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If you are in any doubt as to any aspect of this circular, or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in United Energy Group Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is issued for information only and does not constitute an invitation or offer to shareholders or any other persons to acquire, purchase or subscribe for securities of the Company.

UNITED ENERGY GROUP LIMITED
聯合能源集團有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 467)

MAJOR TRANSACTION
ACQUISITION OF ALL THE ISSUED SHARES IN KUWAIT ENERGY PUBLIC LIABILITY COMPANY BY WAY OF A SCHEME OF ARRANGEMENT

All capitalised terms used in this circular have the meaning set out in the section headed ''Definitions'' of this circular. A letter from the Board containing details of the Acquisition is set out on pages 14 to 30 of the circular.

The Company has obtained written Shareholders' approval for the Acquisition pursuant to Rule 14.44 of the Listing Rules from the Relevant Shareholders who form a closely allied group of Shareholders and together hold more than 50% of the issued Shares giving the right to attend and vote at a general meeting. Accordingly, no Shareholders' meeting will be held to approve the Acquisition pursuant to Rule 14.44 of the Listing Rules. This circular is being despatched to the Shareholders for information only.

* *For identification purposes only*

27 December 2018

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This circular in both English and Chinese is available in printed form and published on the respective websites of the Company at "http://www.uegl.com.hk" and Hong Kong Exchanges and Clearing Limited at "http://www.hkexnews.hk".

In this circular, the following expressions have the following meanings unless the context requires otherwise:

"2P"	proved plus probable
"Abraaj"	Abraaj Investment Management Limited
"Abraaj Convertible Loan"	the US$150 million convertible term loan facility with KEC SPV 1 Limited (an entity managed and controlled by Abraaj Investment Management Limited), entered into in April 2012
"Accountants' Report"	the accountants' report of the Target Group prepared by Deloitte Touche Tohmatsu, set out in Part A of Appendix II to this circular
"Acquisition"	the acquisition of the Target by the Purchaser pursuant to the Scheme
"Affiliate"	(a) in the case of a company, (i) that company's subsidiaries and subsidiary undertakings from time to time, (ii) any holding company of that company and all other subsidiaries and subsidiary undertakings of any such holding company from time to time, and (iii) any other person that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, that company; and (b) in the case of any individual, (i) that individual's family members and any person related to that individual by way of kinship or marriage, (ii) any company in which that individual and the persons specified in (i) above collectively exercise control from time to time, and (iii) any other person that directly or indirectly through one or more intermediaries controls, or is controlled by or is under common control with, any of the foregoing,

	where, for the purposes of this definition of "Affiliate", "control" means the possession, directly or indirectly through one or more intermediaries, of (i) the power to direct the majority of the voting rights in a person (where applicable), (ii) the power to appoint or remove a majority of the directors of a person (where applicable), or (iii) the power to direct the management, financial and operating policies or the activities of a person, in each case, whether through the ownership of shares, by contract, or otherwise
"Announcement"	the announcement of the Company dated 24 September 2018 relating to the Acquisition
"Asset Agreements"	means licenses, service contracts, production sharing contracts, exploration, development and production service contracts, operating agreements, shareholder agreements, farm out agreements, gas development and production service agreements, gas supply agreements, EPC contracts, concession agreements, production and exploration service agreements and any other material agreements, arrangements, rights or other obligations to which the Target or any member or Affiliate of the Target Group is a party (or by which they are bound) or held by the Target or any member or Affiliate of the Target Group in relation to the Assets
"Asset Third Parties"	parties to the Asset Agreements other than the Target or any member or Affiliate of the Target Group
"Assets"	the Target Group's (including Affiliates of the Target Group) oil and gas exploration, development and/or production assets
"Award"	has the meaning given to it in Appendix VI (*Further Information on Target Business Operations*)
"Block 9 EDPSC"	has the meaning given to it in Appendix I *(Financial Information of the Group)*
"Block 9 EOSA"	has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*

"Block 43 Contractor"	has the meaning given to it in Appendix I (*Financial Information of the Group*)
"Block 43 JOA"	has the meaning given to it in Appendix I (*Financial Information of the Group*)
"Block 43 PSA"	has the meaning given to it in Appendix I (*Financial Information of the Group*)
"Board"	the board of Directors
"BOC"	Basra Oil Company, the state-owned oil company responsible for the development of oil and gas resources in southern Iraq under the Iraq Ministry of Oil
"BP Statistical Review"	BP Statistical Review of World Energy 2018
"Business"	the upstream petroleum and liquid petroleum gas business carried on by the Target
"Business Day(s)"	a day (other than a Saturday, Sunday, public or statutory holiday and days on which a typical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"Company" or "UEG"	United Energy Group Limited, a company incorporated in the Cayman Islands and re-domiciled to Bermuda as an exempted company with limited liability under the Companies Act of Bermuda
"Competent Person's Report"	the Competent Person's Report set out in Appendix V of this circular, issued by GCA, in accordance with the requirements under the Listing Rules
"Completion"	consummation of the Transaction in accordance with the Transaction Agreement, including the Scheme taking effect

"Consents"

(a) following notification of the Transaction by the Target to the Ministry of Oil and applicable national oil companies in Iraq and the Ministry of Petroleum and applicable national oil companies in Egypt, either (i) the receipt of an indication of support or no objection in response to each such notification or (ii) there having been no receipt by the Target or the Purchaser of a written objection to the Transaction in response to any such notification;

(b) i) the provision of such consents, waivers, notices or confirmations as are contractually required to be provided to or obtained from the relevant regulatory authorities and/or Asset Third Parties; and ii) the expiry of any relevant time periods for the relevant regulatory authorities and/or Asset Third Parties to exercise pre-emption, right of first refusal, assignment or other rights to acquire, each pursuant to the terms of the Asset Agreements in the context of the Transaction; and

(c) any consent that may be required from the Jersey Financial Services Commission in connection with the Transaction under the terms of the consents issued to the Target pursuant to the Control of Borrowing (Jersey) Order 1958

"Controlling Shareholders"

He Fu International Limited, United Energy Holdings Limited and United Petroleum & Natural Gas Holdings Limited

"Conversion Value"

has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*

"Convertible Loans"

the Abraaj Convertible Loan and the QFB Convertible Murabaha, together

"Convertible Target Shares"

such Target Shares as are issued from time to time following the date of the Transaction Agreement in accordance with the terms of the Abraaj Convertible Loan and/or the QFB Convertible Murabaha

"Corridor Rate"	has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*
"Court"	the Royal Court of Jersey
"Court Hearing"	the hearing of the Court (and any adjournment thereof) to sanction the Scheme pursuant to Article 125 of the Companies (Jersey) Law 1991
"Court Meeting"	the meeting(s) of the Target Shareholders or any class or classes thereof to be convened by order of the Court pursuant to Article 125 of the Jersey Companies Law to consider and, if thought fit, approve the Scheme
"Court Order"	the order of the Court sanctioning the Scheme under Article 125 of the Companies (Jersey) Law 1991
"CPC"	Carpatsky Petroleum Corporation (Delaware)
"Crude Oil Purchase Agreement"	a long-term oil supply contract between the Target and Vitol relating to the sale of KEC Kuwait's entitlement of crude oil under the Block 9 EDPSC in Iraq, originally entered into on 13 December 2016, as amended and restated as of 10 May 2017 and as further amended and restated on 23 August 2018, including the sale of KE Iraq's entitlement of crude oil under the Siba gas development and production service contract in Iraq, as further amended from time to time
"Director(s)"	director(s) of the Company
"Disputed Interest"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"DNO"	DNO Yemen AS
"Dragon Oil"	a wholly-owned subsidiary of Emirates National Oil Company Ltd, the national oil company of Dubai
"Dragon Oil Transaction"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"Effective Date"	means the date on which the Scheme becomes effective in accordance with its terms

"Effective Time"	the time on the Effective Date at which the Scheme becomes effective
"EGPC"	the Egyptian General Petroleum Corporation
"ENBD"	the Emirates National Bank of Dubai S.A.E.
"ENBD Facility"	the EGP200.0 million (approximately US$11.0 million) overdraft working capital facility entered into between Kuwait Energy (Eastern Desert) and ENBD, dated as of 20 September 2018
''Enlarged Group''	the Group immediately upon completion of the Acquisition
"ERQ"	East Ras Qattara
"Financing Satisfaction Date"	the date on which the Purchaser gives notice to the Target that it has satisfied the requirement of obtaining sufficient aggregate amount of financing as set out in the paragraph headed "Financing" in the Letter from the Board in this circular
"First Amendment Agreement"	has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*
"GCA"	Gaffney, Cline & Associates, the Competent Person and Competent Evaluator (which have the meanings ascribed to it under Chapter 18 of the Listing Rules) appointed by the Company in respect of the Acquisition
"GCC"	Gulf Cooperation Council
"GPC"	the General Petroleum Company
"Group"	the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the People's Republic of China
"HSSE"	Health, Safety, Sustainability and Environment

"IFRS"	International Financial Reporting Standards of the International Accounting Standards Board, as adopted by the European Union
"International Economic Sanctions"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"IOCs"	international oil and gas companies
"ISIS"	Islamic State in Iraq and Syria
"JAA"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"JBA"	has the meaning given to it in Appendix I *(Financial Information of the Group)*
"JHOC"	Jannah Hunt Oil Company Limited
"JMC"	Joint Management Committee
"KE Basra"	Kuwait Energy Basra Limited
"KE Directors"	the executive and non-executive directors of the Target
"KE Iraq"	Kuwait Energy Iraq Ltd.
"KEC Kuwait"	Kuwait Energy Company K.S.C.C.
"KEC Kuwait Restructuring"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"KEC MENA"	KEC (MENA) Limited
"KEC Yemen"	KE (Yemen) Limited
"Kuwait Energy (Eastern Desert)"	Kuwait Energy (Eastern Desert) Petroleum Services SAE
"Kuwait Energy LTIP"	has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*
"Kuwait Energy Share Plans"	the Kuwait Energy LTIP and the Kuwait Energy STIP

"Kuwait Energy STIP"	has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*
"Latest Practicable Date"	21 December 2018
"licenses"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Long Stop Date"	30 June 2019 or such later date (if any) as the Target and the Purchaser may agree
"LPG"	Liquefied Petroleum Gas
"Management Agreement"	the management agreement entered into between the Target, Awal Shares and Securities Co. W.L.L. and Awal II Shares and Securities Co. SPC, dated 9 July 2014
"Material Adverse Effect"	any matter or event (or series of matters or events, whether or not related) occurring on or after 1 January 2018 which results or is reasonably likely to result in: (a) a reduction in the total assets of the Target Group (including Affiliates of the Target Group) of at least US$100,000,000 as compared to that set out in the Target Group's financial statements at 31 December 2017; or (b) an increase in the total liabilities of the Target Group (including Affiliates of the Target Group) of at least US$100,000,000 as compared to that set out in the Financial Statements at 31 December 2017, and which is notified in writing by the Purchaser to the Target, save where the relevant reduction in total assets or increase in total liabilities (i) results from a reduction in oil prices or any reduction in the estimate of reserves in the contract areas relating to the Assets; or (ii) has been fairly disclosed (but only to the extent fairly disclosed)

"MENA"	Middle East and North Africa
"OPEC"	the Organisation of the Petroleum Exporting Countries
"Partners"	the Target Group's partners in joint ventures and other capacities, in the relevant context
"PSCs"	Production Sharing Contracts
"Purchaser"	Gold Cheers Corporation Limited, a company registered in Hong Kong, whose registered office is at Unit 2505, 25/F, Two Pacific Place, 88 Queensway, Hong Kong
"Purchaser Group"	UEG, the Purchaser and their respective subsidiaries, subsidiary undertakings and Affiliates from time to time, but excluding any persons who from time to time directly or indirectly control UEG
"QFB Convertible Murabaha"	the *Shari'a*-compliant US$150 million convertible term Murabaha facility with Qatar First Investment Bank (subsequently renamed Qatar First Bank) entered into on 6 August 2012, as subsequently amended
"QPO Target Date"	has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*
"R"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"RC Field"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"Requisite Majorities"	(a) in respect of the Target GM Resolutions: not less than two thirds of the voting rights exercised by the Target Shareholders who attend and vote in person or by proxy; or (b) in respect of the Scheme: (i) simple majority in number of, and (ii) three quarters of the voting rights exercised by, the Target Shareholders who attend and vote in person or by proxy

"Scheme"	the scheme of arrangement under Article 125 of the Companies (Jersey) Law 1991 between the Target and the Target Shareholders to implement the Transaction pursuant to the Transaction Agreement
"Scheme Record Time"	6.00 p.m. on the business day immediately preceding the Effective Date (or such other time as the Purchaser and the Target may agree in writing, with the consent of the Court (if required))
"Second Amendment Agreement"	has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*
"Senior Notes"	the US$250 million 9.500% Senior Guaranteed Notes due 4 August 2019 and issued by the Target on 4 August 2014
"Settlement Agent"	Computershare Investor Services (Jersey) Limited
"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Shareholders"	registered holders of Shares from time to time
"Shares"	ordinary shares in the capital of the Company
"SOMO"	the Oil Marketing Company of the Iraqi Ministry of Oil
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it under the Listing Rules
"Superior Proposal"	a competing bid by a third party that will result in the acquisition of at least 70% of the Target Shares and (i) is reasonably capable of being completed within the timetable for the Transaction, taking into account all financial, legal, regulatory and other aspects of such proposal, (ii) has financing commitments which are at least equivalent to those of the Purchaser, and (iii) is on terms which are financially more favourable to Target Shareholders than the terms of the Transaction

"Target"	Kuwait Energy plc, a company incorporated and registered under the laws of Jersey with registered no. 106699
"Target Board"	board of directors of the Target
"Target GM"	general meeting of Target Shareholders to be convened in connection with the Scheme and the Transaction to consider and, if thought fit, approve the Target GM Resolutions (including any adjournment or postponement thereof)
"Target GM Resolutions"	special resolution to be proposed by the Target at the Target GM to approve, amongst other things, the alteration of Target's articles of association to ensure that any Target Shares issued following the Scheme Record Time (other than to the Purchaser) will automatically be transferred to the Purchaser on the same terms as under the Scheme, and such other matters as may be necessary for or connected with, the implementation of the Scheme
"Target Group"	the Target, its subsidiaries and subsidiary undertakings from time to time
"Target Shareholders"	registered holders of Target Shares from time to time
"Target Shares"	ordinary shares of £1.00 each in the capital of the Target
"Transaction"	the acquisition of all the Target Shares by the Purchaser by way of the Scheme as contemplated under the Transaction Agreement
"Transaction Agreement"	the agreement between the Company, the Purchaser and the Target dated 23 September 2018 pursuant to which the Purchaser conditionally agreed to purchase all of the Target Shares by way of the Scheme
"TRS"	has the meaning given to it in Appendix VI *(Further Information on Target Business Operations)*
"TTSF"	has the meaning given to it in Appendix IV (*Management Discussion and Analysis of the Target Group*)

"UEPL"	United Energy Pakistan Limited, a wholly-owned subsidiary of the Company
"Ukrnafta"	OJSC Ukrnafta (Ukraine)
"United States or U.S."	the United States of America, its territories and possessions, any State of the United States and the District of Columbia
"US$" or "U.S. dollar"	United States dollars, the lawful currency of the United States
"Vitol"	Vitol SA, a company registered in Switzerland
"Vitol Facility"	the US$100 million revolving prepayment facility agreed between the Target Group and Vitol, originally dated 13 December 2016, as amended and restated as of 10 May 2017 and as further amended and restated as of 23 August 2018
"Vitol Prepayment Agreement"	has the meaning given to it in Appendix IV *(Management Discussion and Analysis of the Target Group)*
"Yemen MOM"	Yemen Ministry of Oil and Minerals
"YICOM"	Yemen Company for Investment in Oil and Minerals

For the purposes of this circular, the English or Chinese name with an asterisk (*) is an unofficial English or Chinese (as the case may be) transliteration or translation and is for identification purposes only.

The following technical terms are used in this circular with the meanings set opposite them:

"boe"	Barrels of Oil Equivalent
"boepd"	Barrels of Oil Equivalent per day
"bopd"	Barrels of Oil per day
"bbl/d"	Barrels per day
"kbbl"	Thousand Barrels
"MMBbl"	Million Barrels
"mmboe"	Million Barrels of Oil Equivalent
"mmscfd"	Million Standard Cubic Feet per day
"Bcf"	Billion Standard Cubic Feet
"Tcf"	Trillion Standard Cubic Feet

For the purposes of this circular, the exchange rate of US$1 = HK$7.8 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at any particular rate on the date or dates in question or any other date.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

UNITED ENERGY GROUP LIMITED
聯合能源集團有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 467)

Executive Directors:
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Zhang Meiying

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88 Queensway
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27 December 2018

To: the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION ACQUISITION OF ALL ISSUED SHARES IN KUWAIT ENERGY PUBLIC LIMITED COMPANY BY WAY OF A SCHEME OF ARRANGEMENT

INTRODUCTION

Reference is made to the Announcement of the Company dated 24 September 2018.

On 23 September 2018, the Purchaser, the Company and the Target entered into the Transaction Agreement, pursuant to which the Purchaser, a wholly-owned subsidiary of the Company, has conditionally agreed to acquire all of the Target Shares by way of the Scheme for a consideration of up to US$650,857,128 (equivalent to approximately HK$5,076,686,000).

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Transaction exceed 25% but are less than 100%, the Transaction constitutes a major transaction for the Company.

The purpose of this circular is to provide you with details regarding the Transaction Agreement and the Transaction contemplated thereunder in accordance with the Listing Rules.

* *For identification purposes only*

THE TRANSACTION

Date of Transaction Agreement:

23 September 2018

Parties to the Transaction Agreement:

a) the Purchaser (as purchaser)

b) the Company (as purchaser's guarantor)

c) the Target (as target)

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Target and its ultimate beneficial owners are third parties independent of the Company and of connected persons of the Company.

Scheme of Arrangement

The Transaction is to be implemented by way of a scheme of arrangement under Jersey law, which must be approved by the Requisite Majorities of the Target Shareholders at the Target GM and Court Meeting and sanctioned by the Court.

Consideration and Payment Terms

The consideration for the Transaction comprises:

a) a base consideration of US$490,747,128 (equivalent to approximately HK$3,827,828,000) for all the Target Shares (except Convertible Target Shares); and

b) an additional amount of up to US$160,110,000 (equivalent to approximately HK$1,248,858,000) for the Convertible Target Shares (if applicable).

The Company plans to fund the consideration with a combination of loan facilities and its own cash reserve. Members of the Group have entered into three financing facilities with an aggregate principal amount of up to US$720 million (equivalent to approximately HK$5,616 million). With continuing positive cash flow from the Company's business in Pakistan, the Company expects to have a cash balance of at least US$200 million (equivalent to approximately HK$1,560 million) by 31 December 2018. The Company is confident that it will have sufficient funding to satisfy the consideration at Completion on the strength of its own cash balance and financing facilities. The Company currently has no plan to conduct any equity fund raising prior to the end of 2018 in connection with the Transaction but may consider equity fund raising if necessary.

Payment

The Purchaser has paid a deposit of US$15,000,000 (equivalent to approximately HK$117,000,000) to an escrow agent. The deposit will be: 1) paid to the Settlement Agent and deducted from the consideration payable by the Purchaser if the Transaction proceeds to Completion; 2) if a break fee becomes payable by the Purchaser, paid to the Target and deducted from the break fee; or 3) refunded to the Purchaser in all other circumstances.

If the Transaction proceeds to Completion, the Purchaser will pay the Settlement Agent (who shall hold all monies on trust) on the Effective Date an amount in cash up to the consideration minus the deposit. The Settlement Agent will then distribute the consideration.

The consideration was determined by the parties after arm's length negotiations with reference to, among other things, the valuation and the financial position of the Target Group, and the due diligence review of the Target Group. Namely, based on GCA's (who is also preparing the Competent Person's Report) opinion, as of 30 June 2018, the Fair Market Value pertaining to Target's interests in its assets in Iraq, Egypt and Oman is between US$850 million (equivalent to approximately HK$6,630 million) and US$1,050 million (equivalent to approximately HK$8,190 million). The Company uses the lowest asset value of US$850 million (equivalent to approximately HK$6,630 million), plus net working capital adjustments amounting to US$50 million (equivalent to approximately HK$390 million) to calculate the Target's enterprise value at approximately US$900 million (equivalent to approximately HK$7,020 million). The Company subtracts US$247 million (equivalent to approximately HK$1,927 million) senior guaranteed notes and US$158 million (equivalent to approximately HK$1,232 million) convertible loans from the Target's enterprise value which results in an equity value of approximately US$495 million (equivalent to approximately HK$3,861 million) (subject to minor adjustments).

As previously mentioned, the consideration comprises an amount of up to US$160,110,000 (equivalent to approximately HK$1,248,858,000) for the Convertible Target Shares; if any or all of the Convertible Loans get converted into Convertible Target Shares, the consideration will increase accordingly. Any unconverted amounts under the Convertible Loans, if unpaid, will remain with the Target Group as debt.

Senior Notes

Following Completion of the Transaction, the Target will remain the issuer of the Senior Notes.

Conditions

The Transaction is subject to the satisfaction (or where applicable, waiver) of the following conditions by the Long Stop Date:

a) The passing by the Requisite Majorities of the Target Shareholders at the Target GM of the Target GM Resolutions.

b) The approval of the Scheme by the Requisite Majorities of the Target Shareholders at the Court Meeting.

c) Approval of the Transaction by the Company's shareholders as required under the Listing Rules.

d) Receipt of the Consents.

e) The Scheme being sanctioned by the Court at the Court Hearing and a copy of the Court Order being delivered to the Registrar of Companies in Jersey for registration.

f) No Material Adverse Effect having occurred.

g) Prior to the Scheme Record Time, all the outstanding amounts due under the Convertible Loans having been discharged by conversion, rearrangement or a combination thereof (for not more than agreed amounts) without any further liabilities for the Purchaser Group or the Target Group.

The Target GM Resolutions were passed, and the Scheme was approved, by the Requisite Majorities of the Target Shareholders at the Target GM and Court Meeting respectively on 19 December 2018.

Termination Rights and Break Fee

Purchaser termination rights

The Purchaser may terminate the Transaction Agreement and be entitled to a break fee from the Target in the sum of US$25,000,000 (equivalent to approximately HK$195,000,000) as a result of any of the following:

a) a material breach of the Transaction Agreement by the Target;

b) an adverse recommendation change by the Target Board;

c) failure by the Target to publish the Scheme document or to convene the Court Meeting by the times required by the Transaction Agreement; or

d) where the resolutions to be proposed at the Court Meeting and the Target GM have been passed by the Requisite Majorities, any failure by the Target Board to seek the Court Order or to file the Court Order with the Registrar of Companies in Jersey.

The Purchaser may terminate the Transaction Agreement and the Target will pay a costs fee to the Purchaser in the sum of US$4,000,000 (equivalent to approximately HK$31,200,000) as a result of the Scheme not being approved by the Target Shareholders at the Court Meeting or the Target GM Resolutions not being passed by the Target Shareholders at the Target GM (other than in circumstances where a break fee is also payable by the Target to the Purchaser).

In addition, the Purchaser may terminate the Transaction Agreement (without being entitled to a break fee) in certain circumstances, including if:

a) a Material Adverse Effect has occurred that is not cured within 20 business days (as defined in the Transaction Agreement) from the date of notification;

b) there is a breach of certain fundamental warranties by the Target that is not cured within 20 business days (as defined in the Transaction Agreement) from the date of determination or agreement of the breach; or

c) in certain circumstances, there is a breach or breaches of the Target's warranties as the date of the Transaction Agreement, not cured within 20 business days (as defined in the Transaction Agreement) from the date of notification, which in aggregate amounts to US$100,000,000 (equivalent to approximately HK$780,000,000) or more in losses, or a US$100,000,000 (equivalent to approximately HK$780,000,000) or more reduction in the total assets of the Target Group (including Affiliates of the Target Group) or a US$100,000,000 (equivalent to approximately HK$780,000,000) or more increase in the total liabilities of the Target Group (including Affiliates of the Target Group).

Target termination rights

The Target may terminate the Transaction Agreement and be entitled to a break fee from the Purchaser in the sum of US$25,000,000 (equivalent to approximately HK$195,000,000) as a result of any of the following:

a) a material breach of the Transaction Agreement by the Purchaser;

b) there having been a ratings downgrade of the Senior Notes as a result of any public disclosure (other than the Announcement) made by the Purchaser Group;

c) Financing Satisfaction Date not having occurred on or before 31 December 2018, or the availability of financing (whether in the form of cash, cash equivalent or financing agreement(s)) to the Purchaser no longer being reasonably certain, or the Purchaser fails to deliver a notice required and/or such evidence as is reasonably required by the Target due to cash or cash equivalents on hand having ceased to be accessible by the Purchaser; or

d) the approval of the Company's shareholders for the Transaction not having been obtained two business days (as defined in the Transaction Agreement) prior to the Court Hearing.

Automatic termination

The Transaction Agreement will terminate if the Effective Time has not occurred by the Long Stop Date (unless otherwise agreed).

Financing

No later than 31 December 2018, the Purchaser will or will procure that a member of the Purchaser Group will:

a) enter into one or more financing agreements where the availability of such financing to the Purchaser is reasonably certain in terms of conditionality to funding; and/or

b) obtain cash or cash equivalents (being instruments and deposits that are realisable for cash at the Purchaser's election prior to the Effective Date) on hand,

so that the aggregate amount of financing available to the Purchaser will be (when taken together with the deposit of US$15 million (equivalent to approximately HK$117 million)) US$651 million (equivalent to approximately HK$5,078 million) (or such lower amount as shall reflect a reduction on a US$ for US$ basis following any repayment or prepayment by the Target from time to time in respect of the Convertible Loans). On or after the date on which such amount of financing is available to the Purchaser, the Purchaser shall be entitled to give written notice to the Target, and the date of such notice will be the Financing Satisfaction Date.

Target Non-Solicitation

The Target has undertaken that from the date of the execution of the Transaction Agreement, it will cease any ongoing discussions with any person in relation to, and will not solicit, induce, engage or initiate or otherwise seek to procure, any competing offer for the Target.

Target Board Recommendation

The Target Board has undertaken to give a unanimous unqualified recommendation to the Target Shareholders to vote in favour of the Scheme at the Court Meeting and in favour of the Target GM Resolutions at the Target GM. The Target Board may change its recommendation only if a bona fide unsolicited competing offer is made for the Target and the Target Board determines in good faith it is a Superior Proposal.

Pre-Completion Undertakings

The Target has given certain pre-Completion undertakings under the Transaction Agreement in respect of the Business, including the undertaking to carry on its business in the ordinary course and prevent leakage of value from the Target Group (including Affiliates of the Target Group) prior to Completion.

Right to Switch to an Offer

The Purchaser currently intends to implement the Transaction by way of the Scheme; however, the Purchaser may at any time before the Financing Satisfaction Date elect to implement the Transaction by way of a general offer in its absolute discretion.

Following the Financing Satisfaction Date, the Purchaser may elect to implement the Transaction by way of an offer if:

a) a third party makes an offer for the issued and to be issued ordinary share capital of the Target;

b) the Target Board changes, withdraws or modifies its recommendation to vote in favour of the Scheme; or

c) the Court does not sanction the Scheme at the Court Hearing.

Company's Obligations as Purchaser's Guarantor

The Company has agreed to guarantee the obligations of the Purchaser under the Transaction Agreement and the Scheme.

Target Shareholders' Irrevocable Undertakings

In connection with the Scheme, the Purchaser has obtained irrevocable undertakings from members of the Target Board in respect of their personal holdings of 1,286,645 Target Shares (representing approximately 0.40% of the voting rights in the Target as at the Latest Practicable Date), to vote in favour of the Scheme at the Court Meeting and the Target GM Resolutions at the Target GM, and to vote against any proposal that may reasonably impede or frustrate the consummation of the Transaction (including any competing scheme of arrangement by a third party), provided that such irrevocable undertakings will lapse if the Transaction Agreement is terminated in accordance with its terms, the Scheme is withdrawn, lapses or otherwise terminates in accordance with its terms, or if the Transaction (whether implemented by way of the Scheme or an offer) does not close or become effective on or by the Long Stop Date.

Company Controlling Shareholders' Irrevocable Undertaking

In connection with the Transaction, the Controlling Shareholders, which together hold 18,754,300,230 Shares (He Fu International Limited as to 10,657,758,250 Shares, United Energy Holdings Limited as to 3,649,088,564 Shares and United Petroleum & Natural Gas Holdings Limited as to 4,447,453,416 Shares), representing approximately 71.32% of the issued share capital of the Company as at the Latest Practicable Date, have provided an irrevocable undertaking to the Target and the Company to provide a written approval pursuant to Rule 14.44 of the Listing Rules, or, if such written approval is not accepted by the Stock Exchange, exercise the voting rights attaching to their Shares to procure the approval of any resolution which is proposed at the general meeting of the Company, in respect of the Transaction, provided that such undertaking will lapse and cease to have any effect if the Transaction Agreement is terminated or if the Transaction (whether implemented by way of the Scheme or an offer) does not close or become effective on or by the Long Stop Date.

INFORMATION ABOUT THE PARTIES

The Purchaser and the Company

The Company is one of the largest listed independent upstream oil and gas corporations in Hong Kong, with business presence in South Asia. The Company, together with its subsidiaries, is principally engaged in the investment and operation of upstream oil, natural gas and other energy related businesses.

The Purchaser is a wholly-owned subsidiary of the Company set up for the purpose of implementing the Transaction.

The Target

The Target is incorporated and registered under Jersey law. It is principally an upstream oil and gas company with exploration, appraisal, development and production activities in a number of countries including Iraq, Egypt, Yemen and, until completion of the sale of the Target Group's 20% interest in Medco LLC, Oman.

The Target Group operates with full-cycle capabilities across exploration, appraisal, development and production of oil and gas assets, and its primary mission is the secure, environmentally-conscious and sustainable production of hydrocarbons. The Target Group is indigenous to the MENA region, and is one of the largest independent crude oil and natural gas companies focused on this region, based on estimated reserves. Production and development assets of the Target Group are located in southern Iraq and Egypt, and with an operations hub in Kuwait, corporate headquarters in Bahrain and a registered office in Jersey. As at 30 June 2018, the Target Group had, respectively, 1P and 2P net entitlement reserves of 71.9 MMBbl and 123.7 MMBbl of oil; 3.8 MMBbl and 6.9 MMBbl of condensate; and 72.9 Bcf and 108.3 Bcf of gas.

Yemen Operations

In Yemen, the Target Group currently only holds the Block 5 asset, with a 15% operated working interest. However, the security situation in the country has caused the Target Group to cease exploration, appraisal, development and production. The Target Group's non-Yemeni employees have been evacuated and, consequently, the Target Group has been prevented from moving hydrocarbons. Whilst in 2014 Yemen still represented approximately 18% of the Target Group's average daily working interest production, in 2015 it only represented 3.9% of the Target Group's average daily working interest production. Since 7 April 2015, when the Ras Isa Export Terminal and SAFER Exploration & Production Operations Company Block 18 were both shut down, the Target Group's Yemen operations have been placed on administrative hold. As at 30 June 2018, Yemen represented nil of the Target Group's average daily working interest production.

The Target Group's Block 5 production sharing agreement in Yemen was originally set to expire on 8 June 2015, but it was extended to 13 March 2018, in full and final settlement of all force majeure claims by the Target Group up to and including 7 March 2016, due to production being interrupted on several occasions as a result of sabotage of the main oil export pipeline and the closure of the port at Ras Isa since 7 April 2015. Whilst in due course, the Target Group expects YICOM to confirm an additional extension, if the Target Group fails to fulfill certain of its license requirements, for example as a result of a

deterioration in the security situation, the Target Group could be required to temporarily or permanently cease all operations in the country. If the Block 5 license is not renewed, or is subject to new unfavourable financial terms, the Target Group may discontinue its activities in Yemen.

There is no legislation specific to the regulation of exploration and production of petroleum in Yemen, such as a "Petroleum Law" to which production at Block 5 would be subject. In the absence of such legislation, all petroleum operations are regulated through production sharing agreements, which are, in turn, ratified and given the full force and effect of law. Pursuant to Yemeni law, a special law – in this case the production sharing agreement – is one which provides specific rules to govern a specific relationship, such as that between certain members of the Target Group and the Ministry. Accordingly, the terms of the production sharing agreement (as a special law) will prevail in the event of a conflict with any other law or source of law (other than the Yemen Constitution).

Target Group risk factors

Despite a wide range of challenges the Company may face in the jurisdictions in which the Target Group operates (see Appendix VI (Further Information on Target Business Operations)), the Directors are of the view that the risks involved in the operation of business in these jurisdictions can be managed following the consummation of the Transaction, taking into account that:

a) the relevant licenses, permits and approvals obtained by the Target Group are protected by the applicable contracts, laws and regulations in these jurisdictions, and there are mechanisms available for the Company to mitigate risks in the event that its interests are adversely affected. For example, stabilisation clauses are incorporated in the service contracts for Block 9 and Siba in Iraq to address changes in law in Iraq to guarantee investment stability;

b) the Company will continue to carry on its business in accordance with the applicable contracts, laws, regulations and sound and generally accepted industry standards; and

c) the Company will use all commercially reasonable efforts to seek remedies available on the advice of its legal counsel to protect its rights.

Target Group licences

Table 1 and Table 2 below list the development and exploration licences the Target has represented that it held as at 30 June 2018 which are essential to carrying on its business, and to which reserves and/or resources have been attributed. For details of Target's licenses and assets, please refer to Appendix V – Competent Person's Report and Valuation Report.

Table 1: Development License Summary as at 30 June 2018

Country	Asset	KE WI* (%)	Operator	Field	Expiry Date	Option for Extension
Iraq	Siba	30.0	Target	Siba	July 2032	5 years
Egypt	East Ras Qattara (ERQ)	49.5	Sipetrol	Shahd	March 2027	5 years
				Ghard	July 2017	5 years
				Shahd SE	April 2028	5 years
				Rana	February 2028	5 years
				Al Zahraa	May 2029	5 years
				Diaa	March 2030	5 years
				Shebl	May 2031	5 years
	Area A	70.0	Target	Kareem&Ayun	June 2023	–
				Kheir	June 2023	–
				Shukheir	June 2023	–
				Um El Yusr	June 2023	–
				Shukheir NW	July 2019	10 years
	Abu Sennan	25.0	Target	Al Ahmadi	March 2032	15 years
				AS-1	February 2032	15 years
				AS-2	March 2032	15 years
				AS-3	July 2033	15 years
				AS-4	April 2035	15 years
				AS-5	July 2036	15 years
	Burg El Arab	100.0	Target	Burg El Arab	December 2021	5 years
Yemen	Block 5	15.0	Target	All	March 2018	5 years

*WI = working interest

Table 2: Exploration License Summary as at 30 June 2018

Country	License	Target WI (%)	Operator	Expiry Date	Option for Extension
Iraq	Block 9	60.0	Target	February 2018	2 years
Egypt	Area A	70.0	Target	September 2018	18-24 months
	Abu Sennan	25.0	Target	May 2021	–

As shown in the tables above, the Target Group holds a number of development and exploration licenses, a few of which are due to expire in the near future. The Company understands from the Target that the status of each of the licenses that are due to expire soon is as follows:

a) **East Ras Qattara, Ghard, Egypt**: it was agreed in May 2017 that the Ghard development lease blocks would be kept active whilst the Target Group continued production in accordance with the relevant concession agreement. However, in the event that production ceases for 12 consecutive months, a meeting will be held with an EGPC representative to discuss the most appropriate way to recommence production.

b) **Area A, Shukheir NW, Egypt**: the Target Group intends to apply for an extension to the development license in early January, six months prior to its expiry in July 2019. The Target Group believes that this license will most likely be renewed upon a negotiated commitment with GPC.

c) **Burg El Arab, Egypt**: an extension to the development license has been applied for and has been approved by EGPC's executive committee. It is now being raised for consideration by EGPC's board prior to being submitted for Cabinet and People's Assembly approvals. The Target Group considers that this will most likely be renewed based on negotiated commitment with EGPC.

d) **Area A, Egypt**: an extension to the exploration license which was due to expire in September 2018 has already been obtained from GPC. Such exploration license will now expire in September 2020.

e) **Abu Sennan, Egypt**: a five year extension period for Abu Sennan was originally granted from May 2016 until May 2021. However, the Target Group has subsequently been granted an additional period of two years, three months and 11 days (for the time consumed up to final approval), such that the first exploration phase will now end on 9 September 2021, the second exploration phase will end on 9 September 2022 and the third exploration phase will end on 9 September 2023.

f) **Block 5, Yemen**: information about this license has been provided on page 21 under the heading "Yemeni Operations". As at 30 June 2018, Yemen represented nil of the Target Group's average daily working interest production, and while the Target is currently applying to the state owned oil company of Yemen, YICOM, for an extension due to *force majeure*, if the Block 5 license is not renewed, the Target Group may discontinue its activities in Yemen. Accordingly, the Company has not included this asset in its valuation of the Target business.

Apart from Block 5, Yemen, the Company currently is not aware of regulatory or legal impediments in renewing the abovementioned licenses of the Target Group.

Furthermore, the Company understands from the Target that although the Block 9 exploration license expired in February 2018, because the Target Group has discovered in excess of 200 million barrels of reserves as required under the Block 9 EDPSC and as a result submitted a Declaration of Commerciality, the Target Group believes it has no reason to request an additional extension of the Block 9 exploration license. The Target Group is currently focusing on producing the field at 30,000 bopd and is targeting to submit the field development plan in 2019 and be granted a 20 year development lease. Moreover, pursuant to the JMC resolution number 9 dated 5 July 2018, the JMC has approved the waiver of relinquishing areas where no exploration has been carried out, and has also delayed any additional exploration drilling to be carried out for four years. In addition, the JMC resolution number 7 dated 5 July 2018 demonstrates the operational continuity of Block 9 as the JMC instructed the operator to sign a new contract for the extended well test units with Weatherford International plc for a period of three years commencing from 12 October 2017. The Target Group has also submitted its 2019 work program and budget which is being discussed with the BOC and has been able to lift all available liftings as a result of Block 9 production since February 2018, which demonstrates the continuity of the license.

Assets to be Acquired

The net asset value of the assets which are the subject of the Transaction is approximately US$186.9 million (equivalent to approximately HK$1,457.8 million) as at 31 December 2017.

The net loss (both before and after taxation) attributable to the assets which are the subject of the Transaction for the two financial years immediately preceding the Transaction are as follows:

	Year ended 31 Dec 2016 *(US$ million)*	**Year ended 31 Dec 2017** *(US$ million)*
Net loss before tax	114.7	45.7
Net loss after tax	116.1	52.8

The arbitration proceedings summarised below are confidential. The below summary does not, and is not intended to, waive that confidentiality and/or any privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

The Company understands the Target Group has been pursuing the assignment to Dragon Oil of a 15% participating interest in the Block 9, Iraq service contract (6.43% of which would be on a past net cost basis, and 8.57% for a lump sum of US$100 million (equivalent to approximately HK$780 million)) in settlement of a dispute in relation to a non-controlling interest in Block 9, Iraq. On 19 September 2018, Dragon Oil: (i) exercised its rights to terminate the settlement and transfer agreements pursuant to which that assignment of the 15% participating interest was agreed; and (ii) lifted the stay of arbitration, thereby recommencing the arbitration proceedings in respect of the dispute. The parties have agreed a procedural timetable for the remaining stages of the arbitration

and a final hearing is now scheduled to take place between 20 and 24 May 2019. Further announcement(s) may be made to the extent that the progress of such disputes is relevant for the purpose of the Transaction.

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Target has a high quality asset portfolio with significant scale, strong development potential, and an experienced management team. The production base and long reserve life of the Target assets are highly complementary to the Company's existing portfolio and provides sustainable growth prospects for the Company for the next two decades. The Company will leverage its operational capabilities to generate synergies. The Company believes that the risks associated with the Target portfolio are manageable.

The Transaction is a significant milestone in implementing the Company's medium and long-term growth strategy of becoming an independent international oil and gas company. The Transaction will transform the Company into a strong medium-sized international independent oil and gas company with a diversified portfolio of high quality assets. The production base and long reserve life of the Target are highly complementary to the Company's existing portfolio and provides a sustainable development profile to the Company for the next two decades. The Company will also leverage its strong financial capabilities to enhance the development potential of the Target portfolio. It will also allow the Company to materially enter the resource rich oil and gas markets in MENA, and allow cooperation and competition with best-in-class international companies on the same platform. To date, the Target has worked with large international oil and gas companies globally as well as national oil companies in the countries it operates. Moreover, the Target has an established presence and reputation in the oil and gas industry in the Middle East. The Transaction will significantly improve the profile of the Company and also further expand its development potential.

With sufficient funding, the Company is confident that it will significantly reduce the financing cost of the Target Group after the successful acquisition, thereby improving the financial performance of the Target Group.

The Directors are of the view that the Transaction is in the interests of the Company and the Shareholders as a whole, and the terms of the Transaction Agreement, which have been reached after arm's length negotiations between the parties, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EFFECTS OF THE TRANSACTION ON THE COMPANY

If the Transaction is completed, the Company will hold all of the issued shares in the Target. Accordingly, the Target Group's financial results will be consolidated into the financial statements of the Company.

Assets and liabilities

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular (as if the Transaction had

been completed on 30 June 2018), (i) the consolidated total assets of the Group would have increased from approximately HK$15,104 million to approximately HK$27,498 million on a pro forma basis; (ii) the consolidated total liabilities of the Group would have increased from approximately HK$4,612 million to approximately HK$14,977 million on a pro forma basis; and (iii) the consolidated net assets of the Group would have increased from approximately HK$10,492 million to approximately HK$12,520 million on a pro forma basis.

Earnings

After Completion, the Target Group will become the indirect subsidiaries of the Company and their results would be consolidated into the consolidated financial statements of the Group. 100% of the share capital and voting rights of Target will be held indirectly by the Company after Completion.

Capital Expenditure

The Company will continue to incur capital expenditures in the future to operate the Target Group's business. The Company will consider the operation inflow from the Group's and Target Group's businesses to manage the capital expenditure outflow to satisfy the future capital expenditure needs.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Transaction exceed 25% but are less than 100%, the Transaction constitutes a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements (meaning a simple majority vote) under Chapter 14 of the Listing Rules.

In lieu of holding a general meeting to approve the Transaction Agreement and the transaction contemplated thereunder, written approval on the Transaction Agreement and the transaction contemplated thereunder has been obtained from: (i) He Fu International Limited, holding 10,657,758,250 Shares representing approximately 40.53% of the issued share capital of the Company, (ii) United Petroleum & Natural Gas Holdings Limited, holding 4,447,453,416 Shares representing approximately 16.91% of the issued share capital of the Company, and (iii) United Energy Holdings Limited, holding 3,649,088,564 Shares representing approximately 13.88% of the issued share capital of the Company, being the Controlling Shareholders holding in aggregate more than 50% of the issued share capital of the Company. He Fu International Limited, United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited are controlled by Mr. Zhang Hong Wei, the controlling shareholder and the Chairman of the Company. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has any material interest in the Transaction as at the Latest Practicable Date, and as such, no Shareholder is required to abstain from voting on the resolution(s) to approve the Transaction.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in this circular an accountants' report on the Target Group prepared in accordance with Chapter 4 of the Listing Rules. The accounts on which the said accountants' report is based must relate to a financial period ended six months or less before this circular is issued. The financial information on the Target Group as contained in the accountants' report must be prepared using accounting policies which should be materially consistent with those of the Group (the "**Accountants' Report in Strict Compliance**").

Background and reasons for the application of the waiver

The audited consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**"). The audited consolidated financial statements of the Target Group have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") as adopted by the European Union.

Although the Target Group and the Group adopt broadly similar financial reporting standards (i.e. IFRSs and HKFRS, respectively), the Target Group has adopted two accounting policies which are different from those adopted by the Company. The differences in accounting policies are:

(i) According to the Group's accounting policies, crude oil inventories are stated at the lower of cost and net realisable value while the Target Group's crude oil inventories are valued at fair value less costs to sell.

(ii) According to the Group's accounting policies, certain exploration expenses are expensed when incurred, while the Target Group capitalises some exploration expenses in intangible exploration and evaluation assets and transfer some part of it later to property, plant and equipment and depreciated thereafter. This has an impact on the accounting line items such as property, plant and equipment, depreciation and amortization, exploration expenditure written off, impairment of oil and gas assets and borrowing cost.

If the Company were required to prepare the Accountants' Report in Strict Compliance, the Company would need to engage a firm of reporting accountants to perform re-audit (using the "bottom-up" approach) for the financial information for the three years ended 31 December 2017 and the six months ended 30 June 2018 (the "**Relevant Periods**"), together with a review of the comparative figures of the six months ended 30 June 2017 based on the Group's accounting policies. The said reporting accountants will first need to (where necessary) understand and familiarize themselves with the accounting policies of the Group, to perform planning and then conduct bottom-up verification of the differences in accounting treatments and some of which will need to be tracked back to the inception of the Target, and to re-calculate consequential financial effect related to those differences in accounting treatments. As the Target Group has over 20 subsidiaries and has business operations across 5 countries, the additional work involved for the said "bottom-up" re-audit will be substantially more

than that required for preparation of the Alternative Disclosures (as defined below) and it is envisaged the re-audit alone would run beyond 31 December 2018.

If the circular cannot be issued by 31 December 2018, this kicks in a further delay as the Company would need to update the entire Accountants' Report such that the Accountants' Report in Strict Compliance would cover the period of three full financial years ending 31 December 2018. Assuming that a firm of accountants can accept the engagement for preparation of the Accountants' Report in Strict Compliance, it is envisaged that the preparation of this would not be ready before the end of June 2019. In view of the above, the Directors are of the view that requiring the Company to prepare the Accountants' Report in Strict Compliance (thereby delaying the despatch of the circular possibly by at least half a year) would be unduly burdensome for the Company and will have substantial adverse impact on the execution of the Transaction as the long-stop date of the Transaction is 30 June 2019.

On the other hand, the Alternative Disclosures (as defined below) could utilize the published audited accounts of the Target Group, and supplement the same with the Reconciliation (as defined below). The Target has issued a set of US$250,000,000 9.500% Senior Guaranteed Notes due 2019, which is listed on Global Exchange Market of The Irish Stock Exchange plc trading as Euronext Dublin. The financial information of the Target Group for each of the three years ended 31 December 2017 (each of which was audited by a member of Deloitte Touche Tohmatsu Limited) and the unaudited financial information of the Target Group for the six months ended 30 June 2018 (which was reviewed by Deloitte SA) have all been made publicly available for the information of the investors and bondholders of the Target. The Directors are of the view that the Alternative Disclosures can provide reliable, relevant and more meaningful information to the shareholders of the Company on the financial position of the Target Group.

Alternative Disclosures

In view of the above reasons, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 14.67(6)(a)(i) of the Listing Rules on the condition that the following alternative disclosures (the "**Alternative Disclosures**") of financial information is included in this circular:

(i) an accountants' report, to be issued by Deloitte Touche Tohmatsu in Hong Kong, on the financial information of the Target Group for the Relevant Periods (the "**Accountants' Report**") – please see Part A (Accountants' Report of the Target Group) in Appendix II – Financial Information of the Target Group. The Accountants' Report will be prepared in accordance with the applicable requirements under Chapter 4 of the Listing Rules and IFRSs, and on the basis of the accounting policies of the Target Group. The Accountants' Report will also be prepared by Deloitte Touche Tohmatsu in Hong Kong in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "*Accountants' Report on Historical Financial Information in Investment Circulars*" issued by the Hong Kong Institute of Certified Accountants ("**HKICPA**"); and

(ii) a line-by-line reconciliation of the income statements and the statements of financial position of the Target Group's financial information for the differences between its accounting policies and the accounting policies of the Group, with an explanation of the differences ("**Reconciliation**") – please see Part B (Unaudited Pro Forma Financial Information of the Target Group) in Appendix II – Financial Information of the Target Group. The Reconciliation aims to illustrate the impact on the income statements of the Target Group for the Relevant Periods, and the statements of financial position of the Target Group as at 31 December 2015, 2016 and 2017 and 30 June 2018, as if the accounting policies adopted by the Group had been adopted by the Target Group for the Relevant Periods. The auditors of the Company, RSM Hong Kong, will review the Reconciliation in accordance with Hong Kong Standard on Assurance Engagements 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA.

The Transaction is subject to a number of conditions which may or may not be fulfilled. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board
Zhang Hong Wei
Chairman and Executive Director

A. CONSOLIDATED FINANCIAL STATEMENTS

1. Financial Statements of the Group for the three years and six months ended 30 June 2018

The financial information of the Group for (i) the year ended 31 December 2015 is disclosed in the annual report of the Company for the year ended 31 December 2015 published on 20 April 2015, from pages 45 to 122; (ii) the year ended 31 December 2016 is disclosed in the annual report of the Company for the year ended 31 December 2016 published on 25 April 2016, from pages 52 to 140; (iii) the year ended 31 December 2017 is disclosed in the annual report of the Company for the year ended 31 December 2017 published on 15 March 2017, from pages 46 to 130; and (iv) the six months ended 30 June 2018 is disclosed in the interim report of the Company for the six months ended 30 June 2018 published on 30 September 2018, from pages 1 to 25, all of which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.uegl.com.hk).

