREPAYMENT

In December 2016, the Group signed an agreement for a secured crude oil prepayment facility of up to US$ 100 million (the "Prepayment Agreement"), repayable principally by the delivery of the Group's crude oil entitlement from Block 9, Iraq. As of 31 December 2017, the Group had drawn-down US$ 80 million (2016; US$ 40 million) from the facility classified as a short-term prepayment. Under the terms of the agreement interest is accrued and settled on semi-annually basis.

Movement in Crude oil prepayment is as below:

	2017	2016
	US$ 000's	US$ 000's
As at 1 January	40,000	-
Received	40,000	40,000
Settled	(42,531)	-
As at 31 December	37,469	40,000

The agreement stipulates a pricing calculation with reference to the terms of Block 9 export oil sales agreement, and prepayments are settled through physical deliveries of crude oil.

28. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	2017	2016
	US$ 000's	US$ 000's
a) Contingent liabilities - letters of guarantee	-	4,000
b) Capital commitments	26,015	43,106
c) Agreement to purchase shares (note 33b)	5,362	6,176

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

29. OPERATING LEASE ARRANGEMENTS

	2017	2016
	US$ 000's	US$ 000's
Minimum lease payments under operating leases recognised in the consolidated income statement	851	1,134

At the consolidated balance sheet date, the Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2017	2016
	US$ 000's	US$ 000's
Within one year	860	825
Between two years and five years	2,970	10
After five years	-	-
	3,830	835

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one year with an option to extend for a further one year at the then prevailing market rate.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows

	1 January 2017	Financing cash flows (i)	Fair value adjustment (note 23)	Other changes (ii)	31 December 2017
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Borrowings (notes 22)	244,860	-	-	1,697	246,557
Convertible loans (note 23)	136,273	-	32,255	(10,324)	158,204
Obligations under finance lease (note 24)	4,106	(1,192)	-	169	3,083
Total liabilities from financing activities	385,239	(1,192)	32,255	(8,458)	407,844

i. The cash flows from financials liabilities make up the net amount of proceeds from borrowing and repayment of borrowing in the consolidated statement of cash flows.
ii. Other changes include interest accruals and payments.

31. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3 to these consolidated financial statements.

Categories of financial instruments

	2017	2016
	US$ 000's	US$ 000's
Financial assets		
Trade and other receivables*	109,381	74,369
Cash and cash equivalents	65,594	58,311
Financial liabilities		
At amortised cost		
- Borrowings	256,453	254,756
- Obligation under finance lease	3,083	4,106
- Trade and other payable	124,058	144,368
At fair value through profit and loss account (FVTPL)		
-Designated as FVTPL - convertible loans	158,204	136,273

*Excludes US$56.4 million (2016: US$ 20.6 million) trade and other receivables not qualifying as financials assets.

Fair value measurement

Fair value measurement hierarchy for determining and disclosing the fair value of financial instruments is described in note 3. The convertible loans (note 23) were the only financial instrument carried at fair value and were classified as level 3. There was no financial instrument classified as level 1 and level 2.

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements during the year.

Details of movements in the fair value of the convertible loan are provided in note 23.

Management believes that fair values of all financial instruments, other than borrowings (note 22), are not materially different from their carrying values:

(a) For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

(b) Obligations under the finance lease (note 24) approximate carrying value which is recognised at amortised cost.

(c) Financial assets and liabilities that are measured subsequent to initial recognition at fair value are convertible loans (note 23).

Financial risk management objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including commodity price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to international commodity-based markets. As a result, it can be affected by changes in crude oil, natural gas and petroleum product prices, interest rates and foreign exchange rates.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

Commodity price risk management

Volatility in oil and gas prices is a pervasive element of the Group's business environment. As a producer, the Group always has a 'long' position on the product. No hedges are currently in place. Additionally, in Iraq the concession contracts are service fee-based, thus mitigating the impact of oil price movement.

The Group is a seller of crude oil and natural gas, which is typically sold under short-term arrangements priced in US$ at current market prices.

Though changes in oil and gas prices do not relate directly to financial assets and financial liabilities, the following table illustrates the sensitivity of the revenue for the year to a reasonably possible change in oil and gas prices by +10%. A positive number below indicates an increase in profit and decrease in price will have the opposite effect.

	Year ended 2017	Year ended 2016
	US$ 000's	US$ 000's
Impact on consolidated income statement and retained deficit	20,339	13,890

For sensitivity of the impairment of oil and gas assets due to possible change in oil and gas prices please see note 13.

Foreign currency risk management

The Group undertakes normal operating transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2017	2016	2017	2016
	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Egyptian Pound	23,022	4,261	3,206	1,893
Kuwaiti Dinar	738	495	3	91

Foreign currency sensitivity analysis

The Group's main foreign currency exposure is to fluctuations in the Kuwait Dinar and Egyptian Pound.

The following table details the Group's sensitivity to a 10% increase and decrease in the US$ against Kuwaiti Dinar and Egyptian Pound. The sensitivity analysis includes only outstanding Kuwaiti Dinar and Egyptian Pound denominated monetary assets and liabilities and adjusts their translation at the year end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and a negative number indicates decrease in profit. All other variables are held constant. There have been no changes in the methods and the assumptions used in the preparation of the sensitivity analysis.

	2017	2016
Impact on consolidated income statement and retained deficit	US$ 000's	US$ 000's
Egyptian Pound	1,982	237
Kuwaiti Dinar	74	40

31. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

The Group is exposed to interest rate risk as it has placed funds in interest-bearing time deposits with banks, but the Group's exposure to interest rate risk is not significant since in the current year the entities within the Group have not borrowed funds at floating interest rates that could have an impact on the Group's consolidated income statement.

The Group's exposure to interest rates on financial assets and liabilities are detailed in the liquidity risk management section of this note.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

During 2017 100% revenue (2016: 100%) was derived from sales to two customers (2016: two customer) whereby each exceeded 10% of the Group's revenue. Further details of the Group's receivables are provided in note 17.

Credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Exposure to credit risk

The carrying amount of financial and non-financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017	2016
	US$ 000's	US$ 000's
Trade and other receivables*	165,013	94,103
Cash and cash equivalents	65,594	58,311
	230,607	152,414

*Prepaid expenses that have been excluded are US$0.8 million (2016: US$0.9 million).

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2017	2016
Egypt	69,314	58,102
Iraq	55,632	19,734
	124,946	77,836

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the management, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities (including interest). The tables have been drawn up based on the undiscounted cash flows of financial liabilities.

Financial liabilities	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total	Effective interest rate
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's	%
At 31 December 2017						
Borrowings	23,750	273,750	-	-	297,500	10.6%
Obligations under finance lease	1,192	2,086		-	3,278	5.0%
Convertible loans*	68,947	-		-	68,947	15.3%
Trade and other payables	124,058	-	-	-	124,058	-
	217,947	275,836	-	-	493,783	
At 31 December 2016						
Borrowings	23,750	297,500	-	-	321,250	10.6%
Obligations under finance lease	1,192	2,384	893	-	4,469	5.0%
Convertible loans*	27,250	90,574		-	117,824	15.3%
Trade and other payables	144,368	-	-	-	144,368	-
	196,560	390,458	893	-	587,911	

* Convertible loans cash outflow will decrease if the lender opts for converting loan into ordinary shares of the Company (see note 23).

The Group's financial facilities are described in notes 22 and 23. The Group expects to meet its obligations from operating cash flows (also see going concern section of note 3).

Capital risk management

The Group defines capital as the total equity and net debt of the group. Net debt is total debt less cash and cash equivalents. The total equity comprises issued share capital (note 20), share premium, other reserves (note 21) and retained deficit. The primary objective of the Group's capital management policy is to safeguard the Group's ability to continue as a going concern while maximising the return to the shareholders through the optimisation of debt and equity. Kuwait Energy is not subject to any externally imposed capital requirements. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure the Group may put in place new debt facilities, issue new shares for cash, repay debt, engage in active portfolio management or undertake other such restructuring activities as appropriate. No changes to the Group's capital management objectives, policies or processes were made during the year ended 31 December 2017.

The net debt to equity gearing ratio at year end was as follows:

	2017	2016
	US$ 000's	US$ 000's
Total debt (i)	407,844	385,239
Less: Cash and cash equivalents	(65,594)	(58,311)
Net debt	342,250	326,928
Equity attributable to owners of the Company	182,662	234,632
Net debt to equity ratio (%)	187.4	139.3

(i) Debt is defined as borrowings excluding accrued interest, as detailed in note 22, convertible loans as detailed in note 23 and obligations under finance leases as detailed in note 24.