2. Financial Statements of Companies Acquired

The financial information of the Target Group for (i) the year ended 31 December 2015 is disclosed in the annual report of the Target for the year ended 31 December 2015 published on 27 April 2016, from pages 51 to 88; (ii) the year ended 31 December 2016 is disclosed in the Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2016 published on 27 April 2017, from pages 5 to 45; (iii) the year ended 31 December 2017 is disclosed in the Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2017 published on 11 April 2018, from pages 10 to 51; and (iv) the six months ended 30 June 2018 is disclosed in the 2018 Half Year Financial Results for the six months ended 30 June 2018 published on 30 September 2018, from pages 6 to 23, all of which have been published on the website of the Target (https://www.kuwaitenergy.co).

B. INDEBTEDNESS

As at the close of business on 31 October 2018, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

Debt Securities

The Target Group

Unsecured and unguaranteed Convertible Loans of approximately HK$798.9 million.

Borrowings

The Group

Outstanding secured bank loan of approximately HK$717.6 million (equivalent to US$92 million) which is secured by i) accounts charges over certain bank and cash balances of approximately HK$508.5 million; ii) share charge over the entire equity interests of a wholly owned subsidiary, BowEnergy Resources (Pakistan) SRL ("**Bow**"); iii) a charge over all of Bow's assets; and iv) assignment of Bow's trade receivables.

Secured crude oil prepayment facility of approximately HK$234 million which is guaranteed by the Company.

The Target Group

Senior Notes of approximately HK$1,981.3 million which are unsecured and guaranteed by certain material subsidiaries of the Target.

Working capital facility drawn down of approximately HK$787.7 million which is secured by, amongst other things, a share charge over the entire equity interests of two wholly-owned subsidiaries of the Target, a negative pledge in respect of relevant assets and which is guaranteed by four of the Target's subsidiaries.

Finance lease obligation

The Target Group

Finance lease obligation of approximately HK$15.5 million which is secured by the lessor's right over the leased assets.

Contingent liabilities

The Group

There are various unlimited corporate guarantees issued in favour of the President of the Islamic Republic of Pakistan and certain joint operators of the Group, as guarantee to provide UEPL with all necessary financial and other means to enable UEPL to fully perform its obligations as stipulated in the concession agreements.

The Group issued indemnity bonds and corporate guarantees were granted to the collector of customs of Pakistan in case of any dispute arising on claim of exemptions of levies including custom duties and sales tax on import of machinery, equipment, materials, specialised vehicles, spares, chemicals and consumables under the petroleum concession agreement amounting to approximately HK$4.5 million.

Certain subsidiaries were in dispute with the Pakistan government on the applicability of windfall levy on its production of oil and condensate. On 27 December 2017, the government's approval for the execution of windfall levy was granted and the windfall levy became applicable on the subsidiaries. Based on legal advice, the management believes that the applicability of the windfall levy is prospective (i.e. from the date of the government's approval). If the applicability of windfall levy is retrospective, further provision for the windfall levy of approximately HK$194.3 million would be required.

Certain subsidiaries received various tax orders in an attempt to re-assess tax liability for prior years by the Pakistan tax department. They are currently appealing against these orders and the cumulative exposure for the pending tax cases is approximately HK$105.5 million.

The Company has issued a corporate guarantee to a customer in respect of a crude oil prepayment facility granted to UEPL. The facility amount is limited to the extent of HK$468 million (approximately US$60 million).

The Company had issued a corporate guarantee to a financial institution in respect of a loan facility granted to a subsidiary of the Company, United Energy Group (Hong Kong) Limited. The facility amount is HK$1,326 million (approximately US$170 million) and not yet utilized.

The Target Group

The below summary does not, and is not intended to, waive any confidentiality and/or any privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

On 4 April 2016, Dragon Oil filed for arbitration with the International Chamber of Commerce, which was subsequently served on certain members of the Target Group on 12 May 2016. Dragon Oil has alleged various breaches of contract and trust relating to: (i) the Block 9 Joint Bid Agreement dated 25 January 2012 (as amended) (the "**JBA**"); and (ii) correspondence and exchanges between the relevant members of the Target Group and Dragon Oil during October to December 2012. Dragon Oil has requested relief in the form of a transfer of a 12.86% participating interest in the Block 9 exploration, development and production service contract dated 27 January 2013 (the "**Block 9 EDPSC**") from a member of the Target Group to Dragon Oil or, in the alternative, an account of profits or damages currently pleaded in the amount of US$135.5 million (equivalent to approximately HK$1,056.9 million) (excluding interest and costs) in lieu of that transfer. On 11 February 2018, Dragon Oil and the relevant members of the Target Group entered into settlement and transfer agreements, pursuant to which, upon completion of those agreements: (i) one of the members of the Target Group would assign a 15% participating interest in the Block 9 EDPSC to Dragon Oil (6.43% of which would be on a past net costs basis, and 8.57% for a lump sum of US$100 million (equivalent to approximately HK$780 million)); and (ii) Dragon Oil would withdraw the arbitration. Upon the signing of the settlement agreement on 11 February 2018, the parties agreed to stay the

arbitration pending completion of the settlement, and to vacate the final hearing. On 19 September 2018, Dragon Oil: (i) exercised its rights to terminate the settlement and transfer agreements pursuant to which the assignment of the 15% participating interest was agreed; and (ii) lifted the stay of arbitration, recommencing the arbitration proceedings. A final hearing is now scheduled to take place between 20 and 24 May 2019. The potential outcome in relation to this dispute could therefore be: (i) an award in favour of the Target Group dismissing the claim by Dragon Oil; or (ii) a transfer of: (a) part of the Target Group's participating interest in Block 9; or (b) an amount in cash, to Dragon Oil.

On 17 July 2017, DNO filed for arbitration with the International Chamber of Commerce against the Yemen MOM and a member of the Target Group. In the arbitration, DNO seeks an award recognising the validity of its relinquishment of Block 43 in Yemen (which had previously been disputed by the Yemen MOM), and for certain damages relating to Yemen MOM's refusal to recognise the validity of that relinquishment. Further, although DNO makes no substantive claims against the Target Group, DNO seeks declarations that the relevant member of the Target Group is: (i) bound by the provisions of the Block 43 Production Sharing Agreement dated 7 January 1998 (as amended) (the "**Block 43 PSA**") and the Block 43 Joint Operating Agreement dated 7 January 1998 (as amended) (the "**Block 43 JOA**"); (ii) jointly and severally liable for the performance of the obligations of the "Contractor" under the Block 43 PSA (the "**Block 43 Contractor**"); and (iii) liable to share in the obligations of the Block 43 Contractor and all liabilities and expenses incurred by DNO in connection with the joint operations. The Yemen MOM has filed a number of counterclaims against the Block 43 Contractor. The Yemen MOM currently quantifies its counterclaims at approximately US$100 million (equivalent to approximately HK$780 million). If any of Yemen MOM's counterclaims succeed, the Target Group's potential exposure will be limited to the relevant Target Group member's participating interest in Block 43 at the relevant time. The relevant member of the Target Group held a participating interest of 28.33% in Block 43 from 5 October 2009 to 30 June 2015, when it withdrew from Block 43. However, because the Block 43 PSA parties also carried a 15% participating interest held by Yemen Oil & Gas Corporation under the Block 43 PSA, the relevant member of the Target Group was, in effect, liable for 33.33% of the obligations under the Block 43 PSA during that period. In the arbitration, the Yemen MOM has also asserted that the relevant member of the Target Group's withdrawal on 30 June 2015 was not effective. The validity or otherwise of that withdrawal has the potential to affect the period in respect of which the relevant member of the Target Group will be liable (as one of the entities comprising the Block 43 Contractor) in respect of the Ministry's counterclaims. The Target Group is currently conducting a detailed review of the merits of the case. To the extent that the arbitration proceedings result in a negative outcome for the Target Group, the exposure in relation to this dispute may have an adverse impact on the financial position of the Target Group. The parties are exchanging pleadings and producing documents according to the procedural timetable. A final hearing is scheduled to take place between 8 and 12 April 2019.

Except as disclosed above and apart from intra-group and normal trade and other payables, as at the close of business on 31 October 2018, the Enlarged Group did not have any loan capital or debt securities issued and outstanding and authorised or otherwise created but unissued, liabilities under acceptances (other than normal trade bills), acceptance credits, finance leases, hire purchase commitments, borrowings or other similar indebtedness, bank overdrafts, bank loans, mortgages, pledges, debentures, charges, contingent liabilities or guarantees.

To the best of the knowledge of the Directors, except for (i) the repayment by the Target of the final instalment of approximately HK$134.5 million under the Abraaj Convertible Loan on 27 November 2018, and (ii) that the Group entered into a banking facilities letter to the extent of HK$3,120 million (approximately US$400 million) on 3 December 2018 and not yet utilized, there has not been any material change in the indebtedness and contingent liabilities of the Enlarged Group since 31 October 2018 and up to the date of this circular.

C. WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseen circumstances, after taking into account of the Enlarged Group's presently available financial resources, including the internally generated funds and the available banking facility, the Group will have sufficient working capital to meet its present requirement for at least 12 months following the date of this circular.

D. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

According to World Bank's Global Economic Prospects issued in June 2018, the global economy is projected to grow by 3.1% in 2018, on par of the expected growth rate in 2017 but representing a substantial increase from the actual growth rate of 2.4% in 2016. However, the growth rate is expected to edge down slightly to 2.9% by 2020 as capital spending in the advanced economies including China decelerates and financing conditions tighten. The downside risk is heightened by amongst others, escalating trade protectionism and rising geopolitical tensions. The Enlarged Group will be closely monitoring these risk factors as any escalation in these factors will likely hinder global economic growth and therefore combat commodity prices. The Enlarged Group plans to grasp the opportunities afforded by the growing worldwide demand in oil and gas, identify suitable acquisition opportunities and build up its momentum in the acquisition of quality oil and natural resources in key regions. The acquisition of quality energy assets will enable the Enlarged Group to achieve sustainable growth in the future, in line with its long-term strategic objective.

The Enlarged Group plans to increase its production output by (i) expanding the scale of oil production of current projects by improving oil recovery rate; (ii) obtaining new oil reserves; and (iii) increasing capital investments on existing oilfields to improve output. It also plans to increase profitability from the acquisition and disposal of oil and gas assets. The Enlarged Group will continue the momentum of expansion in suitable overseas investment projects, and aim to acquire high quality assets and achieve outstanding economic benefits.

E. MATERIAL ACQUISITIONS

Since 31 December 2017, the date to which the latest audited published accounts have been made up, the Group has made or agreed to make the following material acquisitions (other than the Transaction which is the subject of this circular):

1. Pursuant to the share purchase agreement dated 24 October 2017, the Group acquired the entire issued share capital of Asia Resources Oil Limited ("**AROL**") from the shareholders of AROL ("**AROL Acquisition**"). The total consideration of the AROL Acquisition comprises of (i) grant of a loan to AROL and related interest in an aggregate amount of approximately HK$457,130,000 (equivalent to approximately US$58,606,000) and (ii) cash payment of approximately HK$59,575,000 (equivalent to approximately US$7,638,000). AROL is engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan. Details of the AROL Acquisition were set out in the Company's announcement dated 24 October 2017 and 17 April 2018.

2. Pursuant to the share purchase agreement dated 28 February 2018, the Group acquired the entire issued share capital of OMV Maurice Energy Limited ("**OMEL**", now known as UEP Alpha Limited) and OMV (PAKISTAN) Exploration Gesellschaft m.b.H. ("**OPAK**", now known as UEP Beta GmbH) at a cash consideration of approximately HK$735,950,000 (equivalent to approximately EUR80,616,000) and HK$703,547,000 (equivalent to approximately EUR77,066,000) ("**OMEL and OPAK Acquisition**") respectively. OMEL and OPAK are engaged in activities relating to the exploration and production of crude oil and natural gas in Pakistan. Details of the OMEL and OPAK Acquisition were set out in the Company's announcement dated 28 February 2018 and 28 June 2018.

The AROL Acquisition and OMEL and OPAK Acquisition are extension and enlargement of the Group's upstream business in Pakistan.

3. Pursuant to the share sale and purchase agreement dated 27 June 2018 entered between Super Success International Holdings Limited, a wholly-owned subsidiary of the Company, and Orient Group Investment Holding Limited in relation to the acquisition by Super Success International Holdings Limited of the approximately 48% of the equity interests in the Orient Group Beijing Investment Holding Limited comprising 22,929,377 shares held by Orient Group Investment Holding Limited.

The aggregate of the remuneration payable to and benefits in kind receivable by the Directors have not been varied as a consequence of such material acquisitions.

PART A – ACCOUNTANTS' REPORT OF THE TARGET GROUP

The following is the text of a report received from the Target Group's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte. **德勤**

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF KUWAIT ENERGY PLC AND ITS SUBSIDIARIES

TO THE DIRECTORS OF UNITED ENERGY GROUP LIMITED

Introduction

We report on the historical financial information of Kuwait Energy plc (the "Target") and its subsidiaries (collectively referred to as the "Target Group") set out on pages II-4 to II-75, which comprises the consolidated statements of financial position as at 31 December 2015, 2016, 2017 and 30 June 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2015, 2016, 2017 and the six months ended 30 June 2018 (the "Relevant Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-75 forms an integral part of this report, which has been prepared for inclusion in the circular of United Energy Group Limited (the "Company") dated 27 December 2018 (the "Circular") in connection with the proposed acquisition by a wholly-owned subsidiary of the Company of all the issued shares of the Target and shares which may be issued pursuant to the terms of the Target's convertible loans.

Directors' Responsibility for the Historical Financial Information

The directors of the Company and the directors of the Target are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company and the directors of the Target determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of the Circular in which the Historical Financial Information of the Target Group is included.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company and the directors of the Target, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2015, 2016, 2017 and 30 June 2018 and of the Target Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of Stub Period Comparative Financial Information

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2017 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company and the directors of the Target are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review

in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Emphasis of Matter

We draw attention to Note 2 to the Historical Financial Information, which indicates that the Target Group's ability to continue as a going concern is mainly dependent on its ability to refinance the US$250 million Senior Notes (as defined in Note 28 to the Historical Financial Information), which fall due for repayment on 3 August 2019. Further the Target Group's ability to continue as a going concern is also dependent on continued availability of the US$100 million crude oil prepayment facility (as referred to in Note 25 to the Historical Financial Information). The facility agreement contains terms stipulating the availability of credit subject to certain terms including that the Target Group completes a refinancing of the Senior Notes by 31 December 2018. No contractual amendment has been received to extend this condition, however an informal extension has been agreed with the lender. All these indicate that a material uncertainty exists that may cast significant doubt on the Target Group's and the Target's ability to continue as a going concern. Our opinion is not modified in this respect.

Report on Matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to Note 15 to the Historical Financial Information which states that no dividends have been paid by the Target in respect of the Relevant Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 December 2018

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The previously issued financial statements of the Target Group for the Relevant Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standard Board and were audited by the following audit firms in accordance with International Standards on Auditing (UK) (the "Underlying Financial Statements").

Financial period	Audit firm
Year ended 31 December 2015	Deloitte LLP, certified public accountants registered in the United Kingdom
Year ended 31 December 2016	Deloitte SA, certified public accountants registered in Switzerland
Year ended 31 December 2017	Deloitte SA, certified public accountants registered in Switzerland
Six months ended 30 June 2018	Deloitte SA, certified public accountants registered in Switzerland

The Historical Financial Information is presented in US dollars ("US$") and all values are rounded to the nearest thousand (US$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Six months ended 30 June	
		2015	2016	2017	2017	2018
		US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Revenue	7	155,642	138,895	203,391	95,398	108,129
Cost of sales	8	(129,087)	(106,556)	(97,159)	(49,201)	(42,643)
Gross profit		26,555	32,339	106,232	46,197	65,486
Exploration expenditure written off		(14,218)	–	(20,074)	(1,531)	–
Net impairment of oil and gas assets		(69,010)	(94,337)	(69,053)	–	–
Profit on farm-out of working interest		33,876	–	–	–	–
Loss on assets classified as held for sale		–	–	(2,604)	(1,873)	–
Other operating expenses		–	–	–	–	(1,438)
General and administrative expenses	9	(18,221)	(18,970)	(22,041)	(13,420)	(15,112)
Operating (loss) profit		(41,018)	(80,968)	(7,540)	29,373	48,936
Share of results of joint venture		445	1,451	2,305	1,390	1,951
Fair value loss on convertible loans		(9,261)	(24,774)	(28,748)	(15,160)	(1,058)
Foreign exchange (loss) gain		(1,851)	(2,340)	648	254	(175)
Finance costs	10	(9,654)	(9,365)	(13,572)	(6,789)	(5,352)
Other income		1,231	1,335	1,226	537	289
(Loss) profit before tax	11	(60,108)	(114,661)	(45,681)	9,605	44,591
Taxation charge	13	(2,259)	(1,456)	(7,140)	(3,938)	(6,472)
(Loss) profit for the year/period		(62,367)	(116,117)	(52,821)	5,667	38,119
Other comprehensive income (expense) for the year/period						
Item that will not be reclassified subsequently to profit or loss:						
Re-measurement of retirement benefit obligation		445	(30)	254	409	–
Other comprehensive income (expense) for the year/period, net of income tax		445	(30)	254	409	–

	NOTES	Year ended 31 December			Six months ended 30 June	
		2015	**2016**	**2017**	**2017**	**2018**
		US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
					(unaudited)	
Total comprehensive (expense) income for the year/period		(61,922)	(116,147)	(52,567)	6,076	38,119
(Loss) profit for the year/period attributable to:						
Owners of the Target		(62,220)	(116,145)	(52,829)	5,663	38,119
Non-controlling interest		(147)	28	8	4	–
		(62,367)	(116,117)	(52,821)	5,667	38,119
Total comprehensive (expense) income attributable to:						
Owners of the Target		(61,775)	(116,175)	(52,575)	6,072	38,119
Non-controlling interest		(147)	28	8	4	–
		(61,922)	(116,147)	(52,567)	6,076	38,119

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December 2015	2016	2017	As at 30 June 2018
		US$'000	US$'000	US$'000	US$'000
Non-current assets					
Intangible exploration and revaluation assets	16	32,663	27,692	1,006	242
Property, plant and equipment	17	621,571	509,369	509,061	507,843
Investment in joint venture	18	5,528	4,424	3,474	3,625
Other non-current assets	19	22,754	4,991	27,869	24,909
		682,516	546,476	541,410	536,619
Current assets					
Inventories	20	24,411	23,709	7,714	7,205
Trade and other receivables	21	48,198	94,983	165,824	147,170
Cash and cash equivalents	22	105,297	58,311	65,594	43,626
		177,906	177,003	239,132	198,001
Assets classified as held for sale	23	–	126,144	–	45,528
		177,906	303,147	239,132	243,529
Current liabilities					
Trade and other payables	24	119,659	144,368	124,058	119,426
Current tax payable		1,849	2,473	6,689	6,655
Crude oil prepayment	25	–	40,000	37,469	–
Convertible loans	26	2,071	19,075	158,204	154,253
Obligations under finance leases	27	1,735	1,169	1,169	1,169
		125,314	207,085	327,589	281,503
Liabilities directly associated with assets classified as held for sale	23	–	22,462	–	14,138
		125,314	229,547	327,589	295,641
Net current assets (liabilities)		52,592	73,600	(88,457)	(52,112)
Total assets less current liabilities		735,108	620,076	452,953	484,507

	NOTES	As at 31 December 2015 US$'000	2016 US$'000	2017 US$'000	As at 30 June 2018 US$'000
Non-current liabilities					
Borrowings	28	243,326	244,860	246,557	247,474
Convertible loans	26	117,329	117,198	–	–
Obligations under finance leases	27	3,911	2,937	1,914	1,386
Provisions and other non-current liabilities	29	15,458	15,549	16,923	18,088
Deferred tax liabilities	30	163	463	658	716
		380,187	381,007	266,052	267,664
Net assets		354,921	239,069	186,901	216,843
Capital and reserves					
Share capital	31	559,835	560,852	519,204	514,171
Share premium		205,491	205,929	181,875	179,172
Other reserves	32	(105,613)	(105,567)	(39,006)	(39,343)
Retained deficit		(310,437)	(426,582)	(479,411)	(441,292)
Equity attributable to owners of the Target		349,276	234,632	182,662	212,708
Non-controlling interest		5,645	4,437	4,239	4,135
Total equity		354,921	239,069	186,901	216,843

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target						
	Share capital	Share premium	Other reserves	Retained deficit	Sub-total	Non-controlling interest	Total
	US$'000	*US$'000*	*US$'000* *(note 32)*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
As at 1 January 2015	557,808	204,760	(106,609)	(248,217)	407,742	8,770	416,512
Loss for the year	–	–	–	(62,220)	(62,220)	(147)	(62,367)
Other comprehensive income for the year	–	–	445	–	445	–	445
Total comprehensive income (expense) for the year	–	–	445	(62,220)	(61,775)	(147)	(61,922)
Issue of shares for acquisition of non-controlling interest *(note 31)*	2,027	731	220	–	2,978	(2,978)	–
Share-based payment charges	–	–	331	–	331	–	331
As at 31 December 2015	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 expense for the year	–	–	(30)	–	(30)	–	(30)
Total comprehensive (expense) income for the year	–	–	(30)	(116,145)	(116,175)	28	(116,147)
Issue of shares for acquisition of non-controlling interest *(note 31)*	797	347	92	–	1,236	(1,236)	–
Issue of shares under employee incentive scheme *(note 31)*	220	91	(311)	–	–	–	–
Share-based payment charges	–	–	295	–	295	–	295
As at 31 December 2016	560,852	205,929	(105,567)	(426,582)	234,632	4,437	239,069

	Attributable to owners of the Target						
	Share capital	**Share premium**	**Other reserves**	**Retained deficit**	**Sub-total**	**Non-controlling interest**	**Total**
	US$'000	*US$'000*	*US$'000* *(note 32)*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
(Loss) profit for the year	–	–	–	(52,829)	(52,829)	8	(52,821)
Other comprehensive income for the year	–	–	254	–	254	–	254
Total comprehensive income (expense) for the year	–	–	254	(52,829)	(52,575)	8	(52,567)
Cancellation of treasury shares *(note 31)*	(41,936)	(24,232)	66,168	–	–	–	–
Issue of shares for acquisition of non-controlling interest *(note 31)*	121	69	16	–	206	(206)	–
Issue of shares under employee incentive scheme *(note 31)*	167	109	(276)	–	–	–	–
Share-based payment charges	–	–	399	–	399	–	399
As at 31 December 2017	519,204	181,875	(39,006)	(479,411)	182,662	4,239	186,901
Profit and total comprehensive income for the period	–	–	–	38,119	38,119	–	38,119
Purchase of treasury shares *(Note a)*	–	–	(8,256)	–	(8,256)	–	(8,256)
Cancellation of treasury shares *(Note b)*	(5,387)	(2,883)	8,270	–	–	–	–
Issue of shares for acquisition of non-controlling interest *(note 31)*	65	31	8	–	104	(104)	–
Issue or shares under employee incentive scheme *(note 31)*	289	149	(438)	–	–	–	–
Share-based payment charges	–	–	79	–	79	–	79
As at 30 June 2018	514,171	179,172	(39,343)	(441,292)	212,708	4,135	216,843

	Attributable to owners of the Target						
	Share capital	Share premium	Other reserves	Retained deficit	Sub-total	Non-controlling interest	Total
	US$'000	*US$'000*	*US$'000* *(note 32)*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Unaudited							
As at 1 January 2017	560,852	205,929	(105,567)	(426,582)	234,632	4,437	239,069
Profit for the period	–	–	–	5,663	5,663	4	5,667
Other comprehensive income for the period	–	–	409	–	409	–	409
Total comprehensive income for the period	–	–	409	5,663	6,072	4	6,076
Cancellation of treasury shares	(41,936)	(24,232)	66,168	–	–	–	–
Issue of shares for acquisition of non-controlling interest	32	20	6	–	58	(58)	–
Issue of shares under employee incentive scheme	167	109	(276)	–	–	–	–
Share-based payment charges	–	–	146	–	146	–	146
As at 30 June 2017	519,115	181,826	(39,114)	(420,919)	240,908	4,383	245,291

Notes:

(a) The Target Group has purchased treasury shares for an amount of US$8.3 million by paying US$5.0 million in cash and settling an amount of US$3.3 million due from a related party (see notes 21 and 38(b)).

(b) Pursuant to the Target's shareholders' approval in the Target's annual general meeting held on 31 May 2018, the Target has bought back 4,032,260 shares and cancelled then. Following the cancellation, the Target has 323.2 million shares in issue.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
(Loss) profit before taxation	(60,108)	(114,661)	(45,681)	9,605	44,591
Adjustments for:					
Share of results of joint venture	(445)	(1,451)	(2,305)	(1,390)	(1,951)
Depreciation, depletion and amortisation	69,147	62,394	56,780	30,395	24,555
Exploration expenditure written off	14,218	–	20,074	1,531	–
Net impairment of oil and gas assets	69,010	94,337	69,053	–	–
Profit on farm-out of working interest	(33,876)	–	–	–	–
Foreign exchange loss (gain)	1,851	2,340	(648)	(254)	175
Change in fair value of convertible loans	9,261	24,774	28,748	15,160	1,058
Finance costs	9,654	9,365	13,572	6,789	5,352
Interest income	(1,177)	(548)	(628)	(299)	(28)
Provision for retirement benefit obligations	1,487	627	3,102	470	3,928
Operating cash flow before movement in working capital	79,022	77,177	142,067	62,007	77,680
Decrease (increase) in inventories	1,793	(749)	483	260	(601)
Decrease (increase) in trade and other receivables	58,776	(47,171)	(47,588)	(24,918)	4,772
(Decrease) increase in trade and other payables	(25,807)	2,722	(13,394)	(1,791)	(1,709)
Settlement of crude oil prepayments	–	40,000	(2,531)	7,488	(37,469)
Tax paid	(9,624)	(532)	(2,729)	(2,729)	(6,447)
Net cash generated by operating activities	104,160	71,447	76,308	40,317	36,226
INVESTING ACTIVITIES					
Purchase of intangible exploration and evaluation assets	(10,596)	(2,503)	(2,714)	(2,181)	(1,084)
Purchase of oil and gas assets	(210,184)	(83,489)	(81,364)	(51,703)	(33,896)
Purchase of other property, plant and equipment	(10,802)	(142)	(199)	(22)	(92)
Proceeds from farm-out of working interests	43,190	3,560	50,625	40,625	–
Investment in joint venture	(945)	(945)	–	–	–
Dividend received from joint venture	4,000	3,500	3,255	1,255	1,800
Interest received	1,157	655	628	299	28
Net cash used in investing activities	(184,180)	(79,364)	(29,769)	(11,727)	(33,244)

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
FINANCING ACTIVITIES					
Proceeds from finance lease	5,902	–	–	–	–
Purchase of treasury shares	–	–	–	–	(4,983)
Repayment of obligations under finance leases	(489)	(1,766)	(1,192)	(596)	(596)
Finance costs paid	(34,342)	(34,636)	(38,382)	(19,334)	(18,311)
Net cash used in financing activities	(28,929)	(36,402)	(39,574)	(19,930)	(23,890)
Net increase (decrease) in cash and cash equivalents	(108,949)	(44,319)	6,965	8,660	(20,908)
Cash and cash equivalents at beginning of the year/period	215,992	105,297	58,311	58,311	65,594
Cash balance classified as assets held for sale	–	(385)	–	–	(906)
Effect of foreign currency translation	(1,746)	(2,282)	318	218	(154)
Cash and cash equivalents at end of the year/period	105,297	58,311	65,594	67,189	43,626

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

Kuwait Energy plc (the "Target") is a company incorporated on 12 September 2011 in Jersey in accordance with the Commercial Companies Law in the Bailiwick of Jersey. The Target has no single ultimate controlling shareholder or any individual shareholder holding more than 20% of the shares of the Target.

The Target and its subsidiaries (together referred to as the "Target Group") have been established with the objective of exploration, production and commercialisation of crude oil and natural gas.

The Target's registered address is Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES.

The Historical Financial Information is presented in United States dollars ("US$"), which is the same as the functional currency of the Target.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with International Financial Reporting Standards ("IFRSs").

Going concern

The Historical Financial Information has been prepared on the basis that the Target 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.

Agreement for the Acquisition of the Target Group by United Energy Group Limited

The Target and United Energy Group Limited ("UEG") entered into a transaction agreement in September 2018, pursuant to which UEG has conditionally agreed to acquire the entire issued share capital of the Target as well as assuming its debts, which is subject to resolution of conditions precedent, shareholder approval and completion, which is anticipated by the directors of the Target to occur by the first quarter of 2019. Consent by the Target's shareholders to the transaction was obtained on 19 December 2018. Further details of this offer are included in note 39(a).

Should the all-cash offer for the Target described above and in note 39(a) complete, UEG has undertaken to assume any working capital deficit and all borrowings currently in issue. There are no restrictions under this offer around the refinancing of the Senior Notes (as defined in note 28).

Consideration of Going Concern Basis

The directors of the Target believe that the transaction with UEG will proceed, however in order to discharge their legal and fiduciary responsibilities, they have overseen a detailed review of the Target Group's forecast cash flows under a range of alternative scenarios. This review was performed on a reasonable worst case basis.

In making the going concern determination, the Target Group management has considered the existing and forecast funding arrangements of the Target Group. In the recent periods, the Target Group has been funded principally by a combination of its cash balances, cash generated from operating activities, borrowings, crude oil prepayment facility, convertible loans and equity.

Reasonable worst case

The Target Group management's reasonable worst case uses the following assumptions:

- No completion of the UEG transaction.

- Brent oil price of US$50/bbl throughout the forecast period (vs. US$54.35/bbl spot price as at 20 December 2018, being the latest practicable date for the purpose of the Historical Financial Information).

- A 10% reduction in all production against the forecast profile.
- Increases of 10% to both capital expenditure and operational expenditure vs. forecast profile.
- A 10% reduction in the recovery of receivables from production in Egypt during the assessment period.
- No income or expenditure from the Mansuriya field in Iraq.
- Only maintenance operational expenditure in the Block 5 Fields in Yemen.
- No receipt of cash of US$100 million from the completion of the farm down of Block 9 in Iraq to Dragon Oil during the assessment period (see below).

Cash balances

As at 20 December 2018, being the latest practicable date for the purpose of the Historical Financial Information, the Target Group held cash balances at bank of approximately US$91.3 million. The Target Group management's reasonable worst case going concern forecast shows that, without further mitigation, the low points in the projected cash availability will be approximately US$18 million in February 2019.

Borrowings

The most significant assumption and judgement within this forecast is that the directors of the Target believe that they will be able to successfully refinance the US$250 million of Senior Notes, which fall due for repayment on 3 August 2019. Failure to refinance the Senior Notes would impact the ability of the Target Group to continue as a going concern.

The refinancing of the Senior Notes is considered to be likely by the directors of the Target, however as this event falls within the next 12 months, and within a period when the bond market may continue to be challenging.

The directors of the Target believe that their judgement is reasonable because the Target Group management has been actively engaged with its advisors to address this issue for some time and the activities required to launch a refinancing are at an advanced stage with more than eight months available to complete this process before the Senior Notes fall due. The directors of the Target believe that there is evidence available that the Senior Notes will be attractive to the market as the UEG transaction and the other offers they have received for the business and the assets within the last year demonstrate the market value of the business as a going concern.

In the event that a refinancing was not completed, the directors of the Target believe that based on the value of offers received up to the date of this report, they would have sufficient time to sell assets equivalent to the value of the required repayment, however this course of action would be detrimental to the Target Group and would not be a preferable mitigation.

Revolving crude oil prepayment facility

The Target Group has had a secured crude oil prepayment facility with Vitol S.A. since 2016, which was fully repaid as at 30 June 2018 (see note 25). Subsequent to 30 June 2018, an agreement was signed to convert this facility into a long-term secured revolving crude oil prepayment facility of US$100 million (see note 39(b)). As at 20 December 2018, being the latest practicable date for the purpose of the Historical Financial Information, US$100 million was drawn-down on this facility.

The facility agreement contains terms stipulating the availability of credit subject to certain terms including that the Target Group completes a refinancing of the Senior Notes by 31 December 2018. No contractual amendment has been received to extend this condition and should this credit not be available to the Target Group under its reasonable worst case going concern scenario, it would not be able to mitigate other shortfalls.

The directors of the Target's assumption is that this facility will continue to be available for the going concern assessment period. They believe that this is a reasonable judgement as the Target Group management is in regular communication with the lender and have received written confirmation that it is the current intention of the lender to continue to offer credit under the agreement so long as the Senior Notes are refinanced prior to 30 June 2019. The terms of the facility are such that drawdowns are repaid through crude oil liftings from Iraq and based on the current production rates, the outstanding drawdowns will have been fully repaid by June 2019.

Cash generated from operating activities

The Target Group management has made estimates of future revenues and expenses, for both quantum and timing of the related receipts and payments, and made assumptions on reserve status, the likelihood and timing for accessing reserves and continued availability of financing.

The forecast revenues and expenditures have been estimated bottom up on a field by field basis using the reservoir production profiles and economic models used to derive the hydrocarbon reserves which have been independently certified by the third party energy advisory group, Gaffney, Cline & Associates. These assumptions have been adjusted for the reasonable worst case scenario described above.

The Target Group has significant levels of planned operating and capital expenditure, predominantly in Iraq at the Block 9 and Siba fields, for the 12 months from the date of this report. These assumptions have also been adjusted for the reasonable worst case scenario described above.

Significant judgements and events included in the estimate of operating cash flows include:

Siba

- Revenues and costs from the commercial production and export of gas and condensates from the Siba field to the Oil Marketing Company of Iraq. The Target Group announced the commencement of such activities on 5 September 2018.

Sale of interest in Block 9 to Dragon Oil and settlement of arbitration

- On 19 September 2018, the Target Group received written notice from Dragon Oil that, pursuant to its rights under the Block 9 farm-out agreement dated 11 February 2018, it was invoking its option to terminate the settlement agreement as the Backstop Date of 11 May 2018 had expired and the transaction had not completed. The impact of this termination is that the farm-out agreement entered into between the Target Group and Dragon Oil (see note 17) automatically terminates.

- The Target Group management has received a number of written communications from both Dragon Oil and UEG since 19 September 2018 indicating that their preferred positions are for the settlement agreements and the assignment of a 15% interest to Dragon Oil to be reinstated. All three parties are actively engaging with the authorities in Iraq to that end. The Target Group management remains confident that this matter will be resolved by way of the settlement in the near term.

- The directors of the Target believe that the most likely outcome of the Dragon Oil transaction is that the sale will proceed as described in notes 23 and 39(e), however in order to be prudent when considering the going concern assumption, no funds from the sale of interest in Iraq Block 9 have been assumed in the going concern forecast. Instead, the forecast includes the reasonable worst case scenario that the sale does not proceed and the arbitration hearing takes place. Should the arbitration find against the Target Group, then it would expect to sell assets to mitigate any shortfall.

Convertible loans

During 2018, Qatar First Bank, one of the two holders of the Target Group's US$100 million of convertible loan notes, irrevocably elected to convert its entire principal holding amount of US$50.0 million into shares of the Target on the terms set out under the convertible loan notes, rather than be paid out in cash at term.

Further, the final repayment of the US$50.0 million principal due to Abraaj Investment Management Limited under the convertible loan agreement was repaid on 27 November 2018.

The directors of the Target concluded that the judgements regarding the refinancing of the US$250 million Senior Notes and the continued availability of the US$100 million crude oil prepayment facility are considered to be a material uncertainty which may give rise to significant doubt over the Target Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding this material uncertainty, after performing the analyses described above and considering the mitigating actions available, the directors of the Target have a reasonable expectation that the Target 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 this report. Accordingly, the directors of the Target continue to adopt the going concern basis of accounting in preparing the Historical Financial Information.

3. APPLICATION OF NEW AND REVISED STANDARDS

The Target Group has adopted IFRS 9 "Financial Instruments" ("IFRS 9") and IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") from 1 January 2018. The adoption of these standards are summarised below:

IFRS 9 "Financial Instruments"

IFRS 9 replaced the old standard of IAS 39 "Financial Instruments: Recognition and Measurement" in its entirety. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets, as well as new rules for hedge accounting. The Target Group has adopted the IFRS 9 retrospectively with no restatement of comparative information in accordance with the standard. The Target Group has undertaken an assessment of the classification and measurement requirements and has not identified any significant impact on the Target Group's consolidated financial statements.

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

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 supersedes IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in scope of other standards. The Target Group has elected to apply the 'modified retrospective' transition approach when adopting IFRS 15 with no restatement of comparatives as permitted by the standard.

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

Disclosure of disaggregated revenue information under IFRS 15 has not had an impact on the information as the Target Group's revenue in the consolidated statements of profit or loss and other comprehensive income solely relate to revenue from contracts with customers.

New and revised IFRSs issued but not yet effective

At the date of this report, the following new and revised IFRSs which have not been applied in the Historical Financial Information were in issue but not yet effective:

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 – 2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after a date to be determined

[3] Effective for annual periods beginning on or after 1 January 2021

[4] Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[5] Effective for annual periods beginning on or after 1 January 2020

The directors of the Company and the directors of the Target do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Target Group in future periods, except IFRS 16 as noted below:

IFRS 16 "Leases"

The Target 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 statement of financial position 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 Target is in the process of identifying all lease agreements that exist across the Target Group and yet to complete its full assessment of the expected financial impact of transition to IFRS 16.

Changes in accounting policy

The Target Group's accounting policies are consistent with the prior periods other than the adoption of new standards noted above.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has 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. The principal accounting policies adopted are set out below.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Target and entities controlled by the Target as detailed in note 37. Control is achieved when the Target 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 Target Group controls an investee if and only if the Target 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 Target Group has less than a majority of the voting or similar rights of an investee, the Target 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 Target Group's voting rights and potential voting rights

The results of subsidiaries acquired or disposed of during the period are included in profit or loss 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 are attributed to owners of the Target 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 Target Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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 profit or loss 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.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" (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 period in which the combination occurs, the Target 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 period from the date of acquisition to the date the Target 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 Target 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 Target Group reports its interests in joint operations using proportionate consolidation – the Target Group's share of the assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the Historical Financial Information 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 Historical Financial Information using the equity method of accounting.

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

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

Financial assets

Before the adoption of IFRS 9 on 1 January 2018

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 financial assets" and "loans and receivables". Loans and receivables are disclosed in the consolidated statements of financial position 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 comprise cash, bank balances and short-term deposits with an original maturity of three months or less.

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 profit or loss when there is objective evidence that the asset is impaired.

Financial assets are assessed for indicators of impairment at the end of each reporting period. 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.

The Target 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.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. 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 period to the net carrying amount on initial recognition.

After application of IFRS 9

The Target Group classifies its financial assets into one of the three categories: "Amortised cost"; "Fair value through other comprehensive income" and "Fair value through profit or loss ("FVTPL")". Classification of financial assets is based on the business model within which the asset held and the contractual cash flows characteristics of the assets. The Target Group's financial assets comprises "trade and other receivables" and "cash and cash equivalents" in the consolidated statements of financial position which falls under category of "amortised cost" as per the Target Group's accounting policy as follows:

Amortised cost

These assets arise principally from the provision of goods and services to customers (example trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statements of profit or loss and other comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

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

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

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.

The Target Group classifies its financial liabilities into one of two categories: “Fair value through profit or loss (“FVTPL”)” and “Other financial liabilities”, depending on the purpose for which the liability was acquired.

Financial liabilities are classified as at FVTPL when the financial liability is (i) designated as at FVTPL (ii) contingent consideration recognised in a business combination to which IFRS 3 applies (iii) held for trading. The Target Group has only convertible loans under this category. They are carried in the consolidated statements of financial position at fair value with changes in fair value 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 a group entity after deducting all of its liabilities. Equity instruments issued by the Target 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 Target 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 Target’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 Target are not entitled to any cash dividend that the Target may propose.

Embedded derivatives

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

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

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

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 profit or loss over the period of the borrowings using the effective interest method.

Convertible loans

The convertible loans currently held by the Target 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 profit or loss. 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 statements of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 26. The transaction costs paid on these borrowings are also recognised in profit or loss.

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 profit or loss in the period in which they are incurred.

Derecognition of financial liabilities

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

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statements of financial position 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 Target 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 the Historical Financial Information is determined on such a basis, except for leasing transactions that are within the scope of 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 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 Target 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 profit or loss 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 Target Group's depletion and amortisation accounting policy.

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

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 period to the estimated quantities of proven and probable entitlement reserves at the end of the period plus the production in the period, 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 the Target Group 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 Target 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 CGU for impairment purposes.

Any identified impairment is charged to profit or loss. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to profit or loss, 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 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 the Target Group management's forecast of future prices.

These estimates, made by the Target 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.

Other property, plant and equipment

Other property, plant and equipment 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 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 the end of each reporting period, 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 property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Crude oil inventories are valued at fair value less costs to sell. Any changes arising on the revaluation of inventories are recognised in profit or loss. 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 slowmoving 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 Target 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 Target 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 the end of each reporting period to determine the classification of the prepayment received as a financial or non-financial liability. The Target 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 Target Group's expected oil entitlement from the Block 9 risk service contract. Only in exceptional circumstances would the Target 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.

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. The Target Group 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 Target 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 Target Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Target 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 Target 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 Target Group discontinues the use of the equity method at the time of disposal when the disposal results in the Target Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Target Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" unless the retained interest continues to be an associate or a joint venture, in which case the Target 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 or loss and other comprehensive income.

Revenue recognition

Revenue arises from exploration, development, production activities and sale of crude oil and natural gas under Production Sharing Contracts and Risk Service Contracts.

To determine whether to recognise revenue, the Target Group follows a 5-step process:

i. Identifying the contract with a customer

ii. Identifying the performance obligations

iii. Determining the transaction price

iv. Allocating the transaction price to the performance obligations

v. Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is recognised at a point of time, when (or as) the Target Group satisfies performance obligations by transferring the promised goods or services to its customers and is measured based on the Target Group's share of consideration specified in Production Sharing Contracts and Risk Service Contracts excluding amounts collected on behalf of 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.

Taxation

The Target Group is subject to various forms of taxation in the countries in which it operates. The Target 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 Target 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 the Target Group management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position 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 the end of each reporting period 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 end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target 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 Target Group intends to settle its current tax assets and liabilities on a net basis.

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 Target Group as lessee

Assets held under finance leases are recognised as assets of the Target 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 statements of financial position 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 Target.

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. 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. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss 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 profit or loss on disposal of the investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Target Group's foreign operations are expressed in US$ using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, 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 Target Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Provisions

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target 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 end of the reporting period, 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 Target 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 profit or loss on a unit of production basis in accordance with the Target 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 Historical Financial Information but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the Historical Financial Information 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 Target 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 Target Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

The liability recognised in the consolidated statements of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. These are unfunded plans where the Target 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 period in which they arise.

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4, the Target Group 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

Recognition of assets held for sale

In February 2018, the Target Group signed a farm-out agreement with Dragon Oil to farm-down 15% its interests in the Iraq Block 9 exploration, development and production service contract ("EDPSC"). Under

the terms of the Block 9 EDPSC, the transaction is subject to the approval of the Iraqi government, which could either (i) consent to the transfer of the participating interest to Dragon Oil; or (ii) pre-empt the sale. On 19 September 2018, the Target Group received written notice from Dragon Oil that, pursuant to its rights under the Block 9 farm-out agreement, dated 11 February 2018, that it was invoking its option to terminate the farm-out agreement as the Backstop Date, of 11 May 2018, had expired and the transaction had not completed (see note 39(e)). Since 19 September 2018, the Target Group Management has received positive statements from both Dragon Oil and the authorities in Iraq and remains confident that, subject to the requisite regulatory approvals, 15% of Block 9 will be transferred to Dragon Oil. The Target Group management has exercised judgement in determining that this disposal meets the requirement of IFRS 5 and that the associated assets and liabilities of the 15% interest in Block 9 should be classified as a disposal group held for sale at the period end. The critical judgement in determining that the assets were held for sale was regarding the point that the Target Group management remains committed to the sale and the sale was highly probable. Once these approval are received, respective farm-outs will be recognised in the Target Group's consolidated financial statements. Further details are provided in note 23.

Crude oil prepayments

In 2016, the Target Group entered into a long-term oil supply contract and an associated prepayment facility agreement for the Block 9 in Iraq. The Target 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 Target 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.

Recoverability of exploration and evaluation costs

The carrying value of intangible exploration and evaluation assets represent active exploration projects. Under the Target Group's accounting policy for exploration and evaluation 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 16 discloses the carrying amounts of the Target Group's exploration and evaluation assets as well as details of impairment charges arising during the Relevant Period.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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 the Target Group management to estimate the future net revenue from oil and gas reserves attributable to the Target 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 Target Group operates the Target Group 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 Target Group's oil and gas assets and related impairment charges during the Relevant Period are provided in note 17.

Commercial reserves

Calculation of the recoverable amount 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 the Target Group's qualified petroleum engineers and are subject to third party review. The Target Group management believes these reserves to be commercially productive and will provide revenues to the Target Group adequate to recover remaining net un-depreciated and un-depleted capitalised oil and gas properties as at the end of each reporting period.

Convertible loans fair value

As outlined in note 26, the total finance charge associated with the Target 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 Target which are future events and inherently uncertain. At the end of each reporting period the Target Group has assessed the fair values of the convertible loans based on its best estimate of the relative likelihood of the occurrence of each conversion or prepayment option.

6. REVENUE AND SEGMENT INFORMATION

The information reported to the Target Group's Executive Management, the chief operating decision maker, for the purposes of resource allocation and assignment of segment performance is specifically focused on the geographical area, namely Egypt, Iraq, Yemen and rest of the world (included in "Others").

The Target 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 Target's country of domicile, in each of the Relevant Period.

Unallocated expenditure and liabilities in other operations include amounts of a corporate nature that are not specifically attributable to a geographic area. The liabilities comprise the Target Group's external debt and other non-attributable corporate liabilities. The unallocated capital expenditure for the Relevant Period comprises the acquisition of non-attributable corporate assets.

Total assets comprise non-current assets and current assets as disclosed on the consolidated statements of financial position. Segment additions are stated net of reversal of decommissioning provision.

The Target Group has one customer in each of the operating segments during each of the Relevant Period.

Segment revenues and results

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

For the year ended 31 December 2015

	Egypt	**Yemen**	**Iraq**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment revenue	146,774	8,868	–	–	155,642
Segment result	(5,498)	(34,338)	8,533	(9,715)	(41,018)
Unallocated corporate income					1,676
Unallocated corporate expenses					(20,766)
Loss before tax					(60,108)

For the year ended 31 December 2016

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment revenue	105,533	–	33,362	–	138,895
Segment result	(22,076)	(4,306)	(42,342)	(12,244)	(80,968)
Unallocated corporate income					2,786
Unallocated corporate expenses					(36,479)
Loss before tax					(114,661)

For the year ended 31 December 2017

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment revenue	111,174	–	92,217	–	203,391
Segment result	67,089	(73,927)	16,216	(16,918)	(7,540)
Unallocated corporate income					4,179
Unallocated corporate expenses					(42,320)
Loss before tax					(45,681)

For the six months ended 30 June 2017 (unaudited)

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment revenue	54,775	–	40,623	–	95,398
Segment result	22,729	(1,993)	20,176	(11,539)	29,373
Unallocated corporate income					2,181
Unallocated corporate expenses					(21,949)
Profit before tax					9,605

For the six months ended 30 June 2018

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment revenue	74,364	–	33,765	–	108,129
Segment result	41,086	(792)	18,043	(9,401)	48,936
Unallocated corporate income					2,240
Unallocated corporate expenses					(6,585)
Profit before tax					44,591

Note: Unallocated corporate income mainly include share of results of joint venture, other income and foreign exchange gain.

Unallocated corporate expenses mainly include fair value loss on convertible loans, foreign exchange loss and finance costs.

The accounting policies of operating segments are the same as the Target Group's accounting policies described in note 4. Segment revenue and segment results comprise revenue from external customers and profit generated or loss incurred by each segment, respectively.

Segment assets and liabilities

The following is an analysis of the Target Group's assets and liabilities by reportable segments:

At 31 December 2015

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment assets	288,959	86,198	401,718	83,547	860,422
Segment liabilities	48,210	22,828	52,878	381,585	505,501

At 31 December 2016

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment assets	238,473	79,385	473,265	58,500	849,623
Segment liabilities	37,357	21,309	103,987	447,901	610,554

At 31 December 2017

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment assets	236,007	5,506	499,479	39,550	780,542
Segment liabilities	25,200	13,175	85,587	469,679	593,641

At 30 June 2018

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Segment assets	209,773	5,988	525,460	38,927	780,148
Segment liabilities	30,392	13,282	92,476	427,155	563,305

Other segment information

For the year ended 31 December 2015

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Amounts included in the measure of segment results and segment assets:					
Exploration expenditure written off	2,590	11,628	–	–	14,218
Impairment of oil and gas assets	35,810	8,544	24,656	–	69,010
Additions to intangible exploration and evaluation assets	8,037	2,705	–	–	10,742
Additions to property, plant and equipment	59,532	(410)	163,113	30	222,265
Depreciation, depletion and amortisation	62,869	5,213	–	1,065	69,147

For the year ended 31 December 2016

	Egypt	**Yemen**	**Iraq**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Amounts included in the measure of segment results and segment assets:					
Impairment of oil and gas assets	39,787	–	54,550	–	94,337
Additions to intangible exploration and evaluation assets	1,670	833	–	–	2,503
Additions to property, plant and equipment	16,772	(352)	144,558	121	161,099
Depreciation, depletion and amortisation	47,179	–	14,569	646	62,394

For the year ended 31 December 2017

	Egypt	**Yemen**	**Iraq**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Amounts included in the measure of segment results and segment assets:					
Exploration expenditure written off	1,619	18,455	–	–	20,074
Net impairment of oil and gas assets	(15,632)	50,801	33,884	–	69,053
Additions to intangible exploration and evaluation assets	2,811	(3,249)	–	–	(438)
Additions to property, plant and equipment	16,743	5,389	97,162	57	119,351
Depreciation, depletion and amortisation	29,524	–	26,965	291	56,780

For the six months ended 30 June 2017 (unaudited)

	Egypt	**Yemen**	**Iraq**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Amounts included in the measure of segment results and segment assets:					
Exploration expenditure written off	1,531	–	–	–	1,531
Additions to intangible exploration and evaluation assets	1,717	441	–	–	2,158
Additions to property, plant and equipment	1,703	414	54,059	–	56,176
Depreciation, depletion and amortisation	16,585	–	13,649	161	30,395

For the six months ended 30 June 2018

	Egypt	Yemen	Iraq	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Amounts included in the measure of segment results and segment assets:					
Additions to intangible exploration and evaluation assets	1,084	–	–	–	1,084
Additions to property, plant and equipment	8,838	–	53,410	–	62,248
Depreciation, depletion and amortisation	16,985	–	7,181	389	24,555

7. REVENUE

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Oil sales	153,844	137,310	202,206	94,811	107,410
Gas sales	1,798	1,585	1,185	587	719
	155,642	138,895	203,391	95,398	108,129

8. COST OF SALES

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Operating costs	60,152	47,048	41,657	19,442	19,716
Depletion and amortisation of oil and gas assets *(note 17)*	67,757	60,257	55,020	29,500	23,428
Crude oil inventory movement	1,178	(749)	482	259	(501)
	129,087	106,556	97,159	49,201	42,643

9. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Staff costs and employee benefits charged to administrative expenses	5,048	7,133	9,376	3,080	5,848
Professional and consultancy fees	3,331	3,953	10,213	7,309	6,272
Depreciation of other property, plant and equipment *(note 17)*	1,390	2,137	1,760	895	1,127
Others	8,452	5,747	692	2,136	1,865
	18,221	18,970	22,041	13,420	15,112

Total staff costs and employee benefits amounted to US$57.7 million, US$42.7 million, US$40.1 million, US$16.0 million (unaudited) and US$22.0 million, respectively, for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018. A proportion of the Target Group's staff costs are recharged to the Target Group's joint venture partners, a proportion is allocated to operating costs and a proportion is capitalised into the cost of property, plant and equipment under the Target Group's accounting policy for oil and gas assets, with the remainder classified as an administrative overhead cost in the consolidated statements of profit or loss and other comprehensive income, as shown above.

10. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Borrowing costs on senior guaranteed notes and bank loans	25,669	25,785	25,864	12,923	12,929
Other finance costs	452	539	4,776	2,387	1,003
	26,121	26,324	30,640	15,310	13,932
Less: Amount capitalised in cost of qualifying assets	(16,467)	(16,959)	(17,068)	(8,521)	(8,580)
	9,654	9,365	13,572	6,789	5,352

Finance costs of US$16.5 million, US$17.0 million, US$17.1 million, US$8.5 million (unaudited) and US$8.6 million, respectively, have been capitalised to property, plant and equipment during the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 using a weighted average interest rate of 10.6%, 10.6%, 10.6%, 10.6% (unaudited) and 10.6%, respectively.

11. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
(Loss) profit before tax has been arrived at after charging (crediting):					
Depreciation, depletion and amortisation					
– Cost of sales	67,757	60,257	55,020	29,500	23,428
– General and administrative expenses	1,390	2,137	1,760	895	1,127
Total depreciation, depletion and amortisation	69,147	62,394	56,780	30,395	24,555
Directors' remuneration *(note 12)*					
– fee	400	400	401	200	174
– salaries and other benefits	1,223	1,121	1,213	585	485
– discretionary bonus	–	–	665	94	58
– post-employment benefits	30	30	950	41	42
	1,653	1,551	3,229	920	759
Other staff's salaries and other benefits	13,760	13,279	12,579	4,630	8,307
Total staff costs	15,413	14,830	15,808	5,550	9,066
Auditor's remuneration					
– current year/period	361	327	326	–	–
– underprovision in prior years/periods	46	–	53	53	–
Cost of inventories recognised as an expense	120,231	99,916	92,641	47,115	40,333

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments during the Relevant Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Executive directors					
Dr Manssour Aboukhamseen					
– Director's fees	–	–	–	–	–
– Salary and other benefits	443	414	414	207	208
– Discretionary bonus	–	–	87	40	58
– Post-employment benefits	–	–	427	–	23
Total	443	414	928	247	289
Sara Akbar (i)					
– Director's fees	–	–	–	–	–
– Salary and other benefits	408	383	455	227	–
– Discretionary bonus	–	–	457	37	–
– Post-employment benefits	–	–	442	–	–
Total	408	383	1,354	264	–
Roger Phillips (ii)					
– Director's fees	–	–	–	–	–
– Salary and other benefits	348	324	302	151	–
– Discretionary bonus	–	–	121	17	–
– Post-employment benefits	30	30	81	41	–
Total	378	354	504	209	–
Abby Badwi (iii)					
– Director's fees	–	–	–	–	–
– Salary and other benefits	–	–	–	–	277
– Discretionary bonus	–	–	–	–	–
– Post-employment benefits	–	–	–	–	19
Total	–	–	–	–	296
Non-Executive directors					
Rachel English (iv)					
– Director's fees	70	70	67	35	–
– Salary and other benefits	–	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	70	70	67	35	–

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Dr Yousef Al Awadi (v)					
– Director's fees	70	70	64	35	–
– Salary and other benefits	24	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	94	70	64	35	–
Mohamed Yusof Rafie (v)					
– Director's fees	70	70	64	35	–
– Salary and other benefits	–	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	70	70	64	35	–
Mohammad Ahmed Husain					
– Director's fees	60	60	60	30	33
– Salary and other benefits	–	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	60	60	60	30	33
Sir Steve Robson (vi)					
– Director's fees	70	70	68	35	–
– Salary and other benefits	–	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	70	70	68	35	–
Abby Badwi (iii)					
– Director's fees	60	60	60	30	–
– Salary and other benefits	–	–	42	–	–
– Post-employment benefits	–	–	–	–	–
Total	60	60	102	30	–
Ali Khalil (vii)					
– Director's fees	–	–	3	–	33
– Salary and other benefits	–	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	–	–	3	–	33

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Husain Kothari (vii)					
– Director's fees	–	–	3	–	33
– Salary and other benefits	–	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	–	–	3	–	33
Dominic Redfern (vii)					
– Director's fees	–	–	3	–	37
– Salary and other benefits	–	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	–	–	3	–	37
Yousif Al Qabandi (vii)					
– Director's fees	–	–	3	–	38
– Salary and other benefits	–	–	–	–	–
– Post-employment benefits	–	–	–	–	–
Total	–	–	3	–	38
Others					
– Director's fees	–	–	6	–	–
	1,653	1,551	3,229	920	759

Notes:

(i) Resigned on 8 December 2017; being Chief Executive Officer during 2015 to 2017 until 8 December 2017

(ii) Resigned on 25 October 2017

(iii) Being interim Chief Executive Officer from 9 December 2017 to 27 January 2018 and appointed as Chief Executive Officer from 28 January 2018

(iv) Resigned on 12 December 2017

(v) Resigned on 27 November 2017

(vi) Resigned on 18 December 2017

(vii) Appointed on 13 December 2017

(b) Employees' emoluments during the Relevant Period are as follows:

The five highest paid individuals include 3, 2, 2, 2 (unaudited) and 2 directors of the Target during the years ended 31 December 2015, 2016 and 2017 and six months ended 30 June 2017 and 2018, respectively, details of emoluments are included above. The emoluments of the remaining 2, 3, 3, 3 (unaudited) and 3 highest paid employees who are neither a director nor the chief executive of the Target are as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Employees					
– salaries and allowances	632	1,082	1,130	565	695
– discretionary bonus	–	–	92	–	–
– post-employment benefits	–	–	408*	–	1,002
	632	1,082	1,630	565	1,697

* Including compensation for loss of office of US$365,000.

The number of the highest paid employees who are not directors of the Target whose remuneration fell within the following bonds is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017** (unaudited)	**2018**
HK$1,000,001 to HK$1,500,000 (or US$128,000 to US$192,000)	–	–	–	3	1
HK$2,000,001 to HK$2,500,000 (or US$256,000 to US$321,000)	2	2	–	–	1
HK$3,000,001 to HK$3,500,000 (or US$385,000 to US$449,000)	–	–	1	–	–
HK$3,500,001 to HK$4,000,000 (or US$449,000 to US$513,000)	–	1	1	–	–
HK$5,500,001 to HK$6,000,000 (or US$705,000 to US$769,000)	–	–	1	–	–
HK$9,500,001 to HK$10,000,000 (or US$1,218,000 to US$1,282,000)	–	–	–	–	1
	2	3	3	3	3

During the Relevant Period, no emoluments were paid by the Target Group to the directors of the Target or the five highest paid individuals (including directors and employees), as an inducement to join or upon joining the Target Group or as compensation for loss of office other than as set out above. None of the directors waived any emoluments during the Relevant Period.

13. TAXATION CHARGE

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Tax on profit on ordinary activities					
The tax charge comprises:					
Current tax					
Foreign tax	2,096	1,156	6,945	3,662	6,414
Deferred tax	163	300	195	276	58
	2,259	1,456	7,140	3,938	6,472

Corporation tax in the Target's country of domicile is calculated at 0% on assessable profits for each of the Relevant Period, 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.

The Target 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 Target Group's activities. Whilst the Target 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.

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/profit before tax is as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
(Loss) profit on ordinary activities before tax	(60,108)	(114,661)	(45,681)	9,605	44,591
Tax on the Target's profit on ordinary activities at corporate tax rate of 0%	–	–	–	–	–
Income tax arising in Egypt, Area A and Iraq Block 9	2,529	2,497	6,173	2,971	6,472
Prior period tax (credit) charge	–	(1,041)	967	967	–
Taxation charge for the year/period	2,259	1,456	7,140	3,938	6,472

14. (LOSS) EARNINGS PER SHARE

No (loss) earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful by the directors of the Target and the directors of the Company having regard to the purpose of preparing the Historical Financial Information.

15. DIVIDENDS

No dividend was paid or declared by the Target in respect of the Relevant Period.

16. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	US$'000
COST	
As at 1 January 2015	46,488
Additions	10,742
Exploration expenditure written off	(14,218)
Transfer to property, plant and equipment	(10,349)
As at 31 December 2015	32,663
Additions	2,503
Transfer to property, plant and equipment	(1,485)
Transfer to assets held for sale *(note 23)*	(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
Additions	1,084
Transfer to property, plant and equipment	(1,848)
As at 30 June 2018	242

As at 31 December 2015, 2016 and 2017 and 30 June 2018, exploration costs of US$32.7 million, US$27.7 million, US$1.0 million and US$0.2 million, respectively, were capitalised pending further evaluation of whether or not the related oil and gas properties are commercially viable, in line with the Target Group's accounting policy for oil and gas assets.

Year ended 31 December 2015

As at 31 December 2015, the Target Group held exploration costs of US$20.9 million related to Block 49 in Yemen where in 2015 the political and security situation has become unstable. The work of operations on site has been put on hold and force majeure has been declared on Block 49 during 2015. There has been no incursion at the site and control of assets has been maintained. The Target Group management has made a significant judgement to continue capitalising the costs associated with Block 49. In making this judgement, the Target Group management has considered the existence of significant contingent resources certified by the Target Group's third party energy advisory group, Gaffney, Cline & Associates, and believes that the situation will be resolved so that the Target Group can continue its exploration and appraisal programme of the resource discovered to date.

During 2015, exploration cost associated with proven commercial reserves amounting to US$10.3 million relating to Abu Sennan in Egypt were transferred to property, plant and equipment.

Unsuccessful exploration expenditure written off of US$14.2 million includes US$11.6 million relating to Block 82 in Yemen, where the licence has been relinquished due to unsuccessful exploration activities. Further, the Target has written off unsuccessful exploration expenditure amounting to US$2.6 million related to Area A in Egypt.

Year ended 31 December 2016

As at 31 December 2016, the Target Group held exploration costs of US$21.7 million related to Block 49 in Yemen. During 2016, there was no material change in the political and security situation in Yemen and the site at Block 49. The Target Group management has continued to make the same significant judgement to continue capitalising the costs associated with Block 49.

During 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.

Year ended 31 December 2017

During 2017, US$6.2 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 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 political and security environment and a technical review Block 49 was assessed as not commercially viable. Therefore, the Target Group has decided to discontinue any exploration and appraisal programme on the Block 49 resources discovered to date and relinquish the license.

Six months ended 30 June 2018

During the six months ended 30 June 2018, US$1.8 million of exploration costs associated with proven commercial reserves in Egypt were transferred to property, plant and equipment.

17. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets	Others	Total
	US$'000	*US$'000*	*US$'000*
COST			
As at 1 January 2015	860,200	18,424	878,624
Additions	210,954	11,311	222,265
Acquisition of assets	16,769	–	16,769
Transfer	6,074	(6,074)	–
Disposal	(37,066)	–	(37,066)
Transfer from intangible exploration and evaluation assets	10,349	–	10,349

	Oil and gas assets	Others	Total
	US$'000	*US$'000*	*US$'000*
As at 31 December 2015	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 23)*	(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
Additions	62,156	92	62,248
Transfer from intangible exploration and evaluation assets	1,848	–	1,848
Transfer to assets held for sale *(note 23)*	(52,126)	(11)	(52,137)
As at 30 June 2018	1,171,964	23,311	1,195,275
ACCUMULATED DEPRECIATION, DEPLETION AND AMORTISATION AND IMPAIRMENT			
As at 1 January 2015	347,764	8,323	356,087
Charge for the year	67,757	1,390	69,147
Disposal	(24,874)	–	(24,874)
Impairment recognised in profit or loss	69,010	–	69,010
As at 31 December 2015	459,657	9,713	469,370
Charge for the year	60,257	2,137	62,394
Impairment recognised in profit or loss	94,337	–	94,337
Disposal	–	(562)	(562)
Transfer to assets held for sale *(note 23)*	(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 recognised in profit or loss	(15,632)	–	(15,632)
Impairment recognised in profit or loss	84,685	–	84,685
Disposal	–	(47)	(47)

	Oil and gas assets	Others	Total
	US$'000	*US$'000*	*US$'000*
As at 31 December 2017	661,254	13,001	674,255
Charge for the period	23,428	1,127	24,555
Transfer to assets held for sale *(note 23)*	(11,378)	–	(11,378)
As at 30 June 2018	673,304	14,128	687,432
CARRYING AMOUNT			
As at 31 December 2015	607,623	13,948	621,571
As at 31 December 2016	497,579	11,790	509,369
As at 31 December 2017	498,832	10,229	509,061
As at 30 June 2018	498,660	9,183	507,843

Property, plant and equipment other than oil and gas assets include item such as building, fixtures and fittings, motor vehicles and office equipment. As at 31 December 2015, 2016 and 2017 and 30 June 2018, their carrying amount includes an amount of US$7.5 million, US$6.8 million, US$6.1 million and US$5.8 million, respectively, in respect of assets held under finance leases.

Year ended 31 December 2015

Additions

The additions to oil and gas assets mainly relate to Iraq Siba and Block 9, and include US$16.5 million of finance costs on qualifying assets capitalised during 2015 and US$1.7 million of fair value loss on convertible loans capitalised. It also includes an increase in estimated decommissioning cost of US$0.1 million.

Acquisition of assets

During 2015, the Target Group completed the acquisition of an additional 25% working interest effective 15 January 2015 in the Burg-El-Arab ("BEA") in Egypt from Gharib Oil Fields ("Gharib") for a purchase consideration of US$21.4 million. The purchase was accounted for as an asset acquisition rather than a business combination. The net cash outflow arising on the acquisition was US$3.9 million. The remaining consideration was settled by offsetting receivables otherwise due from Gharib. Oil and gas assets with a gross cost of US$22.2 million were acquired, however the net oil and gas assets addition from the transaction was US$16.8 million as US$5.4 million had been capitalised in prior periods under the terms of a carry arrangement with Gharib.

Farm-out and disposal

During September 2015, the Target Group completed the farm-out of a 10% participating interest in the Iraq Block 9 exploration, development and production service contract to the Egyptian General Petroleum Corporation, resulting in a profit of US$33.9 million. The Target Group has a 60% working interest share in Block 9 thereafter.

During 2015, the Target Group disposed of its interest in Yemen Block 43. Following the disposal, the related costs of US$24.9 million and accumulated depletion of US$24.9 million have been removed with no profit or loss impact.

Impairment

Primarily due to the fall in prevailing oil prices, the Target Group carried out a review of the recoverable amount of its assets in accordance with IAS 36. The review led to the recognition of an impairment loss of US$8.5 million on the Block 5 field in Yemen, US$10.6 million on BEA and US$25.2 million on the Abu Serum fields in Egypt, US$16.8 million on the Siba and US$7.8 million on Mansuriya fields in Iraq, which has been recognised in profit or loss during 2015. The recoverable amount of the assets that have been impaired in 2015, based on a value in use basis calculation are: Block 5 US$45.8 million, BEA US$61.4 million, Abu Sennan US$68.3 million, Siba US$258.8 million and Mansuriya US$21.8 million.

The key assumptions and judgements used in the impairment test included a post-tax discount rate of 14% for the assets in Yemen and the Mansuriya field in Iraq, 11% for the assets in Egypt and 12% for the assets in Iraq other than the Mansuriya field, license extension of the Block 5 field (see below) and a Brent oil price of US$45/bbl in 2016, US$60/bbl in 2017, US$70/bbl in 2018, US$80/bbl in 2019, inflated at 1.5% per annum thereafter. The oil price assumptions are the Target Group's best estimate based on conditions prevailing at the end of the report period and take into consideration the views of a reputed third party broker. For every USD 1/bbl fall in oil price assumptions, impairment charge will increase by approximately US$6 to 7 million. If the discount rate had been increased by 1% for all assets, it would have increased the impairment charge by approximately US$20.4 million.

In previous years, the Target Group had used a post-tax discount rate of 10% for all assets. During 2015, the Target Group has revised its best estimate of the appropriate discount rate to use on an asset by asset basis which has increased the 2015 impairment charge by approximately US$33 million.

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 Target Group has filed a number of notices of force majeure to the Yemeni Government as 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. However, based on the force majeure mechanism of the contract and the agreed license extension by YICOM to settle previous force majeure claims, the Target Group has calculated the impairment charge for Block 5 on the assumption that the license 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 Target Group along with other partners of Block 5 has a firm intention to maintain the facilities at the field in operational condition until such time as it becomes possible to resume production, even if there is further delay. Non-Yemeni employees have been withdrawn for their safety and security and the Sana'a office has been closed, however the Block 5 field facility remains available for the use of the Target Group and essential Yemeni employees remain on site.

In Iraq, as at 31 December 2015 the Target Group held oil and gas assets with a carrying value of US$21.8 million in relation to the Mansuriya field located in North East Iraq where the political and security situation became unstable. On-site operations at the Mansuriya field have been put on hold, however, the Target Group management believes that in the longer term the situation will be resolved and that no additional impairment is required, on account of security concerns.

Year ended 31 December 2016

Additions

The additions to oil and gas assets mainly relate to Siba and Block 9 in Iraq, and include US$17.0 million of finance costs on qualifying assets capitalised during 2016 and US$2.4 million of fair value loss on convertible loans capitalised.

Farm-out and disposal

During 2016, there was no significant farm-out or disposal.

Impairment

The Target Group has undertaken a review of the recoverable amount of its assets in accordance with IAS 36, primarily because the reduction in the oil price assumption used in estimating the future cash flows

represents an indicator of impairment. The review led to the recognition of an impairment loss of US$94.3 million, including US$7.2 million on BEA, US$32.6 million on the Abu Sennan fields in Egypt and US$54.5 million on Siba, which has been recognised in profit or loss during 2016. The recoverable amount of the assets that have been impaired during 2016, based on a value in use basis calculation are: BEA US$48.2 million, Abu Sennan US$32.0 million, Siba US$298.3 million.

In 2016, the key assumptions and judgements used in the impairment test included 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 Target Group's best estimate based on conditions prevailing at the end of the reporting period and take into consideration external forecasts. For each US$1/bbl fall in oil price assumptions, the impairment charge would increase by approximately US$6 to 7 million. If the discount rate had been increased by 1% for all assets, it would have increased the impairment charge by approximately US$16.3 million.

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. During 2016, there was no major development in the Target Group's force majeure claims to YICOM and YICOM's consent to extend the Block 5 license. However, based on the force majeure mechanism of the contract and the agreed license extension by YICOM to settle previous force majeure claims, the Target Group has continued to calculate the impairment charge for Block 5 on the assumption 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 Target Group, along with other partners of Block 5, has a firm intention to maintain the facilities at the field in operational condition until such time as it becomes possible to resume production, even if there is further delay. Non-Yemeni employees have been withdrawn for their safety and security and the Sana'a office has been closed, however the Block 5 field facility remains available for the use of the Target Group and essential Yemeni employees remain on site.

In Iraq, as at 31 December 2016 the Target Group held oil and gas assets with a carrying value of US$33.5 million in relation to the Mansuriya field located in North East Iraq. Due to the security situation, on-site operations at the Mansuriya field have been put on hold since mid-2014. Nonetheless, front end engineering and design studies has progressed and ordered some long-lead items, majority of which has been received. During the latter part of 2016, meetings were held with the Iraqi government to explore a new work plan and the resumption of site works. The discussions also raised amending the terms of existing contract to compensate for delays due to the security situation. A letter has been received from the Ministry of Oil (Midland Oil Company) suggesting the formation of a team to review the terms of the contract. No agreement has been reached with the Iraqi government on these issues despite both sides recognising that Mansuriya can supply much needed gas to Iraq. The Target Group management has made a significant judgement in assessing recoverable amount of Mansuriya. In making this judgement, the Target Group management has considered the existence of reserves associated with the planned development that assumes no contract amendments, certified by the Target Group's third party reservoir engineer, and believes that planned development will be funded by combination of internal accruals and external financing. If the security situation deteriorates from the currently existing or further delays are encountered, it may be necessary to revisit the reserves. The Target Group management believes that in the longer term the situation will be resolved and that no additional impairment is required.

A request for arbitration has been filed by Dragon Oil (a wholly-owned subsidiary of Emirates National Oil Company Limited, the national company of Dubai and a partner in the Iraq Block field) against the Target Group (pursuant to the International Chamber of Commerce ("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. The arbitration was at an early stage. The Target Group has filed its answer to the request for arbitration and the arbitration tribunal has been constituted. No substantive written submissions have been filed. The Target Group management believes that Dragon Oil's position will not be vindicated, and the Target Group is firmly committed to vigorously rebutting the claim.

Year ended 31 December 2017

Additions

The additions to oil and gas assets mainly relate to Siba and Block 9 in Iraq, and include US$17.1 million of finance costs on qualifying assets capitalised during 2017 and US$3.5 million of fair value loss on convertible loans capitalised.

Impairment reversal

During 2017, the Target Group has undertaken a review of the recoverable amount of its assets in accordance with IAS 36, 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 on BEA fields in Egypt, in profit or loss.

Impairment

During 2017, the Target 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 profit or loss, due to re-classification of 2P reserve of these assets to contingent resources.

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. The oil price assumptions are the Target Group's best estimate based on conditions prevailing at the end of the reporting period 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 to 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 Target 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 Target 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. During 2017, there was no major development in the Target Group's force majeure claims to YICOM and YICOM's consent to extend the Block 5 license. Based on the force majeure mechanism of the contract and the agreed license extension by YICOM to settle previous force majeure claims, the Target 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 Target 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 there has been 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 Target 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 Target 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 Target 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. The Target Group management believes that no impairment is required for Siba field.

A request for arbitration was filed by Dragon Oil against the Target 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.

Six months ended 30 June 2018

Additions

The additions to oil and gas assets mainly relate to Siba and Block 9 in Iraq, and include US$8.6 million of finance costs on qualifying assets capitalised during the six months ended 30 June 2018 and US$0.1 million of fair value loss on convertible loans capitalised.

Impairment

In accordance with IAS 36, the Target Group has made an assessment for indicators of impairment and has not identified any significant indicators. Based on this review, the Target Group believes no impairment is required at 30 June 2018.

A request for arbitration was filed by Dragon Oil against the Target Group (pursuant to the ICC Rules of Arbitration) under which Dragon Oil asserts that it has a right to an increased non-controlling share in the Iraq Block 9 field. In February 2018, the Target Group entered into an agreement to settle this dispute with Dragon Oil. Pursuant to settlement agreement, the Target Group signed a farm-out agreement with Dragon Oil to assign them a 15% participating interest in the Iraq Block 9 exploration, development and production service contract ("EDPSC"), with an effective date of 1 January 2018. Under the terms of the agreement, a 6.43% participating interest in Block 9 will be assigned to Dragon Oil in settlement of a dispute with Dragon Oil in relation to a non-controlling interest in Block 9 plus a balancing payment, and 8.57% participating interest in Block 9 will be assigned to Dragon Oil for a cash consideration of US$100 million. This 15% interest of Block 9 has been classified as a disposal group held for sale (see notes 23 and 39(e)).

18. INVESTMENT IN JOINT VENTURE

The Target 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 in Oman and has a 75% working interest in production. In accordance with IFRS 11 "Joint Arrangements", the Target 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

	Year ended 31 December			Six months ended 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At beginning of the year/period	8,138	5,528	4,424	3,474
Additional investment during the year/period	945	945	–	–
Share of results of Medco	445	1,451	2,305	1,951
Dividend received from Medco	(4,000)	(3,500)	(3,255)	(1,800)
At end of the year/period	5,528	4,424	3,474	3,625

19. OTHER NON-CURRENT ASSETS

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Decommissioning fund	4,841	4,991	5,121	5,197
Deferred sales consideration *(note 23)*	–	–	22,748	19,712
Advance to contractors	17,913	–	–	–
	22,754	4,991	27,869	24,909

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

20. INVENTORIES

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Crude oil	1,640	2,389	1,906	2,407
Spare parts, materials and supplies	22,771	21,320	5,808	4,798
	24,411	23,709	7,714	7,205

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

21. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade receivables	30,167	77,836	124,946	117,182
Other receivables	8,331	5,244	27,786	17,732
Advance due from joint venture partners	5,444	6,429	6,458	9,626
Prepayments, deposits and advances	2,609	3,025	3,326	2,630
Amount due from a related party *(see note 38(b))*	1,647	2,449	3,308	–
	48,198	94,983	165,824	147,170

During the six months ended 30 June 2018, the Target Group has settled US$3.3 million, amount due from Mohamad AL Howqal, former SVP – HSSE/Deputy Chief Executive Officer, of the Target Group against purchase consideration of treasury shares (see note 38(b)).

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

As at 31 December 2015, 2016 and 2017 and 30 June 2018, trade receivables includes nil, US$19.7 million, US$55.6 million and US$43.3 million, respectively, arising in Iraq, to be settled by having physical delivery of crude oil that will be sold to a third party under the long-term sales agreement.

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the Target Group's trade receivables includes US$1.6 million, US$24.0 million, US$39.9 million and US$25.6 million, respectively, arising in Egypt which is past due at the reporting date and for which the Target Group has not made any expected credit loss provision as the debtor is without material credit risk concern, has no past default experience and the amounts are still considered fully recoverable. In making the judgement about recoverability, factors considered include strong track record of ultimate settlement and the debtor being a government company.

Subsequent to 30 June 2018, the Target Group has collected materially all the past due balance outstanding at 30 June 2018.

Aging of past due but not impaired

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
61–90 days	1,599	14,729	16,459	17,754
91–120 days	–	2,371	7,945	2,342
121–180 days	–	6,903	12,329	2,290
> 180 days	–	–	3,120	3,165
Total	1,599	24,003	39,853	25,551

In determining the recoverability of a trade receivable, the Target Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Target Group 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 Target's directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value due to their short-term nature.

22. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cash and cash equivalents	105,297	58,311	65,594	43,626

As at 31 December 2015, 2016 and 2017 and 30 June 2018, cash and cash equivalents includes US$7.5 million, US$4.0 million, nil and nil, respectively, which is restricted against issue of letters of guarantee.

23. DISPOSAL GROUPS HELD FOR SALE

Year ended 31 December 2016

Siba farm-out

In October 2016, the Target Group signed a farm-out agreement with an effective date of 1 January 2016 to assign a 20% paying and 15% revenue interest in the Iraq Siba area gas development and production service contract. Following completion of the transaction, the Target Group has a 40% paying and 30% revenue interest in Siba. Under the terms of the farm-out agreement, the farmee will settle the consideration by paying the Target Group's share of costs of a major related contract with any balance being payable from their allocation of cost recovery receivable when production commences from this field.

Abu Sennan farm-out

In December 2016, the Target Group signed a farm-out agreement to assign a 25% interest in Abu Sennan in Egypt with an effective date of 31 December 2016. Under the terms of this farm-out agreement the Target Group has received an advance of US$3.5 million (note 24). Following the completion of pre-emption and government approvals, the Target Group will have a 25% revenue interest and 53% cost interest in Abu Sennan.

Both farm-outs are expected to complete in 2017. The assets and liabilities held for sale are carried at the lower of carrying amount and fair value of the sales consideration for each farm-out. The fair value of the deferred consideration was calculated by discounting expected receipts based on the Target Group management's best estimate of timing.

The major classes of assets and liabilities comprising the assets classified as held for sale:

	As at 31 December 2016		
	Egypt	**Iraq**	**Total**
	US$'000	*US$'000*	*US$'000*
Intangible exploration and evaluation assets	5,989	–	5,989
Property, plant and equipment	16,011	101,984	117,995
Inventories	1,493	–	1,493
Trade and other receivables	262	20	282
Cash and cash equivalents	94	291	385
Total assets classified as held for sale	23,849	102,295	126,144
Trade and other payables	3,435	19,027	22,462
Total liabilities directly associated with assets classified as held for sale	3,435	19,027	22,462
Net assets of disposal groups	20,414	83,268	103,682

Year ended 31 December 2017

During 2017, the Target Group has completed farm-outs of the 20% paying and 15% revenue interest in the Iraq Siba area gas development and production service contract, and a 25% interest in the Egypt Abu Sennan area petroleum sharing contract. A loss of US$2.6 million for assets held for sale was recognised in profit or loss during 2017, relating to the period between the effective date and completion.

Six months ended 30 June 2018

In February 2018, the Target Group signed a farm-out agreement with Dragon Oil to assign them a 15% participating interest in the Iraq Block 9 EDPSC, with an effective date of 1 January 2018. The Target Group signed this farm-out agreement per the arbitration settlement agreement entered into with Dragon Oil (see note 17). Following completion of this transaction the Target Group will hold a 45% participating interest in Block 9 and continue as the operator. Under the terms of the Block 9 EDPSC, the transaction is subject to the approval of the Iraqi government, which could either (i) consent to the transfer of the participating interest to Dragon Oil; or (ii) pre-empt the sale.

On 19 September 2018, the Target Group received written notice from Dragon Oil that, pursuant to its rights under the Block 9 farm-out agreement dated 11 February 2018, it was invoking its option to terminate the farm-out agreement as the Backstop Date of 11 May 2018, which had expired and that the transaction had not completed (see note 39(e)). Since 19 September 2018, the Target Group management has received positive statements from both Dragon Oil and the authorities in Iraq and remains confident that, subject to the requisite regulatory approvals, 15% of Block 9 will be transferred to Dragon Oil. The Target Group management has exercised judgement in determining that this disposal meets the requirement of IFRS 5 and that the associated assets and liabilities of the 15% interest in Block 9 should be classified as a disposal group held for sale at 30 June 2018. The critical judgement in determining that the assets continue to be held for sale is that the Target Group management remains committed to the sale and that the sale is highly probable.

Disposal group held for sale is presented separately in the consolidated statements of financial position as at 30 June 2018 as part of the current assets and current liabilities. The disposal group does not meet the criteria for classification as a discontinued operation and consequently remains part of the "Iraq" segment in note 6. The proceeds of disposal are expected substantially to exceed the book value of the net assets and accordingly no impairment loss has been recognised on the reclassification of assets and liabilities as held for sale.

The major classes of assets and liabilities comprising the assets classified as held for sale are shown below:

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

24. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade payables and accruals	95,001	118,514	108,303	103,585
Advance against farm-out of working interest *(note 23)*	–	3,500	–	–
Joint venture partners payables	13,658	7,568	2,963	3,703
Accrued interest payable	10,251	10,313	10,477	9,896
Salaries and bonus payables	749	4,473	2,315	2,242
	119,659	144,368	124,058	119,426

Trade payables 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 Target Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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

25. CRUDE OIL PREPAYMENT

In December 2016, the Target Group signed an agreement for a secured crude oil prepayment facility of up to US$100 million, repayable principally by the delivery of the Target Group's crude oil entitlement from Block 9 in Iraq (in settlement of remuneration fees and costs under the exploration, development and production service contract for Block 9 in Iraq). As at 31 December 2016 and 2017 and 30 June 2018, the Target Group had drawn-down US$40 million, US$80 million and US$80 million, respectively, from the facility classified as a short-term prepayment. Under the terms of the agreement interest is accrued and settled on semi-annual basis.

Movement in crude oil prepayment is as follows:

	Year ended 31 December			Six months ended 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
At beginning of the year/period	–	–	40,000	37,469
Received	–	40,000	40,000	–
Settled	–	–	(42,531)	(37,469)
At end of the year/period	–	40,000	37,469	–

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.

As at 30 June 2018, amount outstanding under this facility was fully settled and no further drawdown were made from available US$20 million headroom. Subsequent to 30 June 2018, the Target Group has signed an amendment to this facility to convert it from secured crude oil prepayment facility into a new long-term secured revolving credit facility of US$100 million (see note 39(b)).

26. CONVERTIBLE LOANS

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Non-current portion	117,329	117,198	–	–
Current portion	2,071	19,075	158,204	154,253
	119,400	136,273	158,204	154,253

Movement in convertible loans

	Year ended 31 December			Six months ended 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
At beginning of the year/period	117,829	119,400	136,273	158,204
Change in fair value	10,974	27,211	32,255	1,203
Payment	(9,403)	(10,338)	(10,324)	(5,154)
At end of the year/period	119,400	136,273	158,204	154,253

The change in fair value arises as a result of changes in the forecasted cash flows, and forecasted likelihood and timing of an equity offering. Of this amount, US$1.7 million, US$2.4 million, US$3.5 million, US$0.1 million, respectively, has been capitalised to qualifying assets during the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 (see note 17) resulting in a net charge to profit or loss of US$9.3 million, US$24.8 million, US$28.7 million and US$1.1 million, respectively, during these periods.

During 2012, the Target 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 Target Group has drawn down an amount of US$100 million, of which US$83 million was drawn down in 2012 and US$17 million was drawn down in 2013. There is no remaining availability to draw down additional amounts.

A variety of conversion options exist including: if the Target 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 loan, a period which has now elapsed, the Target Group has the option for early repayment together with a prepayment premium.

The loans carry a coupon interest of 8% to 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 Target based on the fair value of the shares on the conversion date. The additional interest uplift is 5.5% to 8% if conversion is within 36 months of the first draw down and 9.5% to 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 Target Group has opted to recognise the convertible loans as financial liabilities at fair value through profit or loss based on the Target's best estimate at the end of the reporting period of relevant likelihood of the occurrence of each conversion or prepayment option. The

possibility of prepayment option is based on the ongoing discussions with potential investors and lenders for refinancing of convertible loans. The fair value, therefore represents the Target's best estimate of the discounted future cash flows payable for these loans. The change in fair value since the prior period arises as a result of changes in the forecasted cash flows and the likelihood of the occurrence of each conversion or prepayment option.

During 2017, the Target 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 Target prior to the first repayment date in certain circumstances as set out in the loan agreement, which has expired by the end of June 2018. Following this, as per the cash repayment schedule, the Target Group has repaid the first instalment of US$17 million principal plus accrued interest in early July 2018 and the remainder of the US$33 million outstanding loan principal plus accrued interest is due to be repaid in the second half of 2018.

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

The convertible loans are classified as Level 3 in the fair value hierarchy in all the periods presented. Level 3 fair value measurements are those derived from inputs that are not based on observable market data (unobservable inputs). The Target Group uses a weighted average discounted cash flow technique to determine the fair value of the loans. The significant inputs considered in the valuation are likelihood and timing of a conversion event and the discount rate. The discount rate used was in the range of 10% to 18% for each of the Relevant Period. Possible changes to the likelihood and timing assumptions in the fair value measurement could have a maximum impact of increasing the liability by US$19.3 million or reducing the liability by US$14.9 million as at 31 December 2015, increasing the liability by US$16.5 million or reducing the liability by US$32.7 million as at 31 December 2016, reducing the liability by US$28.5 million as at 31 December 2017 and increasing the liability by US$6.9 million or reducing the liability by US$20.8 million as at 30 June 2018.

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum leases payments			
	As at 31 December			**As at 30 June**
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Amounts payable under finance leases				
Within one year	1,766	1,192	1,192	1,192
In the second to fifth years inclusive	4,469	3,277	2,086	1,492
	6,235	4,469	3,278	2,684
Less: Future finance charges	(589)	(363)	(195)	(129)
Present value of lease obligation	5,646	4,106	3,083	2,555

	Present value of minimum leases payments			
	As at 31 December			As at 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Amounts payable under finance leases				
Within one year (shown under current liabilities)	1,735	1,169	1,169	1,169
In the second to fifth years inclusive	3,911	2,937	1,914	1,386
Present value of lease obligation	5,646	4,106	3,083	2,555

In 2015, the Target 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 Target 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 leased building is recognised as an asset in the consolidated statement of financial position at US$7.5 million equal to the present value of the minimum lease payments discounted at an implicit interest rate of 5%. US$0.4 million excess of sales consideration over the original carrying amount of building has been deferred and amortised over the lease term. The Target 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 Target Group's lease obligation is approximately equal to the carrying value.

28. BORROWINGS

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

The carrying value of the Senior Notes measured at amortised cost is analysed as:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Par value payable on maturity	250,000	250,000	250,000	250,000
Unamortised initial transaction fees	(6,674)	(5,140)	(3,443)	(2,526)
Non-current portion	243,326	244,860	246,557	247,474
Interest accrued and payable within 12 months (included in trade and other payables)	9,896	9,896	9,896	9,896
Carrying value	253,222	254,756	256,453	257,370

As at 31 December 2015, 2016 and 2017 and 30 June 2018, the fair value of the Senior Notes was US$230.2 million, US$232.8 million, US$216.3 million and US$239.1 million, respectively.

29. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Decommissioning provisions	12,397	11,876	11,685	11,555
Retirement benefit obligations	3,061	3,673	5,238	6,533
	15,458	15,549	16,923	18,088

(a) Decommissioning provisions

Movement in the decommissioning provisions is as follows:

	Year ended 31 December			Six months ended 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
At beginning of the year/period	12,433	12,397	11,876	11,685
Unwinding of discount	362	286	264	115
New provisions and changes in estimate	(398)	(807)	(455)	(245)
At end of year/period	12,397	11,876	11,685	11,555

The provision for decommissioning relates to two of the Target Group's fields and is based on the net present value of the Target 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 the Target Group management believes 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 Target Group uses a discount rate of 3% to 5% in arriving at the future value of decommissioning provisions at the end of each reporting period.

(b) Retirement benefit obligations

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

Movement in the retirement benefit obligations is as follows:

	Year ended 31 December			Six months ended 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
At beginning of the year/period	3,264	3,061	3,673	5,238
Current service cost	1,487	627	3,102	3,928
Remeasurements:				
Experience (gain) loss	(446)	30	(254)	–
Payment	(1,244)	(45)	(1,283)	(2,633)
At end of the year/period	3,061	3,673	5,238	6,533

The significant actuarial assumptions are as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
Discount rate	4%	4%	4%	4–8%
Current service cost	5%	5%	6%	6–7%

30. DEFERRED TAX

	Year ended 31 December			Six months ended 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Deferred tax liability on fixed asset temporary differences:				
At 1 January	–	163	463	658
Charge to profit or loss	163	300	195	58
At end of the year/period	163	463	658	716

No deferred tax has been recognised in respect of temporary differences arising on unremitted earnings of subsidiaries where the Target 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$89.6 million, US$94.3 million, US$105.8 million and US$116.4 million, respectively, as at 31 December 2015, 2016 and 2017 and 30 June 2018. The associated unrecognised deferred tax liability has been measured as US$4.5 million, US$4.7 million, US$5.3 million and US$5.8 million, respectively, as at these dates.

31. SHARE CAPITAL

The authorised share capital of the Target consists of 451.2 million shares of GBP1 each, amounting to GBP451.2 million throughout the Relevant Period. The issued and paid up share capital as at 31 December 2015, 2016 and 2017 and 30 June 2018 consists of 358.5 million shares, 359.2 million shares, 326.9 million shares and 323.2 million shares.

During the year ended 31 December 2017, the Target cancelled 32.5 million shares held as treasury shares at 31 December 2016. During the six months ended 30 June 2018, the Target cancelled all 4.0 million treasury shares. There was no other cancellation of treasury shares during the Relevant Period.

Further, during the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, the Target issued 1.4 million shares, 0.5 million shares, 0.1 million shares and 0.1 million shares, respectively, to the shareholders of the Target's former holding company for acquisition of non-controlling interest in the Target and nil, 0.2 million shares, 0.1 million shares, and 0.2 million shares, respectively, to employees as part of the employee incentive scheme.

32. OTHER RESERVES

	Treasury shares	Merger reserve	Retirement benefit obligation reserve	Share-based compensation reserve	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
As at 1 January 2015	(73,749)	(33,809)	949	–	(106,609)
Acquisition of non-controlling interest	–	220	–	–	220
Other comprehensive income for the year	–	–	445	–	445
Share-based payment charges	–	–	–	331	331
As at 31 December 2015	(73,749)	(33,589)	1,394	331	(105,613)
Acquisition of non-controlling interest	–	92	–	–	92
Other comprehensive expense for the year	–	–	(30)	–	(30)
Issue of shares	–	–	–	(311)	(311)
Share-based payment charges	–	–	–	295	295
As at 31 December 2016	(73,749)	(33,497)	1,364	315	(105,567)
Acquisition of non-controlling interest	–	16	–	–	16
Cancellation of treasury shares	73,749	(7,581)	–	–	66,168
Other comprehensive income for the year	–	–	254	–	254
Issue of shares	–	–	–	(276)	(276)
Share-based payment charges	–	–	–	399	399
As at 31 December 2017	–	(41,062)	1,618	438	(39,006)
Acquisition of non-controlling interest	–	8	–	–	8
Purchase of treasury shares	(8,256)	–	–	–	(8,256)
Cancellation of treasury shares	8,256	14	–	–	8,270
Issue of shares	–	–	–	(438)	(438)
Share-based payment charges	–	–	–	79	79
As at 30 June 2018	–	(41,040)	1,618	79	(39,343)

During the year ended 31 December 2017, the Target cancelled all 32.5 million shares held as treasury shares at 31 December 2016. During the six months ended 30 June 2018, the Target has purchased 4.0 million shares for an amount of US$8.3 million and cancelled them. No gain or loss was recognised in profit or loss on cancellation of treasury shares. There was no other cancellation of treasury shares during the Relevant Period.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target 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 Target Group's consolidated statement of cash flows:

	Borrowings US$'000 *(note 28)*	Convertible loans US$'000 *(note 26)*	Obligation under finance leases US$'000 *(note 27)*	Total US$'000
As at 1 January 2017	244,860	136,273	4,106	385,239
Financing cash flow *(note a)*	–	(10,324)	(1,192)	(11,516)
Fair value adjustment *(note 26)*	–	32,255	–	32,255
Other changes *(note b)*	1,697	–	169	1,866
As at 31 December 2017	246,557	158,204	3,083	407,844
Financing cash flow *(note a)*	–	(5,154)	(596)	(5,750)
Fair value adjustment *(note 26)*	–	1,203	–	1,203
Other changes *(note b)*	917	–	68	985
As at 30 June 2018	247,474	154,253	2,555	404,282
Unaudited				
As at 1 January 2017	244,860	136,273	4,106	385,239
Financing cash flow *(note a)*	–	(5,154)	(596)	(5,750)
Fair value adjustment	–	17,011	–	17,011
Other changes *(note b)*	829	–	90	919
As at 30 June 2017	245,689	148,130	3,600	397,419

Notes:

(a) The cash flows from financials liabilities make up the net amount of proceeds from borrowing, repayment of borrowing and interest payments in the consolidated statements of cash flows.

(b) Other changes include interest accruals.

(c) This disclosure included on adoption of IAS 7 (amendments) "Statement of Cash Flows" from 1 January 2017. Consistent with the transition provisions of the amendments, the Target Group has not disclosed comparative information for the prior period.

34. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Contingent liabilities				
– letters of guarantee	7,500	4,000	–	–
Capital commitments	46,725	43,106	26,015	24,901
Agreement to purchase shares *(note 38(b))*	7,121	6,176	5,362	–

Capital commitments include committed seismic expenditures, exploration and development well drilling as specified in the exploration and development licenses. The letters of guarantee disclosed above relate to the Medco Joint Venture.

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

35. OPERATING LEASE ARRANGEMENT

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Minimum lease payments under operating leases recognised in the Historical Financial Information	1,379	1,134	851	851	466

At the end of the reporting period, the Target Group had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	1,124	825	860	499
Between two years and five years	329	10	2,970	1,292
	1,453	835	3,830	1,791

Operating lease payments represent rentals payable by the Target 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.

36. 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 4.

Categories of financial instruments

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets				
Trade and other receivables*	47,785	74,369	109,381	103,370
Other non-current assets (deferred sales consideration)	–	–	22,748	19,712
Cash and cash equivalents	105,297	58,311	65,594	43,626
	153,082	132,680	197,723	166,708
Financial liabilities				
At amortised cost				
Borrowings	253,222	254,756	256,453	257,370
Obligations under finance leases	5,646	4,106	3,083	2,555
Trade and other payables	109,763	134,472	114,162	109,530
At FVTPL				
Convertible loans	119,400	136,273	158,204	154,253
	488,031	529,607	531,902	523,708

* Excludes US$0.4 million, US$20.6 million, US$56.4 million and US$43.8 million, respectively, trade and other receivables as at 31 December 2015, 2016 and 2017 and 30 June 2018.

Fair value measurement

Fair value measurement hierarchy for determining and disclosing the fair value of financial instruments is described in note 4. The convertible loans (note 26) were the only financial instrument carried at fair value and were classified as Level 3. There was no financial instrument classified as Level 1 or Level 2.

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

Details of movements in the fair value of the convertible loans are provided in note 26.

The Target Group management believes that fair values of all financial instruments, other than borrowings (note 28), 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 finance leases (note 27) approximate to 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 26).

Financial risk management objectives

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

Commodity price risk management

Volatility in oil and gas prices is a pervasive element of the Target Group's business environment. As a producer, the Target 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 Target Group is a seller of crude oil and natural gas, which is typically sold under short-term arrangements priced in United States dollars 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 during the Relevant Period to a reasonably possible change in oil and gas prices by +10%. A positive number below indicates a decrease in loss/an increase in profit and decrease in price will have the opposite effect.

	Year ended 31 December			Six months ended 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Impact on consolidated statements of profit or loss and other comprehensive income and retained deficit	15,564	13,890	20,339	10,813

For sensitivity of the impairment of oil and gas assets due to possible change in oil and gas prices, please see note 17.

Foreign currency risk management

The Target 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 Target Group's foreign currency denominated monetary assets and monetary liabilities at the end of each Relevant Period are as follows:

	Assets			
	As at 31 December			**As at 30 June**
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Egyptian Pound	3,312	4,261	23,022	163
Kuwaiti Dinar	693	495	738	596

	Liabilities			
	As at 31 December			**As at 30 June**
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Egyptian Pound	3,294	1,893	3,206	3,873
Kuwaiti Dinar	65	91	3	723

Foreign currency sensitivity analysis

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

The following table details the Target Group's sensitivity to a 10% increase and decrease in the United States dollars against Egyptian Pound and Kuwaiti Dinar. The sensitivity analysis includes only outstanding Egyptian Pound and Kuwaiti Dinar denominated monetary assets and liabilities and adjusts their translation at the year-end/period-end for a 10% change in foreign currency rates. A positive number below indicates a decrease in loss/an increase in profit where the foreign currencies strengthen 10% against the functional currency. For a 10% weakening in the functional currency against Egyptian Pound and Kuwaiti Dinar, there would be an equal and opposite impact. 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.