32. SUBSIDIARY AND JOINT VENTURE COMPANIES

a) The principal subsidiaries of the Company as at 31 December 2017 were as follows:

Company's name	Ownership %		Country of incorporation	Country of operations	Type of activity
	31.12.17	31.12.16			
Kuwait Energy International Limited	100	100	Jersey	-	Holding Company
Kuwait Energy Company K.S.C.(Closed)	94.0	93.7	Kuwait	Kuwait	Exploration / development/ production
KEC (Egypt) Ltd	100	100	British Virgin Islands	Egypt	Development/ production
Kuwait Energy Egypt Ltd	100	100	British Virgin Islands	Egypt	Exploration / development/ production
Kuwait Energy (Eastern Desert) Petroleum Services SAE	100	100	Egypt	Egypt	Exploration / development/ production
KEC (Yemen) Ltd	100	100	British Virgin Islands	Yemen	Exploration / development/ production
Kuwait Energy AMED Yemen Ltd	100	100	British Virgin Islands	Yemen	Exploration
Kuwait Energy Iraq Limited	100	100	British Virgin Islands	Iraq	Exploration / development/ production
Kuwait Energy Basra Limited	100	100	British Virgin Islands	Iraq	Exploration / development/ production
Jannah Hunt Oil Company Limited	100	100	British Virgin Islands	Yemen	Development/ Production

b) The Group has a 20% interest in Medco LLC. Medco LLC is the operator for Karim Small fields in Oman. This is measured using the equity method (see note 14).

c) Interest in joint operations

Region	Asset	31.12.17		31.12.16	
		Cost WI (%)	Revenue WI (%	Cost WI (%)	Revenue WI (%
Iraq	Siba	40.0%	30.0%	60.0%	45.0%
	Mansuriya[1]	30.0%	22.5%	30.0%	22.5%
	Block 9	60.0%	60.0%	60.0%	60.0%
Egypt	Area A	70.0%	70.0%	70.0%	70.0%
	Abu Sennan	53.0%	25.0%	78.0%	50.0%
	BEA	100.0%	100.0%	100.0%	100.0%
	East Ras Qattara (ERQ) [1]	49.5%	49.5%	49.5%	49.5%
Yemen	Block 5	15.0%	15.0%	15.0%	15.0%
	Block 49	75.29%	64.0%	75.29%	64.0%
Oman	KSF[1]	15.0%	15.0%	15.0%	15.0%

1) Non-operated asset

33. RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors and executive officers of the Group, their families and companies of which they are the principal owners. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The related party transactions and balances included in the Group's consolidated financial statements are as follows:

a) Compensation of key management personnel:

Key management personnel are considered to be the Board of Directors of the Company.

The remuneration of key management personnel during the year was as follows:

	Year ended 2017	Year ended 2016
	US$ 000's	US$ 000's
Salaries and other short-term benefits	2,186	1,428
Post-employment benefits	950	30
Share based payments	93	93
	3,229	1,551

b) Agreement to purchase shares

Mohamad Al Howqal, SVP- HSSE (formerly the Deputy CEO) of the Group has entered into an agreement with a third party on behalf of the Group to purchase a specified number of shares of the Company held by that third party. Depending on the outcome of certain future events, and unless otherwise agreed, the Group may be required to lend Mr Al Howqal the purchase price of the shares, until such time as Mr Al Howqal is able to sell those shares to third party or the Company (subject to shareholder approval) and repay the loan to the Company.

During 2017-15, under the arrangement described above, Mr Al Howqal was obliged to purchase 1,612,901 ordinary shares of the Company with assistance of US$3.3 million loan from the Company (see note 17). Mr Al Howqal will likely be obliged to purchase additional 2,419,359 shares of the Company which again would require the Group to lend Mr Al Howqal US$ 5.4 million (2016: US$ 6.2 million).

34. SUBSEQUENT EVENTS

a) In February 2018, 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 15% participating interest in the Iraq Block 9 exploration, development and production service contract. 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 (see note 13) and 8.57% participating interest in Block 9 will be assigned to Dragon Oil for a cash consideration of US$100 million. This agreement, which is subject to the Iraqi government and partner approval, will materially improve the Group's liquidity position. Post completion of the farm-out transaction, the Group will remain operator and retain a 45% participating interest in Block 9.

b) 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.