	Year ended 31 December			**Six months ended 30 June**
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Impact on consolidated statements of profit or loss and other comprehensive income and retained deficit				
Egyptian Pound	2	237	1,982	(371)
Kuwaiti Dinar	63	40	74	(13)

Interest rate risk management

The Target Group is exposed to interest rate risk as it has placed funds in interest-bearing time deposits with banks, but the Target Group's exposure to interest rate risk is not significant since in the Relevant Period the entities within the Target Group have not borrowed funds at floating interest rates that could have an impact on the Target Group's profit or loss.

The Target 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 Target Group. The Target Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Target Group's exposure and the credit ratings of its counterparties are continuously monitored. Ongoing credit evaluation is performed on the financial condition of trade receivables.

During the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, 94% revenue, 100% revenue, 100% revenue, 100% (unaudited) revenue and 100% revenue, respectively, was derived from sales to one customer, two customers, two customers, two customers (unaudited) and two customers, respectively, whereby each exceeded 10% of the Target Group's revenue. Further details of the Target Group's receivables are provided in note 21.

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 end of each Relevant Period was:

	As at 31 December			**As at 30 June**
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade and other receivables*	47,785	94,103	165,013	146,644
Cash and cash equivalents	105,297	58,311	65,594	43,626
	153,082	152,414	230,607	190,270

* As at 31 December 2015, 2016 and 2017 and 30 June 2018, prepaid expenses that have been excluded are US$0.4 million, US$0.9 million, US$0.8 million and US$0.5 million, respectively.

The maximum exposure to credit risk for trade receivables at the end of each Relevant Period by geographic region was:

	As at 31 December			**As at 30 June**
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Egypt	30,167	58,102	69,314	73,908
Iraq	–	19,734	55,632	43,274
	30,167	77,836	124,946	117,182

Liquidity risk management

Liquidity risk is the risk that the Target Group will not be able to meet its financial obligations as they fall due. The Target 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 Target Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Target Group management, which has built an appropriate liquidity risk management framework for the Target Group management of the Target Group's short, medium and long-term funding and liquidity management requirements. The Target 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.

The following tables detail the Target 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.

	Less than 1 year	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**	**Total**	**Effective interest rate**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*%*
As at 31 December 2015						
Borrowings	23,750	47,500	273,750	–	345,000	10.6%
Obligations under finance leases	1,766	2,384	2,085	–	6,235	5.0%
Convertible loans*	10,250	100,499	17,325	–	128,074	14.7%
Trade and other payables	119,659	–	–	–	119,659	–
	155,425	150,383	293,160	–	598,968	

	Less than 1 year	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**	**Total**	**Effective interest rate**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*%*
As at 31 December 2016						
Borrowings	23,750	297,500	–	–	321,250	10.6%
Obligations under finance leases	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	

	Less than 1 year	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**	**Total**	**Effective interest rate**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*%*
As at 31 December 2017						
Borrowings	23,750	273,750	–	–	297,500	10.6%
Obligations under finance leases	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	

	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total	Effective interest rate
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*%*
As at 30 June 2018						
Borrowings	23,750	261,875	–	–	285,625	10.6%
Obligations under finance leases	1,192	1,492	–	–	2,684	5.0%
Convertible loans*	67,593	–	–	–	67,593	15.3%
Trade and other payables	119,426	–	–	–	119,426	–
	211,961	263,367	–	–	475,328	

* Convertible loans cash outflow will decrease if the lender opts for converting loan into ordinary shares of the Target (see note 26).

The Target Group's financial facilities are described in notes 28 and 26. The Target Group expects to meet its obligations from operating and financing cash flows (also see going concern section of note 2).

Capital risk management

The Target Group defines capital as the total equity and net debt of the Target Group. Net debt is total debt less cash and cash equivalents. The total equity comprises issued share capital (note 31), share premium, other reserves (note 32) and retained deficit. The primary objective of the Target Group's capital management policy is to safeguard the Target Group's ability to continue as a going concern while maximising the return to the Target's shareholders through the optimisation of debt and equity. The Target is not subject to any externally imposed capital requirements. The Target 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 Target 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 Target Group's capital management objectives, policies or processes were made during the Relevant Period.

The net debt to equity gearing ratio at the end of each Relevant Period was as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	US$'000	*US$'000*	*US$'000*	*US$'000*
Total debt *(note i)*	368,372	385,239	407,844	404,282
Less: Cash and cash equivalents	(105,297)	(58,311)	(65,594)	(43,626)
Net debt	263,075	326,928	342,250	360,656
Equity attributable to owners of the Target	349,276	234,632	182,662	212,708
Net debt to equity ratio (%)	75.3	139.3	187.4	169.6

Note:

(i) Debt is defined as borrowings excluding accrued interest, as detailed in note 28, convertible loans as detailed in note 26 and obligations under finance leases as detailed in note 27.

37. SUBSIDIARIES AND JOINT VENTURE COMPANIES

(a) The principal subsidiaries of the Target as at 30 June 2018 were as follows:

	Ownership %							
	As at 31 December			As at 30 June	As at the date of this report			
Name of companies	2015	2016	2017	2018	report	Country of incorporation	Country of operations	Type of activities
Kuwait Energy International Limited	100	100	100	100	100	Jersey	–	Holding company
Kuwait Energy Company K.S.C. (Closed)	91.9	93.7	94.0	94.1	94.4	Kuwait	Kuwait	Exploration/ development/ production
KEC (Egypt) Ltd.	100	100	100	100	100	British Virgin Islands	Egypt	Development/ production
Kuwait Energy Egypt Ltd.	100	100	100	100	100	British Virgin Islands	Egypt	Exploration/ development/ production
Kuwait Energy (Eastern Desert) Petroleum Services SAE	100	100	100	100	100	Egypt	Egypt	Exploration/ development/ production
Kuwait Energy Iraq Limited	100	100	100	100	100	British Virgin Islands	Iraq	Exploration/ development/ production
Kuwait Energy Basra Limited	100	100	100	100	100	British Virgin Islands	Iraq	Exploration/ development/ production
Jannah Hunt Oil Company Limited	100	100	100	100	100	British Virgin Islands	Yemen	Development/ production

(b) The Target Group has a 20% interest in Medco. Medco is the operator for Karim Small fields in Oman. This is measured using the equity method (see note 18).

(c) Interest in joint operations

		As at 31 December						As at 30 June	
		2015		2016		2017		2018	
Region	**Asset**	**Cost WI**	**Revenue WI**	**Cost WI**	**Revenue WI**	**Cost WI**	**Revenue WI**	**Cost WI**	**Revenue WI**
		%	%	%	%	%	%	%	%
Iraq	Siba	60.0%	45.0%	60.0%	45.0%	40.0%	30.0%	40.0%	30.0%
	Mansuriya *(note a)*	30.0%	22.5%	30.0%	22.5%	30.0%	22.5%	30.0%	22.5%
	Block 9 *(note b)*	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Egypt	Area A	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
	Abu Sennan	78.0%	50.0%	78.0%	50.0%	53.0%	25.0%	53.0%	25.0%
	BEA	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	East Ras Qattara (ERQ) *(note a)*	49.5%	49.5%	49.5%	49.5%	49.5%	49.5%	49.5%	49.5%
Yemen	Block 5	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
	Block 49	75.29%	64.0%	75.29%	64.0%	75.29%	64.0%	75.29%	64.0%
Oman	KSF *(note a)*	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Notes:

(a) Non-operated asset

(b) Refer note 23 for details of Block 9 farm-out agreements signed during the six month ended 30 June 2018.

38. RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors and executive officers of the Target Group, their families and companies of which they are the principal owners. Balances and transactions between the Target 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 Historical Financial Information are as follows:

(a) Compensation of key management personnel

Key management personnel are considered to be the Target's board of directors. The remuneration of key management personnel during the Relevant Period was as follows:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Salaries and other short-term benefits	1,599	1,428	2,186	659
Consultancy fees paid to non-executive director	24	–	–	–
Post-employment benefits	30	30	950	42
Share-based payments	–	93	93	58
	1,653	1,551	3,229	759

(b) Agreement to purchase shares of the Target

Mohamad Al Howqal, former SVP – HSSE/Deputy Chief Executive Officer) of the Target Group, has entered into an agreement with a third party on behalf of the Target Group to purchase a specified number of shares of the Target held by that third party. Depending on the outcome of certain future events, and unless otherwise agreed, the Target 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 Target (subject to the Target's shareholder approval) and repay the loan to the Target.

During the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, under the arrangement described above, Mr Al Howqal was obliged to purchase 806,451 shares, 403,225 shares, 403,255 shares and 2,419,359 shares of the Target with assistance of loan of US$1.6 million, US$0.9 million, US$0.8 million and US$5.0 million, respectively, totalling to US$1.6 million, US$2.5 million, US$3.3 million and US$8.3 million, respectively, from the Target (see note 21). Mr Al Howqal will likely be obliged to purchase additional 3,225,809 shares, 2,822,584 shares, 2,419,359 shares and nil shares, respectively, of the Target which again would require the Target Group to lend Mr Al Howqal US$7.1 million, US$6.2 million, US$5.4 million and nil respectively, at 31 December 2015, 2016 and 2017 and 30 June 2018.

39. SUBSEQUENT EVENTS

The following significant events of the Target Group took place subsequent to 30 June 2018:

(a) On 23 September 2018, the Target and UEG entered into a transaction agreement, pursuant to which UEG has conditionally agreed to acquire the entire issued share capital of the Target for a base consideration of US$490.7 million, which is anticipated to equate to approximately US$1.5 per share, and an additional amount of up to US$160.1 million for any shares which are issued in accordance with the terms of the convertible loans. The consideration is subject to adjustment in certain circumstances.

This transaction is to be implemented by the way of a scheme of arrangement under Jersey. At the Court Meeting and the Extraordinary General Meeting of the Target held on 19 December 2018, the shareholders of the Target approved the scheme of arrangement under the Jersey Law. The approval remains subject to sanction by the Jersey court. The transaction agreement is also subject to approval from the requisite majority shareholders of UEG per the listing rules of The Stock Exchange of Hong Kong Limited. Completion is subject to the parties fulfilling, or waiving, certain conditions. These include requisite consents and an obligation on UEG to demonstrate the availability of financing of the full consideration by no later than 31 December 2018. Subject to completion, UEG will assume the US$250 million Senior Notes. Failure by a party to fulfil certain conditions may give the other party rights to terminate the transaction agreement and claim break fees from the other.

(b) Amounts outstanding under the Target Group's secured crude oil prepayment facility (note 25) were fully settled during the six months ended 30 June 2018 and no further drawdown was made under this facility. On 23 August 2018, the Target Group signed an amendment to this agreement to convert it from a secured crude oil prepayment facility into a new long-term secured revolving credit facility of US$100 million. Under the new facility full US$100 million has been drawdown in various tranches. The proceeds from this facility will be used for general working capital and corporate purposes, including any debt repayment.

(c) On 20 September 2018, the Target Group signed an agreement for an overdraft credit facility of EGP200 million, equivalent to US$11 million. The proceeds from this facility will be used for the Egyptian operation's working capital.

(d) DNO Yemen SA ("DNO"), as operator of Block 43 in Yemen, submitted a Request for Arbitration (pursuant to the ICC Rules of Arbitration) under the Block 43 production sharing agreement on 17 July 2017 and on 6 February 2018 the Tribunal was constituted. On 5 July 2018 DNO filed its Statement of Claim. The DNO claims are against the Ministry of Oil Yemen and seek a declaration that DNO properly exercised its right to relinquish its interest in Block 43 together with damages. As against the Target, DNO simply seeks a declaration that the Target is bound by the terms of the Joint Operating Agreement during the period during which it held an interest in the Block 43 production sharing agreement. On 6 September 2018 the First Respondent (the Ministry of Oil Yemen) filed its Defense and Counterclaim and the Second Respondent (the Target) filed its Defense. In the event of a negative outcome of the arbitration proceedings, the Target Group could have a material adverse effect on its financial position. The parties are exchanging pleadings and producing documents according to the procedural timetable. A final hearing is scheduled to take place between 8 and 12 April 2019. The directors of the Target believe that the chance of an arbitration award against the Target Group is remote and consequently no contingent liability has been recognised.

(e) On 19 September 2018, the Target Group received written notice from Dragon Oil that, pursuant to its rights under the Block 9 farm-out agreement dated 11 February 2018, it was invoking its option to terminate the farm-out agreement as the Backstop Date of 11 May 2018, which had expired and that the transaction had not completed. The impact of this termination is that the farm-out and arbitration agreements entered into between the Target Group and Dragon Oil (see note 17) will both automatically terminate.

The Target Group management has received a number of written communications from both Dragon Oil and UEG since 19 September 2018 indicating that their preferred positions are for the settlement agreements and the assignment of a 15% interest to Dragon Oil to be reinstated. All three parties are actively engaging with the authorities in Iraq to that end. The Target Group management remains confident that this matter will be resolved by way of the settlement in the near term.

Should the above not occur then the expected impact is that the Target Group would not receive the U$100 million and Dragon Oil would resume the arbitration proceedings. The Target Group denies Dragon Oil's claim and is committed to vigorously defending the claims and believes its position will be vindicated by the Tribunal following a full review of the facts and evidence. Assets and liabilities comprising the assets classified as held for sale at 30 June 2018 (see note 23) would be re-classified back to the respective line item of the consolidated statements of financial position and the carrying amount of property, plant and equipment would be reduced by US$0.6 million to adjust for depletion that would have been recognised had the assets not been classified as held for sale. The directors of the Target believe that the chance of an arbitration award against the Target Group is remote and consequently no contingent liability has been recognised.

(f) In November 2018, the Target Group has entered into an agreement with a private third party to sell its 20% equity interest in Medco (see note 18) for a total cash consideration of US$13 million. This transaction is expected to close in the first quarter of 2019 and is subject to various approvals, customary adjustments and conditions.

40. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2018.

PART B – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE TARGET GROUP

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE TARGET GROUP

To provide additional financial information, the unaudited pro forma financial information which comprises unaudited pro forma consolidated income statements and unaudited pro forma consolidated statements of comprehensive income of Kuwait Energy Public Limited Company (the "Target") and its subsidiaries (the "Target Group") for each of the years ended 31 December 2015, 2016 and 2017 and the six months period ended 30 June 2018 (the "Relevant Periods") and the unaudited pro forma consolidated statements of financial position of the Target Group as at 31 December 2015, 2016 and 2017 and 30 June 2018 (the "Relevant Dates") (the "Unaudited Pro Forma Financial Information"), has been prepared based on:

(a) the audited consolidated income statements and consolidated statements of comprehensive income of the Target Group for the Relevant Periods and the audited consolidated statements of financial position of the Target Group as at the Relevant Dates which were prepared in accordance with the accounting policies adopted by the Target Group (the "Target Group Policies") and have been extracted by the directors of United Energy Group Limited (the "Directors") from the Accountants' Report of the Target Group for the Relevant Periods presented in Part A of Appendix II to this circular, which was prepared by Deloitte Touche Tohmatsu in Hong Kong;

(b) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate the significant effects on the audited consolidated income statements and consolidated statements of comprehensive income of the Target Group for the Relevant Periods and the audited consolidated statements of financial position of the Target Group as at the Relevant Dates as if the accounting policies adopted by United Energy Group Limited and its subsidiaries (the "Group") (the "UEG Policies") had been adopted by the Target Group for the Relevant Periods.

The Unaudited Pro Forma Financial Information of the Target Group should be read in conjunction with the financial information contained in this circular and the audited consolidated financial statements of the Target Group as set out in Part A of Appendix II to this circular.

The Unaudited Pro Forma Financial Information of the Target Group is for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position and results of operations of the Target Group as at the Relevant Dates and for the Relevant Periods respectively, or at any future date or for any future period.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE TARGET GROUP

Unaudited Pro Forma Consolidated Statement of Financial Position of the Target Group as at 30 June 2018

	Audited amount	Unaudited pro forma adjustments	Note	Adjusted amount
	US$'000	*US$'000*		*US$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	507,843	(94,604)	*(b)*	
		(4,448)	*(c)*	
		43,900	*(d)(i)*	
		14,625	*(d)(ii)*	467,316
Intangible exploration and evaluation assets	242	–		242
Investment in joint venture	3,625	–		3,625
Other non-current assets	24,909	–		24,909
	536,619	(40,527)		496,092
Current assets				
Inventories	7,205	(1,797)	*(a)*	5,408
Trade and other receivables	147,170	–		147,170
Cash and cash equivalents	43,626	–		43,626
Assets classified as held for sale	45,528	(10,677)	*(f)*	34,851
	243,529	(12,474)		231,055
Total assets	780,148	(53,001)		727,147

	Audited amount US$'000	Unaudited pro forma adjustments US$'000	Note	Adjusted amount US$'000
EQUITY AND LIABILITIES				
Equity				
Share capital	514,171	–		514,171
Share premium	179,172	–		179,172
Other reserves	(39,343)	–		(39,343)
Retained deficit	(441,292)	(1,797)	(a)	
		(94,604)	(b)	
		(4,448)	(c)	
		43,900	(d)(i)	
		14,625	(d)(ii)	
		(10,677)	(f)	(494,293)
Equity attributable to owners of the Target	212,708	(53,001)		159,707
Non-controlling interest	4,135			4,135
Total equity	216,843	(53,001)		163,842
Non-current liabilities				
Borrowings	247,474	–		247,474
Obligations under finance leases	1,386	–		1,386
Provisions and other non-current liabilities	18,088	–		18,088
Deferred tax liabilities	716	–		716
	267,664	–		267,664
Current liabilities				
Trade and other payables	119,426	–		119,426
Current tax payable	6,655	–		6,655
Convertible loans	154,253	–		154,253
Obligations under finance leases	1,169	–		1,169
Liabilities directly associated with assets classified as held for sale	14,138	–		14,138
	295,641	–		295,641
Total liabilities	563,305	–		563,305
Total equity and liabilities	780,148	(53,001)		727,147

Unaudited Pro Forma Consolidated Income Statement of the Target Group for the six months ended 30 June 2018

	Audited amount	Unaudited pro forma adjustments	Notes	Adjusted amount
	US$'000	*US$'000*		*US$'000*
Continuing Operations				
Revenue	108,129	–		108,129
Cost of sales	(42,643)	(455)	*(a)*	
		2,805	*(d)(i)*	(40,293)
Gross profit	65,486	2,350		67,836
Exploration expenditure written off	–	(1,366)	*(b)*	(1,366)
Other operating expenses	(1,438)	–		(1,438)
General and administrative expenses	(15,112)	–		(15,112)
Operating profit	48,936	984		49,920
Share of results of joint venture	1,951	–		1,951
Fair value loss on convertible loans	(1,058)	–		(1,058)
Finance costs	(5,352)	(630)	*(c)*	(5,982)
Other income	289	–		289
Foreign exchange loss	(175)	–		(175)
Profit before tax	44,591	354		44,945
Taxation charge	(6,472)	–		(6,472)
Profit for the period	38,119	354		38,473
Attributable to:				
Owners of the Target	38,119	354		38,473
Non-controlling interest	–	–		–
	38,119	354		38,473

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Target Group for the six months ended 30 June 2018

	Audited amount	Unaudited pro forma adjustments	*Note*	Adjusted amount
	US$'000	*US$'000*		*US$'000*
Profit for the period	38,119	(455)	*(a)*	
		(1,366)	*(b)*	
		(630)	*(c)*	
		2,805	*(d)(i)*	38,473
Items that will not reclassified subsequently to profit or loss				
Re-measurement of retirement benefit obligation	–	–		–
Other comprehensive income for the period	–	–		–
Total comprehensive income for the period	38,119	354		38,473
Attributable to:				
Owners of the Target	38,119	(455)	*(a)*	
		(1,366)	*(b)*	
		(630)	*(c)*	
		2,805	*(d)(i)*	38,473
Non-controlling interest	–	–		–
	38,119	354		38,473

Unaudited Pro Forma Consolidated Statement of Financial Position of the Target Group as at 31 December 2017

	Audited Amount	Unaudited pro forma adjustments	Note	Adjusted amount
	US$'000	*US$'000*		*US$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	509,061	(104,663)	*(b)*	
		(5,300)	*(c)*	
		43,325	*(d)(i)*	
		14,625	*(d)(ii)*	457,048
Intangible exploration and evaluation assets	1,006	–		1,006
Investment in joint venture	3,474	–		3,474
Other non-current assets	27,869	–		27,869
	541,410	(52,013)		489,397
Current assets				
Inventories	7,714	(1,342)	*(a)*	6,372
Trade and other receivables	165,824	–		165,824
Cash and cash equivalents	65,594	–		65,594
	239,132	(1,342)		237,790
Total assets	780,542	(53,355)		727,187

	Audited Amount US$'000	Unaudited pro forma adjustments US$'000	*Note*	Adjusted amount US$'000
EQUITY AND LIABILITIES				
Equity				
Share capital	519,204	–		519,204
Share premium	181,875	–		181,875
Other reserves	(39,006)	–		(39,006)
Retained deficit	(479,411)	(1,342)	*(a)*	
		(104,663)	*(b)*	
		(5,300)	*(c)*	
		43,325	*(d)(i)*	
		14,625	*(d)(ii)*	(532,766)
Equity attributable to owners of the Target	182,662	(53,355)		129,307
Non-controlling interest	4,239	–		4,239
Total equity	186,901	(53,355)		133,546
Non-current liabilities				
Borrowings	246,557	–		246,557
Obligations under finance leases	1,914	–		1,914
Provisions and other non-current liabilities	16,923	–		16,923
Deferred tax liabilities	658	–		658
	266,052	–		266,052
Current liabilities				
Trade and other payables	124,058	–		124,058
Current tax payable	6,689	–		6,689
Crude oil prepayments	37,469	–		37,469
Convertible loans	158,204	–		158,204
Obligations under finance leases	1,169	–		1,169
	327,589	–		327,589
Total liabilities	593,641	–		593,641
Total equity and liabilities	780,542	(53,355)		727,187

Unaudited Pro Forma Consolidated Income Statement of the Target Group for the year ended 31 December 2017

	Audited amount	Unaudited pro forma adjustments	Note	Adjusted amount
	US$'000	*US$'000*		*US$'000*
Continuing Operations				
Revenue	203,391	–		203,391
Cost of sales	(97,159)	(193)	*(a)*	
		8,266	*(d)(i)*	(89,086)
Gross profit	106,232	8,073		114,305
Exploration expenditure written off	(20,074)	12,076	*(b)*	(7,998)
Net impairment of oil and gas assets	(69,053)	8,796	*(d)(ii)*	(60,257)
Loss on assets classified as held for sale	(2,604)	–		(2,604)
General and administrative expenses	(22,041)	–		(22,041)
Operating loss	(7,540)	28,945		21,405
Share of results of joint venture	2,305	–		2,305
Fair value loss on convertible loans	(28,748)	–		(28,748)
Finance costs	(13,572)	(1,391)	*(c)*	(14,963)
Other income	1,226	–		1,226
Foreign exchange gain	648	–		648
Loss before tax	(45,681)	27,554		(18,127)
Taxation charge	(7,140)	–		(7,140)
Loss for the year	(52,821)	27,554		(25,267)
Attributable to:				
Owners of the Target	(52,829)	27,554		(25,275)
Non-controlling interest	8	–		8
	(52,821)	27,554		(25,267)

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Target Group for the year ended 31 December 2017

	Audited amount	Unaudited pro forma adjustments	*Note*	Adjusted amount
	US$'000	*US$'000*		*US$'000*
Loss for the year	(52,821)	(193)	*(a)*	
		12,076	*(b)*	
		(1,391)	*(c)*	
		8,266	*(d)(i)*	
		8,796	*(d)(ii)*	(25,267)
Items that will not reclassified subsequently to profit or loss				
Re-measurement of retirement benefit obligation	254	–		254
Other comprehensive income for the year	254	–		254
Total comprehensive income for the year	(52,567)	27,554		(25,013)
Attributable to:				
Owners of the Target	(52,575)	(193)	*(a)*	
		12,076	*(b)*	
		(1,391)	*(c)*	
		8,266	*(d)(i)*	
		8,796	*(d)(ii)*	(25,021)
Non-controlling interest	8	–		8
	(52,567)	27,554		(25,013)

Unaudited Pro Forma Consolidated Statement of Financial Position of the Target Group as at 31 December 2016

	Audited amount	Unaudited pro forma adjustments	Note	Adjusted amount
	US$'000	*US$'000*		*US$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	509,369	(90,534)	*(b)*	
		(3,909)	*(c)*	
		35,059	*(d)(i)*	
		5,829	*(d)(ii)*	455,814
Intangible exploration and evaluation assets	27,692	(26,205)	*(b)*	1,487
Investment in joint venture	4,424	–		4,424
Other non-current assets	4,991	–		4,991
	546,476	(79,760)		466,716
Current assets				
Inventories	23,709	(1,149)	*(a)*	22,560
Trade and other receivables	94,983	–		94,983
Cash and cash equivalents	58,311	–		58,311
Assets classified as held for sale	126,144	–		126,144
	303,147	(1,149)		301,998
Total assets	849,623	(80,909)		768,714

	Audited amount *US$'000*	Unaudited pro forma adjustments *US$'000*	*Note*	Adjusted amount *US$'000*
EQUITY AND LIABILITIES				
Equity				
Share capital	560,852	–		560,852
Share premium	205,929	–		205,929
Other reserves	(105,567)	–		(105,567)
Retained deficit	(426,582)	(1,149)	*(a)*	
		(116,739)	*(b)*	
		(3,909)	*(c)*	
		35,059	*(d)(i)*	
		5,829	*(d)(ii)*	(507,491)
Equity attributable to owners of the Target	234,632	(80,909)		153,723
Non-controlling interest	4,437	–		4,437
Total equity	239,069	(80,909)		158,160
Non-current liabilities				
Borrowings	244,860	–		244,860
Convertible loans	117,198	–		117,198
Obligations under finance leases	2,937	–		2,937
Provisions and other non-current liabilities	15,549	–		15,549
Deferred tax liabilities	463	–		463
	381,007	–		381,007
Current liabilities				
Trade and other payables	144,368	–		144,368
Current tax payable	2,473	–		2,473
Crude oil prepayments	40,000	–		40,000
Convertible loans	19,075	–		19,075
Obligations under finance leases	1,169	–		1,169
Liabilities directly associated with assets classified as held for sale	22,462	–		22,462
	229,547	–		229,547
Total liabilities	610,554	–		610,554
Total equity and liabilities	849,623	(80,909)		768,714

Unaudited Pro Forma Consolidated Income Statement of the Target Group for the year ended 31 December 2016

	Audited amount US$'000	Unaudited pro forma adjustments US$'000	Note	Adjusted amount US$'000
Continuing Operations				
Revenue	138,895	–		138,895
Cost of sales	(106,556)	(867)	*(a)*	
		6,983	*(d)(i)*	(100,440)
Gross profit	32,339	6,116		38,455
Exploration expenditure written off	–	(11,609)	*(b)*	(11,609)
Net impairment of oil and gas assets	(94,337)	1,194	*(d)(ii)*	(93,143)
General and administrative expenses	(18,970)	–		(18,970)
Operating loss	(80,968)	(4,299)		(85,267)
Share of results of joint venture	1,451	–		1,451
Fair value loss on convertible loans	(24,774)	–		(24,774)
Finance costs	(9,365)	(1,458)	*(c)*	(10,823)
Other income	1,335	–		1,335
Foreign exchange loss	(2,340)	–		(2,340)
Loss before tax	(114,661)	(5,757)		(120,418)
Taxation charge	(1,456)	–		(1,456)
Loss for the year	(116,117)	(5,757)		(121,874)
Attributable to:				
Owners of the Target	(116,145)	(5,757)		(121,902)
Non-controlling interest	28	–		28
	(116,117)	(5,757)		(121,874)

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Target Group for the year ended 31 December 2016

	Audited amount	Unaudited pro forma adjustments	Note	Adjusted amount
	US$'000	*US$'000*		*US$'000*
Loss for the year	(116,117)	(867)	*(a)*	
		(11,609)	*(b)*	
		(1,458)	*(c)*	
		6,983	*(d)(i)*	
		1,194	*(d)(ii)*	(121,874)
Items that will not reclassified subsequently to profit or loss				
Re-measurement of retirement benefit obligation	(30)	–		(30)
Other comprehensive income for the year	(30)	–		(30)
Total comprehensive income for the year	(116,147)	(5,757)		(121,904)
Attributable to:				
Owners of the Target	(116,175)	(867)	*(a)*	
		(11,609)	*(b)*	
		(1,458)	*(c)*	
		6,983	*(d)(i)*	
		1,194	*(d)(ii)*	(121,932)
Non-controlling interest	28	–		28
	(116,147)	(5,757)		(121,904)

Unaudited Pro Forma Consolidated Statement of Financial Position of the Target Group as at 31 December 2015

	Audited amount	Unaudited pro forma adjustments	Note	Adjusted amount
	US$'000	*US$'000*		*US$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	621,571	(83,306)	*(b)*	
		(2,785)	*(c)*	
		28,514	*(d)(i)*	
		13,849	*(d)(ii)*	577,843
Intangible exploration and evaluation assets	32,663	(31,142)	*(b)*	1,521
Investment in joint venture	5,528	–		5,528
Other non-current assets	22,754	–		22,754
	682,516	(74,870)		607,646
Current assets				
Inventories	24,411	(282)	*(a)*	24,129
Trade and other receivables	48,198	–		48,198
Cash and cash equivalents	105,297	–		105,297
	177,906	(282)		177,624
Total assets	860,422	(75,152)		785,270

	Audited amount *US$'000*	Unaudited pro forma adjustments *US$'000*	*Note*	Adjusted amount *US$'000*
EQUITY AND LIABILITIES				
Equity				
Share capital	559,835			559,835
Share premium	205,491			205,491
Other reserves	(105,613)			(105,613)
Retained deficit	(310,437)	(282)	*(a)*	
		(114,448)	*(b)*	
		(2,785)	*(c)*	
		28,514	*(d)(i)*	
		13,849	*(d)(ii)*	(385,589)
Equity attributable to owners of the Target	349,276	(75,152)		274,124
Non-controlling interest	5,645	–		5,645
Total equity	354,921	(75,152)		279,769
Non-current liabilities				
Borrowings	243,326	–		243,326
Convertible loans	117,329	–		117,329
Obligations under finance leases	3,911	–		3,911
Provisions and other non-current liabilities	15,458	–		15,458
Deferred tax liabilities	163	–		163
	380,187	–		380,187
Current liabilities				
Trade and other payables	119,659	–		119,659
Current tax payable	1,849	–		1,849
Convertible loans	2,071	–		2,071
Obligations under finance leases	1,735	–		1,735
	125,314	–		125,314
Total liabilities	505,501	–		505,501
Total equity and liabilities	860,422	(75,152)		785,270

Unaudited Pro Forma Consolidated Income Statement of the Target Group for the year ended 31 December 2015

	Audited amount	Unaudited pro forma adjustments	*Note*	Adjusted amount
	US$'000	*US$'000*		*US$'000*
Continuing Operations				
Revenue	155,642	–		155,642
Cost of sales	(129,087)	256	*(a)*	
		3,826	*(d)(i)*	(125,005)
Gross profit	26,555	4,082		30,637
Exploration expenditure written off	(14,218)	3,413	*(b)*	(10,805)
Net impairment of oil and gas assets	(69,010)	13,849	*(d)(ii)*	(55,161)
Profit on farm-out of working interest	33,876	4,169	*(e)*	38,045
General and administrative expenses	(18,221)	–		(18,221)
Operating loss	(41,018)	25,513		(15,505)
Share of results of joint venture	445	–		445
Fair value loss on convertible loans	(9,261)	–		(9,261)
Finance costs	(9,654)	(1,737)	*(c)*	(11,391)
Other income	1,231	–		1,231
Foreign exchange loss	(1,851)	–		(1,851)
Loss before tax	(60,108)	23,776		(36,332)
Taxation charge	(2,259)	–		(2,259)
Loss for the year	(62,367)	23,776		(38,591)
Attributable to:				
Owners of the Target	(62,220)	23,776		(38,444)
Non-controlling interest	(147)	–		(147)
	(62,367)	23,776		(38,591)

Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Target Group for the year ended 31 December 2015

	Audited amount	Unaudited pro forma adjustments	Note	Adjusted amount
	US$'000	*US$'000*		*US$'000*
Loss for the year	(62,367)	256	*(a)*	
		3,413	*(b)*	
		(1,737)	*(c)*	
		3,826	*(d)(i)*	
		13,849	*(d)(ii)*	
		4,169	*(e)*	(38,591)
Items that will not reclassified subsequently to profit or loss				
Re-measurement of retirement benefit obligation	445	–		445
Other comprehensive income for the year	445	–		445
Total comprehensive income for the year	(61,922)	23,776		(38,146)
Attributable to:				
Owners of the Target	(61,775)	256	*(a)*	
		3,413	*(b)*	
		(1,737)	*(c)*	
		3,826	*(d)(i)*	
		13,849	*(d)(ii)*	
		4,169	*(e)*	(37,999)
Non-controlling interest	(147)	–		(147)
	(61,922)	23,776		(38,146)

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE TARGET GROUP

The following represent the material differences between the Target Group Policies and the UEG Polices, and the corresponding adjustments to conform with the UEG Policies:

(a) The inventories of crude oil are measured at the lower of cost and net realisable value under the UEG Policies whereas fair value is adopted to measure such inventories under the Target Group Policies. The adjustments reflect the impact of re-measuring inventories of crude oil of the Target Group at the lower of cost and net realisable value as follows:

	31 December 2015	**31 December 2016**	**31 December 2017**	**30 June 2018**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Decrease in inventory amount as at the year/period end date	282	1,149	1,342	1,797
Effect of decrease in inventory amount brought forward from prior year/period end	(538)	(282)	(1,149)	(1,342)
(Decrease)/increase in the cost of sales for the year/period	(256)	867	193	455

(b) The Group expenses all the geological and geophysical costs, signature bonus cost of the exploration license and cost of surface usage rights incurred during oil exploration phase, while the Target Group capitalises such costs in intangible exploration and evaluation assets when incurred and then transfers to oil and gas assets under property, plant and equipment when the relevant proven commercial reserves are determined. The adjustments represent the impact on the consolidated income statement of the Target Group for each of the Relevant Periods and accumulative impact on the consolidated statement of financial position as at the Relevant Dates in connection with the different accounting policies of the capitalised costs of the intangible exploration and evaluation assets and property, plant and equipment between the Target Group and the Group.

(c) The Group and the Target Group adopt the same accounting policy of the borrowing costs as follows:

"Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred."

According to the above accounting policy, the adjustments reflect the impact on the under-stated finance costs in the consolidated income statement of the Target Group for each of the Relevant Periods and the relevant accumulative impact on the over-stated property, plant and equipment in the consolidated statements of financial position as at the Relevant Dates as a result of the pro forma adjustments of the different accounting policies on the cost capitalisation of the property, plant and equipment as detailed in note (b) above.

(d) The Group and the Target Group adopt the same accounting policies on the depreciation and impairment of oil and gas properties as follows:

"Oil and gas properties are stated at cost less subsequent accumulated depreciation and any subsequent impairment losses. The cost of oil and gas properties (including decommissioning cost and future capital expenditures) is depreciated at the field level based on the unit-of-production method over the proved and probable reserves of petroleum."

"The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit."

According to the above accounting policies, the adjustments reflect the following impacts:

(i) the over-stated depreciation of oil and gas properties included in the cost of sales in the consolidated income statement of the Target Group for each of the Relevant Periods and the accumulative impact on the over-stated provision for depreciation of oil and gas properties included in property, plant and equipment in the consolidated statements of financial position as at the Relevant Dates as a result of the pro forma adjustments of the different accounting policies on the costs capitalisation of the property, plant and equipment as detailed in note (b) above and the corresponding adjustments of borrowing costs as detailed in note (c) above; and

(ii) the over-statement in impairment of oil and gas properties in the consolidated income statement of the Target Group for each of the Relevant Periods and the accumulative impact on the over-stated provision for impairment of oil and gas properties included in the property, plant and equipment in the consolidated statements of financial position as at the Relevant Dates as a result of pro forma adjustments of the different accounting policies on the costs capitalisation of the property, plant and equipment as detailed in note (b) above and the corresponding adjustments of borrowing costs as detailed in note (c) above.

(e) During the year ended 31 December 2015, the Target Group completed the farm-out of a 10% participating interest in the Iraq Block 9 exploration, development and production service contract ("EDPSC") to Egyptian General Petroleum Corporation and the relevant costs were capitalised under the oil and gas properties. The interest was disposed of during the year, resulting in a profit of US$33.9 million.

The adjustment reflects the understated profit on the farm-out of working interest in the consolidated income statement of the Target Group for the year ended 31 December 2015 due to the over-stated disposal cost of the relevant oil and gas properties, resulting from the different accounting policies on the costs capitalisation of the property, plant and equipment and the corresponding adjustment of borrowing costs as detailed in note (b) and (c) above respectively.

(f) On 11 February 2018, the Target Group signed a farm-out agreement with Dragon Oil to assign its 15% participating interest in the Iraq Block 9 EDPSC at a consideration of US$100 million, plus net funded expenditure. The associated assets and liabilities of the 15% interest in Iraq Block 9 EDPSC were classified as a disposal group held for sales as at 30 June 2018.

The adjustment reflects the overstatement of the carrying amounts of oil and gas properties included in the assets classified as held for sale in the consolidated statement of financial position of the Target Group as at 30 June 2018 in connection with the interest to be disposed, arising from the different accounting policies on the cost capitalisation of the property, plant and equipment as detailed in note (b) above and the corresponding adjustments of borrowing costs and; depreciation and impairment as detailed in note (c) and (d) above respectively.

D. ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.

Certified Public Accountants

29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

27 December 2018

The Board of Directors
United Energy Group Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kuwait Energy Public Limited Company and its subsidiaries (the "Target Group") by the directors of United Energy Group Limited (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of unaudited pro forma consolidated income statements and unaudited pro forma consolidated statements of comprehensive income of the Target Group for each of the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 (the "Relevant Periods") and the unaudited pro forma consolidated statements of financial position of the Target Group as at 31 December 2015, 2016 and 2017 and 30 June 2018 (the "Relevant Dates") as set out on pages II-76 to II-96 of the investment circular dated 27 December 2018 issued by the Company (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page II-76 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact on the Target Group's consolidated income statements and consolidated statements of comprehensive income for the Relevant Periods and consolidated statements of financial position as at the Relevant Dates as if the accounting policies adopted by United Energy Group Limited (the "UEG Policies") had been adopted by the Target Group for the Relevant Periods. As part of this process, information about the Target Group's consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position have been extracted by the Directors from the Target Group's Accountants' Report for the Relevant Periods which was prepared by Deloitte Touche Tohmatsu in Hong Kong as set out in Part A of Appendix II to the Circular.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of the unaudited pro forma financial information included in the Circular is solely to illustrate the significant impacts on the Target Group's consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position for the Relevant Periods as if the UEG Policies had been adopted by the Target Group for the Relevant Periods, for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects for adopting the UEG Policies, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Target Group and the UEG Policies in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the UEG Policies; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

RSM Hong Kong
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma statement of assets and liabilities of the Group (the "Statement") has been prepared to illustrate the effect of the Group's acquisition of Kuwait Energy Public Limited Company ("Target Company") and its subsidiaries (collectively referred as the "Target Group") (the "Acquisition"), assuming the transaction had been completed as at 30 June 2018, might have affected the financial position of the Group.

The Statement is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2018 as extracted from the interim report of the Group for the six months ended 30 June 2018 and the unaudited pro forma consolidated statement of financial position of the Target Group as at 30 June 2018 as extracted from the unaudited pro forma financial information of the Target Group as set out in Part B of Appendix II: Financial Information of the Target Group in this Circular after making certain pro forma adjustments resulting from the Acquisition.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 30 June 2018. Furthermore, the Statement does not purport to predict the Group's future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in section Appendix I: Financial Information of the Group of this Circular, the financial information of the Target Group as set out in Part A of Appendix II: Accountants' Report of the Target Group of the Circular and other financial information included elsewhere in this Circular.

For the purpose of presenting the Statement, the unaudited pro forma consolidated statement of financial position of the Target Group as at 30 June 2018 is translated at the exchange rate of US$1 = HK$7.8.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group	The Target Group	Subtotal	Pro forma adjustments relating to the Acquisition		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(Note 1)	*(Note 2)*				
Non-current assets						
Property, plant and equipment	7,174,963	3,645,065	10,820,028			10,820,028
Intangible assets	3,239,338	1,888	3,241,226	6,684,662	*4(a)*	9,925,888
Investment in joint venture	–	28,275	28,275			28,275
Investment in associates	69,755	–	69,755			69,755
Equity investments at fair value through other comprehensive income	4,914	–	4,914			4,914
Advances, deposits and prepayments	25,679	–	25,679			25,679
Deferred tax assets	97,852	–	97,852			97,852
Other non-current assets	–	194,290	194,290			194,290
	10,612,501	3,869,518	14,482,019			21,166,681
Current assets						
Inventories	311,001	42,182	353,183			353,183
Trade and other receivables	2,685,848	1,147,926	3,833,774			3,833,774
Financial assets at fair value through profit or loss	3,128	–	3,128			3,128
Current tax assets	269,758	–	269,758			269,758
Bank and cash balances	1,221,901	340,283	1,562,184	(5,076,686)	*3*	
				4,521,414	*5*	1,006,912
Assets classified as held for sale	–	271,838	271,838	592,402	*4(b)*	864,240
	4,491,636	1,802,229	6,293,865			6,330,995

	The Group	The Target Group	Subtotal	Pro forma adjustments relating to the Acquisition		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
	(Note 1)	*(Note 2)*				
Current liabilities						
Trade and other payables	2,442,152	931,524	3,373,676	39,721	*6*	3,413,397
Borrowings	146,268	–	146,268	63,882	*5*	210,150
Due to directors	7,264	–	7,264			7,264
Convertible loans	–	1,203,173	1,203,173	(1,203,173)	*3(b)*	–
Provisions	17,243	–	17,243			17,243
Finance lease payables	–	9,118	9,118			9,118
Current tax liabilities	112,762	51,909	164,671			164,671
Liabilities classified as held for sale	–	110,276	110,276	(110,276)	*4(b)*	–
	2,725,689	2,306,000	5,031,689			3,821,843
Net current assets/(liabilities)	1,765,947	(503,771)	1,262,176			2,509,152
Total assets less current liabilities	12,378,448	3,365,747	15,744,195			23,675,833
Non-current liabilities						
Provisions and other non-current liabilities	480,378	141,086	621,464			621,464
Borrowings	383,553	1,930,297	2,313,850	4,457,532	*5*	6,771,382
Finance lease payables	–	10,811	10,811			10,811
Deferred tax liabilities	1,022,139	5,585	1,027,724	2,478,055	*4(a)*	
				245,937	*4(b)*	3,751,716
	1,886,070	2,087,779	3,973,849			11,155,373
NET ASSETS	10,492,378	1,277,968	11,770,346			12,520,460

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balances were extracted from the unaudited condensed consolidated statement of financial position as at 30 June 2018, as set out in the published interim report of the Company for the period ended 30 June 2018.

2. The balances were extracted from the unaudited pro forma consolidated statement of financial position of the Target Group as at 30 June 2018 as set out in Part B of Appendix II: Unaudited Pro Forma Financial Information of the Target Group to this Circular, presented in United States dollar (US$). For the purpose of preparing this Statement, the amounts have been translated to Hong Kong dollars (HK$), the Company's presentation currency, at an exchange rate of US$1=HK$7.8, and rounded to the nearest thousand.

3. Pursuant to a transaction agreement (the "Agreement") dated 23 September 2018 entered into between the Group and the sellers of the Target Company, the Group conditionally agreed to acquire the entire issued share capital of the Target Company at a cash consideration of up to approximately HK$5,076,686,000 (equivalent to approximately US$650,857,000).

   The adjustment represents the total consideration of HK$5,076,686,000 paid for the Acquisition as if the acquisition had taken place on 30 June 2018. The calculation is set out as follows:

	Notes	*HK$'000*
Base consideration	*(a)*	3,827,828
Consideration for the Target's Convertible Shares	*(b)*	1,248,858
Total consideration		5,076,686

   (a) Pursuant to the Agreement, a base consideration of HK$3,827,828,000 (equivalent to approximately US$490,747,000) for the acquisition of the entire issued share capital of the Target Company shall be satisfied by cash.

   (b) Pursuant to the Agreement, the Group is required to pay an additional consideration up to approximately HK$1,248,858,000 (equivalent to approximately US$160,110,000) for acquiring the Target's shares which would be issued pursuant to the terms of the Target's convertible loans (the "Target's Convertible Shares") upon the completion of the Acquisition.

4. Upon completion of the Acquisition, the Target Group will become a wholly-owned subsidiary of the Company and the identifiable assets and liabilities of the Target Group will be accounted for in the Enlarged Group at their fair values using the acquisition accounting method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

The fair values of the identifiable assets and liabilities of the Target Group as if the Acquisition had been completed on 30 June 2018 are as follows:

	Carrying amounts of the identifiable assets and liabilities as at 30 June 2018	**Fair value adjustment on the identifiable assets and liabilities**	**Fair value on the identifiable assets and liabilities**		**Total**
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Purchase consideration				*3*	5,076,686
Less: identifiable assets and liabilities to be acquired or assumed					
– Property, plant and equipment	3,645,065	–	3,645,065		
– Intangible assets	1,888	6,684,662	6,686,550	*4(a)*	
– Investment in joint venture	28,275	–	28,275		
– Other non-current assets	194,290	–	194,290		
– Inventories	42,182	–	42,182		
– Trade and other receivables	1,147,926	–	1,147,926		
– Bank and cash balances	340,283	–	340,283		
– Assets classified as held for sale	271,838	592,402	864,240	*4(b)*	
– Trade and other payables	(931,524)	–	(931,524)		
– Convertible loans	(1,203,173)	1,203,173	–	*3(b)*	
– Finance lease payables	(9,118)	–	(9,118)		
– Current tax liabilities	(51,909)	–	(51,909)		
– Liabilities classified as held for sale	(110,276)	110,276	–	*4(b)*	
– Provisions and other non-current liabilities	(141,086)	–	(141,086)		
– Borrowings	(1,930,297)	–	(1,930,297)		
– Finance lease payables	(10,811)	–	(10,811)		
– Deferred tax liabilities	(5,585)	(2,478,055)	–	*4(a)*	
		(245,937)	(2,729,577)	*4(b)*	7,144,489
					(2,067,803)
Non-controlling interests					32,253
Gain on bargain purchase				*4(c)*	(2,035,550)

(a) This represents the fair value adjustment on intangible assets of HK$6,684,662,000 arising from the purchase price allocation upon completion of the Acquisition. For the purpose of this unaudited pro forma financial information, the directors of the Company ("Directors") have made referenced to the valuations performed by Gaffney, Cline & Associates ("GCA"), an independent professional qualified valuer, to measure the respective fair values of lease rights in each of the Target Group's business operations as at 30 June 2018. The fair value adjustment of HK$6,684,662,000 is calculated by reference to the average value in Competent Person's Report and Valuation Report in Appendix V plus certain adjustments provided by valuer. Deferred tax liabilities of HK$2,478,055,000 relating to the fair value adjustment of intangible assets are provided at the applicable tax rates of the different jurisdictions ranging from 35% to 40.55%, in which the Target Group operates.

The Directors confirm that, to the best of their knowledge, information and belief, after having made all reasonable enquiries, the valuation methods, basis and key assumptions applied in the valuation report prepared by the independent valuer for the sole purpose of preparing this unaudited pro forma financial information of the Enlarged Group and applying the purchase accounting in the Acquisition have been made after due and careful enquiry. The Directors of the Company are not aware of any indication of impairment of intangible assets which emerged as at the valuation date after considering the nature, prospects, financial condition and business risks of the Target Group and they will apply consistent accounting policies and assumptions to assess impairment of intangible assets in subsequent reporting periods in accordance with the requirements under HKAS 36 whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(b) The adjustment represents the fair value adjustment of the assets and liabilities held for sale recognised under the Target Group. According to the farm-out agreement entered between the Target Group, Dragon Oil (Block 9) Limited and Dragon Oil (Holdings) Limited (collectively referred as "Dragon Oil") on 11 February 2018, the Target Group will assign its 15% participating interest in the Iraq Block 9 field to Dragon Oil for i) withdrawal of arbitration claims by Dragon Oil; and ii) for a cash consideration of HK$780,000,000 (equivalent to US$100,000,000), plus net funded expenditure of approximately HK$84,240,000. For the purpose of this unaudited pro forma financial information, the fair value of the assets and liabilities held for sale was adjusted to HK$864,240,000 which is the total cash consideration to be received by the Target Group upon the transfer of the 15% interest in Iraq Block 9 under the terms of the farm-out agreement. Deferred tax liabilities of HK$245,937,000 relating to the total fair value adjustments of assets and liabilities held for sales of HK$702,678,000 are calculated at the Iraq income tax rate of 35%.

(c) The difference in the fair value of the net identifiable assets of the Target Group over the consideration is recognised as a gain on bargain purchase.

(d) For the purpose of the unaudited pro forma financial information, the Directors had assumed that (i) the fair values of other assets and liabilities of the Target Group either approximate to their respective carrying values or that any fair value adjustments would be immaterial; and (ii) all identifiable assets and liabilities have been properly identified for the purpose of the Group's accounting under business combination.

The amounts of gain on bargain purchase and fair values of the identifiable assets and liabilities of the Target Group are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of the Target Group on the date of completion of the Acquisition. Consequently, the resulting gain on bargain purchase and the actual allocation of the purchase price at the completion will likely result in different amounts when compared with those stated in the unaudited pro forma financial information.

5. The adjustment represents the net proceeds from new bank borrowings for the purpose of financing the Acquisition. The Group has entered into three financing facilities with an aggregate principal amount of up to US$720,000,000 (equivalent to approximately HK$5,616,000,000), and the Directors estimate that HK$4,521,414,000 of the total consideration is financed by the new bank borrowings; while the remaining balance of HK$555,272,000 is financed by the internal cash resources of the Group. According to the loan facility agreements of the new bank borrowings, loan repayment of HK$63,882,000 will be made within one year after loan drawing and thus the amounts are classified under current liabilities.

6. The adjustment represents the estimated acquisition-related costs of approximately HK$39,721,000, including accountancy, legal, financial advisors and other professional services related to the Acquisition, which are assumed to be payable upon the completion of the Acquisition.

7. Save as aforesaid, no adjustment has been made to the pro forma financial information to reflect any trading results or other transaction entered into by the Group and the Target Group subsequent to 30 June 2018.

D. ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.

Certified Public Accountants

29th Floor
Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

27 December 2018

The Board of Directors
United Energy Group Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of United Energy Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statements of assets and liabilities as at 30 June 2018 (the "Statement") as set out on pages III-1 to III-6 of the investment circular dated 27 December 2018 issued by the Company (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the Statement are described on page III-1 of the Circular.

The Statement has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire equity interest in Kuwait Energy Public Limited Company and its subsidiaries (the "Acquisition") on the Group's financial position as at 30 June 2018 as if the Acquisition had been taken place at 30 June 2018. As part of this process, information about the Group's consolidated financial position has been extracted by the Directors from the Group's condensed consolidated financial statements as included in the Company's interim report for the six months ended 30 June 2018, on which no review report have been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting

Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Statement in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Statement, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Statement.

The purpose of the Statement included in an Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2018 would have been as presented.

A reasonable assurance engagement to report on whether the Statement has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the

Statement provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the Statement reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Statement has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Statement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Statement has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

RSM Hong Kong
Certified Public Accountants
Hong Kong

The discussion and analysis in this Appendix IV relate to the consolidated results and financial position of the Target Group as set out in Appendix II to this circular.

A. BUSINESS REVIEW AND RESULT OF OPERATIONS

Composition of key line items in the Target Group's consolidated income statement

The following describes certain line items in the Target Group's consolidated income statement.

Revenue

The Target Group's consolidated revenue comprises the Target Group's net entitlement to oil, natural gas and condensate under the terms of its fiscal arrangements with governmental counterparties, as well as cost recovery amounts received from governmental counterparties for approved costs in the period, and net of service fees paid under the terms of the Target Group's service contracts. Revenues from the Target Group's production of oil and gas are recognized on the basis of the Target Group's net entitlement interest in those properties (the entitlement method). Revenue is recognized at a point of time when (or as) the Target satisfies performance obligations by transferring the promised goods or services to its customers and is measured based on the Target Group's share of consideration specified in production sharing contracts and risk service contracts excluding amounts collected on behalf of third parties, regardless of when cash is received by the Target Group for the sale. As a result, the Target Group's revenues for sales to EGPC from its production in Egypt have been booked in the periods when the produced volume is delivered to EGPC, despite the delay in receipt of cash from EGPC for those sales and similarly in Iraq where the production is immediately delivered to BOC and receipt of cash or oil from the Iraqi government is realised when appropriate volumes are available for lifting and allocated to the Target Group.

Cost of sales

Cost of sales comprises operating costs, depletion and amortization of appraisal and development costs capitalized on the Target Group's oil and gas assets and crude oil inventory movement. Depletion and amortization expenses, which comprise the majority of the Target Group's cost of sales, are non-cash charges for costs relating to past capital expenditures for the acquisition, exploration, appraisal and development of new oil and gas assets. These expenses include depletion of capitalized costs relating to exploration, appraisal and development expenditures and the amortization of tangible non-drilling costs incurred with developing the reserves. The amount of the Target Group's depletion and amortization expenses charged to its consolidated income statement is determined by the unit of production method. Operating costs consist of costs relating to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurance, and other ancillary miscellaneous costs. Crude oil inventory movement consists of changes arising on the revaluation of crude oil inventories.

Net impairment of oil and gas assets

Net impairment losses of oil and gas assets are recognized on the Target Group's consolidated income statement when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the Target Group's estimate of the present value of the future cash flows from the asset will be lower than the asset's balance sheet carrying amount on the date of the impairment test. The difference between the present value and the carrying amount will be recognized on the Target Group's consolidated income statement as an impairment loss and if there is any reversal for previous losses due to change in factors, then that loss is written back resulting in impairment income, which is shown as net impairment of oil and gas asset.

Exploration expenditure written off

Exploration expenditure written off represents intangible exploration and appraisal assets which fail an impairment test. These amounts may include those resulting from the Target Group deciding to relinquish certain licenses, for which the Target Group is required to provide letters of credit of specified amounts, as a bond of future performance under its minimum work commitments.

Loss on assets classified as held for sale

Assets are classified as "held for sale" if the value of the assets as carried on the balance sheet 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.

General and administrative expense

General and administrative expense comprises salaries for employees other than operational, technical and engineering staff, social expenses, provisions for liability and legal costs and other administration costs. General and administrative expense includes primarily the expensed (*i.e.*, non-capitalized) portion of the Target Group's exploration, appraisal and development costs but also including impairment of trade receivables.

Share of results of joint venture

Share of results of joint venture represents the Target Group's interest in the Karim Small Fields in Oman, which under IFRS 11 cannot be consolidated with the Target Group's revenue or expense items, as the Target Group does not control this asset.

Change in fair value of convertible loans

Under IFRS, the value of the conversion options within the Target Group's Convertible Loans are treated as embedded derivatives which have been determined not to be closely related to the loan arrangements. As a result, the Target Group has opted to recognize the Convertible Loans as financial liabilities at fair value through its consolidated income statement. Any change in the fair value of the Convertible Loans during a period which results from a change in the Target Group's forecasted cash flows is recognized in the Target Group's consolidated income statement as a change in fair value of convertible loans.

Finance costs

Finance costs comprises borrowing costs on loans, interest on finance lease and the unwinding of decommissioning provisions. The Target Group's borrowing costs on loans is generally recognized on the consolidated income statement in the period in which the interest is payable to lenders, but this amount is reduced by the proportion of the interest in a given period which is capitalized in the cost of qualifying assets. Qualifying assets are assets which the Target Group estimates will take a substantial amount of time before achieving their intended use or sale, and the interest and fees paid to lenders in conjunction with funding these assets are capitalized and added to the carrying cost of the asset until such time as the assets are substantially ready for their intended use or sale. As part of the carrying cost of a given asset, these capitalized interest costs result in increased depletion expenses through cost of sales.

Taxation charge

Taxation charges comprise income tax payable to governments in several of the Target Group's operating jurisdictions, based on taxable profit for the period in Area A, Egypt and in Iraq at Block 9 and Siba tax is levied on remuneration fees and other income arising under service contracts. Payments to governments of production and royalty taxes (in respect of the Target Group's MENA assets) are not shown as taxation charges, but are instead recognized as a reduction to the Target Group's recognized revenue.

Comparison of six months ended 30 June 2017 and 2018

	Six months ended 30 June	
	2017	2018
	(US$ thousands) (unaudited)	
Revenue	95,398	108,129
Cost of sales	(49,201)	(42,643)
Gross profit	**46,197**	**65,486**
Exploration expenditure written off	(1,531)	–
Net impairment of oil and gas assets	–	–
Loss on assets classified as held for sale	(1,873)	–
Other operating expenses	–	(1,438)
General and administrative expenses	(13,420)	(15,112)
Operating profit/(loss)	**29,373**	**48,936**
Share of results of joint venture	1,390	1,951
Change in fair value of convertible loans	(15,160)	(1,058)
Other income	537	289
Foreign exchange gain/(loss)	254	(175)
Finance costs	(6,789)	(5,352)
Profit before tax	**9,605**	**44,591**
Taxation charge	(3,938)	(6,472)
Profit for the period	**5,667**	**38,119**

On a jurisdiction-by-jurisdiction basis, the Target Group's revenue in the six months ended 30 June 2017, compared with the six months ended 30 June 2018, is presented in the table below.

	Six months ended 30 June	
	2017	2018
	(US$ thousands) (unaudited)	
Egypt	54,775	74,364
Iraq	40,623	33,765
Group revenue	**95,398**	**108,129**

Revenue

Revenue increased by US$12.7 million (equivalent to approximately HK$99.1 million), or 13.3%, from US$95.4 million (equivalent to approximately HK$744.1 million) in the six months ended 30 June 2017 to US$108.1 million (equivalent to approximately HK$843.2 million) in the six months ended 30 June 2018. Group revenues in both periods were from the sale of oil and gas. The increase in the Target Group's revenues was primarily attributable to a higher average realized oil price and was partially offset by lower net entitlement production.

Average realized oil prices were US$65.8 per boe in the six months ended 30 June 2018, an increase of 38.2% compared with US$47.6 per boe in the six months ended 30 June 2017, contributing to the Target Group's increased revenue.

Cost of sales

Cost of sales decreased by US$6.6 million (equivalent to approximately HK$51.5 million), or 13.3%, from US$49.2 million (equivalent to approximately HK$383.8 million) in the six months ended 30 June 2017 to US$42.6 million (equivalent to approximately HK$332.3 million) million in the six months ended 30 June 2018. The overall decrease in the Target Group's cost of sales was primarily attributable to lower net entitlement production, leading to lower depletion charges on Block 9, Iraq.

Exploration expenditure written off

Exploration expenditure written off was US$1.5 million (equivalent to approximately HK$11.7 million) in the six months ended 30 June 2017, and zero in the six months ended 30 June 2018. The overall decrease in exploration expenditure written off was attributable to the success of the South Kheir exploration well in Area A, Egypt.

Loss on assets classified as held for sale

The Target Group incurred a loss on assets classified as held for sale in the amount of US$1.9 million (equivalent to approximately HK$14.8 million) in the six months ended 30 June 2017. The loss in the six months ended 30 June 2017 was wholly attributable to the farm-out of Abu Sennan in Egypt, which was not repeated in 2018. The Target Group did not incur any losses on assets held for sale in the six months ended 30 June 2018.

Other operating expenses

Other operating expenses was zero in the six months ended 30 June 2017 compared with US$1.4 million (equivalent to approximately HK$10.9 million) in the six months ended 30 June 2018. This increase was primarily attributable to maintenance expenditure on Yemen Block 5 and Iraq Mansuriya which were fully written off in 2017.

General and administrative expenses

General and administrative expenses increased by US$1.7 million (equivalent to approximately HK$13.3 million), or 12.7%, from US$13.4 million (equivalent to approximately HK$104.5 million) in the six months ended 30 June 2017 to US$15.1 million (equivalent to approximately HK$117.8 million) in the six months ended 30 June 2018. This increase was primarily attributable to expenses on various one-off projects and consultancy fees.

Change in fair value of convertible loans

Change in fair value of convertible loans decreased by US$14.1 million (equivalent to approximately HK$110 million), from a US$15.2 million (equivalent to approximately HK$118.6 million) loss in the six months ended 30 June 2017 to a US$1.1 million (equivalent to approximately HK$8.6 million) loss in the six months ended 30 June 2018, primarily due to a change in the deemed likelihood of the occurrence of each conversion or prepayment option.

Foreign exchange gain/(loss)

The Target Group incurred a foreign exchange gain of US$0.3 million (equivalent to approximately HK$2.3 million) in the six months ended 30 June 2017 compared with a US$0.2 million (equivalent to approximately HK$1.6 million) loss in the six months ended 30 June 2018, a change due to minor currency fluctuations.

Finance costs

Finance costs decreased by US$1.4 million (equivalent to approximately HK$10.9 million), or 21.2%, from US$6.8 million (equivalent to approximately HK$53.0 million) in the six months ended 30 June 2017 to US$5.3 million (equivalent to approximately HK$41.3 million) in the six months ended 30 June 2018, primarily due to lower finance costs paid in relation to the crude oil prepayment facility used by the Target Group in the six months ended 30 June 2018.

Taxation charge

Taxation charge increased by US$2.5 million (equivalent to approximately HK$19.5 million), from US$3.9 million (equivalent to approximately HK$30.4 million) in the six months ended 30 June 2017 to US$6.5 million (equivalent to approximately HK$50.7 million) in the six months ended 30 June 2018, primarily due to an increase in taxable remuneration fees received in relation to Block 9 in Iraq, and to an increase in the taxable revenue from the Target Group's Egyptian assets.

Comparison of years ended 31 December 2016 and 2017

	Year ended 31 December	
	2016	**2017**
	(US$ thousands)	
Revenue	138,895	203,391
Cost of sales	(106,556)	(97,159)
Gross profit	**32,339**	**106,232**
Exploration expenditure written off	–	(20,074)
Net impairment of oil and gas assets	(94,337)	(69,053)
Loss on assets classified as held for sale	–	(2,604)
Other operating expenses	–	–
General and administrative expenses	(18,970)	(22,041)
Operating loss	**(80,968)**	**(7,540)**
Share of results of joint venture	1,451	2,305
Change in fair value of convertible loans	(24,774)	(28,748)
Other income	1,335	1,226
Foreign exchange (loss)/gain	(2,340)	648
Finance costs	(9,365)	(13,572)
Loss before tax	**(114,661)**	**(45,681)**
Taxation charge	(1,456)	(7,140)
Loss for the year	**(116,117)**	**(52,821)**

On a jurisdiction-by-jurisdiction basis, the Target Group's revenue in the year ended 31 December 2016, compared with the year ended 31 December 2017, is presented in the table below.

	Year ended 31 December	
	2016	**2017**
	(US$ thousands)	
Egypt	105,533	111,174
Iraq	33,362	92,217
Group revenue	**138,895**	**203,391**

Revenue

Revenue increased by US$64.5 million (equivalent to approximately HK$503.1 million), or 46.4%, from US$138.9 million (equivalent to approximately HK$1,083.4 million) in the year ended 31 December 2016 to US$203.4 million (equivalent to approximately HK$1,586.5 million) in the year ended 31 December 2017. Group revenues in both periods were from the sale of oil and gas. The increase in the Target Group's revenues was primarily attributable to an increase in net entitlement production and an increase in average realized oil price. Net entitlement production from Block 9 in Iraq increased upon the completion and production from the new Faihaa wells, partly offset by a decrease in net entitlement production from Egyptian assets due to a natural decline in production.

Average realized oil prices were US$57.2 per boe in the year ended 31 December 2017, an increase of 47.4% compared with US$38.8 per boe in the year ended 31 December 2016, contributing to the Target Group's increased revenue.

Cost of sales

Cost of sales decreased by US$9.4 million (equivalent to approximately HK$73.3 million), or 8.8%, from US$106.6 million (equivalent to approximately HK$831.5 million) in the year ended 31 December 2016 to US$97.2 million (equivalent to approximately HK$758.2 million) in the year ended 31 December 2017. The overall decrease in the Target Group's cost of sales was primarily attributable to a US$5.3 million (equivalent to approximately HK$41.3 million), or 11.3%, decrease in operating costs, from US$47.0 million (equivalent to approximately HK$366.6 million) in the year ended 31 December 2016, to US$41.7 million (equivalent to approximately HK$325.3 million) in the year ended 31 December 2017, resulting from a decline in production from Egypt, the devaluation of the Egyptian pound and the reporting of expenses related to suspended operations of Block 5 in Yemen under other operating expenses, partly offset by an increase in production from Block 9 in Iraq. The decrease in cost of sales was also attributable to a US$5.3 million (equivalent to approximately HK$41.3 million) decrease in depletion and amortization of oil and gas assets, from US$60.3 million (equivalent to approximately HK$470.3 million) in the year ended 31 December 2016, to US$55.0 million (equivalent to approximately HK$429 million) in the year ended 31 December 2017, which was mainly due to a change in the production mix from Egyptian assets, which have a relatively high depletion rate, to the Block 9 fields in Iraq, which have a relatively low depletion rate.

Exploration expenditure written off

Exploration expenditure written off was zero in the year ended 31 December 2016, and US$20.1 million (equivalent to approximately HK$156.8 million) in the year ended 31 December 2017. The exploration expenditure written off in the year ended 31 December 2017, was primarily attributable to US$18.5 million (equivalent to approximately HK$144.3 million) written off in respect of Block 49 in Yemen, where, based on the geopolitical and security environment, and on a technical review, the Target Group decided to discontinue its exploration and appraisal program relating to the Block 49 resources discovered to date and to relinquish its license. The Target Group also wrote off US$1.6 million (equivalent to approximately HK$12.5 million) of unsuccessful exploration expenditure related to Abu Sennan in Egypt.

Net impairment of oil and gas assets

Net impairment of oil and gas assets amounted to US$94.3 million (equivalent to approximately HK$735.5 million) in the year ended 31 December 2016, compared with US$69.1 million (equivalent to approximately HK$539 million) in the year ended 31 December 2017. These losses included impairment losses of US$33.9 million (equivalent to approximately HK$264.4 million) in respect of the Mansuriya field and US$50.8 million (equivalent to approximately HK$396.2 million) in respect of Block 5 in Yemen, due to the re-classification of the 2P reserves relating to these assets to contingent resources. The Target Group recognized an impairment reversal in the amount of US$15.6 million (equivalent to approximately HK$121.7 million) in respect of the Burg El Arab Field, due to an increase in the commercial reserve used in estimating the future cash flows of certain impaired assets.

Loss on assets classified as held for sale

The Target Group incurred zero loss on assets classified as held for sale in the year ended 31 December 2016, compared with a loss on assets classified as held for sale in the amount of US$2.6 million (equivalent to approximately HK$20.3 million) in the year ended 31 December 2017. This loss was wholly attributable to Abu Sennan in Egypt.

Other operating expenses

There was no change in other operating expenses between the year ended 31 December 2016, and the year ended 31 December 2017.

General and administrative expenses

General and administrative expenses increased by US$3.0 million (equivalent to approximately HK$23.4 million), or 15.8%, from US$19.0 million (equivalent to approximately HK$148.2 million) in the year ended 31 December 2016 to US$22.0 million (equivalent to approximately HK$171.6 million) in the year ended 31

December 2017. This increase was primarily attributable to an increase in professional fees resulting from preparatory work performed in relation to the Target's aborted initial public offering in 2017.

Change in fair value of convertible loans

Change in fair value of convertible loans increased by US$4.0 million (equivalent to approximately HK$31.2 million), from a US$24.8 million (equivalent to approximately HK$193.4 million) loss in the year ended 31 December 2016 to a US$28.7 million (equivalent to approximately HK$223.9 million) loss in the year ended 31 December 2017, primarily due to a change in the deemed likelihood of the occurrence of each conversion or prepayment option.

Foreign exchange (loss)/gain

The Target Group incurred a foreign exchange loss of US$2.3 million (equivalent to approximately HK$17.9 million) in the year ended 31 December 2016, compared with a US$0.6 million (equivalent to approximately HK$4.7 million) gain in the year ended 31 December 2017, a change primarily attributable to movement in the Egyptian pound exchange rate against the U.S. dollar.

Finance costs

Finance costs increased by US$4.2 million (equivalent to approximately HK$32.8 million), or 44.7%, from US$9.4 million (equivalent to approximately HK$73.3 million) in the year ended 31 December 2016 to US$13.6 million (equivalent to approximately HK$106 million) in year ended 31 December 2017, primarily due to finance costs paid in relation to the crude oil prepayment facility used by the Target Group during 2016.

Taxation charge

Taxation charge increased by US$5.6 million (equivalent to approximately HK$43.7 million), from US$1.5 million (equivalent to approximately HK$11.7 million) in the year ended 31 December 2016 to US$7.1 million (equivalent to approximately HK$55.4 million) in year ended 31 December 2017, primarily due to an increase in taxable remuneration fees in relation to Block 9 in Iraq, and to an increase in the taxable income of the Target Group's Egyptian assets.

Comparison of years ended 31 December, 2015 and 2016

	Year ended 31 December	
	2015	**2016**
	(US$ thousands)	
Revenue	155,642	138,895
Cost of sales	(129,087)	(106,556)
Gross profit	**26,555**	**32,339**
Exploration expenditure written off	(14,218)	–
Net impairment of oil and gas assets	(69,010)	(94,337)
Profit on farm-out of working interest	33,876	–
General and administrative expenses	(18,221)	(18,970)
Operating Loss	**(41,018)**	**(80,968)**
Share of results of joint venture	445	1,451
Change in fair value of convertible loans	(9,261)	(24,774)
Other income	1,231	1,335
Foreign exchange loss	(1,851)	(2,340)
Finance costs	(9,654)	(9,365)
Loss before tax	**(60,108)**	**(114,661)**
Taxation charge	(2,259)	(1,456)
Loss for the year	**(62,367)**	**(116,117)**

On a jurisdiction-by-jurisdiction basis, the Target Group's revenue in 2015 compared with 2016 is presented in the table below.

	Year ended 31 December	
	2015	**2016**
	(US$ thousands)	
Egypt	146,774	105,533
Iraq	–	33,362
Yemen	8,868	–
Group revenue	**155,642**	**138,895**

Revenue

Revenue decreased by US$16.7 million (equivalent to approximately HK$130.3 million), or 10.8%, from US$155.6 million (equivalent to approximately HK$1,213.7 million) in 2015 to US$138.9 million (equivalent to approximately HK$1,083.4 million) in 2016. Group revenues in both periods were from the sale of oil and gas. The decrease in the Target Group's revenues was primarily attributable to a decrease in average realized oil price. This decrease was partly offset by an increase in net entitlement production which was due in part to sales, in the amount of US$33.4 million (equivalent to approximately HK$260.5 million), being recognized in respect of Block 9 in Iraq for the first time in 2016.

Average realized oil prices were US$38.8 per boe in 2016, a decrease of 22% compared with US$49.6 per boe in 2015, contributing to the Target Group's decreased revenue.

Cost of sales

Cost of sales decreased by US$22.5 million (equivalent to approximately HK$175.5 million), or 17.5%, from US$129.1 million (equivalent to approximately HK$1,007 million) in 2015 to US$106.6 million (equivalent to approximately HK$831.5 million) in 2016. The overall decrease in the Target Group's cost of sales was primarily attributable to a US$13.1 million (equivalent to approximately HK$102.2 million), or 21.8%, decrease in operating costs, from US$60.2 million (equivalent to approximately HK$469.6 million) in 2015 to US$47.0 million (equivalent to approximately HK$366.6 million) in 2016, resulting from exiting Block 43 and the suspension of operations in Yemen. The decrease in cost of sales was also attributable to a US$7.5 million (equivalent to approximately HK$58.5 million) decrease in depletion and amortization of oil and gas assets, from US$67.8 million (equivalent to approximately HK$528.8 million) in 2015 to US$60.3 million (equivalent to approximately HK$470.3 million) in 2016, which was mainly due to a change in production mix from higher concentration in the Abu Sennan field, which has a relatively high depletion rate, to the Block 9 fields in Iraq, which have a relatively low depletion rate. The decrease in cost of sales was partially offset by a US$5.9 million (equivalent to approximately HK$46 million) increase as a result of the commencement of production from Block 9 in 2016.

Exploration expenditure written off

There was no exploration expenditure written off in 2016, whereas in 2015 exploration expenditure written off amounted to US$14.2 million (equivalent to approximately HK$110.8 million), which was primarily attributable to Block 82 in Yemen, where the license was relinquished due to unsuccessful exploration activities, resulting in a write off of US$11.6 million (equivalent to approximately HK$90.5 million). The Target Group also wrote off unsuccessful exploration expenditure related to Area A in Egypt amounting to US$2.6 million (equivalent to approximately HK$20.3 million).

Net impairment of oil and gas assets

Net impairment of oil and gas assets amounted to US$94.3 million (equivalent to approximately HK$735.5 million) in 2016, compared with US$69.0 million (equivalent to approximately HK$538.2 million) in 2015. These losses included impairment losses of US$54.5 million (equivalent to approximately HK$425.1 million) in respect of the Siba field, US$32.6 million (equivalent to approximately HK$254.3 million) in respect of the Abu Sennan field, and US$7.2 million (equivalent to approximately HK$56.2 million) in respect of the Burg El Arab fields. The increase in net impairment of oil and gas assets was mainly due to the Target Group's reduction of its oil price assumptions and production delays at the Siba field due to delays in the contract award, raw water supply and custom clearance, as well as a lack of availability of local resources and visa difficulties for Egyptian workers, which forced the Target Group's contractor, PetroJet, to revise its subcontracting strategy.

General and administrative expenses

General and administrative expenses increased slightly, by US$0.7 million (equivalent to approximately HK$5.5 million), or 4.1%, from US$18.2 million (equivalent to approximately HK$142 million) in 2015 to US$19.0 million (equivalent to approximately HK$148.2 million) in 2016. This increase was primarily attributable to an increase in staff costs charged to administrative expenses.

Share of results of joint venture

Share of results of joint venture increased by US$1.1 million (equivalent to approximately HK$8.6 million) from US$0.4 million (equivalent to approximately HK$3.1 million) in 2015 to US$1.5 million (equivalent to approximately HK$11.7 million) in 2016 primarily due to the increase in the profit of Medco LLC, in which the Target Group owns a 20% equity interest. This increase in profit was primarily attributable to a new 25-year service contract for Karim Small Fields signed on 28 April 2015, commencing from 1 June 2015.

Change in fair value of convertible loans

Change in fair value of convertible loans increased by US$15.5 million (equivalent to approximately HK$120.9 million), from US$9.3 million (equivalent to approximately HK$72.5 million) loss in 2015 to a US$24.8 million (equivalent to approximately HK$193.4 million) loss in 2016, primarily due to a revision in the Target Group's forecasts regarding the deemed likelihood of a qualifying equity offering, which results in a mandatory conversion.

Foreign exchange loss

Foreign exchange loss increased by US$0.4 million (equivalent to approximately HK$3.1 million) from US$1.9 million (equivalent to approximately HK$14.8 million) in 2015 to US$2.3 million (equivalent to approximately HK$17.9 million) in 2016, due to the impact of the devaluation of the Egyptian pound.

Finance costs

Finance costs decreased slightly, by US$0.3 million (equivalent to approximately HK$2.3 million), or 3.0%, from US$9.7 million (equivalent to approximately HK$75.7 million) in 2015 to US$9.4 million (equivalent to approximately HK$73.3 million) in 2016, due to higher interest capitalization to oil and gas assets, partially offset by the incurrence of financing costs in relation to entering the Vitol Facility.

Taxation charge

Taxation charge decreased by US$0.8 million (equivalent to approximately HK$6.2 million), or 35.5%, from US$2.3 million (equivalent to approximately HK$17.9 million) in 2015 to US$1.5 million (equivalent to approximately HK$11.7 million) in 2016, primarily due to a decrease in taxable income from the Target Group's Egyptian assets, partially offset by higher taxable income from the Target Group's Iraqi assets as a result of commencement of production from Block 9 in 2016.

Critical accounting policies subject to significant judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, impairment in the value of certain Target Group assets, the useful lives of tangible and intangible assets and the reported amounts of revenues and costs during a given period. Although these judgments, estimates and assumptions are based on historical experience, the current condition of the Target Group and the Target Group's expectations of future events, actual results may differ from these estimates and cause the Target Group's future results of operations or financial condition to vary significantly from that presented in this document. The judgments, estimates and assumptions underlying the Target Group's critical accounting policies are reviewed on an on-going basis.

Revenue recognition

Revenues from the production of oil and gas are recognized on the basis of the Target Group's net entitlement interest in those properties (the entitlement method). The revenue recognition according to the entitlement method is based on actual production in the period, and revenue is recognized when the title passes from the Target Group to its customer, regardless of when cash is received by the Target Group for the sale.

Reserves and resources

Under the unit of production method, the Target Group's estimate of its 2P net entitlement reserves determines its level of depletion, depreciation and amortization charges. The Target Group also uses estimates of 2P reserves to determine impairment charges and reversals with regard to intangible exploration and evaluation assets and property, plant and equipment.

The Target Group's 2P reserves are estimated or audited by GCA with reference to available geological and engineering data, and only include volumes for which commercial recovery, including access to market, is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information derived from, among other things, the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including oil and gas prices and contract terms. Changes to the Target Group's estimates of its 2P net entitlement reserves will affect the Target Group's depletion, depreciation and amortization charges in a given period as well as the balance sheet carrying value with respect to its intangible exploration and evaluation assets.

Capitalized costs and intangible non-current assets

The Target Group applies the successful efforts method of accounting for exploration, appraisal and development costs, having regard to the requirements of IFRS 6 (*Exploration for and Evaluation of Mineral Resources*). Under the successful efforts method of accounting, all license acquisition, exploration and evaluation costs and directly attributable administration costs are initially capitalized as intangible exploration and evaluation assets in cost centers by well, field or exploration area, as appropriate. Interest payable is capitalized insofar as it relates to specific development activities. These costs are then written off as exploration costs in the income statement unless commercial reserves have been established, or the determination process has not been completed and there are no indications of impairment. All field development costs are capitalized as property, plant and equipment. Property, plant and equipment related to production activities is amortized in accordance with the Target Group's depletion and amortization accounting policy.

The application of the successful efforts method of accounting for exploration, appraisal and development costs requires the KE Directors to make certain judgments, estimates and assumptions, including with regard to the carrying value and recoverability of intangible exploration and evaluation assets and the impairment of property, plant and equipment.

Pre-license costs

Exploration and appraisal costs incurred by the Target Group prior to having obtained the legal rights to explore an area under license are not capitalized, and are recognized as operating costs within cost of sales in the Target Group's consolidated income statement as they are incurred.

Exploration and appraisal costs

Once a license has been obtained for a given field, exploration and appraisal costs are initially capitalized as either intangible exploration and evaluation assets or as property, plant and equipment.

Exploration and appraisal costs capitalized as intangible exploration and evaluation assets include any payments made to acquire the legal right to explore the field, costs of technical services and studies, seismic acquisition costs and exploratory drilling and testing costs. Tangible assets used in exploration and appraisal activities (such as the Target Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment) are classified as property, plant and equipment. To the extent that such a tangible asset is consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the cost of the relevant intangible exploration and evaluation asset. These recorded costs also include any overhead directly attributable to the relevant intangible exploration and evaluation asset (such as the depreciation of property, plant and equipment utilized in exploration and appraisal activities related to that intangible exploration and evaluation asset) as well as the cost of other materials consumed during the exploration and appraisal phases of a given field.

Treatment of exploration and evaluation assets at conclusion of appraisal activities

Intangible exploration and evaluation assets related to each license are carried forward as intangible exploration and evaluation assets on the Target Group's consolidated balance sheet, until the existence (or otherwise) of commercial reserves has been determined for the given cost centers and there is no indication of impairment. If commercial reserves have been discovered in that cost center, the cost center's intangible exploration and evaluation assets are assessed for impairment, as set out below, and any difference between the balance sheet carrying value of that intangible exploration and evaluation asset and the appraised value at that point in time will be considered an impairment loss against that intangible exploration and evaluation asset. Any such impairment loss will be recognized in

the Target Group's consolidated income statement as exploration expenditure written off. The adjusted carrying value, after any impairment loss, of the relevant intangible exploration and evaluation asset will then be reclassified as property, plant and equipment.

Intangible exploration and evaluation assets that relate to exploration and appraisal activities that are determined not to have resulted in the discovery of commercial reserves for a given cost center are then written off as exploration costs in the income statement in accordance with the accounting policy for impairment of intangible exploration and evaluation assets set out below.

Impairment of intangible exploration and evaluation assets

Intangible exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the balance sheet carrying amount of the asset may exceed its recoverable amount. Such indicators include, but are not limited to, whether or not commercial reserves exist for a given cost pool, or are likely to be discovered in the future. Such a determination involves the KE Directors' estimates on highly uncertain matters such as geological and geophysical factors, future costs and commodity prices, an appropriate discount rate, the duration of the license and its terms and the availability of the financial and other resources needed to progress exploration, appraisal and development activities.

Where there are indications of impairment, the intangible exploration and evaluation assets concerned are tested for impairment. Where the intangible exploration and evaluation assets concerned fall within the scope of an established cost pool, the intangible exploration and evaluation assets are tested for impairment together with all property, plant and equipment assets associated with that cost pool, as a single cash generating unit. The aggregate carrying value of all assets in a given cost pool is compared against the expected recoverable amount of those assets, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves in that cost pool. Where the intangible exploration and evaluation assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the intangible exploration and evaluation assets concerned will, upon determination of any impairment, generally be written off in full.

Any impairment loss to intangible exploration and evaluation assets is recognized in the Target Group's consolidated income statement, and separately disclosed. Any such impairment loss is initially recorded against the carrying value of the related intangible exploration and evaluation asset, and to the extent the impairment exceeds the carrying value of the intangible exploration and evaluation asset for a given cost pool, a separate impairment test is conducted on the related property, plant and equipment assets within the relevant field cost pool.

Depletion costs

In order to estimate total future development costs and remaining field life for purposes of calculating depletion expenses, the Target Group must make assumptions about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, exchange rates and the contractual terms of the concessions (such as terminations, renewals or changes in provisions). If these assumptions are significantly incorrect, it could result in depletion expenses that are higher or lower than anticipated, and affect the Target Group's results of operations.

Impairment of property, plant and equipment

The Target Group assesses its property, plant and equipment for possible impairment when facts and circumstances indicate to the KE Directors that the carrying value of the assets may exceed its recoverable amount. Such indicators include, but are not limited to, whether the carrying value of the property, plant and equipment assets exceeds the discounted estimated future cash flows generated by the assets. Determination of these future cash flows involves the KE Directors' estimates on highly uncertain matters such as future commodity prices, the effects of inflation and technology improvements on operating costs, production profiles and the outlook for supply-and-demand conditions for oil, natural gas and condensate.

In the event the KE Directors' estimate of the discounted estimated cash flows generated by the assets are less than the carrying value of the assets, an impairment charge to the Target Group's consolidated income statement is made for the difference. Charges for impairment may be recognized in the Target Group's results from time to time as a result of, among other factors, adverse changes in the recoverable reserves from oil and gas fields, adverse changes to commodity prices or increases in costs. If there are low gas prices or oil prices over an extended period, the Target Group may need to recognize significant impairment charges.

Fair value gain or loss on convertible loans

Under IFRS, the value of the conversion options within the Target Group's Convertible Loans are treated as embedded derivatives which have been determined not to be closely related to the loan arrangements. As a result, the Target Group has opted to recognize the Convertible Loans as financial liabilities at fair value through the income statement. Any change in the fair value of the Convertible Loans during a period which results from a change in the forecasted cash flows is recognized in the Target Group's consolidated income statement as fair value gain or loss on convertible loans. The Target Group uses a discounted cash flow technique to determine the fair value of the Convertible Loans.

Quantitative and qualitative disclosures about market risks

Market risk is the risk that changes in market values will affect the Target Group's income or the value of its assets or liabilities. The Target Group's primary market risk exposures are fluctuations in oil, natural gas and condensate prices, credit risk, exchange rate risk and interest rate risk.

Commodity price risk

The Target Group sells its production of crude oil and natural gas under short term arrangements priced in U.S. dollars at prevailing market prices. Price fluctuations in global and regional prices for crude oil and, to a lesser extent, of natural gas and condensate, may have considerable impact on the Target Group's revenues and operating cash flows in the jurisdictions in which the Target Group operates under production sharing contracts and royalty/tax regimes. The commodity price risk relates to fluctuations in the Brent Crude benchmark price is the Target Group's most significant market risk exposure. World prices for crude oil, natural gas and condensate are characterized by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments, including actions taken by OPEC. These fluctuations may have a significant effect on the Target Group's revenues and operating cash flows going forward.

The Target Group does not currently hedge against fluctuations in prices for crude oil. As a result, in 2017, every 1% movement in the international Brent Crude price would have affected the Target Group's revenue by approximately US$2 million (equivalent to approximately HK$15.6 million) and the Target Group's net cash generated by operating activities by the same amount.

Credit risk

The Target Group is exposed to credit risk of default by its counterparties, principally with respect to its trade and other receivables. The Target Group's trade receivables balance as of 30 June 2018, predominately consists of receivables related to oil sales in Egypt to EGPC, the Target Group's largest counterparty, and increasingly, of receivables related to the Block 9 and Siba oil cargo lifting process undertaken by the Target Group and BOC in Iraq.

As of 30 June 2018, the total amount of receivables due to the Target Group from EGPC was US$73.9 million (equivalent to approximately HK$576.4 million), of which US$25.6 million (equivalent to approximately HK$199.7 million) were considered past due, but not impaired as of that date. The level of receivables due to the Target Group from EGPC will increase in proportion to the Target Group's increased production from its assets in Egypt, and according to the ability of EGPC to make cash payments to the Target Group in light of prevailing political and economic climate in Egypt, and trends in oil prices. The Target Group manages its credit risk relating to EGPC by engaging in regular dialogue with EGPC and seeking

to have as many liftings as possible covered by cargo payments, whereby EGPC sells certain amounts of oil produced and has buyers paying directly to the Target rather than requiring cash proceeds from these volumes be directed to EGPC.

As of 30 June 2018, the total amount of receivables due to the Target Group from BOC was US$43.3 million (equivalent to approximately HK$337 million), of which US$ nil million were considered past due, but not impaired as of that date. The level of receivables due to the Target Group from BOC is expected to increase significantly alongside the increasing production from the Target Group's assets in Block 9. The Target Group manages its credit risk relating to BOC by engaging in regular dialogue with BOC and seeking to have oil liftings completed as soon as possible.

In addition, the fiscal regimes which govern the Target Group's exploration, appraisal and development activities are frequently structured as unincorporated joint-ventures, and as a result, the Target Group generally relies upon its Partners to fund their agreed portions of exploration, development and operating costs. In the event one of the Target Group's Partners fails to fund its commitments to assets operated by the Target Group, the Target Group may be required to incur additional costs on behalf of those Partners, which it may not be able to recover.

Interest rate risk

The Target Group's interest rate risk principally relates to interest paid on its borrowings and interest received on its cash and cash equivalents, as the Target Group has placed funds in interest bearing time deposits with banks.

Interest rate risk is not significant since the entities within the Target Group have not borrowed funds other than under the amended Vitol Facility at floating interest rates that could have an impact on the Target Group's consolidated income statement. The Target Group does not currently hedge against fluctuations in interest rates.

Liquidity risk

Liquidity risk is the risk that the Target Group will not be able to meet its financial obligations as they fall due. The Target 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 Target Group's reputation.

Liquidity risk management rests with the management, which relies on a liquidity risk management framework for the management of the Target Group's short, medium and long-term funding and liquidity management requirements. The Target 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.

Capital risk

The primary objective of the Target Group's capital management policy is to ensure that it will be able to continue as a going concern while maximizing the return to the shareholders through the optimization of debt and equity. The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Target Group's overall strategy remained unchanged during 2017.

B. LIQUIDITY AND FINANCIAL RESOURCES

The Target Group's liquidity requirements arise primarily from its working capital requirements, capital expenditures and operating expenses related to the Target Group's development programs. For the periods under review, the Target Group met its liquidity requirements from equity and debt capital raisings and cash flows from operations, assets and farm-outs.

Going forward, the Target Group expects to incur further significant capital expenditures and costs to maintain and increase reserves and production, as part of its development programs. Under the terms of its license obligations, the Target Group has substantial flexibility and discretion to modify its projected capital expenditures. As of 30 June 2018, the Target Group's development plan, and the terms of certain of the Target Group's licenses, are expected to require about US$0.7 billion (equivalent to approximately HK$5.5 billion) in development capital expenditures through to 2021, a substantial portion of which is uncommitted, mainly due to the fact that a substantial majority of this capital expenditure is expected to be directed towards the Target Group's Block 9 and Siba assets, and the fact that the Target Group's development plan for Block 9 has not yet been submitted or approved by the Iraqi government.

As of 30 June 2018, bank balances amounting to US$5.2 million (equivalent to approximately HK$40.6 million) are held in escrow for environmental restoration related to Block 5 in Yemen, shown under other noncurrent assets in the balance sheet as decommissioning fund.

On an on-going basis, the Target Group may utilize various sources of funding to finance these development programs, including but not limited to internally-generated operating cash flows, farm-out arrangements, debt where appropriate, new equity issues if available on favorable terms, and asset sales. The Target Group relies on cash from its assets in Egypt, received as payments from EGPC, for the substantial majority of its internally-generated operating cash flows.

Basra Oil Company Receivables

The table below presents movements in the Target Group's receivables from BOC from 31 December 2015 to 30 June 2018.

	(US$ millions)
Outstanding receivables from BOC as of 31 December 2015	**–**
Sales to BOC during the six months ended 30 June 2016	14
Cash received from BOC during the six months ended 30 June 2016	–
Outstanding receivables from BOC as of 30 June 2016	**14**
Sales to BOC during the six months ended 31 December 2016	19
Cash received from BOC during the six months ended 31 December 2016	14
Outstanding receivables from BOC as of 31 December 2016	**20**
Sales to BOC during the six months ended 30 June 2017	41
Cash received from BOC during the six months ended 30 June 2017	18
Outstanding receivables from BOC as of 30 June 2017	**42**
Sales to BOC during the six months ended 31 December 2017	53
Cash received from BOC during the six months ended 31 December 2017	40
Outstanding receivables from BOC as of 31 December 2017	**56**
Sales to BOC during the six months ended 30 June 2018	34
Cash received from BOC during the six months ended 30 June 2018	46
Outstanding receivables from BOC as of 30 June 2018	**43**

As of 30 June 2018, the total amount of receivables due to the Target Group from BOC was US$43.3 million (equivalent to approximately HK$337 million), of which US$ nil million were considered past due.

EGPC Receivables

The table below presents movements in the Target Group's receivables from EGPC from 31 December 2015 to 30 June 2018.

	(US$ millions)
Outstanding receivables from EGPC as of 31 December 2015	**30**
Sales to EGPC during the six months ended 30 June 2016	50
Cash received from EGPC during the six months ended 30 June 2016	51
Outstanding receivables from EGPC as of 30 June 2016	**30**
Sales to EGPC during the six months ended 31 December 2016	55
Cash received from EGPC during the six months ended 31 December 2016	27
Outstanding receivables from EGPC as of 31 December 2016	**58**
Sales to EGPC during the six months ended 30 June 2017	55
Cash received from EGPC during the six months ended 30 June 2017	54
Outstanding receivables from EGPC as of 30 June 2017	**59**
Sales to EGPC during the six months ended 31 December 2017	56
Cash received from EGPC during the six months ended 31 December 2017	46
Outstanding receivables from EGPC as of 31 December 2017	**69**
Sales to EGPC during the six months ended 30 June 2018	75
Cash received from EGPC during the six months ended 30 June 2018	70
Outstanding receivables from EGPC as of 30 June 2018	**74**

As of 30 June 2018, the total amount of receivables due to the Target Group from EGPC was US$73.9 million (equivalent to approximately HK$576.4 million), of which US$25.6 million (equivalent to approximately HK$199.7 million) were considered past due, but not impaired as of that date.

Cash flows

The following table sets out financial information extracted from the Target Group's consolidated cash flow statements for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	(US$ thousands)				
Operating cash flow before movement in working capital	79,022	77,177	142,067	62,007	77,680
Net cash generated by operating activities	**104,160**	**71,447**	**76,308**	**40,317**	**36,226**
Net cash used in investing activities	(184,180)	(79,364)	(29,769)	(11,727)	(33,244)
Net cash used in financing activities	(28,929)	(36,402)	(39,574)	(19,930)	(23,890)
Net increase/(decrease) in cash and bank balances including effect of foreign currency translation	**(110,695)**	**(46,601)**	**7,283**	**8,878**	**(21,062)**
Cash and bank balance at end of the period	**105,297**	**58,311**	**65,594**	**67,189**	**43,626**

Net cash generated by operating activities

Net cash generated by operating activities decreased by US$4.1 million (equivalent to approximately HK$32 million), or 10.1%, from US$40.3 million (equivalent to approximately HK$314.3 million) in the six months ended 30 June 2017 to US$36.2 million (equivalent to approximately HK$282.4 million) in the six months ended 30 June 2018. This decrease was primarily attributable to higher working capital requirements, in particular those attributable to higher crude oil prepayment amounts due under the Vitol Facility and higher cash taxes paid, partly offset by higher operating cash flow before movement in capital and an increase in receivable payments from various assets. The Target Group's operating cash flow before taking into account changes in working capital increased by US$15.7 million (equivalent to approximately HK$122.5 million), or 25.3%, from US$62.0 million

(equivalent to approximately HK$483.6 million) in the six months ended 30 June 2017 to US$77.7 million (equivalent to approximately HK$606.1 million) in the six months ended 30 June 2018, as a result of higher revenue due to higher realized oil prices and increased production.

Net cash generated by operating activities increased by US$4.9 million (equivalent to approximately HK$38.2 million), or 6.9%, from US$71.4 million (equivalent to approximately HK$556.9 million) in 2016 to US$76.3 million (equivalent to approximately HK$595.1 million) in 2017. This increase was primarily attributable to an increase in revenue collection and lower cash operating costs, partly offset by upward movement in the crude oil prepayment balance. The Target Group's operating cash flow before taking into account changes in working capital increased by US$64.9 million (equivalent to approximately HK$506.2 million), or 84.1%, from US$77.2 million (equivalent to approximately HK$602.2 million) in 2016 to US$142.1 million (equivalent to approximately HK$1,108.4 million) in 2017, as a result of higher revenue and lower operating costs.

Net cash generated by operating activities decreased by US$32.8 million (equivalent to approximately HK$255.8 million), or 31.4%, from US$104.2 million (equivalent to approximately HK$812.8 million) in 2015 to US$71.4 million (equivalent to approximately HK$556.9 million) in 2016. This decrease was primarily attributable to increase in trade and other receivables. The Target Group's operating cash flow before taking into account changes in working capital decreased by US$1.8 million (equivalent to approximately HK$14 million), or 2.3%, from US$79.0 million (equivalent to approximately HK$616.2 million) in 2015 to US$77.2 million (equivalent to approximately HK$602.2 million) in 2016, as a result of lower revenue, partly offset by lower operating cost.

Net cash used in investing activities

Net cash used in investing activities increased by US$21.5 million (equivalent to approximately HK$167.7 million), or 183.5%, from US$11.7 million (equivalent to approximately HK$91.3 million) in the six months ended 30 June 2017 to US$33.2 million (equivalent to approximately HK$259 million) in the six months ended 30 June 2018, primarily due to the absence of cash proceeds from any farm-out of any working interests by the Target Group in the six months ended 30 June 2018, compared to US$40.6 million (equivalent to approximately HK$316.7 million) of proceeds from the farm-out of working interests in Siba in the six months ended 30 June 2017.

Net cash used in investing activities decreased by US$49.6 million (equivalent to approximately HK$386.9 million), or 62.5%, from US$79.4 million (equivalent to approximately HK$619.3 million) in 2016 to US$29.8 million (equivalent to approximately HK$232.4 million) in 2017, primarily due to lower development expenditure, mainly in Iraq at Block 9 and Siba, as well as an increase in cash from the farm-out of a partial working interest in Siba and Abu Sennan in the amount of US$50.6 million (equivalent to approximately HK$394.7 million) in 2017.

Net cash used in investing activities decreased by US$104.8 million (equivalent to approximately HK$817.4 million), or 56.9%, from US$184.2 million (equivalent to approximately HK$1,436.8 million) in 2015 to US$79.4 million (equivalent to approximately HK$619.3 million) in 2016, primarily due to a decrease in development expenditure on oil and gas assets from US$205.9 million (equivalent to approximately HK$1,606 million) in 2015 to US$83.3 million (equivalent to approximately HK$649.7 million) in 2016. The decrease was also partly attributable to a decrease in expenditure on intangible exploration and evaluation assets and other fixed assets, primarily in relation to the Target Group's assets in Egypt and Yemen, and a decrease in capital inventory stores in 2016, primarily as a result of Mansuriya being placed on administrative hold.

Net cash generated by (used in) financing activities

Net cash used in financing activities increased by US$4.0 million (equivalent to approximately HK$31.2 million) from US$19.9 million (equivalent to approximately HK$155.2 million) in the six months ended 30 June 2017 to US$23.9 million (equivalent to approximately HK$186.4 million) in the six months ended 30 June 2018. This decrease was primarily attributable to the purchase of treasury shares.

Net cash used in financing activities increased by US$3.2 million (equivalent to approximately HK$25 million), from US$36.4 million (equivalent to approximately HK$283.9 million) in 2016, to US$39.6 million (equivalent to approximately HK$308.9 million)in 2017. This increase was primarily attributable to finance costs paid on the Vitol Facility used by the Target Group during 2016, partly offset by a decrease in quarterly finance lease payments in relation to its office building in Cairo.

Net cash used in financing activities increased by US$7.5 million (equivalent to approximately HK$58.5 million), from US$28.9 million (equivalent to approximately HK$225.4 million) in 2015 to US$36.4 million (equivalent to approximately HK$283.9 million) in 2016. This increase was primarily attributable to the Target Group having received proceeds from a finance lease, in relation to its office building in Cairo, of US$5.9 million (equivalent to approximately HK$46 million) in 2015, whereas the Target Group did not receive any such proceeds in 2016. Finance costs paid remained substantially constant, at US$34.6 million (equivalent to approximately HK$269.9 million) in 2016, compared with US$34.3 million (equivalent to approximately HK$267.5 million) in 2015.

Overview of financial condition and results of operations

The Target Group recorded a positive operating cash flow for every fiscal year from its creation in 2005 until 2014. The global decline in oil prices significantly affected the Target Group's revenue in 2015, causing revenue to decline by 42.5% from 2014 to 2015, despite similar production levels. Revenue in 2016 further decreased by 10.8%, compared with 2015, as a result of a decrease in the average realized oil price. In 2017, revenue increased by 46.4%, compared with 2016, largely as a result of increases in production from Block 9 in Iraq and in the average realized oil price. In the six months ended 30 June 2018 revenue also increased by 13.0%, compared with the six months ended 30 June 2017, largely as a result of increases in the average realized oil price.

The Target Group's average daily working interest production was 24,988 boepd in 2015, 24,573 boepd in 2016, 26,819 boepd in 2017, and was 27,405 boepd and 28,690 boepd for the six months ended 30 June 2017 and 2018, respectively. The Target Group has continued to generate positive operating cash flow before movement in working capital across the period, amounting to US$79.0 million (equivalent to approximately HK$616.2 million), US$77.2 million (equivalent to approximately HK$602.2 million) and US$142.0 million (equivalent to approximately HK$1,107.6 million) for the years ended 31 December 2015, 2016 and 2017, respectively, and US$62.0 million (equivalent to approximately HK$483.6 million) and US$77.7 million (equivalent to approximately HK$606 million) for the six months ended 30 June 2017 and 2018, respectively.

The acquisition and development of the Target Group's assets has been financed primarily through the issue of equity, long-term loans and operating cash flow.

Material factors affecting results of operations

Oil prices

The Target Group's revenues are derived from sales of oil, natural gas and related hydrocarbon products (including condensate) and are therefore affected by global oil and gas prices. Additionally, oil and gas prices affect the speed of cost recovery under the service agreements of the Target Group's Iraqi assets. The decrease in the average realized sales price of the Target Group's oil production since 2014 has been one of the primary drivers of the decrease in the Target Group's revenue and operating profit in 2015 and 2016, but the partial recovery in average realized sales prices of the Target Group's production in 2017 and the first six months of 2018 has been the primary driver in the increase in the Target Group's revenue and operating profit.

In the jurisdictions where the Target Group predominantly operates under production sharing contracts (such as Egypt and Yemen), the market price for oil has a direct impact on the Target Group's operational results. Under these fiscal

regimes, higher market prices for oil and gas may generate higher revenues under the terms of the fiscal agreements. Whereas in Iraq, the Target Group's production is governed by fixed-remuneration fee service agreements (which range in duration from 13 to 30 years) for which production volumes of oil, dry gas, LPG or condensate, rather than market prices, are key drivers of revenue because the Target Group receives remuneration fees which are not linked to market prices under these agreements. However, notwithstanding the fact that the Target Group operates under service agreements in respect of its Siba and Block 9 assets in Iraq, cost recovery by the Target Group is determined with reference to the market price of crude oil under those agreements. While the absolute amount of the Target Group's cost recovery entitlement is not affected by changes in the market price of oil, the timing of the Target Group's cost recovery is affected by production and movements in oil price, with higher oil prices and production levels generally resulting in faster cost recovery, subject to certain contractual limits. The Target Group expects to submit its first invoice for cost recovery related to Siba in January 2019, and has been regularly recovering its Block 9 costs and remuneration fees in the form of crude oil liftings.

The revenues that the Target Group receives for its production of oil and natural gas are therefore influenced by (a) fluctuations in the regional and international market prices for crude oil, as determined by the global or regional balance of supply and demand as well as the relative strength of the U.S. dollar (which is the currency of account for crude oil trading on the global commodities markets) and (b) any quality, local/regional or other discounts to this price which determine the realized price for the Target Group's oil production. For example, the Target Group's sales to EGPC in Egypt, which accounts for a significant portion of the Target Group's revenue (68.8% for the six months ended 30 June 2018), are typically sold at a slight discount to international Brent Crude prices. Prices for condensate are also partly determined by regional and international market prices for crude oil.

The Target Group does not currently hedge against fluctuations in prices for crude oil. As a result, in 2017, every 1% movement in the international Brent Crude price would have affected the Target Group's revenue by approximately US$2 million (equivalent to approximately HK$15.6 million) and the Target Group's net cash generated by operating activities by the same amount.

Crude oil prices have been volatile in the past and are likely to continue to be volatile in the future. The Target Group is working towards managing the lower oil price risk by comprehensively reducing its costs, rescheduling projects, negotiating better payment terms with suppliers and arranging financing to support development projects. Significant fluctuations in oil prices may result from relatively minor changes in the global or regional balance of supply and demand for oil, market uncertainty and other factors.

The Target Group regularly reviews oil price risks and may from time to time hold derivative financial instruments to hedge commodity price risk.

Receipt of cargo payments from the Basra Oil Company

The Target Group increasingly generates a significant portion of its revenues from sales of oil in Iraq in the form of cargo lift payments. The Target Group raises quarterly invoices in relation to Block 9 in Iraq to the Basra Oil Company. After approval of the invoice amount, in order to settle the invoice, SOMO allocates a specific quantity of crude oil to the Target Group to be lifted on a specific date in accordance with the terms of the relevant export oil sales agreement. The Target Group then sells the allocated crude oil to Vitol under the Crude Oil Purchase Agreement in exchange for cash payments, which are made to the Target Group. Since oil production at Block 9 began in late 2015 the Target Group has received five cargo payments related to Block 9 in the aggregate amount of US$144.7 million (equivalent to approximately HK$1,128.7 million), which represents the Target Group's share of the proceeds from the sale of the total of 2,756 kbbl cargo allocated to KEC Kuwait by SOMO in respect of Block 9, partly offset in accordance with the Vitol Facility.

These cargo payments provide cash proceeds in U.S. dollars to the Target Group shortly after sale of the produced volumes, without lengthy delay - generally within one month. If BOC decides to continue these cargo payments, or increase their frequency, the Target Group could experience an improved working capital and liquidity position. Conversely, if the balance of receivables from BOC increases, or if BOC decides to reduce or altogether eliminate cargo payments, the Target Group may be required to cancel or delay certain of its development programs, or seek additional external funding in the form of equity and/or debt financing to maintain its projected schedule of exploration, appraisal and development work.

Receipt of cash payments from EGPC

Historically, the Target Group has generated a significant portion of its revenues from sales of oil in Egypt to EGPC under the terms of its production sharing agreements for Burg El Arab, ERQ and Abu Sennan, and from the service agreement governing the Target Group's interest in Area A. Under the terms of these agreements, EGPC has agreed to pay the Target Group its share of the proceeds of sale of oil and gas produced, including those amounts the Target Group is permitted to recover in order to defray operational, exploration, appraisal and development costs and to reflect the Target Group's profit entitlement. Total revenues from EGPC amounted to 54.7% of Target Group revenues in 2017, compared with 76.0% in 2016 and 94.3% in 2015, and 68.8% of Target Group revenues in the six months ended 30 June 2018, compared with 57.4% during the same period in 2017.

Historically, EGPC had remitted payments due to the Target Group several months in arrears, resulting in significant fluctuations in working capital availability for the Target Group from 2011 to 2014 as the level of receivables due from EGPC varied widely between periods. This situation has improved since 2014, as a result of the Target Group's significant efforts to collect money owed by EGPC. As of 30 June 2018, the total amount of receivables due to the Target Group from EGPC was approximately US$73.9 million (equivalent to approximately HK$576.4 million), of which US$25.6 million (equivalent to approximately HK$199.7 million) were considered past due, but not impaired as of that date. Any remittance to the Target Group by EGPC which reduces the balance of receivables may be partly or wholly offset by new receivable obligations incurred by EGPC due to new production by the Target Group in Egypt, which may increase if the Target Group's assets in Egypt increase production.

The Target Group currently relies upon cash flows from its assets in Egypt to fund a significant portion of its working capital and liquidity needs, both in Egypt and in other jurisdictions. As the Target Group's existing balance of overdue receivables from EGPC declines upon release of overdue cash to the Target Group, the Target Group has the ability to fund working capital requirements and is less dependent on additional external funding. EGPC has periodically arranged for the Target Group to receive the proceeds of certain volumes of oil sold via cargo payments, whereby EGPC sells to market purchasers who pay the Target Group directly for oil sold by EGPC. These cargo payments provide cash proceeds in U.S. dollars to the Target Group shortly after sale of the produced volumes, without lengthy delay. If EGPC decides to continue these cargo payments, or increase their frequency, the Target Group could similarly experience an improved working capital and liquidity position. Conversely, if the balance of overdue receivables from EGPC increases, or if EGPC decides to reduce or altogether eliminate cargo payments, the Target Group may be required to cancel or delay certain of its development programs, or seek additional external funding in the form of equity and/or debt financing to maintain its projected schedule of exploration, appraisal and development work.

EGPC, in addition to its role as the Target Group's largest single counterparty due to its role in Egypt, is also a partner of the Target Group in two of its key assets in Iraq. Following the assignment of a 15% participating interest share in the Target Group's Siba field and a 10% participating interest in the Target Group's Block 9 asset to EGPC, the Target Group relies on EGPC to pay its share of costs for the development of Siba and Block 9. Because of of, inter alia, EGPC internal review procedures and the difficulty for EGPC to obtain U.S. dollars since the significant currency devaluation resulting from the free float of the Egyptian pound in November 2016, and in a context of on-going currency fluctuations, the projected schedule of development work on Siba and/or Block 9 may be delayed if EGPC is unable to provide for its share of costs in a timely manner.

Production volumes and development program

Increases in the volume of the Target Group's oil working interest production have been a significant contributor to growth in the Target Group's revenue. The volume of crude oil produced by the Target Group is a function of the success of the Target Group's development program. Particularly in those assets for which the Target Group benefits from relatively low break-even operating costs, namely its producing assets in Egypt and (when producing) Yemen, working interest production growth has contributed to both growth in revenues as well as growth in the Target Group's operating profit and operating profit margin.

The Target Group's future working interest production volume will be determined by the number of development wells drilled, their depth, the amount of time and resource it takes to bring planned wells into production, and the flow rates achieved in the Target Group's existing and planned development wells.

Depletion rates

The Target Group's exploration, appraisal and development expenditures on a given field, once capitalized, are recognized in subsequent periods as a depletion charge within cost of sales on the Target Group's consolidated income statement according to the unit of production method, spread over the life of the field based on the 2P net entitlement reserves in that field. The level of depletion expenses have been and will remain a material factor affecting the Target Group's results of operations. Under the unit of production method, the amount of depletion recognized in any given period is determined according to the barrels produced in that period, as a proportion of the total 2P net entitlement reserves for that field.

As a result, the Target Group's depletion expenses in any given period will increase in proportion to the volume of oil and gas produced, and will also fluctuate in line with changes in the Target Group's estimated 2P net entitlement reserves. Factors which increase the Target Group's estimate of its 2P net entitlement reserves will spread the Target Group's depletion expenses over a larger quantity of reserves, significantly decreasing the cost per unit and therefore reducing the Target Group's cost of sales in a period. Conversely, a significant decrease in the Target Group's estimated 2P net entitlement reserves will decrease the denominator and therefore raise the Target Group's depletion expenses and total cost of sales. If the assumptions used to generate a given depletion charge are later proven wrong, the depletion expense in the next period then includes a correction to make up for the difference.

Impairment of property, plant and equipment

Impairment of property, plant and equipment can have a significant impact on the Target Group's business. Such impairment may be a result of a decrease in the fair market value of 2P net entitlement reserves, which in turn is dependent on oil prices, or of a reclassification of assets from 2P reserves to contingent resources. In 2015, for example, the Target Group recognized a net impairment loss of US$69.0 million (equivalent to approximately HK$538.2 million), primarily relating to the Abu Sennan and Burg El Arab assets in Egypt, Siba and Mansuriya in Iraq and Block 5 in Yemen, as a result of the projected low oil prices for the then-foreseeable future. In 2016, the Target Group recognized a net impairment loss of US$94.3 million (equivalent to approximately HK$735.5 million), primarily relating to the Abu Sennan and Burg El Arab assets in Egypt, and to Siba in Iraq, as a result of low oil prices as well as due to production delays at the Siba field. In 2017 the Target Group impaired in full the net book value of the Mansuriya asset in Iraq, recognizing an impairment loss of US$33.9 million (equivalent to approximately HK$264.4 million). This was due to development delays since 2014 as a result of the security situation, which resulted in insufficient time remaining before the expiry of the contract to make the development economically attractive for the partners of the field, and the resulting re-classification of the asset from 2P reserves to contingent resources. In addition, in 2017 the Target Group also recognized an impairment loss of US$50.8 million (equivalent to approximately HK$396.2 million) in respect of the Block 5 field in Yemen, which, due to the security situation there also required the full impairment of the asset when its 2P reserves were re-classified as contingent resources. However, in 2017 the Target Group was able to reverse most of the 2016 and 2015 impairments relating to the Burg El Arab field in Egypt, US$7.2 million (equivalent to approximately HK$56.2 million) and US$10.6 million (equivalent to approximately HK$82.7 million), respectively, due to an increase in the commercial reserve used in estimating the future cash flows of certain impaired assets, resulting in an impairment reversal in the amount of US$15.6 million (equivalent to approximately HK$121.7 million).

Upon any disposal of assets in the future, the Target Group may be required to similarly impair capitalized costs relating to the disposed asset if the disposal price is below the Target Group's recorded book value of that asset.

Changes in regulatory, tax and royalty regimes or to material terms in PSCs or service agreements

The Target Group's oil and gas exploration, appraisal and production are currently subject to varying fiscal regimes. All of the Target Group's operations in Iraq, as well as those at Area A in Egypt, are on service agreements, while all of the Target Group's other operations in Egypt are on PSCs (as are the Target Group's currently suspended operations in Yemen). The Target Group would face substantially lower operating profits if any of the Target Group's governmental counterparties decided to significantly increase the taxes or fees payable by the Target Group, decrease the level of the Target Group's profit oil percentage, cost recovery percentage or otherwise challenge the Target Group's recoverable costs, or otherwise significantly alter material contract terms at some date in the future. Any such increases or changes could increase the Target Group's costs and adversely affect its results of operations.

In July 2014, the Egyptian government announced a 10% withholding tax payable on dividends and other cash distributions to shareholders. At present, the Target Group's only Egyptian subsidiary, Kuwait Energy (Eastern Desert), which holds the Target Group's interest in Area A in Egypt, is subject to those taxes once its General Assembly decides to pay dividends or any other cash distributions to shareholders. There have been no dividends or any cash payments by Kuwait Energy (Eastern Desert) to shareholders since its inception. In case the Kuwait Energy (Eastern Desert) General Assembly approved a cash dividends distribution to shareholders, it shall be taxable at 10%, without deducting any charges. However, this shall not apply to the dividends distributed in the form of bonus shares. The tax rate on the dividends shall be reduced to 5% without deducting any charges, if the participation in the distributing company exceeds 25% of its capital or voting rights. This is provided, however, that the holding period of the stocks or equity shares shall not be less than two years. The Egyptian government also announced a temporary 5% income tax effective for 2014 on any profits above one million Egyptian pounds, in addition to the already existing income tax regime, applied at progressive rates up to 25%. In 2015, the Egyptian government announced that the maximum rate of this income tax would be reduced from 25% to 22.5%. Only Kuwait Energy (Eastern Desert) was subject to both changes in income tax. The latest change in Egyptian tax law could have a positive effect on the Target Group's financial results in Egypt.

C. CAPITAL STRUCTURE OF THE TARGET

The following contains a summary of the material provisions of the Target Group's principal financing arrangements. The following summary does not purport to describe all of the applicable terms and conditions of such arrangements and is qualified in its entirety by reference to the actual agreements.

Indebtedness

As the table below shows, cash and cash equivalents of the Target Group for the six months ended 30 June 2018 were US$43,626,000 (equivalent to approximately HK$340,283,000).

Consolidated cash flow statement

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
			(US$ thousands)		
Operating cash flow before movement in working capital	79,022	77,177	142,067	62,007	77,680
Net cash generated by operating activities	104,160	71,447	76,308	40,317	36,226
Net cash used in investing activities	(184,180)	(79,364)	(29,769)	(11,727)	(33,244)
Net cash used in financing activities	(28,929)	(36,402)	(39,574)	(19,930)	(23,890)
Effect of foreign currency translation on cash balances	(1,746)	(2,282)	318	218	(154)
Net increase/(decrease) in cash and cash equivalents	(110,695)	(46,601)	7,283	8,878	(21,062)
Cash and cash equivalents at beginning of the period	215,992	105,297	58,311	58,311	65,594
Cash balances classified as held for sales	–	(385)	–	–	(906)
Cash and cash equivalents at end of the period	**105,297**	**58,311**	**65,594**	**67,189**	**43,626**

The following table sets out the Target Group's outstanding contractual obligations and commitments:

	Year ended 31 December			Six months ended 30 June
	2015	**2016**	**2017**	**2018**
	(US$ thousands)			
Existing 2019 Notes[1]	345,000	321,250	297,500	285,625
Convertible loans[2]	128,074	117,824	68,947	67,593
Obligation under finance lease	6,235	4,469	3,278	2,684
Required capital expenditures under license terms[3]	46,725	43,106	26,015	24,901
Trade and other payables	119,659	144,368	124,058	119,426
Derivative financial instruments	–	–	–	5,648
Letter of Guarantee	7,500	4,000	–	–
Operating leases[4]	1,453	835	3,830	1,791
Total	**654,646**	**635,852**	**523,628**	**507,668**

(1) Includes interest.

(2) Including scheduled cash payments of both interest and principal. The figures provided assume only cash payment obligation at maturity and do not include portions of loans to be settled by issuance of shares.

(3) The Target Group's required capital expenditures to satisfy the current terms of its licenses are expected to total US$2.4 million (equivalent to approximately HK$18.7 million) in second half of 2018, US$6.4 million (equivalent to approximately HK$49.9 million) in 2019, US$2.6 million (equivalent to approximately HK$20.3 million) in 2020 and US$13.5 million (equivalent to approximately HK$105.3 million) in 2021 focusing primarily on the development of Block 9 and Siba in Iraq.

(4) Represents outstanding commitment for future minimum lease payments under operating leases payable by the Group for certain of its office properties.

In addition, on 13 December 2016, the Target and Vitol entered into:

- the Crude Oil Purchase Agreement, pursuant to which the Target Group agreed to sell and Vitol agreed to purchase the Target Group's entitlement to petroleum costs and remuneration fees to be paid in Iraqi crude oil pursuant to the Block 9 exploration, development and production service contract dated 27 January 2013 ("**Block 9 EDPSC**") and the export oil sales agreement dated 27 March 2016 ("**Block 9 EOSA**") in respect of the Block 9 oil field; and

- an English law governed US$100.0 million (equivalent to approximately HK$780 million) revolving prepayment agreement (the "**Vitol Prepayment Agreement**"), with KEC MENA and KEC Kuwait as guarantors, pursuant to which Vitol can make advance payments available to the Target in connection with the Crude Oil Purchase Agreement (the "**Vitol Facility**").

On 10 May 2017, the Target, certain members of the Target Group (being KE Basra, KE Iraq, KEC MENA, KEC Kuwait and Kuwait Energy International Limited) and Vitol entered into an amendment and restatement agreement relating to the Vitol Prepayment Agreement (the "**First Amendment Agreement**"). The Target and Vitol entered into a further amendment and restatement agreement relating to the Vitol Prepayment Agreement on 23 August 2018 (the "**Second Amendment Agreement**"). As at 31 October 2018 the amount outstanding under the Vitol Facility was US$50 million (equivalent to approximately HK$390 million).

On 20 September 2018, Kuwait Energy (Eastern Desert), the Target's wholly owned subsidiary, and ENBD entered into the ENBD Facility.

The term of the ENBD Facility began on 24 April 2018 and expired on 31 October 2018, at which date all outstanding principal, interest and other charges due in accordance with the ENBD Facility became payable. However, the term of the ENBD Facility automatically renews for further terms following the original term's expiration, each term not exceeding the original term of the ENBD Facility. The ENBD Facility can be terminated by either party with one month's prior notice.

As at 31 October 2018 the Target had not made any drawings under the ENBD Facility.

On 6 August 2012, the Target entered into a Shariah-compliant US$150,000,000 (equivalent to approximately HK$1,170,000,000) convertible term murabaha facility with Qatar First Bank (QFB, previously Qatar First Investment Bank). The Target has drawn US$50,000,000 (equivalent to approximately HK$390,000,000) under the QFB Convertible Loan, and there is no remaining availability to draw additional amounts under the QFB Convertible Murabaha.

The effective profit rate on the QFB Convertible Murabaha (equivalent to the interest rate under a conventional facility) is 10 per cent. per annum. Accrued profit is payable semi-annually in equal instalments in May and November.

The Target may only prepay the QFB Convertible Murabaha after the third anniversary of the first Transaction Date (as defined in the QFB Convertible Murabaha). Where it does so, it must also pay a prepayment premium calculated as an amount equal to the difference between the aggregate principal amount prepaid and the Conversion Value (as defined in the QFB Convertible Murabaha) on the date of such prepayment less any Murabaha Profit element of any Deferred Sale Price Instalment (each as defined within the QFB Convertible Murabaha) previously paid by the Target to QFB, pursuant to the QFB Convertible Murabaha. The Conversion Value is calculated for this purpose as if the conversion date were such date, and references in the definition of Conversion Value to "16 per cent." are deemed to be "20 per cent".

If the QFB Convertible Murabaha fails to be converted, the full principal balance and accrued interest will be repaid in cash in three instalments as follows:

- 34 per cent. of amounts outstanding on the date that falls 66 months after the first utilisation date;
- 33 per cent. of amounts outstanding on the date that falls 72 months after the first utilisation date; and
- 33 per cent. of amounts outstanding on the date that falls 78 months after the first utilisation date.

The first utilisation date for the QFB Convertible Murabaha was 11 September 2012. The above repayment schedule would have applied in respect of the QFB Convertible Murabaha but for QFB submitting a conversion notice dated 8 March 2018 to the Target, such notice being stated to be irrevocable unless otherwise agreed by the Target. QFB and the Target are discussing the terms of an amendment agreement pursuant to which the parties may agree that notwithstanding the conversion notice issued by QFB on 8 March 2018 and the terms of the share transfer undertaking made on 6 August 2012 (and amended by amendment letters dated 10 May 2017 and 18 July 2017) by the Target in favour of QFB, the Conversion Outstandings (as defined in the aforementioned share transfer undertaking) may be paid in full in cash by the Target on completion of the Transaction.

Gearing

The Target Group's audited consolidated financial statements for the year ended 31 December 2017 show the net debt to equity gearing ratio 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 outlined in the notes to the consolidated financial statements which have been published on the website of the Target (https://www.kuwaitenergy.co).

Contingent Liabilities

The below summary does not, and is not intended to, waive any confidentiality and/or privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

As referred to in Appendix 1, the Target Group has been pursuing the assignment to Dragon Oil of a 15% participating interest in the Block 9 EDPSC (6.43% of which would be on a past net costs basis, and 8.57% for a lump sum of US$100 million (equivalent to approximately HK$780 million)) in settlement of a dispute in relation to a non-controlling interest in Block 9. On 19 September 2018, Dragon Oil: (i) exercised its rights to terminate the settlement and transfer agreements pursuant to which the assignment of the 15% participating interest was agreed; and (ii) lifted the stay of the arbitration, recommencing the arbitration proceedings. A final hearing is now scheduled to take place between 20 and 24 May 2019. The potential outcome in relation to this dispute could be: (i) an award in favour of the Target Group dismissing the claim by Dragon Oil; or (ii) a transfer of: (a) part of the Target Group's participating interest in Block 9; or (b) an amount in cash, to Dragon Oil.

A member of the Target Group is named as a respondent in arbitration proceedings between DNO and the Yemen MOM relating to Block 43 in Yemen. To the extent that the arbitration proceedings result in a negative outcome for the Target Group, the exposure in relation to this dispute may have an adverse impact on the financial position of the Target Group.

Save as disclosed above, as at 31 October 2018 the Target had no other material contingent liabilities.

D. MATERIAL FINANCIAL INVESTMENTS

Capital expenditures

The Target Group has incurred substantial capital expenditures and costs related to the acquisition of assets and to its exploration, appraisal and development activities, and in the future expects to incur further significant development capital expenditures, currently expected to total about US$0.7 billion (equivalent to approximately HK$5.5 billion) through to 2021, as part of its strategy of increasing reserves and working interest production from existing assets as well as growing its asset portfolio.

Under the terms of its license obligations, the Target Group has some flexibility and discretion to modify the timing of its projected capital expenditures. There may be circumstances where, for sound business reasons, a reallocation of funds or strategic priorities may be necessary, for example if the results of appraisal or workover activities are unsatisfactory or the results are not commercially viable.

As of 30 June 2018, the Target Group expects to incur total development capital expenditures to satisfy the current terms of its licenses and in connection with its development plan of approximately US$208 million (equivalent to approximately HK$1,622 million) in the near term through to the end of 2019, and an additional approximately US$2,089 million (equivalent to approximately HK$16,294 million) in the long term from 2020 through to 2023. Of these capital expenditures, the Target Group expects to incur approximately US$24.9 million (equivalent to approximately HK$194.2 million) to satisfy the current terms of its licenses until the end of 2021. Much of the Target Group's forecast capital expenditure is discretionary, with most assets being in the production phase and therefore having limited outstanding commitments under the governing agreement.

The Target Group plans to fund these projected capital expenditures using amounts available under borrowings, operating cash flows resulting from the production and sale of oil, natural gas and condensate and additional capital markets funding, in the form of both equity and debt.

The Target Group's capital expenditures have historically comprised the costs of technical services and studies, seismic acquisition, development and exploratory drilling and testing of wells on the Target Group's assets, as well as the purchase of vehicles and other facilities and equipment.

Capital expenditures decreased by US$18.8 million (equivalent to approximately HK$146.6 million), or 34.9%, from US$53.9 million (equivalent to approximately HK$420.4 million) in the six months ended 30 June 2017 to US$35.1 million (equivalent to approximately HK$273.8 million) in the six months ended 30 June 2018. This decrease was primarily attributable to non-cash settlement of costs of a major contract in Iraq.

Capital expenditures decreased by US$1.8 million (equivalent to approximately HK$14 million), or 2.1%, from US$86.1 million (equivalent to approximately HK$671.6 million) in 2016 to US$84.3 million (equivalent to approximately HK$657.5 million) in 2017. This decrease was primarily attributable to lower development expenditure, mainly in Iraq at Block 9 and Siba.

Capital expenditures decreased by US$145.5 million (equivalent to approximately HK$1,134.9 million), or 62.8%, from US$231.6 million (equivalent to approximately HK$1,806.5 million) in 2015 to US$86.1 million (equivalent to approximately HK$671.6 million) in 2016. This decrease was primarily attributable to focus on delivering ongoing development projects in Iraq and Egypt and the reduction in expenditure on new development wells drilling, exploration and acquisitions of new assets as a result of the low oil price environment.

Contractual obligations and commercial commitments

Under the terms of the Target Group's licenses, the Target Group is committed to meeting certain work program obligations which will necessitate certain committed capital expenditures prior to the expiry of the licenses. In general, these committed capital expenditures relate to seismic data acquisition for prospective oil and gas deposits, the requirement to drill a specified number of exploratory or appraisal wells, benchmarks to be met in working over existing or abandoned wells, and undertaking environmental impact assessments or reserves estimation studies. Under certain of its licenses, the Target Group is required to provide letters of credit of specified amounts, as a bond of future performance under its minimum work commitments. If these minimum work commitments are not fulfilled, for example due to the Target Group deciding to relinquish a license, these amounts will be recognized as an expense on the Target Group's consolidated income statement as exploration expenditures written off.

E. MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Target Group was founded in 2005 as Zahra Oil and Gas Company KSCC and began its operations in 2006 in Oman, where it signed a service contract with Karim Small Fields. After raising US$169.4 million (equivalent to approximately HK$1,321.3 million) of capital via private placements of shares, the Target Group acquired revenue interests in Russia and Egypt, and working interests in Ukraine, during the course of 2007. Between 2008 and 2009, the Target Group acquired additional interests in Egypt, Yemen and Ukraine.

Beginning in 2010, the Target Group farmed-out certain of its interests in Ukraine and Egypt, while acquiring additional interests in Russia. In 2011, the Target Group signed two 20-year gas development and production service contracts for the Siba and Mansuriya fields in Iraq; in addition, the Target Group commenced a restructuring in which KEC Kuwait transferred most of the then-existing subsidiaries and assets to the Target, which became the holding company of the Target Group.

Between 2012 and 2013, the Target Group won its current service contract for Block 9 in Basra, Iraq, and acquired JHOC, a company operating in Yemen with a 15% participating interest and operatorship in Block 5.

Between 2014 and 2017, the Target Group disposed of its assets in both Ukraine and Russia to focus on the MENA region. The Target Group's Mansuriya asset in Iraq was placed on administrative hold due to the deteriorating security situation, which was later relinquished in 2018.

Between 2015 and 2017, the Target Group farmed-out portions of its working interests in Block 9 and Siba in Iraq and Abu Sennan in Egypt.

In November 2018, the Target Group (through its wholly-owned subsidiary Kuwait Energy International Limited) entered into a share sale and purchase agreement with Abdul Rahman Barham to sell the Target Group's 20% interest in Medco LLC, a joint venture which holds a 75% working interest in the Karim Small Fields in Oman, for US$13.0 million (equivalent to approximately HK$101.4 million) in cash consideration. The share sale and purchase agreement was signed on 6 November 2018 and closing of the transaction is subject to certain conditions including consent of the other shareholders in the joint venture and a confirmation/non-objection from the government of Oman. Subject to the satisfaction of these conditions, the transaction is expected to close during the first quarter of 2019.

F. GEARING RATIOS, CHARGES ON ASSETS AND CONTINGENT LIABILITIES

Leverage

The Target Group is highly leveraged. However, it aims to further reduce its net debt over the medium term.

Security

As security for the Target's obligations under the Vitol Prepayment Agreement, Kuwait Energy International Limited (a 100% subsidiary of the Target) granted a mortgage over its 100% shareholding in KEC MENA, who is 100% parent of three companies who hold interests in other oil/gas fields.

The Target represents and warrants on the date of the Second Amendment Agreement, each request for a Prepayment (as defined under the Vitol Prepayment Agreement), each Prepayment and every three months after each Prepayment, that such security is not subject to any prior ranking or pari passu security. The Target also represented and warranted on the date of the Second Amendment Agreement that no security existed over any of the present or future assets of any member of the Target Group, other than as permitted under the Vitol Prepayment Agreement. Vitol owes no obligation to share its security with third parties.

Kuwait Energy (Eastern Desert) has pledged all of its deposits, securities, commercial papers, precious metals, cash, goods and any other funds and credit account balances currently held at ENBD, or that will be held in future at ENBD, to ENBD as a guarantee securing its repayment of any outstanding obligations under the ENBD Facility. Kuwait Energy (Eastern Desert) currently does not hold any deposits, securities, funds or any of the other items referenced in the list above at ENBD.

G. FOREIGN EXCHANGE RISK MANAGEMENT

Exchange rate risk

The Target Group's revenues from sales of oil, natural gas and condensate are received wholly in U.S. dollars, and its borrowings are denominated in U.S. dollars. A portion of the Target Group's exploration, development and operating costs are denominated in U.S. dollars, and a portion are denominated in other currencies, including most significantly Egyptian pounds. Although the Target Group's exposure to fluctuations in the U.S. dollar is mitigated by the proportion of its costs that are denominated in U.S. dollars, the Target Group faces exchange risk in respect of the proportion of its costs which are not denominated in U.S. dollars.

Going forward, to the extent EGPC continues to remit substantial proceeds from sale of the Target Group's production in Egypt in Egyptian pounds rather than U.S. dollars, and to the extent these amounts exceed the Target Group's operating expenses which are paid in Egyptian pounds, the Target Group will also be subject to significant exchange rate risk resulting from fluctuations in the value of Egyptian pounds, compared with other currencies, particularly the U.S. dollar. Despite the fact that the Target Group managed to exchange and transfer approximately US$600 million (equivalent to approximately HK$4,680 million) during the period from 2013 till 2018 from Egypt to Kuwait, due to an increasingly constrained global foreign exchange market for Egyptian pounds, the Target Group may be unable to convert certain quantities of its Egyptian pounds to U.S. dollars going forward, which could limit the Target Group's ability to distribute cash to other jurisdictions within the Target Group.

To date, the Target Group has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

Receipt of cash payments from EGPC

Part of the EGPC payments may be remitted to the Target Group in Egyptian pounds rather than U.S. dollars, subject to negotiation between EGPC and the Target Group. For example, in 2017, a total of US$78.1, million (equivalent to approximately HK$609.2 million), or 78.2%, of the US$99.9 million (equivalent to approximately HK$779.2 million) received from EGPC was received in Egyptian pounds, potentially subjecting the Target Group to significant exchange rate risk resulting from fluctuations in the value of Egyptian pounds, compared with other currencies, particularly the U.S. dollar. The availability of US dollars in Egypt has improved recently. For example, as of 31 October 2018, the Target Group had converted the equivalent Egyptian pound value of US$22 million (equivalent to approximately HK$171.6 million), and remitted this sum outside of Egypt, thereby mitigating the Target Group's risk of over-exposure in Egypt, or its exposure to the Egyptian pound. Nevertheless, the Target Group may in the future elect to delay certain payments from EGPC in order to receive U.S. dollar payments at a more favorable exchange rate, thus resulting in temporarily inflated receivables in certain periods or a higher number of receivables becoming past due.

H. EMPLOYEES AND REMUNERATION POLICY

The Target Group employs a multinational, multicultural workforce and as of 30 June 2018, had approximately 719 employees from more than 24 countries.

The table below sets out the average number of people (full time equivalents) employed by the Target Group as of the relevant dates:

	As of 31 December			As of 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
Full time employees	688	717	778	730	719

The Target Group attracts talent by benchmarking salaries and benefits to ensure that these are competitive within the Target Group's market and by providing training opportunities and talent management programs for its employees. The Target Group is committed to supporting local economies, recruiting locally where appropriate. Notwithstanding this commitment, the Target Group's recruitment policies and practices are explicitly against discrimination in any form.

During the exploration phase of the Abu Sennan PSC, Partners must give mutually agreed numbers of EGPC employees an opportunity to attend and participate in training programs relating to exploration and development operations. If the total cost of such programs is less than US$50,000 (equivalent to approximately HK$390,000) in any financial year, Partners are required to pay EGPC the amount of the shortfall within 30 days following the end of the financial year. EGPC has the right to have the US$50,000 (equivalent to approximately HK$390,000) allocated for training paid directly to it for training purposes.

In addition, under the terms of the Siba gas development and production service contract and the Block 9 EDPSC, the Target Group has a commitment to spend US$1 million (equivalent to approximately HK$7.8 million) per field per year (i.e. a total of US$2 million (equivalent to approximately HK$15.6 million) per year) towards the Training, Technology & Scholarship Fund for the benefit of an agreed number of Iraqi nationals (the "**TTSF**"). This is a non-cost recoverable expenditure and any unspent amount in a year is carried forward to the TTSF of the next year.

The Target Group operates two discretionary share plans to reward and retain its management and employees: a long-term incentive plan (the "**Kuwait Energy LTIP**") and an annual short-term incentive plan (the "**Kuwait Energy STIP**"). Awards granted under the Kuwait Energy Share Plans are subject to continuous employment and performance conditions.

Options and awards subsisting under the Kuwait Energy Share Plans which are not already exercisable will either vest in full and become exercisable immediately before the Scheme Record Time, or will be cancelled immediately prior to the Effective Time in exchange for payment to the relevant awardholder of an amount in US dollars equal to the price payable for each Target Share under the terms of the Acquisition, multiplied by the total number of Target Shares that such awardholder would be entitled to receive if the relevant awards under the Kuwait Energy Share Plans vested immediately before the Effective Time. The Target's remuneration committee has exercised its discretion to disapply time pro-rating so that options and awards under the Kuwait Energy Share Plans vest and become exercisable over the maximum number of Target Shares under option or award.

The Company has stated that it intends to remain committed to the development and growth of the operational and technical talent of the Enlarged Group and that material changes to employee benefit arrangements are not currently envisaged.

I. FUTURE PLANS FOR MATERIAL INVESTMENTS, CAPITAL ASSETS AND SOURCES OF FUNDING

In line with its development program, the Target Group expects to incur further significant operating expenses and capital expenditures in the near-term to undertake a major gas development project in Siba in Iraq and significant exploration, appraisal and development work in Block 9 in Iraq, and continue its development program in Egypt. The level of expenditures incurred in its development plan will, subject to the availability of sufficient funding, be higher than projected if the Target Group is successful in its exploration and appraisal drilling to convert those hydrocarbons that are currently classified as contingent or prospective resources into reserves, and in developing new reserves and resources into producing assets.

Remediation and Decommissioning provision

The Target Group, together with the relevant Partners, are subject to various remediation obligations under the various licence agreements.

The provision for decommission is based on the net present value of the Target Group's share of the expenditure which may be incurred at the end of the producing life of each field for the removal and decommissioning of the facilities in place at such field. Historically, the Target Group's provision for decommission has principally reflected its assets in Egypt and Yemen; going forward, as operations in Iraq continue to ramp up the Target Group expects significant additional provisions for decommissioning reflecting its assets in Iraq.

The Target Group's decommissioning provision decreased by US$0.1 million (equivalent to approximately HK$0.8 million) from US$11.7 million (equivalent to approximately HK$91.3 million) as of 30 June 2017, to US$11.6 million (equivalent to approximately HK$90.5 million) as of 30 June 2018, as a result of redetermination of the level of expected future decommissioning costs, according to an update of underlying assumptions. The decommissioning provision decreased by US$0.2 million (equivalent to approximately HK$1.6 million) from US$11.9 million (equivalent to approximately HK$92.8 million) as of 31 December 2016, to US$11.7 million (equivalent to approximately HK$91.3 million) as of 31 December 2017, including a downward revision of US$0.5 million (equivalent to approximately HK$3.9 million) in the Target Group's estimate of decommissioning costs, partially offset by a US$0.3 million (equivalent to approximately HK$2.3 million) unwinding of a discount. The decommissioning provision decreased by US$0.5 million (equivalent to approximately HK$3.9 million) from US$12.4 million (equivalent to approximately HK$96.7 million) as of 31 December 2015, to US$11.9 million (equivalent to approximately HK$92.8 million) as of 31 December 2016, including a downward revision of US$0.8 million (equivalent to approximately HK$6.2 million) in the Target Group's estimate of decommissioning costs, partially offset by a US$0.3 million (equivalent to approximately HK$2.3 million) unwinding of discount.

J. COMMENTS ON SEGMENTAL INFORMATION

Crude oil sales have historically accounted for substantially all of the Target Group's revenue, and sales of crude oil, natural gas and condensate will constitute the Target Group's primary sources of revenue going forward. Global oil and gas prices are affected by global supply and demand, particularly in the United States, Europe and Asia (notably China), as well as trading activities by market participants and others either seeking to secure access to oil and gas or to hedge against commercial risks, or as part of investment portfolio activity. Historically, oil and gas prices have been highly correlated with global economic activity and gross domestic product growth, and as a result are, and will likely continue to be, subject to substantial and unpredictable volatility. The oversupply and uncertainty about future demand have had a significant adverse effect on global oil prices, and have resulted in an adverse effect on the Target Group's ability to maintain or increase its revenues.

Oil and gas are globally and regionally traded commodities and, as a result, the Target Group is unable to control the prices it receives for its oil and gas, which is generally sold with reference to market prices. In addition, because oil and gas sales are the Target Group's primary source of revenue, and given that neither the Target Group nor any of its subsidiaries currently hedge its exposure to oil and gas prices, its financial results are exposed to adverse oil and gas price changes. The decline in oil prices significantly affected the Target Group's revenue in 2015, causing revenue to decline by 42.5% from 2014 to 2015, despite similar production levels. Revenue in 2016 further decreased by 10.8%, compared with 2015, as a result of a decrease in the average realized oil price. In 2017, however, revenue increased by 46.4%, compared with 2016, largely as a result of increases in production from Block 9 in Iraq and in the average realized oil price; revenue also increased by 13.0% in the six months ended 30 June 2018, compared with the six months ended 30 June 2017, largely as a result of increases in the average realized oil price.

The oil and gas industry is very competitive, including in the regions where the Target Group has assets. The key areas in respect of which the Target Group faces competition are:

- acquisition of exploration and production licenses, or interests in such licenses, at auctions or sales run, or through licensing rounds, by governmental authorities;
- securing additional offtakers of production;
- acquisition of other companies that may already own licenses or existing hydrocarbon producing assets;
- differentiating technologies;
- engagement of third-party service providers whose capacity to provide key services may be limited;
- purchase, leasing, hiring, chartering or other procuring of equipment that may be scarce; and
- employment of qualified, experienced and skilled management and oil and gas professionals.

The effects of operating in a competitive industry may include higher than anticipated prices for the acquisition of licenses or assets, accepting licensing terms providing for increased obligations, the hiring by competitors of key management personnel, restrictions on the availability, or increase in cost of, equipment or services, as well as potentially unfair practices, including unconscionable pressure on the Target Group directly or indirectly or the dissemination of false or misleading information or rumors by competitors or third parties.

K. PROSPECTS FOR NEW BUSINESS

The Target Group's primary strategy is to develop its current large reserves and resources base, with a focus on increasing production from Block 9 and Siba, the Target Group's assets in Iraq, while maintaining current production levels and cash flow generation from its Egyptian assets. In order to realize the Target Group's targeted gross production at Block 9 by 2025, the Target Group is planning to submit a full-field development plan to the Iraqi government in 2019. The Target Group plans to execute its projects through a disciplined capital allocation approach, investing in carefully selected value-enhancing projects. For example, the Target Group recently drilled the Faihaa-5 and Faihaa-6 wells at Block 9, and commercial production is expected to commence in early 2019. The Target Group is also currently evaluating the placement of Faihaa-7, a new appraisal well at Block 9, based on the Target Group's recently acquired 3D seismic interpretation.

With respect to Siba, as of 30 June 2018, the Target Group had 2P net entitlement reserves of 12.9 mmboe (46% gas) (41.2 mmboe (53% gas) on a working interest basis). Currently, the Target Group has two producing wells (Siba 1 and 4), one well (Siba 6) under connection, four wells under completion and connection (Siba-5B, 7, 8 and 9 and a processing plant in the commissioning phase, featuring two 55 mmscfd trains. The Target Group commenced commercial production from Siba in September 2018, with production levels reaching 30 mmscfd, and expects to reach the contractual plateau production rate of 100 mmscfd (gross) in the fourth quarter of 2019. Over the full field life, the Target Group is planning to drill up to eight additional wells in Siba.

In Egypt, the Target Group believes there is the potential to extend production life and plateau of its existing assets through further workovers and drilling, as well as increasing the recovery rate from its assets through deployment of technologies such as water injection to maintain pressure in the reservoirs.

Overall, the Target Group believes that the successful development of its projects in various fields, in particular those in Iraq, will contribute to future growth in production and operational cash flows.

As the operator of all but one of its core assets, the Target Group believes that it has the necessary flexibility to optimize the development of its projects, generate efficiencies and manage costs. In addition, the Target Group aims to continue to maximize the value of its portfolio through proactive asset management, selling assets considered non-core and farming-out stakes in certain of its assets to strategic partners.

Gaffney,
Cline &
Associates

Competent Person's Report on the Oil, Gas and Condensate Assets of Kuwait Energy plc

Prepared for

United Energy Group Limited

21st December 2018

www.gaffney-cline.com

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Appendices

Appendix I: Abbreviated Form of PRMS
Appendix II: Glossary of Abbreviations
Appendix III: Site Visit Reports
Appendix IV: Production and Cost Profiles

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21st December 2018

The Directors
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Dear Sirs,

Introduction

At the request of United Energy Group Limited (UEGL), Gaffney, Cline & Associates (GCA) has prepared a Competent Person's Report (CPR) on the oil and gas assets of Kuwait Energy plc (KE), as at an Effective Date of 30th June 2018. KE's assets are located in Iraq, Egypt, Yemen and Oman (Figure 1). This CPR also includes a valuation of KE's assets. For the avoidance of doubt, the Effective Date of all estimates in this CPR is 30th June 2018.

GCA understands that UEGL intends to acquire 100% of the shares of KE and requires this CPR in support of arrangements being made to finance the acquisition, as well as for disclosure on the Hong Kong Stock Exchange, where UEGL is listed, as the acquisition will constitute a Major Transaction. This CPR has been prepared for these purposes, and must only be used for these purposes.

In preparing this CPR, GCA has performed an independent audit of the Reserves, Contingent Resources and Prospective Resources in KE's assets. The audit has been conducted on the basis of a data set of technical information made available to GCA by UEGL and KE through September 2018, including details of licence interests and agreements, geological and geophysical data, interpretations and technical reports, historical production and engineering data, cost and commercial data, and development plans as they existed at the Effective Date. GCA is not aware of any limitations on the availability of information made available to it by UEGL and KE.

GCA's work included such checks and calculations as were considered necessary. All questions that arose during the course of the audit process were resolved to GCA's satisfaction. GCA has not conducted any site visits as part of this work, but did visit the three assets in Egypt operated by KE in January 2017 as part of a previous audit. Site visits to the assets in Iraq were not deemed necessary at that time on the basis of photographic evidence; site visits to Yemen were not possible because of the security situation.

Figure 1: Location of KE Assets

This CPR has been prepared in accordance with the requirements of Chapter 18 of the Main Board Listing Rules of the Stock Exchange of Hong Kong Limited (Main Board Listing Rules). It is, and must remain, an independent opinion despite certain information used in the preparation of the CPR having been given to GCA by UEGL and KE.

In the preparation of this report, GCA has used definitions contained within the Petroleum Resources Management System (PRMS), which was approved by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers in March 2007 (see Appendix I).

This report relates specifically and solely to the subject matter as defined in the scope of work, as set out herein, and is conditional upon the specified assumptions. It must be considered in its entirety.

A glossary of abbreviations used in this report is contained in Appendix II. Appendix III contains the site visit reports from GCA's earlier audit. Future production and cost profiles for all assets are shown in Appendix IV.

This CPR has been prepared by GCA in the English language. Any version of this CPR in Chinese or any other language is not an official GCA translation and in the case of any differences of meaning, the English version takes precedence.

Basis of Opinion

This document reflects GCA's informed professional judgment based on accepted standards of professional investigation and, as applicable, the data and information provided by or at the direction of UEGL ("the Client") and/or obtained from other sources (e.g., public domain), the limited scope of engagement, and the time permitted to conduct the evaluation.

In line with those accepted standards, this document does not in any way constitute or make a guarantee or prediction of results, and no warranty is implied or expressed that actual outcomes will conform to the outcomes presented herein. GCA has not independently verified any information provided by, or at the direction of, the Client and/or obtained from other sources, and has accepted the accuracy and completeness of this data. GCA has no reason to believe that any material facts have been withheld, but does not warrant that its inquiries have revealed all of the matters that a more extensive examination might otherwise disclose.

The opinions expressed herein are subject to and fully qualified by the generally accepted uncertainties associated with the interpretation of geoscience and engineering data and do not reflect the totality of circumstances, scenarios and information that could potentially affect decisions made by the report's recipients and/or actual results. The opinions and statements contained in this report are made in good faith and in the belief that such opinions and statements are representative of prevailing physical and economic circumstances.

There are numerous uncertainties inherent in estimating reserves and resources, and in projecting future production, development expenditures, operating expenses and cash flows. Oil and gas resources assessments must be recognized as a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact way. Estimates of oil and gas resources prepared by other parties may differ, perhaps materially, from those contained within this report.

The accuracy of any resource estimate is a function of the quality of the available data and of engineering and geological interpretation. Results of drilling, testing and production that post-date the preparation of the estimates may justify revisions, some or all of which may be material. Accordingly, resource estimates are often different from the quantities of oil and gas that are ultimately recovered, and the timing and cost of those volumes that are recovered may vary from that assumed.

Oil and condensate reserves and resources volumes are reported in millions (10^6) of barrels at stock tank conditions (MMBbl). Natural gas volumes have been quoted in billions (10^9) of standard cubic feet (Bscf) and are volumes of sales gas, after an allocation has been made for fuel and process shrinkage losses. Standard conditions are defined as 14.7 psia and 60°F.

GCA undertook site visits to three of KE's assets in Egypt in January 2017. GCA's visits were undertaken to examine the facilities and operations, and to assess their condition and state of operability. GCA does not warrant they are in compliance with any applicable regulations in terms of standards, rating, health, safety, and environment. GCA has not undertaken a site visit to any of the other assets described in this report. As such, GCA is not in a position to comment on the operations or facilities in place, their appropriateness and condition, or whether they are in compliance with the regulations pertaining to such operations. Further, GCA is not in a position to comment on any aspect of health, safety, or environment of such operations.

This report has been prepared based on GCA's understanding of the effects of petroleum legislation and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title or rights, conditions of these rights (including

environmental and abandonment obligations), or any necessary licenses and consents (including planning permission, financial interest relationships, or encumbrances thereon for any part of the appraised properties).

Definition of Reserves and Resources

Reserves are those quantities of petroleum that are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria, based on the development project(s) applied: discovered, recoverable, commercial and remaining (as of the evaluation date).

Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status. All categories of reserves volumes quoted herein have been derived within the context of an economic limit test (ELT) assessment (pre-tax and exclusive of accumulated depreciation amounts) prior to any net present value (NPV) analysis.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development because of one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no evident viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

It must be appreciated that the Contingent Resources reported herein are unrisked in terms of economic uncertainty and commerciality. There is no certainty that it will be commercially viable to produce any portion of the Contingent Resources. Once discovered, the chance that the accumulation will be commercially developed is referred to as the "chance of development" (per PRMS).

Prospective Resources are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated "chance of discovery" (referred to herein as the Geological Chance of Success (GCoS)) and a "chance of development". Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates, assuming their discovery and development, and may be sub-classified based on project maturity.

There is no certainty that any portion of the Prospective Resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources. Prospective Resource volumes are presented as unrisked (that is, on the pre-drill estimates of size, if discovered).

For the avoidance of doubt, Contingent Resources and Prospective Resources do not include Reserves.

Use of Net Present Values

It should be clearly understood that the NPVs contained herein do not represent a GCA opinion as to the market value of the subject properties, nor any interest in them.

In assessing a likely market value, it would be necessary to take into account a number of additional factors including reserves risk (i.e., that Reserves may not be realised within the anticipated timeframe for their exploitation); perceptions of economic and sovereign risk, including potential change in regulations; potential upside; other benefits, encumbrances or charges that may pertain to a particular interest; and, the competitive state of the market at the time. GCA has explicitly not taken such factors into account in deriving the NPVs presented herein.

Summary

License Summary

Table 1 and Table 2 list the development and exploration licenses KE has represented that it held as at 30th June 2018, and to which Reserves and/or Resources have been attributed.

Table 1: Development License Summary as at 30th June 2018

Country	Asset	KE WI[1] (%)	Operator	Field	Expiry Date	Option for Extension	Area (km²)	
							Gross	Net
Iraq	Siba	30.0[2]	KE	Siba	Jul 2032	5 years	184	55
Egypt	East Ras Qattara (ERQ)	49.5	Sipetrol[3]	Shahd	Mar 2027	5 years	21	10
				Ghard	Jul 2017	5 years	12	6
				Shahd SE	Apr 2028	5 years	33	16
				Rana	Feb 2028	5 years	21	10
				Al Zahraa	May 2029	5 years	12	6
				Diaa	Mar 2030	5 years	18	9
				Shebl	May 2031	5 years	9	4
	Area A	70.0	KE	Kareem&Ayun	Jun 2023	-[4]	66	46
				Kheir	Jun 2023	-[4]		
				Shukheir	Jun 2023	-[4]		
				Um El Yusr	Jun 2023	-[4]		
				Shukheir NW	Jul 2019	10 years		
	Abu Sennan	25.0[5]	KE[3]	Al Ahmadi	Mar 2032	15 years	18	5
				AS-1	Feb 2032	15 years	18	5
				AS-2	Mar 2032	15 years	15	4
				AS-3	Jul 2033	15 years	12	3
				AS-4	Apr 2035	15 years	30	8
				AS-5	Jul 2036	15 years	30	8
	Burg El Arab	100.0	KE[3]	Burg El Arab	Dec 2021	5 years	68	68
Yemen	Block 5	15.0	KE	All	Mar 2018[6]	5 years	287	43

Notes:

1. Working Interest (WI) here is KE's revenue interest; cost interest is higher in some assets as noted below.
2. KE's cost interest in Siba is 40% as the State Partner is carried.
3. Burg El Arab and Abu Sennan (and ERQ) are operated by Joint Ventures between EGPC and the Contractor Group, with KE (Sipetrol for ERQ) representing the Contractor Group.
4. The development licenses in Area A other than Shukheir NW are already in the 10-year extension period envisaged in the Service Contract, but further extensions may be possible subject to negotiation.
5. KE's cost interest in Abu Sennan is 53% (fully recoverable) since KE carries Dover's 28% costs in return for 7.5% of Dover's 28% interest in the profit share (i.e. 2.1% of gross contractor profit share).
6. The license for Block 5 has been extended until 13th March 2018, to account for Force Majeure days up to 7th March 2016, and is expected to be further extended to compensate for the Force Majeure period since that date.

Table 2: Exploration License Summary as at 30th June 2018

Country	License	KE WI[1] (%)	Operator	Expiry Date	Option for Extension	Area (km²)	
						Gross	Net
Iraq	Block 9	60.0	KE	Feb 2018[2]	2 years[2]	865	519
Egypt	Area A	70.0	KE	Sep 2018	18-24 months	233	163
	Abu Sennan	25.0[3]	KE[4]	May 2021[5]	-	653	163

Notes:

1. WI here is KE's revenue interest; cost interest is higher in some assets as noted below.
2. It has been agreed that the second exploration well in Block 9 will be deferred by a period of not less than 4 years and that no relinquishment will be required prior to that.
3. KE's cost interest in Abu Sennan is 53% (fully recoverable) since KE carries Dover's 28% costs in return for 7.5% of Dover's 28% interest in the profit share (i.e. 2.1% of gross contractor profit share).
4. Abu Sennan is operated by a Joint Venture between EGPC and the Contractor Group, with KE representing the Contractor Group.
5. The extension of the Abu Sennan exploration license to May 2021 received parliamentary approval in September 2018.
6. In Block 9 (Iraq) and Abu Sennan (Egypt), 20-year development licenses would be granted for each approved Development Area (if any), each with a possible 5 year extension period.

In general, exploration licenses give the license holder the right to explore for oil and gas within the license area. Development licenses give the license holder the right to develop and produce oil and gas from known (discovered) reservoirs within the license area and also to explore for oil and gas within that area, though any new discovery would require approval of a development plan before production could begin. Any specific limitations to these general rights are noted in the relevant sections of this report.

In Iraq, each of the licenses is governed by a Service Contract (known as a GDPSC or EDPSC). In Egypt and Yemen, each of the licenses is governed by a Production Sharing Contract or Agreement (PSC/PSA), except for Area A (Egypt), which is governed by a Service Contract.

KE additionally holds a 20% interest in Medco LLC, a subsidiary of Medco International Enterprise Ltd. Medco LLC holds a 75% interest in, and operates, a Service Agreement for the Karim Small Fields (KSF), a group of oil fields in southern Oman. The agreement is for the provision of the technical services required for the operation of KSF on behalf of Petroleum Development Oman (PDO), the license holder, and runs until April 2040.

Overview

The focus of KE's development activities is currently in Iraq, specifically on development of the Faihaa oil field in Block 9, where production has started under an early production arrangement, and of Siba gas field, where first gas is planned (and has occurred) in September 2018. In Egypt, KE is the Operator of three assets and a partner in a fourth asset; production in these assets is sustained by ongoing development and exploration activities. KE's other significant asset is Block 5 in Yemen, but production there has been suspended since April 2015 due to the export route being blocked.

KE has Proved plus Probable (2P) Net Entitlement Reserves of some 130.6 MMBbl of oil and condensate, and 108.3 Bscf of gas. Approximately 90% of the oil and condensate is in Iraq, and 10% in Egypt. Essentially all (98.2%) of the gas is in Iraq. Only 11% of the oil and

condensate is Developed, and 1% of the gas (prior to the start of Siba production in September 2018).

Iraq accounts for 72% of the post-tax Net Present Value of the future net revenue from Reserves at the Proved plus Probable (2P) level (at 10% discount rate). Egypt contributes the remaining 28%. Revenue from KE's interest in the Karim Small Fields in Oman (Best Case) adds another 1%.

The GDPSC for Siba was signed in July 2011, with KE as Operator. While the data initially available for Siba were of poor quality and the subsurface uncertainties were large at the time of committing to the construction of the processing facilities, KE drilled two wells in 2014-15 and subsequently acquired and processed 3D seismic data over the field with satisfactory results. However, two wells drilled in 2018 found the reservoir significantly deeper than expected (although they also proved gas down to greater depth than previously encountered). Gas initially in place (GIIP) estimates made before the latest wells ranged from 0.6 to 1.9 Tscf. The development project has been subject to several delays but was almost complete at the end of June 2018. First gas was planned for September 2018 (and this has in fact been achieved) with the 100 MMscfd plateau rate expected to be reached approximately one year after that.

The EDPSC for Block 9 in Iraq was signed in January 2013, with KE as Operator. In 2014, the first well on the Block confirmed the presence of the Faihaa field, which is part of the same geological structure as the bordering Yadavaran field in Iran. Five wells have now been drilled in Faihaa and 3D seismic data have been acquired over the field. It is clear that this is a multi-billion barrel field (estimates of oil in place within Block 9 range from 4.6 to 16.0 BBbl) mainly in two large but complex carbonate reservoirs (Mishrif and Yamama).

Since the Yadavaran field is already in production on the Iranian side, there is every incentive to develop Faihaa as soon as possible. Early production from four wells is already under way at more than 20,000 bopd and is expected to reach 30,000 bopd when the sixth well is put on stream in late 2018. Full field developments of the Yamama and Mishrif reservoirs are planned to come on stream in 2024, with a combined plateau rate of 185,000 bopd targeted by 2025.

Compared with those in Iraq, KE's assets in Egypt are small, but costs are lower and the Government take is generally lower:

- In Area A, operated by KE, the Um El Yusr (Yusr) field has been in production since the 1960s. KE has maintained Yusr production at more than 2,200 bopd for several years by drilling a number of infill wells, performing work-overs and initiating a water injection project, which it plans to expand. KE had a significant exploration success in Area A in 2008 with the discovery of the Shukheir NW field, and a smaller second discovery in 2018 at South Kheir; these two fields together have produced 12.7 MMBbl and were producing more than 4,000 bopd in June 2018; up to four new wells are planned in 2018-2020.
- KE took over as Operator (jointly with EGPC) of the Burg El Arab (BEA) field in 2009. Although in production since 1996, KE estimates that the recovery factor to date is only 3-4%. Since 2009, KE has improved operational performance, installed new production facilities (in 2013) and drilled 13 new wells. From a low of 200 bopd at end 2010, production peaked at approximately 2,000 bopd in mid-2012 and has been sustained between 1,100 and 1,500 bopd since then by drilling and work-over activity. Seismic over the field has recently been reprocessed and further wells are planned in 2019-2022.

- KE also operates the Abu Sennan license (again jointly with EGPC), where six oil and gas discoveries have been made since 2011, the largest of which is Al Jahraa. Trial production began in 2012 and permanent facilities and an export pipeline were constructed in 2014. Production reached 6,000 bopd in mid-2015, subsequently declining to 2,100 bopd by June 2018. A gas export pipeline has also been constructed and gas production is currently 6.7 MMscfd. KE has plans for up to 9 new production wells and a water injection project in Al Jahraa as well as further exploration drilling.
- Finally, KE's principal non-operated asset is East Ras Qattara (ERQ), where several oil discoveries were made in 2006-2011, most notably the Shahd SE field which was producing at 15,300 bopd (out of 16,220 bopd total for ERQ) in June 2018. Up to eight new development wells are planned in 2018-21, including five to develop the Upper Bahariya reservoir at Shahd SE, in addition to an exploration well.

KE's acquisition in 2012 of the Jannah Hunt Oil Company, Operator of Block 5 in Yemen with a 15% WI therein, was a significant step for KE's operations at the time. Some 253 MMBbl of oil have been produced from the Block since 1996 and the production rate in March 2015 averaged 26,400 bopd, from three main fields. Unfortunately, no production has been possible since 7th April 2015 as a result of the ongoing civil unrest in Yemen. The Block 5 PSA would originally have expired on 8th June 2015, but has been extended to 13th March 2018 to account for Force Majeure days up to 7th March 2016. A further extension to compensate for non-producing days occurring after 7th March 2016 is expected. However, potential future oil production has been classified as Contingent Resources since it is not clear when production will be able to restart.

Additionally, KE derives revenue from the Service Agreement for operation of KSF in Oman.

Risks and Upsides

Unless compensating contract extensions are granted, which is by no means certain, the main technical risk to the Reserves volumes reported herein is that of delay in the execution of projects, particularly in Iraq where some factors are beyond the control of the Contractor (customs clearance, approvals, permitting, security concerns, etc). This is also true, to a lesser degree, in Egypt.

Potential upsides are related to additional development activities, which require additional work before any decision to implement them or not can be taken. Most notable of these is a potential water injection project in the Faihaa field in Block 9, which could increase the combined production rate to 300,000 bopd if implemented in both the Yamama and Mishrif reservoirs, although the efficiency of water injection in these carbonate reservoirs is as yet uncertain and the capital expenditure requirements would be significant. GCA understands that UEGL intends to pursue this option if it is successful in acquiring KE, taking a phased development approach to minimize the capital required.

Other upsides in Block 9 include development of the Zubair reservoir and the possibility that other nearby fields may extend into the Block (appraisal drilling is needed to determine whether or not they do). Contract extensions are also possible for Block 9 and Siba, though may be subject to revised commercial terms. In Egypt, a water flood in the BEA field and development of a gas discovery in ERQ are other potential upside projects.

Finally, there is exploration potential to which Prospective Resources have been attributed. The largest Prospects are deeper reservoirs in the Iraqi assets, but these are mostly perceived as high risk, with the exception of a southern extension of the Siba gas field which technical

analysis suggests has a good chance of success. There are numerous Prospects in Egypt; these are small, but most are considered to have a moderate or good chance of success.

Assumptions

The key assumptions used in the preparing this CPR include:

- Assumptions on the economic parameters used including future oil and gas prices and cost inflation; these assumptions, which are described in Sections 9.1 and 9.2, impact not only the NPVs and valuation opinion presented but also the Reserves volumes, particularly those net to KE's interests.
- That the development plans for the various assets will be executed in the form and in the timeframe described herein; while the development plans assumed are believed to reflect the current intentions of the Operator of each asset, there is always a possibility that plans will change or be delayed, possibly by factors outside the control of the Operator.
- That development licenses in Egypt will probably be extended for as long as economic production remains possible; no Proved Reserves are attributed beyond the end of the currently held licenses, but license extensions are assumed in some cases for the Probable and Possible Reserves.

Any additional assumptions applicable to specific assets or to the valuation opinion are mentioned in the relevant sections of this report.

Proved and Probable Reserves Summary

The Proved and Proved plus Probable oil, condensate and gas Reserves in the assets in which KE holds an interest are shown in Table 3, Table 4 and Table 5. Both Gross Field Reserves, i.e. 100% of the estimated future commercial production from the fields, and Reserves net to KE's Interest are shown, as well as the split between Developed (Dev) and Undeveloped (Undev) Reserves. Reserves Net to KE's Interest represent volumes equivalent to the net economic entitlement under the terms of the PSC/PSA or Service Contract governing the asset.

All Reserves have been estimated using a deterministic approach.

Table 3: Summary of Oil Reserves (MMBbl)
as at 30th June 2018

Asset	Status	Gross Field		KE WI (%)	Net to KE's Interest	
		Proved	Proved + Probable		Proved	Proved + Probable
Block 9 (Iraq)	Dev	43.4	76.5	60.0	4.4	7.0
	Undev	480.2	984.1		62.5	103.6
	Total	523.6	1,060.6		66.9	110.6
East Ras Qattara (Egypt)	Dev	14.3	18.7	49.5	2.9	3.7
	Undev	1.4	2.4		0.4	0.6
	Total	15.7	21.1		3.3	4.2
Area A (Egypt)	Dev	2.8	8.1	70.0	0.5	1.7
	Undev	0.1	9.9		0.0	2.6
	Total	2.9	18.0		0.6	4.4
Burg El Arab (Egypt)	Dev	1.0	2.0	100.0	0.5	1.0
	Undev	1.0	3.8		0.5	1.5
	Total	2.0	5.8		1.0	2.5
Abu Sennan (Egypt)	Dev	1.1	2.5	25.0	0.2	0.5
	Undev	0.0	7.7		0.0	1.5
	Total	1.1	10.2		0.2	2.0
Total	**Dev**	**62.6**	**107.8**	**n/a**	**8.6**	**13.9**
	Undev	**482.7**	**1,008.0**		**63.4**	**109.8**
	Total	**545.3**	**1,115.7**		**71.9**	**123.7**

Notes:

1. Gross Field Reserves are 100% of the volumes expected to be recovered from the asset under the intended development plan.
2. Reserves net to KE's Interest are the net economic entitlement under the terms of the PSC/PSA or Service contract that governs each asset.
3. Totals may not exactly equal the sum of the individual entries due to rounding.

Table 4: Summary of Condensate Reserves (MMBbl)
as at 30th June 2018

Asset	Status	Gross Field		KE WI (%)	Net to KE's Interest	
		Proved	Proved + Probable		Proved	Proved + Probable
Siba (Iraq)	Dev	0.0	0.0	30.0	0.0	0.0
	Undev	22.4	64.5		3.8	6.9
	Total	22.4	64.5		3.8	6.9
Total	**Dev**	**0.0**	**0.0**	**n/a**	**0.0**	**0.0**
	Undev	**22.4**	**64.5**		**3.8**	**6.9**
	Total	**22.4**	**64.5**		**3.8**	**6.9**

Notes:

1. Gross Field Reserves are 100% of the volumes expected to be recovered from the asset under the intended development plan.
2. Reserves net to KE's Interest are the net economic entitlement under the terms of the GDPSC or PSC that governs each asset.

Table 5: Summary of Gas Reserves (Bscf)
as at 30th June 2018

Asset	Status	Gross Field		KE WI (%)	Net to KE's Interest	
		Proved	Proved + Probable		Proved	Proved + Probable
Block 9 (Iraq)	Dev	0.0	0.0	60.0	0.0	0.0
	Undev	310.0	736.6		35.4	70.6
	Total	310.0	736.6		35.4	70.6
Siba (Iraq)	Dev	0.0	0.0	30.0	0.0	0.0
	Undev	240.8	437.7		37.0	35.8
	Total	240.8	437.7		37.0	35.8
Abu Sennan (Egypt)	Dev	2.7	7.8	25.0	0.5	1.5
	Undev	0.0	2.4		0.0	0.5
	Total	2.7	10.2		0.5	2.0
Total	**Dev**	**2.7**	**7.8**	**n/a**	**0.5**	**1.5**
	Undev	**550.8**	**1,176.7**		**72.4**	**106.8**
	Total	**553.5**	**1,184.5**		**72.9**	**108.3**

Notes:

1. Gross Field Reserves are 100% of the volumes expected to be recovered from the asset under the intended development plan.
2. Reserves net to KE's Interest are the net economic entitlement under the terms of the GDPSC or PSC that governs each asset.
3. For Siba, Gas Reserves net to KE's Interest are lower in the 2P case than in the 1P case because in cases with higher CGR, a lower proportion of cost recovery is attributed to Net Entitlement Gas Reserves and a higher proportion to Net Entitlement Condensate Reserves.
4. Totals may not exactly equal the sum of the individual entries due to rounding.

Possible Reserves Summary

The Possible Reserves in the assets in which KE holds an interest are shown in Table 6.

Table 6: Summary of Possible Reserves as at 30th June 2018

Asset	Gross Field			KE WI (%)	Net to KE's Interest		
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)
Block 9 (Iraq)	1,099.9	0.0	973.2	60.0	125.2	0.0	102.1
Siba (Iraq)	0.0	26.0	41.6	30.0	0.0	1.5	-2.0
East Ras Qattara (Egypt)	8.6	0.0	0.0	49.5	1.5	0.0	0.0
Area A (Egypt)	13.3	0.0	0.0	70.0	3.9	0.0	0.0
Burg El Arab (Egypt)	3.5	0.0	0.0	100.0	0.9	0.0	0.0
Abu Sennan (Egypt)	6.1	0.0	6.3	25.0	1.1	0.0	1.2
Total	**1,131.3**	**26.0**	**1,021.1**	**n/a**	**132.6**	**1.5**	**101.3**

Notes:

1. Gross Field Reserves are 100% of the volumes expected to be recovered from the asset under the intended development plan.
2. Reserves Net to KE's Interest are the net economic entitlement under the terms of the PSC/PSA or Service contract that governs each asset.
3. For Siba, Possible Gas Reserves Net to KE's Interest are negative because in cases with higher CGR, a lower proportion of cost recovery is attributed to Net Entitlement Gas Reserves and a higher proportion to Net Entitlement Condensate Reserves.
4. Totals may not exactly equal the sum of the individual entries due to rounding.

Karim Small Fields, Oman

Under the terms of the Service Agreement for the Karim Small Fields (KSF), the Contractor has no direct rights to any volumes of oil, either in situ or produced. Nonetheless, the Service Agreement has the nature of a Risked Service Contract (RSC) as defined by PRMS, which would normally give the Contractor the right to claim Reserves. For the purpose of this report, KE's estimated net pre-tax revenues from KSF, expressed in terms of equivalent barrels of oil, are shown in Table 7.

Table 7: Summary of Future Pre-Tax Revenues Net to KE's Interest Expressed in Terms of Equivalent Barrels of Oil as at 30th June 2018

Asset	Status	Revenues Net to KE's Interest (MMBbl equivalent)	
		Low Case	Best Case
Karim Small Fields (Oman)	Dev	0.8	1.2
	Undev	0.7	0.6
	Total	1.5	1.8

Notes:

1. The above volumes are displayed for illustrative purposes only as the terms of the Service Agreement do not allow the Contractor any direct rights to any volumes of oil.
2. Revenues Net to KE's Interest comprise its share of the cost recovery and profit share fees, based on its 20% equity in Medco LLC, which holds a 75% interest in the Service Agreement.
3. Under the terms of the Service Agreement, no Reserves are attributable to Medco LLC in KSF, and thus none are attributable to KE's Interest.
4. Totals may not exactly equal the sum of the individual entries due to rounding.

Net Present Value Summary

Reference Post-Tax NPVs at 10% discount rate (NPV10) have been attributed to the Proved and Proved plus Probable Reserves cases (Table 9). Discounting has been done on a mid-period basis to 30th June 2018. NPV10 estimates have also been made for the KSF Service Agreement for each oil production case (Table 10).

These assessments have been based upon GCA's understanding of the fiscal and contractual terms governing the assets. All NPVs quoted are those exclusively attributable to KE's net economic entitlement in the properties under review. Payments due to KE related to the sale of a part of its interest in Siba to EGPC have been included in the NPVs shown herein (see Section 9.3.2).

GCA's Brent Crude oil price scenario for 3Q 2018, shown in Table 8, has been employed as the reference oil price. These prices were adjusted for location and quality for each field in KE's portfolio, based on historical sales prices and contractual terms advised by KE.

Table 8: Brent Crude Oil Price Scenario

Year	Price (US$/Bbl)
2H 2018	78.84
2019	75.08
2020	70.19
2021	70.00
2022+	+2.0% p.a.

Estimates of future capital and operating expenditures on a 2018 cost basis have been provided by KE in the form of budgets, development plans, historical costs and forecasts. GCA has audited these estimates and found them to be reasonable. For economic modelling purposes, costs have been escalated at 2% p.a. from 2019 onwards unless fixed by contract.

Table 9: Summary of Post-Tax NPV (US$ MM) at 10% Discount Rate of Future Cash Flow from Reserves, Net to KE's Interest, as at 30th June 2018

Asset	KE WI (%)	Proved	Proved + Probable
Block 9	60.0	325.2	574.0
Siba[3]	30.0	280.2	337.6
East Ras Qattara	49.5	121.2	157.0
Area A	70.0	20.0	104.8
Burg El Arab	100.0	23.5	64.8
Abu Sennan	25.0	8.0	36.5
Total	**n/a**	**778.1**	**1,274.7**

Notes:

1. The NPVs are calculated from cash flows incorporating the fiscal terms governing the assets, discounted on a mid-period basis to 30th June 2018.
2. The NPVs do not include any contribution from Possible Reserves, Contingent Resources or Prospective Resources.
3. The NPVs shown here include payments due to KE related to the sale of a part of its interest in Siba to EGPC (see Section 9.3.2).
4. The reference NPVs reported here do not represent an opinion as to the market value of a property nor any interest therein.

Table 10: Summary of Post-Tax NPV (US$ MM) at 10% Discount Rate of Future Cash Flow, Net to KE's Interest, as at 30th June 2018

Asset	Low Case	Best Case
Karim Small Fields	10.4	15.5

Notes:

1. The NPVs are calculated from cash flows incorporating the fiscal terms governing the asset, discounted on a mid-period basis to 30th June 2018.
2. The NPVs do not include any contribution from Possible Reserves, Contingent Resources or Prospective Resources.
3. Revenues net to KE's Interest comprise KE's share of the cost recovery and profit share fees, based on its 20% equity in Medco LLC, which holds a 75% interest in the Service Agreement.
4. KSF is shown separately from KE's other assets since, under the terms of the Service Agreement for KSF, no Reserves are attributable to Medco LLC in KSF, and thus none are attributable to KE.
5. The reference NPVs reported here do not represent an opinion as to the market value of a property or any interest in it.

Contingent Resources Summary

The oil, condensate and gas Contingent Resources in the fields in which KE holds an interest are shown in Table 11, Table 12 and Table 13 respectively.

Contingent Resources are shown both as gross volumes and net to KE's interest on a Working Interest (WI) basis, i.e. KE's Working Interest fraction of the gross volumes. The WI basis volumes do not represent KE's actual Net Entitlement under the terms of the Contract or Agreement that governs each asset, which would be lower. The WI basis volumes are quoted here since the projects are not yet sufficiently mature to estimate the associated production profiles and costs that are needed to calculate the Net Entitlement.

Contingent Resources have been estimated using a mixture of deterministic and probabilistic approaches depending on the maturity of the project.

Table 11: Summary of Oil Contingent Resources (MMBbl) as at 30th June 2018

Asset	Project or Field	Gross Field			KE WI (%)	Net to KE's Interest (WI Basis)		
		1C	2C	3C		1C	2C	3C
Block 9 (Iraq)	Faihaa	481.6	1,608.3	3,162.6	60.0	289.0	965.0	1,897.6
	B9W	0.0	39.6	69.1		0.0	23.8	41.4
	B9NW	0.0	0.0	34.1		0.0	0.0	20.5
	B9SE	0.0	0.0	33.2		0.0	0.0	19.9
Area A (Egypt)	Yusr	0.0	1.9	5.2	70.0	0.0	1.3	3.6
	El Khalig	0.0	0.5	1.3		0.0	0.4	0.9
Burg El Arab (Egypt)	Water Injection	3.0	13.5	31.1	100.0	3.0	13.5	31.1
	Marina	0.2	0.5	1.0		0.2	0.5	1.0
Block 5 (Yemen)	To end of PSA[4]	28.9	40.8	52.4	15.0	4.3	6.1	7.9
	Contract Extension	11.1	21.0	34.8		1.7	3.2	5.2
Total		**524.9**	**1,726.1**	**3,424.9**	**n/a**	**298.2**	**1,013.6**	**2,029.2**

Notes:

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the field or project in the event that development goes ahead.
2. Contingent Resources Net to KE's Interest in this table are KE's Working Interest fraction of the Gross Field Resources; they do not represent KE's actual Net Entitlement under the terms of the PSC/PSA or Service Contract that governs each asset, which would be lower.
3. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the project may not go ahead in the form envisaged or may not go ahead at all (i.e. no "Chance of Development" factor, as defined under PRMS, has been applied).
4. The license for Block 5 has been extended until 13th March 2018 to account for Force Majeure days up to 7th March 2016, and is expected to be further extended to compensate for the Force Majeure period since that date.
5. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved and the different basis on which the volumes are determined.
6. Totals may not exactly equal the sum of the individual entries due to rounding.

Table 12: Summary of Condensate Contingent Resources (MMBbl) as at 30th June 2018

Asset	Project or Field	Gross Field			KE WI (%)	Net to KE's Interest (WI Basis)		
		1C	2C	3C		1C	2C	3C
Siba (Iraq)	Contract extension	0.8	2.4	14.9	30.0	0.3	0.7	4.5
East Ras Qattara (Egypt)	Shahd Wadi El Natrun	0.2	1.2	1.8	49.5	0.1	0.6	0.9
Block 5 (Yemen)	East Halewah	1.7	2.1	2.5	15.0	0.3	0.3	0.4
Total		**2.8**	**5.6**	**19.2**	**n/a**	**0.6**	**1.6**	**5.7**

Notes:

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the field or project in the event that development goes ahead.
2. Contingent Resources Net to KE's Interest in this table are KE's Working Interest fraction of the Gross Field Resources; they do not represent KE's actual Net Entitlement under the terms of the PSC/PSA that governs each asset, which would be lower.
3. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the project may not go ahead in the form envisaged or may not go ahead at all (i.e. no "Chance of Development" factor, as defined under PRMS, has been applied).
4. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved and the different basis on which the volumes are determined.
5. Totals may not exactly equal the sum of the individual entries due to rounding.

Table 13: Summary of Gas Contingent Resources (Bscf) as at 30th June 2018

Asset	Project or Field	Gross Field (Bscf)			KE WI (%)	Net to KE's Interest (WI Basis) (Bscf)		
		1C	2C	3C		1C	2C	3C
Block 9 (Iraq)	Faihaa	636.8	1,836.7	3,844.5	60.0	382.1	1,102.0	2,306.7
Siba (Iraq)	Contract extension	19.7	36.1	159.5	30.0	5.9	10.8	47.9
East Ras Qattara (Egypt)	Shahd Wadi El Natrun	4.6	22.0	34.3	49.5	2.3	10.9	17.0
Total		**661.1**	**1,894.9**	**4,038.3**	**n/a**	**390.2**	**1,123.8**	**2,371.5**

Notes:

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the field or project in the event that development goes ahead.
2. Contingent Resources Net to KE's Interest in this table are KEs Working Interest fraction of the Gross Field Resources; they do not represent KE's actual Net Entitlement under the terms of the PSC/PSA that governs each asset, which would be lower.
3. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the project may not go ahead in the form envisaged or may not go ahead at all (i.e. no "Chance of Development" factor, as defined under PRMS, has been applied).
4. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved and the different basis on which the volumes are determined.
5. Totals may not exactly equal the sum of the individual entries due to rounding.

Prospective Resources Summary

KE's exploration portfolio contains a total of 14 Prospects, many of which contain multiple reservoir targets that could be tested with a single exploration well. The most significant in size are those in Iraq, where the Siba South gas Prospect adjacent to the Siba gas field is perceived to have a good chance of success, while the deeper targets in Siba (Khuff Formation) and Block 9 (Mus Formation) are considered by GCA to be much higher risk. In Egypt, Abu Sennan accounts for five of the Prospects, each with 2-4 reservoir targets; while individual target volumes are modest, the chance of success in some parts of the license area is considered by GCA to be relatively high. BEA and ERQ each have a small number of Prospects adjacent to existing fields, which again are of modest size but are considered by GCA to have a moderate to good chance of success.

Estimates of oil, condensate and gas Prospective Resources for the various Prospects in each asset are shown in tables within the relevant sections of the body of this report. Prospective Resources are shown both as gross volumes and net to KE on a Working Interest (WI) basis, i.e. KE's Working Interest fraction of the gross volumes. The WI Basis volumes do not represent KE's actual Net Entitlement under the terms of the Contract or Agreement that governs each asset, which would be lower. The WI Basis volumes are quoted here since the Prospective Resources are not yet sufficiently mature to estimate the associated production profiles and costs that are needed to calculate the Net Entitlement.

Prospective Resources have been estimated using a probabilistic approach, which is standard industry practice.

GCA has not undertaken any economic analysis of the Prospects.

Valuation Opinion

It is GCA's opinion that, as of 30th June 2018 and subject to a number of key assumptions outlined herein, the Fair Market Value (FMV) pertaining to KE's interests in its assets in Iraq, Egypt and Oman is **between US$850 MM and US$1,050 MM**.

This valuation opinion has been prepared in accordance with the Reporting Standards for a Mineral or Petroleum Asset Valuation Report that are listed under Rule 18.34 in Chapter 18 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Pursuant to such requirements, this valuation opinion conforms to the VALMIN Code[1] and represents GCA's opinion of the FMV of KE's Assets in its capacity as a Competent Evaluator of Petroleum Assets.

It should be noted that the valuation opinion pertains to the assets themselves; no corporate level adjustments such as debt or any legal encumbrances have been taken into account in preparing it. Additionally, the FMV of an asset should not be confused with the value of an investment proposition in relation to the asset, which would need to take account of the specifics of that investment proposition.

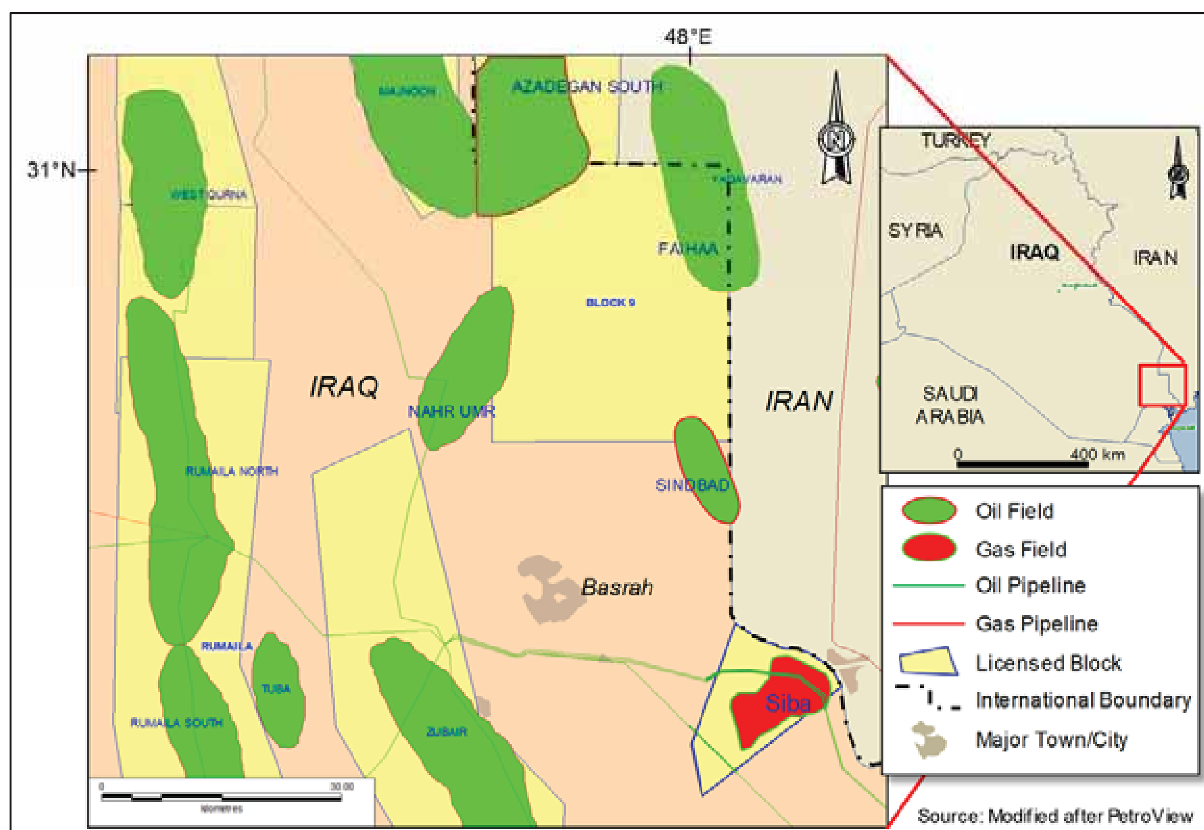
[1] The Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The VALMIN Code 2015), as prepared by the VALMIN Committee, a joint committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association, as amended from time to time.

Discussion

1 Block 9, Iraq

Block 9, also known as Faihaa Block, is located north of Basra in Southern Iraq, adjacent to the border with Iran (Figure 2) and covers an area of 865 km^2. KE is the Operator and initially held a 70% WI with the other partner being Dragon Oil (Holdings) Ltd (Dragon), holding 30%. KE sold a 10% WI to the Egyptian General Petroleum Company (EGPC) in 2015.

Figure 2: Location Map for Siba and Block 9, Iraq



The Block is governed by an Exploration, Development and Production Service Contract (EDPSC), with an effective date of 3rd February 2013, which will run for a maximum of 30 years, starting with a 5-year exploration period. A 20-year development license would be granted for each commercial discovery, with a possible 5-year extension subject to newly negotiated terms and conditions. Note that Block 9 is designated as an Oil Block and it is expected that any discovery would be an oil discovery. If non-associated gas were to be discovered, different conditions would apply.

Once a discovery is made and appraised, a Development Area will be designated and development plans must be submitted for approval (the Ministry of Oil does have the option to impose a Holding Period of up to 7 years before development but KE advises that this is very unlikely for a field shared with another country).

The minimum gross exploration expenditure obligation of US$90 MM in the first five years has been fulfilled. This included acquisition, processing and interpretation of 866 km of 2D seismic data or an equivalent amount of 3D seismic data, drilling of an exploration well to a depth of

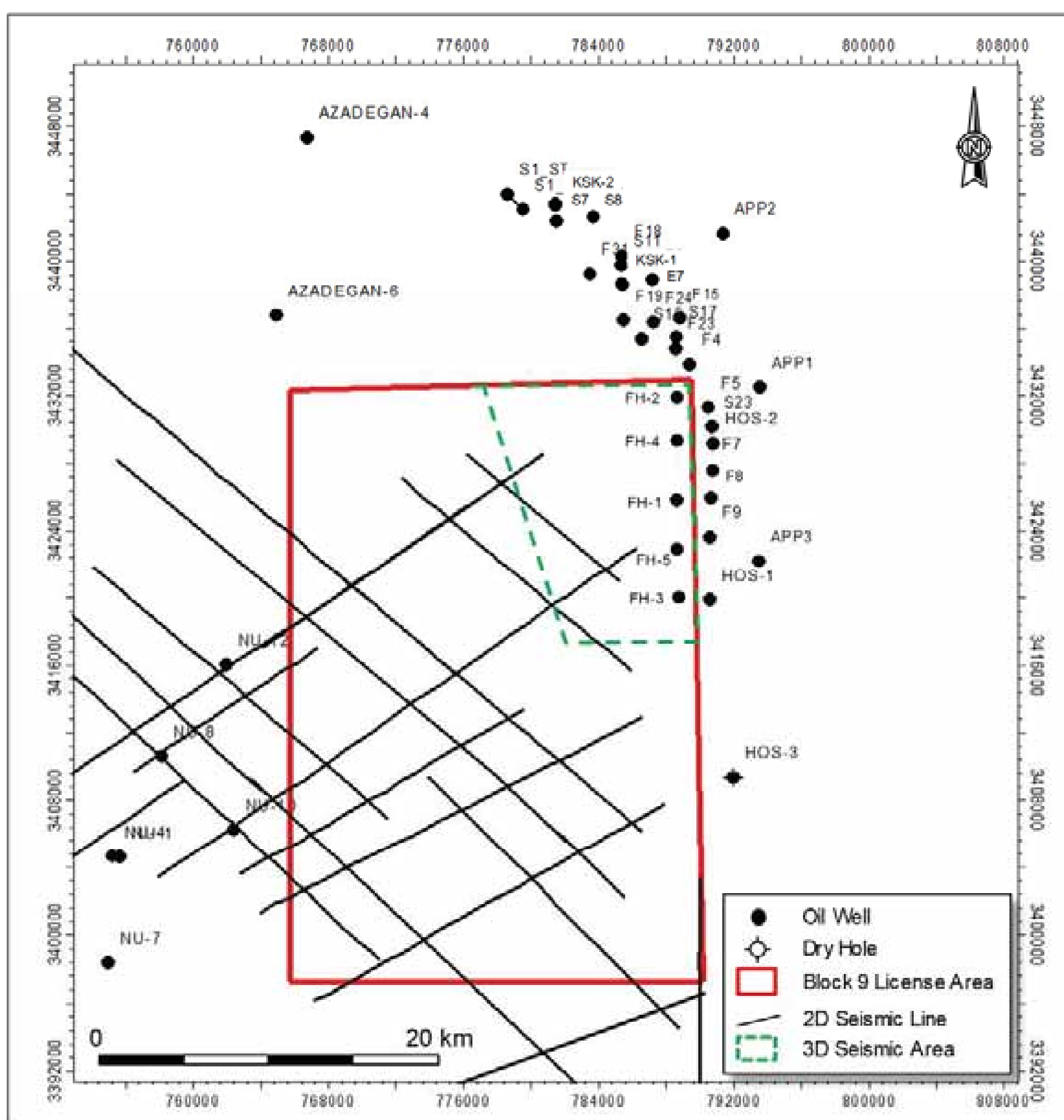
at least 4,500 m (14,760 ft) (fulfilled by Faihaa-2), and performance of detailed geological studies. Details of the Contractor's remuneration are given in Section 9.

While the 5-year initial exploration period expired in February 2018, a 2-year extension has always been possible subject to a commitment to a second exploration well. A further 2-year extension may be granted to appraise any discovery. It has now been agreed that drilling of the second exploration well will be deferred by a period of not less than four years and that no relinquishment will be required prior to that.

1.1 History

At the time the Block was awarded in 2013, no wells had been drilled within it and there was only a sparse 2D seismic dataset (Figure 3). Mines and unexploded ordnance from the Iran-Iraq war contaminated much of the area.

Figure 3: Data Map, Block 9



The first well on the Block, Faihaa-1 (FH-1), was drilled in 2014 and encountered oil in the Mishrif, Zubair and Yamama Formations, confirming that the Yadavaran Field to the east

extends into the north-east part of the Block. Following a period of data acquisition, FH-1 was completed and put into production from the Yamama A zone in October 2015 as part of a "Prolonged Test Program", using rental facilities. Produced oil is being trucked to a nearby processing station, while the associated gas is flared. The second and third wells, FH-2 and FH-3, were drilled in 2016/early 2017 and came on production, also from the Yamama A zone, in October 2016 and February 2017 respectively. FH-4 and FH-5 were drilled in the second half of 2017; FH-4 began production from the Yamama A zone in February 2018 while FH-5 is awaiting a work-over to remove a stuck gun, perforation and completion of the flow-line installation. Production from the field has reached 20,000 bopd.

Following clearance of mines and unexploded ordnance, KE began acquiring 3D seismic data over a 9 km by 13 km area in the north-east of the Block in August 2016; acquisition, processing and interpretation were completed by early 2018.

1.2 Geological Overview

A regional stratigraphic column for Southern Iraq is presented in Figure 4. The principal reservoirs in the Faihaa/Yadavaran Field are in the Mishrif and Yamama Formations. Oil has also been proven in the Zubair Formation, although this makes only a very minor contribution overall. Additional prospective potential is recognised in the deeper Mus Formation.

The Mishrif Formation is of Middle Cretaceous age and mainly consists of shallow marine carbonates. Regionally, it is developed in two major facies: massive platform carbonates containing rudists (reef-forming bivalve molluscs), making for a high quality reservoir that can be very prolific; and a deeper marine facies of thinner bedded, fine-grained argillaceous (silty) limestone of poorer quality. The Faihaa field area is located on the platform close to its north-east edge, between the prolific Mishrif reservoirs of Halfayah, Majnoon and West Qurna in Iraq, and the much tighter basinal facies of Jufeyr in Iran.

The Yamama Formation is a massive limestone of Lower Cretaceous age. The Formation is highly over-pressured and is divided into Upper (A and B units) and Lower (C and D units) Yamama having significantly different reservoir pressure (this is reportedly a regional phenomenon). The Zubair Formation is also of Lower Cretaceous age and overlies the Yamama Formation; it is composed of shallow marine sandstones and mudstones.

The Mus Formation (Lower Jurassic) is the equivalent of part of the Marrat Formation in Kuwait. It is part of a complex of carbonates, evaporites and organic-rich mudstones, and it and its equivalents are known to be productive in Kuwait to the south, and further north in Iraq.

Tectonically, Block 9 lies on the Arabian Platform, in the foreland of the Zagros Fold and Thrust Belt. Structures relate to long-lived basement fault trends and have experienced episodic structural growth. Fold axes are mostly oriented approximately north-south, although possibly complex transfer zones exist between the major anticlines, as at the boundary between the Faihaa/Yadavaran and Azadegan folds. Structures may be in part cored by Infracambrian Hormuz salt, although the precise distribution of halite and its role in the structuration is unclear in this area.

Figure 4: Stratigraphic Column, Southern Iraq

AGE		FORMATION	Lithology
Tertiary	Subrecent		
	MIOCENE TO PLIOCENE	DIBDIBA	
		LOWER FARS	
		GHAR	
	PLIOCENE TO EOCENE	DAMMAM	
		RUS	
		UMM ER RADHUMA	
Upper Cretaceous		TAYARAT	
	MAESTRICHTION	SHIRANISH	
	UPPER Campani	HARTHA	
	Lower Campanian to Santonian	SADI	
		TANUMA	
		KHASIB	
Middld Cretaceous	Turanian to upper Cenamanian	MISHRIF-RUMAILA	
		AHMADI	
	Lower Campanian	MAUDDUD	
	Albian	NAHR UMAR	
Lower Cretaceous	Aptian	SHUAIBA	
	Lower Aptian to Barremian	ZUBAIR	
		RATAWI	
	Hautervian To Berriasian	YAMAMA	
		SULAIY	
Upper Jurassic	Oxfordian-Tithonian	GOTNIA	
		NAJMAH	
M.Jurassic	Aalenian-Gallovian	SARGELU	
		ALAN	
Lower Jurassic	Hettangian-Toarcian	MUS	
		ADAIYAH	
		BUTMAH	
Triassic	Late	KURRA CHINE	
	Early to Middle	GELI KHANA BEDUH MIRGA-MIR	
Late Permian		KUFF	

1.3 Faihaa Field

The Faihaa Field is part of the same structure as the Yadavaran Field in Iran which was discovered in 1999 by the National Iranian Oil Company (NIOC). According to press reports, STOIIP on the Iranian side of the border is in the order of 31 BBbl (billion barrels). The field has been developed by Sinopec beginning in 2012, and production had reportedly reached more than 100,000 bopd by mid-2016. Along with the initial discovery wells, at least 27 appraisal and development wells have been drilled (Figure 3).

Rather heavy (20°API) crude oil with high sulphur content (3.8%) was found in the Mishrif Formation, while lighter (35-44°API), waxy crude oil was found in the Yamama Formation and in smaller quantities in the Zubair Formation. The HOS-3 well to the south was found to be mostly water-bearing (some oil was noted on the mud log at the tops of the Mishrif and Yamama Formations), even though the well was drilled within the mapped structural closure;

this is thought to be indicative of a stratigraphic element to trapping, compartmentalisation of the reservoir, and/or a tilted oil-water contact (OWC).

FH-1 is located approximately 1 km inside the Block 9 boundary (Figure 3). The first oil encountered was in the Mishrif Formation, where a brief DST was conducted in September 2014 over a 300 m interval from approximately 2,700 to 3,000 m prior to deepening the well. Flows of up to 4,000 bpd of 20°API oil with a GOR of approximately 170-180 scf/stb were achieved. The presence of oil in the Zubair was confirmed subsequently by well test results.

Two DSTs were conducted in the Yamama Formation. The first, in the upper part (Yamama A) from approximately 4,000 m to 4,100 m recovered 35°API gravity oil with a GOR of approximately 1,000 scf/stb at rates of 4,885 bopd to 8,500 bopd on half-inch and one-inch chokes, with recorded H_2S content of 600 ppm. The second DST was conducted over a larger interval (approximately 4,000-4,250 m, Yamama A and Yamama B), also recovering 35°API gravity oil, but with a higher GOR of 1,000-1,800 scf/stb at rates of 5,875 bopd to 8,800 bopd on half-inch and one-inch chokes. H_2S content of 2,000 ppm was recorded. FH-1 was put on production from the Yamama A in late October 2015.

FH-2 is located in the north-east corner of Block 9, again approximately 1 km from the Block boundary. Logging confirmed the presence of oil in the Mishrif, Zubair and Yamama Formations. The well was tested over 137 m of perforations in the Yamama D, achieving approximately 1,500 bopd of 44°API oil with GOR in excess of 2,000 scf/stb and H_2S content of 9,000 ppm. Tests were also conducted in the Yamama C (816 bpd of 40°API oil on a 32/64-inch choke with GOR in excess of 2,000 scf/stb, 8,000 ppm H_2S) and Yamama B (3,500 bpd of 38°API oil on a 48/64-inch choke with GOR of 1,050 scf/stb, 5,000 ppm H_2S). Wireline (XPT) reservoir pressure data indicated some 300 psi depletion in the upper Yamama due to production from Yadavaran. FH-2 was put into production from the Yamama A at the beginning of October 2016.

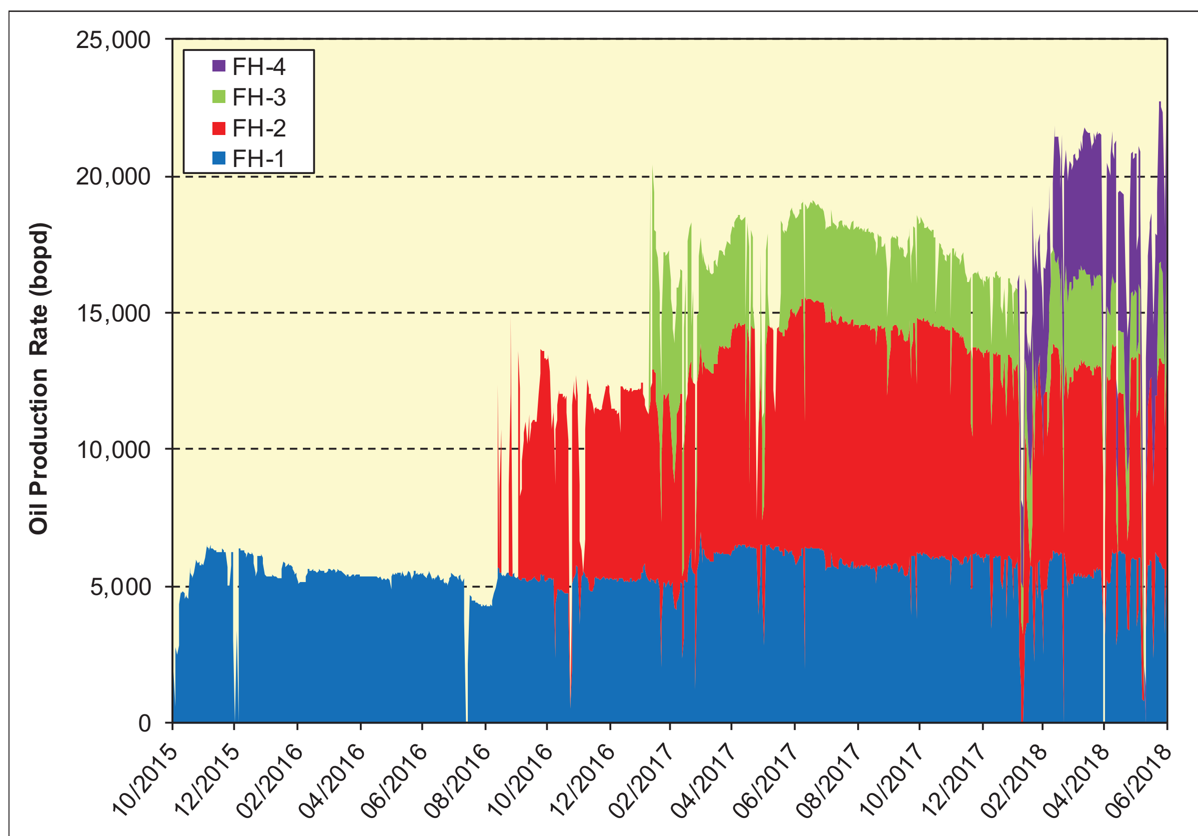
FH-3 is located approximately 6 km south of FH-1, again approximately 1 km from the Block boundary. Drilling was stopped at the top of the Yamama B formation after a high pressure interval was encountered. The well was put on production from the Yamama A in February 2017. FH-4, located between FH-1 and FH-2, and FH-5, between FH-1 and FH-3, were drilled in the second half of 2017, both penetrating the full Mishrif and Yamama reservoirs. FH-4 was put on production from the Yamama A zone in February 2018, while FH-5 is awaiting a work-over to remove a stuck gun, perforation and completion of the flow-line installation.

Overall field oil production to end June 2018 is shown in Figure 5. Production capacity is approximately 22,000 bopd since FH-4 came on stream, though actual production in May and June has averaged only 18,000 bopd due to trucking constraints. Individual well rates have fluctuated depending on choke settings, but broadly:

- FH-1 has produced at 5,500-6,500 bopd with little or no evidence of decline;
- FH-2 has produced at up to 9,000 bopd but has subsequently declined to 7,500 bopd;
- FH-3 tested at over 5,500 bopd and is producing at around 3,500 bopd with slight decline;
- FH-4 tested at over 8,000 bopd and is producing at up to 6,000 bopd with slight decline.

All production is from the Yamama A and cumulative production to end June 2018 is approximately 12 MMBbl. There has been no water production and GOR is steady at around 1,200 scf/stb.

Figure 5: Production History, Faihaa Field



1.4 Seismic Data

GCA reviewed the seismic interpretation, which was performed by WesternGeco for KE. This review integrated the 2D and 3D PSTM and PSDM processed data. The interpretation incorporated the FH-1 to FH-4 wells with the associated time-depth curves and well/synthetic ties. Sixteen horizons were interpreted including the Mishrif, Mishrif D, Zubair, "Near Yamama" and Yamama B2. The Gotnia and Sargelu horizons were interpreted as deep exploration objectives and were not reviewed by GCA.

The quality of the integrated 2D and 3D seismic data is considered good with very little faulting apparent within the resolution of the data at the primary Mishrif and Yamama target zones. WesternGeco did not include any fault interpretation in the project provided. The horizon picks are good quality and consistent given the shallow marine carbonate depositional environment of the Mishrif. The deeper Yamama horizon picks also appear reasonable. The interpretation sequence focused on the PSDM time-stretched 2D and 3D seismic data after a well and synthetic seismogram tie, which is an industry standard workflow.

Time horizons were subsequently used for depth conversion uncertainty analysis by incorporating the four wells and associated well velocities with the seismic velocities in a 3D velocity modelling process. GCA created a simple velocity model using the PSDM velocities to validate the four velocity model cases provided by WesternGeco. GCA considers the "Case 4" velocity model (using the PSDM seismic velocities) to be the most appropriate but the "Case 1" velocity model (using the PSTM interval velocities) is also considered a reasonable case and could be used in an uncertainty analysis.

Numerous seismic inversion cubes have also been provided by WesternGeco. However, these have not yet been fully reviewed by KE and GCA has only had time for a cursory review

of maps provided in the WesternGeco reports. The degree to which the seismic attributes can be used to infer reservoir properties remains uncertain at this stage.

1.5 Hydrocarbon Initially in Place (HCIIP)

Data acquired in FH-1 and made available to GCA included interpretation (CPI) of the open-hole wireline logs, formation pressure data obtained in the Mishrif reservoir with a wireline tool, fluid analysis of samples from the Mishrif Formation and Yamama B Member, formation image log analysis, and results of drill stem tests (DSTs). Data from FH-2 included raw wireline log data and petrophysical analyses thereof, and formation pressure data. Available data from FH-3, FH-4 and FH-5 include the wireline logs and the petrophysical interpretations made by KE.

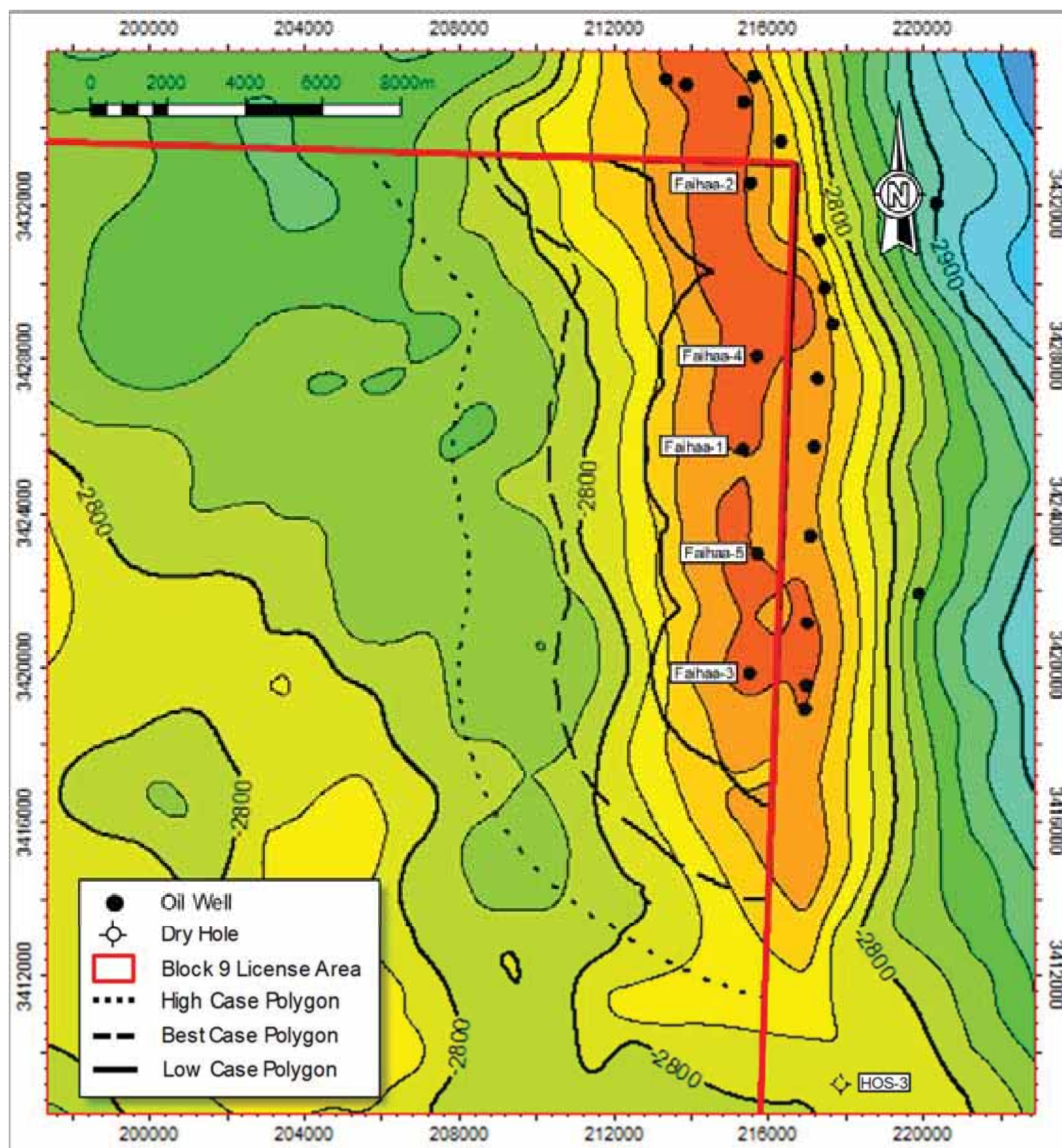
KE reports that 342 m (1,120 ft) of formation has been cored in the Mishrif and 436 m (1,430 ft) in the Yamama, with nearly 100% recovery rate. A comprehensive core analysis programme has been conducted on core recovered from Faihaa-1 and Faihaa-2. These data have not yet been fully incorporated into the modelling, but raw data have been made available to GCA.

KE previously constructed static geological models of the Mishrif and Yamama reservoirs incorporating the results of the first three wells. GCA reviewed the structural, petrophysical and fluid characteristics incorporated in those models and concluded that the models were suitable for use as the basis for estimates of HCIIP. At KE's request, GCA updated these models in mid-2018 to include the results of FH-4 and FH-5 and the revised top reservoir depth maps derived from the 3D seismic data, using the same workflows previously used by KE. Updated estimates of HCIIP were derived from the updated models (see below).

KE has divided the reservoirs into a number of zones, MA to ME for the Mishrif and YA to YD for the Yamama, with further sub-division into MA1, MA2, etc. Zones YA and YB correspond to the "Yamama Upper" member and zones YC and YD to the "Yamama Lower" member, the two members having different pressure regimes. Figure 6 shows the top depth map for Mishrif Zone B (MB) and Figure 7 shows the top depth map for Yamama Zone YA3.

At FH-1, the thickness of the Mishrif Formation is approximately 421 m, and the gross hydrocarbon bearing column encountered is approximately 328 m. This is considerably larger than the mapped structural closure of approximately 160 m at Top Mishrif level, meaning either that a series of stacked hydrocarbon pools are present or that there is a tilted OWC. Wireline pressure data from FH-1 are supportive of a single pool, but are too scattered to be definitive. Although identification of contacts and spill points is not firmly established at this stage, KE's current interpretation is that there is a regional tilted OWC common to all Mishrif zones in Faihaa and its neighbouring fields. Based on analogue information and regional data, GCA would broadly support a tilted OWC model for Faihaa, although a more complex picture of hydrocarbon trapping cannot yet be ruled out. There is apparently little evidence of structural faulting at the Mishrif level, but reservoir compartmentalisation could be caused by areas of poorer reservoir quality that act as flow barriers. In estimating STOIIP, a single tilted OWC is applied across the field, running from approximately 2,890 m ss in the south of the anticline to approximately 3,000 m ss in the northeast corner of Block 9.

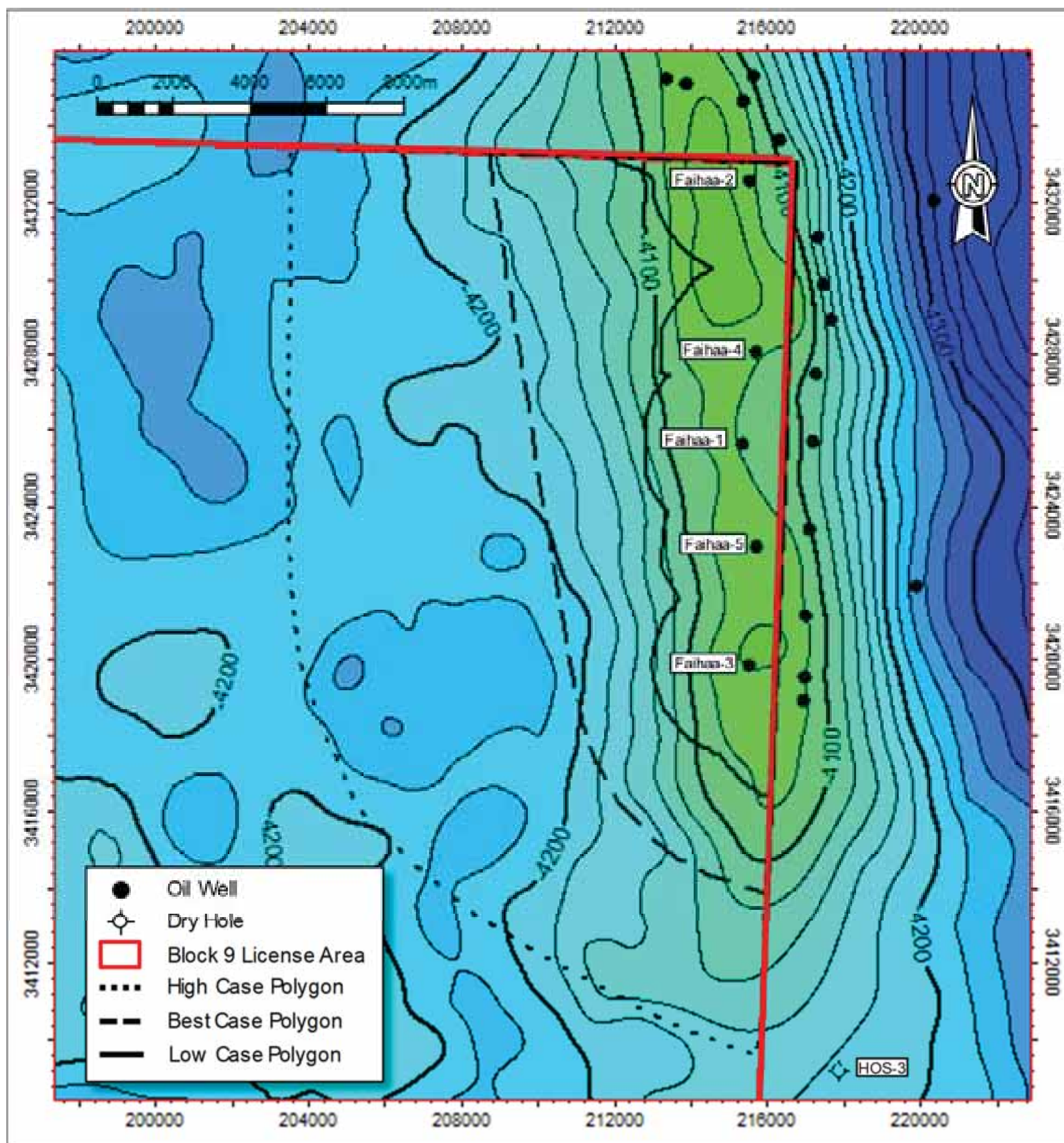
Figure 6: Top Depth Map Mishrif Zone MB, Faihaa Field



Contours show depth in m TVDss, interval 20 m. Source: KE
Map coordinate system: WGS 1984 UTM Zone 39N

The Yamama Formation is considered as being composed of up to 6 vertically stacked pools, each of which has a flat OWC. While there remains uncertainty over pool definition, it is noted that a preliminary analysis of sensitivity leads to relatively small variation in volumes calculated for the Low and Best Cases, which are limited to the crestal parts of the anticline.

Figure 7: Top Depth Map Yamama Zone YA3, Faihaa Field



Given the uncertainty in the definition of the structure and the OWCs, and the possibility of compartmentalisation, the Low Case is limited to the area that can be considered "proved" by the existing wells. A Low Case polygon has been defined comprising a 2.5 km buffer around each of the wells (Figure 6 and Figure 7), including the wells in the Yadavaran part of the structure.

For the Best Case, the buffer has been extended to a 5 km radius around the wells in the Mishrif (Figure 6). This corresponds more or less to the area along the fold axis where the structure appears to be a simple, double-plunging, symmetrical anticline. In the Yamama, a polygon defining the area along the fold axis where the structure appears to be a simple, double-plunging, symmetrical anticline has been created by inspection of the mapping and the consistency of the stacked structural horizon (Figure 7).

For the High Case, the buffer has been extended to a 7.5 km radius around the wells in the Mishrif (Figure 6) and encompasses essentially the whole mapped structure. In the Yamama, the High Case is limited by a larger envelope around the entire structure, constrained principally by the extent to which reservoir facies can be reasonably extrapolated from the well data. In the Best and High Cases, the southern extent of the Yamama polygons has been constrained by the mainly water-bearing HOS-3 well.

In estimating HCIIP, porosity cut-offs were applied, as shown in Table 14. The core porosity and permeability data referred to above suggest that these values may need revision, particularly in the Mishrif Formation. However, different porosity-permeability relationships are likely to characterize each reservoir type within the formation and fracturing and/or micro-fracturing add further complication, so further study is required to properly assess the implications of the core data.

Table 14: Porosity Cut-Offs used for Estimation of HCIIP, Faihaa Field

Case	Mishrif Formation (fraction)	Yamama Formation (fraction)
Low	0.095	0.070
Best	0.075	0.050
High	0.050	0.030

Table 15 summarizes the HCIIP estimates for the Mishrif, Yamama and Zubair reservoirs in the Faihaa Field.

Table 15: HCIIP Estimates, Faihaa Field as at 30th June 2018

Formation	STOIIP (MMBbl)			Solution GIIP (Bscf)		
	Low	Best	High	Low	Best	High
Mishrif	2,486	5,121	7,307	423	1,424	2,813
Yamama	2,118	4,610	8,443	2,961	6,445	11,803
Zubair	26	108	292	28	119	321
Total	**4,630**	**9,839**	**16,042**	**3,412**	**7,987**	**14,937**

Note:

1. Totals may not exactly equal the sum of the individual entries due to rounding.

Estimated ultimate recovery (EUR) from each reservoir has been obtained by applying low, best and high recovery factors of 15%, 20% and 25% to the HCIIP estimates for the Mishrif reservoir, 30%, 35% and 40% for the Yamama reservoir and 35%, 40% and 45% for the Zubair reservoir. These represent estimates of the ultimate recovery that might be achieved with a development plan involving water and/or gas injection for pressure maintenance and are summarized in Table 16. Estimates are based on typical recovery factors that are expected to be achieved in similar fields in the area. To confirm these, GCA has made detailed reference to four specific analogue carbonate reservoirs in the Arabian Gulf region where water injection has been employed. Here, recovery factors range from 30% to more than 40% after 35-50 years of production. Suitable adjustments were made to the estimates of recovery factor for the Mishrif reservoirs to allow for locally poor and variable porosity and permeability and higher oil viscosity.

It should be clearly noted that these volumes represent the presently interpreted ultimate potential from the discovered reservoirs at different confidence levels, and **do not represent Reserves**. Further, they may be subject to revision once the results of the core analysis are more fully investigated. While it may be argued that it is fair to include fluids in low permeability rock in the estimated HCIIP, such fluids may make a limited contribution to production, resulting in lower recovery factors.

Table 16: EUR, Faihaa Field as at 30th June 2018

Reservoir	Oil (MMBbl)			Solution Gas (Bscf)		
	Low	Best	High	Low	Best	High
Mishrif	373	1,024	1,827	63	285	703
Yamama	635	1,614	3,377	888	2,256	4,721
Zubair	9	43	131	10	48	144
Total	**1,017**	**2,681**	**5,335**	**961**	**2,588**	**5,569**

Notes:

1. The values shown here represent the presently interpreted ultimate potential from the discovered reservoirs at different confidence levels, and do not represent Reserves.
2. Totals may not exactly equal the sum of the individual entries due to rounding.

1.6 Development Plans

KE's plans for the second half of 2018 include drilling of one further Yamama development well (FH-6), which is expected to come on production in November. A Mishrif appraisal well is planned for late 2018/early 2019.

Permission has been granted for pilot production at a rate of up to 30,000 bopd, with gas being flared, and this rate is expected to be achieved when FH-6 is put on stream. Rented production facilities are being used for this, with oil being trucked to the Nahr Umr production station, some 42 km west of Faihaa.

The fact that production from the Yadavaran Field has already begun is an incentive to develop Faihaa as soon as possible and KE has informed GCA that the partners and officials have agreed to do this. The currently envisaged "Phase I" development plan will involve construction of permanent processing facilities and export pipelines for Yamama (light oil) production, with a capacity of 100,000 bopd. Separate facilities and an additional export pipeline will be constructed for Mishrif (heavy oil) production, with a capacity of 85,000 bopd. FEED is planned to start in 2019, with construction of the pipelines beginning in 2020 and the facilities beginning in 2022. Current plans envisage both facilities coming on stream in 2024. Although this schedule should be achievable, given the location of the field and recent experience with the Siba development, GCA considers that there is a risk of delay, particularly for the Mishrif development.

Base case plans assume a total of 89 vertical development wells in the Yamama (including the four existing wells), and 99 horizontal or high-angle wells in the Mishrif. The expected drilling schedule is shown in Table 17. The Base case Phase I development plan has been designed based on the best estimates of STOIIP shown in Table 15. For the Low case, the number of wells would be reduced to 40 in the Yamama and 56 in the Mishrif. For the High case, the processing plant capacity would be expanded to 250,000 bopd for the Yamama and 175,000 bopd for the Mishrif, with additional wells in both reservoirs (see Table 17).

Table 17: Drilling Schedule, Faihaa Field

Year	Mishrif			Yamama		
	1P	2P	3P	1P	2P	3P
Pre-2H 2018	0	0	0	5	5	5
2H 2018	0	0	0	1	1	1
2019	1	1	1	0	0	0
2020	0	1	2	4	6	8
2021	8	8	9	4	6	8
2022	8	8	12	5	3	16
2023	9	9	9	4	11	16
2024	12	12	12	4	8	16
2025	12	12	12	4	5	16
2026	2	12	12	4	5	16
2027	2	8	12	4	2	16
2028	2	8	12	1	8	16
2029	0	8	12	0	7	16
2030	0	8	12	0	8	16
2031	0	4	12	0	6	16
2032	0	0	12	0	8	16
2033	0	0	8	0	0	2
2034	0	0	8	0	0	0
2035	0	0	7	0	0	0
2036	0	0	1	0	0	0
Total	**56**	**99**	**165**	**40**	**89**	**200**

KE has provided summary cost estimates for this development plan. GCA has reviewed these estimates and considers them to be reasonable. Key elements include:

- US$16 MM for drilling and completing a vertical development well in the Yamama reservoir;
- US$12 MM for drilling and completing a horizontal development well in the Mishrif reservoir (US$18 MM for the appraisal well);
- US$1,441 MM total facilities and pipeline costs for the base case Yamama development (US$2,603 MM in the High case);
- US$961 MM total additional facilities and pipeline costs for the base case Mishrif development (US$1,671 MM in the High case);
- An infrastructure fund contribution of 10% of all CAPEX and OPEX;
- Total OPEX of approximately US$40-45 MM p.a. during the early production phase, including trucking costs and rental of the temporary facilities;
- Approximately US$100 MM p.a. fixed and variable OPEX (US$350 MM p.a. in the High case) once plateau production rates are achieved; and
- G&A costs of US$6 MM p.a. initially, rising to a peak of US$33 MM p.a. in 2022 before declining steadily to less than US$2 MM p.a. once drilling is completed.

Further Phases of development are already envisaged by KE. Phase II may include application of water and/or gas injection projects to increase recovery from both the Mishrif and Yamama reservoirs, and development of the Zubair reservoir. Exploration/appraisal wells will also be drilled to delineate the B9W, B9NW and B9SE structures, and to target the Prospects in the deeper Mus Formation. If these are successful, Phase III would include development of these resources.

GCA understands that UEGL has already scoped out the potential water injection project in Faihaa, which could increase the combined production rate in the base case to 300,000 bopd if implemented in both the Yamama and Mishrif reservoirs, and it intends to pursue this option if it is successful in acquiring KE, taking a phased development approach to minimize the capital required. Some contingencies remain to be overcome, however, as the efficiency of water injection in these carbonate reservoirs is as yet uncertain and a pilot project would be required to quantify this. Approval of water injection in Faihaa may also be difficult to obtain in the absence of a similar scheme in Yadavaran, because of the risk of pushing oil across the border. Nonetheless, the potentially recoverable volumes are substantial; based on the production and cost forecasts prepared by UEG, GCA estimates that the NPV10 associated with such a development, if successful, would be some 50% higher than that for KE's base case development.

1.7 Reserves

Reserves are attributed to the Phase I development plan. Since this involves no water or gas injection for pressure maintenance, the recovery factors mentioned in Section 1.4 would not be applicable. Low, Best and High recovery factors applicable under natural depletion have been estimated as 10%, 12.5% and 15% for the Mishrif reservoir and 15%, 15% and 20% for the Yamama reservoirs.

KE has used material balance and numerical simulation models to estimate production profiles associated with the Phase I development consistent with these estimates. GCA has reviewed the profiles and accepts them as reasonable. The profiles are used, together with the cost estimates, as inputs to the economic model used to apply the economic limit tests and define the Reserves shown in Table 3 and Table 5, which are broken down by reservoir in Table 18.

Table 18: Reservoir Level Breakdown of Reserves, Faihaa Field, as at 30th June 2018

Reservoir	Gross Field Oil Reserves (MMBbl)		Gross Field Gas Reserves (Bscf)	
	Proved	Proved + Probable	Proved	Proved + Probable
Mishrif	231.6	475.1	33.5	112.3
Yamama	291.9	585.5	276.5	624.3
Total	**523.6**	**1,060.6**	**310.0**	**736.6**

Notes:

1. The Reserves shown here are included in the Reserves shown in Tables 3 and 5.
2. Totals may not exactly equal the sum of the individual entries due to rounding.

1.8 Contingent Resources

Contingent Resources are attributed to the potential Phase II development already mentioned, which may involve water and/or gas injection in the Mishrif and Yamama reservoirs as well as

development of the Zubair reservoir, and are shown in Table 11 and Table 13. They have been estimated by subtracting the Reserves and past production from the estimates of ultimate recovery presented in Table 16. Methods of estimating recovery factor and ultimate recovery are described in Section 1.4. An extension to the EDPSC would probably be needed to fully exploit the potential of the Faihaa Field. A breakdown of the Contingent Resources by reservoir is given in Table 19.

Table 19: Reservoir Level Breakdown of Contingent Resources, Faihaa Field, as at 30th June 2018

Reservoir	Gross Field Oil (MMBbl)			Gross Field Gas (Bscf)		
	1C	2C	3C	1C	2C	3C
Mishrif	141.3	549.1	914.0	29.9	172.5	404.6
Yamama	331.5	1,016.0	2,117.4	597.1	1,616.7	3,295.6
Zubair	8.9	43.3	131.2	9.8	47.6	144.3
Total	**481.6**	**1,608.3**	**3,162.6**	**636.8**	**1,836.7**	**3,844.5**

Notes:

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the field or project in the event that development goes ahead.
2. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the project may not go ahead in the form envisaged or may not go ahead at all (i.e. no "Chance of Development" factor, as defined under PRMS, has been applied).
3. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved and the different basis on which the volumes are determined.
4. Totals may not exactly equal the sum of the individual entries due to rounding.

Table 11 also shows Contingent Resources attributed to potential development of parts of the Nahr Umr, Azadegan and Sindbad fields, all of which may extend into Block 9, although these extensions have yet to be proven (Figure 2). The potential extensions into Block 9 are provisionally named B9W, B9NW and B9SE respectively.

An open-hole test conducted in the Yamama Formation in well Nahr Umr-10, some 3 km from the Block 9 boundary (Figure 3), flowed 5,680 bopd. KE's mapping of the Top Yamama shows an area of the field extending into Block 9 (B9W), though the Low (1C) estimate of volumes in Block 9 is set to zero because of uncertainties in the OWC, depth mapping and reservoir continuity from the nearest well (NU-12). In particular, the current KE model assumes a single pool with a common contact in all zones, but GCA believes it likely that further data may indicate multiple pools, as are seen in neighbouring fields. There may also be potential in the Mauddud, Zubair and Nahr Umr Formations, but this has not yet been quantified.

The nearest Azadegan well (AZ-6) is only 4.25 km from the Block 9 boundary (Figure 3), but there are no seismic data covering the possible extension (B9NW). The principal reservoir is the Yamama Formation, but potential may exist at other stratigraphic levels. Estimates of STOIIP within Block 9, and of the corresponding EUR, have been made by KE based on a preliminary conceptual model, where the field consists of a single Yamama Formation pool. Volumes within Block 9 are included only in the High (3C) case.

The Sindbad-2 well discovered oil in the Yamama Formation, principally in two zones that can be tentatively correlated with the YA1-3 and YB1-2 zones recognised at Faihaa. Structural data are extremely limited, but based on KE's interpretation of 2D seismic data in the south of

Block 9, it is possible that the Sindbad Field extends into Block 9 (as B9SE) in a High (3C) case.

Appraisal drilling is clearly needed to determine whether and, if so, to what extent any of these fields actually extend into Block 9. If any of them does extend, the question of unitisation may arise in each case before development can take place. Associated gas volumes have not been quantified.

1.9 Prospective Resources

Prospective Resources (Table 20) are recognised in the Mus Formation (Lower Jurassic) at the Faihaa Field, and also tentatively beneath the B9W and B9SE structures, based on analogy with the Abdali, Raudhatain, Sabiriyah, Bahra and Abdeleyah Fields in Kuwait. This unit is also productive further north in Iraq. Reservoir lithology is expected to be variable, tight, fractured limestones with associated evaporites.

Below the Faihaa Field, structural mapping of the Gotnia Formation (Upper Jurassic) from the Block 9 seismic data has been combined with well and regional data to produce an estimate of depth structure at the target horizon. The result of this mapping suggests a N-S trending anticline whose axis runs slightly to the west of that at the shallower reservoir levels. The relief of the structure into the syncline in the centre of Block 9, and the location and nature of spill are uncertain. For the B9W and B9SE structures, anticlinal closures are believed to extend into Block 9, but uncertainty over the trap configuration is greater as there is only the regional 2D seismic dataset to provide structural control.

Other input parameters for the calculation of Prospective Resources are based on data from the Abdali Field, although it is noted that the estimated depth of the Mus Formation in Block 9 is greater than 5,300 m, substantially deeper than at the analogues. This leads to increased risk of deterioration in reservoir quality and to increased risk of any hydrocarbons that are present being gas. GCA has therefore evaluated alternative oil and gas cases; it should be stressed that these represent alternative cases and must not be added. Recovery factors are tentatively estimated as between 25% and 35% for the oil case and between 50% and 80% for the gas case.

There is uncertainty over hydrocarbon source rock identity, maturity and charge at the depths concerned. Because of this and the uncertainties in trap structure, reservoir and seal, the Prospects are assigned a relatively low geological chance of success (GCoS) of between 4% and 8% for the oil case and between 5% and 10% for the gas case.

Table 20: Summary of Prospective Resources (Prospects) as at 30th June 2018, Block 9 (Iraq)

(a) Oil Case (MMBbl)

Prospect		Gross			KE WI (%)	Net to KE's Interest (WI Basis)			GCoS (%)
Field	Reservoir	Low	Best	High		Low	Best	High	
Faihaa	Mus	5.0	24.0	67.5	60	3.0	14.4	40.5	8
B9W	Mus	11.2	49.5	137.9		6.7	29.7	82.7	4
B9SE	Mus	4.3	14.1	32.7		2.6	8.5	19.6	5

(b) Gas Case (Bscf)

Prospect		Gross			KE WI (%)	Net to KE's Interest (WI Basis)			GCoS (%)
Field	Reservoir	Low	Best	High		Low	Best	High	
Faihaa	Mus	42	204	594	60	25	122	356	10
B9W	Mus	94	434	1,210		56	260	726	5
B9SE	Mus	36	123	287		21	74	172	6

Notes:

1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect, in the event that a discovery is made and subsequently developed.
2. Prospective Resources Net to KE's Interest are the Working Interest fraction of the Gross Prospective Resources; they do not represent the actual Net Entitlement under the terms of the EDPSC that governs the asset, which would be lower.
3. The GCoS reported here represents an estimate of the probability that drilling this Prospect would result in a discovery. This does not include any assessment of the risk that a discovery, if made, may not be developed.
4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.
5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.
6. The oil and gas cases presented here are alternative cases and should not be added.
7. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved.

2 Siba Field, Iraq

KE holds a 30% WI in the Siba gas field development and is the Operator. The other partners are Türkiye Petrolleri Anonim Ortakligi (TPAO), holding 30%, EGPC, holding 15%, and Missan Oil Company, an Iraqi state company, holding the remaining 25%. EGPC acquired its interest from KE in late 2016 in exchange for absorbing KE's share of the EPC contract (which is being executed by PetroJet, an EGPC subsidiary) and paying the remaining amount through 50% of EGPC's share of Cost Recovery.

Siba is located in southeast Iraq, near the city of Basra (Figure 2). The license area was extended to the north-east in 2015, up to a line along the middle of the Tigris River in part coinciding with the Iraq-Iran border. The extension area, named Umm al Rassas after an island in the river, consists of low lying land adjacent to the river.

Siba is governed by a Gas Development and Production Service Contract (GDPSC), which has an effective date of 1st July 2011. The GDPSC initially ran for 20 years, but during 2015 it was extended by one year, to 1st July 2032, to compensate for government delays in issuing permits, which have delayed the development. There is a possible 5-year extension, the terms of which would be subject to negotiation.

The Contractor has rights to produce gas and condensate from "discovered", non-associated gas reservoirs, defined as all non-associated gas reservoirs within the contract area and above the base of the Yamama Formation, taken to be 4,176 m ss (13,700 ft ss) in the Siba-1 well, and its lateral equivalents. The Contractor also has the right to explore for "undiscovered" gas in deeper formations within the contract area, but development of any such undiscovered gas would be subject to negotiation of a separate contract. The Contractor has no rights to develop any oil reservoirs that may be present in the contract area.

The GDPSC specifies that a plateau production rate of 100 MMscfd of dry gas must be maintained for a minimum period of 9 years, starting within 6 years of the effective date of the GDPSC. There was a minimum work obligation of US$25 MM within the first three years, to include acquisition, processing and interpretation of 200 km^2 of 3D seismic over the Contract Area, drilling of an appraisal well, drilling of a "deep" exploration well to the Khuff Formation, and performance of detailed geological and reservoir engineering studies. All these commitments have been fulfilled apart from the exploration well, which has been deferred until 2021. Construction of production facilities was reported to be almost complete at 30th June 2018, with first gas planned for September 2018 (and this has subsequently been achieved).

Further details of the contractor's costs and remuneration are given in Section 9.

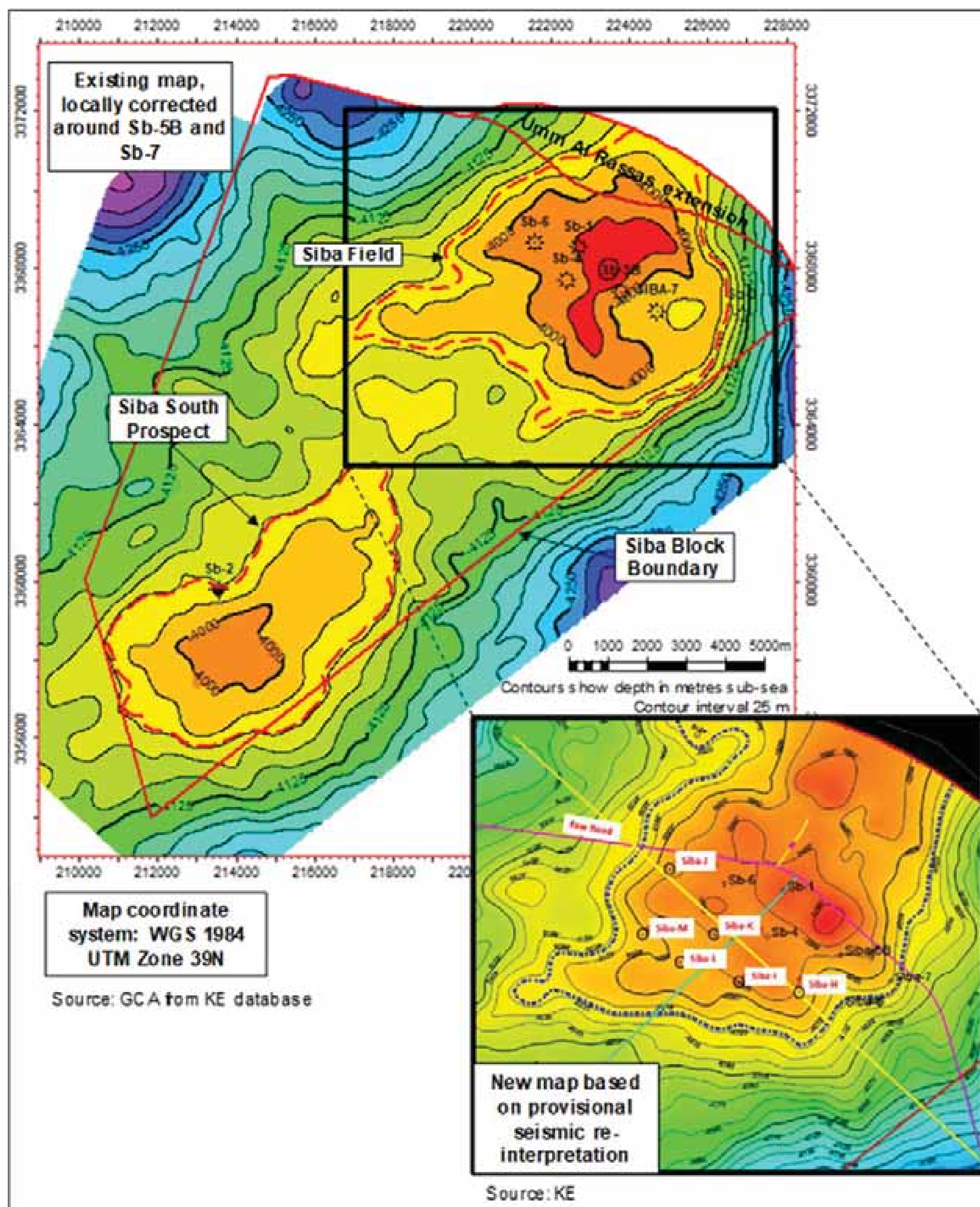
2.1 History

The Siba field lies in a prolific petroleum province, with many oil fields in the vicinity including the super-giant Zubair and Rumaila fields. The field was discovered in 1969 by the Siba-1 well (Figure 8). During short production tests, up to 7.27 MMscfd of gas and 1,080 bpd of condensate were produced from the Yamama C and D Formations at a depth of about 13,100 ft (4,000 m). Oil was also discovered in the shallower Zubair Formation, but the Contractor has no rights to develop any oil reservoirs.

A second well, Siba-2, was drilled in 1974, some 12.9 km southwest of Siba-1 on the flank of the structure. In cased hole production tests of the Yamama A, C, D, E and F, no significant flow was obtained, but a small amount of 38°API oil was recovered from the Yamama F. A

third well, Siba-3, was drilled in 1992, to the south-east of Siba-1, but failed to recover any hydrocarbons in tests of the Yamama A and C before being plugged and abandoned.

Figure 8: Top Yamama C Depth Map, Siba Field, Iraq



In 1993, the Siba-1 well was re-entered and the Yamama C and D Formations re-tested following acidization. The maximum gas production rate achieved was 16.95 MMscfd with 2,650 bpd of condensate. In early 2013, KE worked over this well and achieved production rates of up to 22 MMscfd gas and 3,700 bpd condensate.

A fourth well, Siba-4, was drilled in 2014, some 900 m SSW of Siba-1. The well was tested in May 2015, and achieved a rate of 27.91 MMscfd and 6,000 bpd of condensate from a 26 m interval in the Yamama D after acid treatment. Siba-6 was drilled in the second half of 2015, and tested in December 2015 at a rate of 21 MMscfd and 5,000 bpd of condensate from a 48 m interval with no acid treatment.

In 2018, KE has drilled Siba-5b and Siba-7 on the crestal part of the field. They reached total depths of 4,129 m MD (Siba-5b) and 4,150 m MD (Siba-7) in the lower Yamama Formation, below the Yamama F/G Zone. Both proved the Yamama C and D to be gas-bearing, but deeper than expected. Neither well has been tested, and completion has been suspended because of temporary operational issues.

The condensate to gas ratio (CGR) in the well tests is 160-240 Bbl/MMscf. The gas contains 3-5% CO_2 and up to 1,200 ppm H_2S. The initial reservoir pressure is about 8,500 psia, which means that the reservoir is over-pressured.

The Siba field is covered by a number of seismic lines acquired in 1973 and 1993. KE acquired 280 km^2 of 3D seismic data in 2013 and processing was completed in 2014. It appears that the field may extend into Iran, but no data are available to confirm this. GCA is not aware of any activity on the Iranian side of the border, and GCA has been advised by KE that they consider it unlikely that unitisation would be considered even if the field were to extend into Iran.

Raw wireline logs are available from all wells, and interpreted logs from Siba-4, Siba-5b, Siba-6 and Siba-7. Conventional core analysis results are available from Siba-2 and Siba-3, though the core data are of poor quality. Borehole quality is an issue in all of the wells, which has an adverse effect on the interpretation quality of the logs.

2.2 Geology

The primary gas reservoir is the Lower Cretaceous Yamama Formation (Figure 4). The Yamama consists of a massive, heterogeneous, algal carbonate reservoir, deposited in a restricted shelf marine environment, with an average gross thickness of about 650 ft (200 m). Microfossils are abundant and secondary porosity is dominant as a result of dissolution of the micro faunal skeletal remains. Subsequent diagenesis has resulted in significant porosity occlusion by sparitic calcite cement. Micro-fractures are also present. The porosity ranges from 6% to over 20% with permeability generally less than 10 mD. Ten stacked reservoir zones within the Yamama Formation have been identified from the well logs, referred to as Yamama Top and Yamama A to J, but the primary gas reservoir targets are the Yamama C and D. The top seal for the Yamama Formation is the Ratawi Formation, consisting of limestones and shales.

2.3 GIIP

KE has created a static model of the field which incorporates results from the five wells drilled prior to 2018 and from the 3D seismic volume, which was acquired, processed and interpreted by CGG. GCA has received the raw well and seismic data and interpretations, and also derivative properties produced by seismic inversion modelling. Although core data are available from Siba-2 and Siba-3, these were not used by KE to calibrate the reservoir model, except for general QC of petrophysical interpretations. New analyses of core samples from Siba-6 are understood to be in progress, but were unavailable for creation of the current model.

From previous review of the existing static model, GCA and KE recognise uncertainties that impact estimates of GIIP. These include:

- Uncertainty in the velocity model and hence in the depth conversion of seismic horizons on the flanks of the structure, away from well control;
- Uncertainty in interpreted porosity, estimated by KE to be ±1.5 porosity units where hole conditions are optimum for logging, but significantly greater elsewhere;
- Uncertainty in interpreted water saturation, estimated by KE to be ±10% due to (a) the nature of the limestones, which consist of a variety of porosity systems with variable connectivity that are difficult to characterise in terms of the cementation and saturation exponent inputs to Archie's equation, and (b) the use of older induction type resistivity logs which are not always reliable sources of true resistivity in such lithologies;
- Uncertainty in petrophysical properties away from the wells due to the heterogeneous nature of the limestone formation, with the possibility of facies changes over short distances; and
- Uncertainty in the gas-water contact (GWC) depth in each reservoir, which is compounded by the absence of seismic data coverage to define the structural spill point in the northeast Umm al Rassas area; it is not yet fully resolved whether the Yamama C and D each comprise one single hydrocarbon pool, or whether there is stacking of pools, and hence multiple GWCs.

In the existing model, Low Case GWCs are based on the "gas-down-to" (GDT) levels in each reservoir and High Case on "water-up-to" (WUT) levels, with a Best Case estimated by a simple average. The Best Case defined in this fashion lies close to the lowest spill point that is mappable from the available seismic data.

Overall, in GCA's view, KE has made appropriate allowances for uncertainties in its methods and in estimating the range of possible GIIP values shown in Table 21, which include the Umm Al Rassas area. There is potential for additional gas volumes to be present in other reservoirs (Yamama E to J).

Table 21: GIIP Estimates, Siba Field, as at 30th June 2018

Reservoir	GIIP (Bscf)		
	Low	Best	High
Yamama C	329	576	951
Yamama D	236	507	985
Total	**565**	**1,083**	**1,936**

Note:

1. The GIIP estimates shown here are wet gas volumes and include the Umm Al Rassas area.
2. The GIIP estimates shown here pre-date the drilling of Siba-5b and Siba-7.

The results of the recently-drilled Siba-5b and Siba-7 wells have not yet been incorporated into the static model. In both wells, the reservoirs were encountered some 70-80 m deeper than expected, exposing potential errors in the existing seismic interpretation and/or depth conversion, and also suggesting that the GIIP estimates should be revised downwards. On the other hand, Siba-7 established deeper GDT levels in both the Yamama C and D zones, which would have the opposite effect on the GIIP estimates. Wireline pressure data (XPT) acquired in Siba-7 lend some support to interpretation of water-bearing units at the base of

the Yamama D zone and possibly at the base of the Yamama C, but GCA views the data as ambiguous.

GCA understands that reprocessing of the seismic data and a new inversion study are ongoing and are expected to be completed by early 2019. KE plans an update of the static model at that time. Based on local correction of the structure to the new well tops, and use of revised GDT levels, GCA has provisionally estimated that the overall reduction in GIIP is likely to be less than 10% and has consequently accepted that it is prudent to await the results of the ongoing work before proposing any correction to GIIP.

2.4 Development Plans

KE plans to develop Siba with 15 wells (including Siba-1 and Siba-4 to Siba-7). This number is judged to be sufficient to meet the contractually required 9-year, 100 MMscfd plateau production given the best estimate of GIIP. Well deliverability has been estimated based on the results of the production tests.

The production facilities comprise wells and flow-lines to a central reception area comprising two 60 MMscfd wet gas trains with sweetening, dew-pointing, LPG extraction and condensate stabilisation, and pipelines, with an option for export compression at a future date.

KE elected to act as project manager for the development and awarded a “design and supply” contract for the main gas plant to UOP, a reputable manufacturer, and contracts of similar type for the main equipment items (generators, pumps, etc.). The EPC contract, which is really limited to foundations, utilities and interconnections, was awarded to PetroJet, a subsidiary of EGPC, in early 2015. Commissioning has also been out-sourced.

The project was almost complete at end June 2018, with first gas expected in September 2018 and the plateau rate expected to be reached in September 2019. However, this is nearly two years behind the original schedule. Delays have been caused by various problems including delays in the EPC Contract award, raw water supply and custom clearance, as well as a lack of availability of local resources and visa difficulties for Egyptian workers and, most recently, the need to re-tender for the flow lines as all tenders initially received exceeded the allowed budget.

At end June, Siba-1 and Siba-4 were available for production, Siba-6 was awaiting hook-up and Siba-5b and Siba-7 were awaiting completion and hook-up. Two further development wells are planned to be drilled in 2018, four in 2019 and four in 2020. The deep exploration well would be drilled in 2021.

GCA understands that, subsequent to the Effective Date of this report, production began in August 2018 and reached the commercial gas milestone of 25 MMscfd (export) on 5th September. Production is from Siba-1 and Siba-4, with Siba-6 expected to be hooked-up by January 2019. Train 1 of the plant is fully commissioned whilst commissioning of Train 2 continues. Bids to supply the flow lines for subsequent wells are under evaluation and drilling of Siba-8 and Siba-9 has begun.

2.5 Reserves

Gas and condensate Reserves are attributed to the development plan described in the previous section, up to the expiry of the GDPSC in mid-2032 (Table 4 and Table 5).

Gas and condensate production forecasts are derived from KE’s dynamic simulation models, which are based on the low, best and high estimates of GIIP shown in Table 21 and calibrated to the well test results. Gas samples collected and analysed suggest the initial CGR will be in

the range 180-280 Bbl/MMscf, declining as reservoir pressure declines. In the Low case, the gas volumes are sufficient to maintain the plateau production rate for less than 5 years, but in the High case it is maintained until the end of the GDPSC.

Cost estimates include:

- US$16 MM for drilling and completing a development well;
- US$30 MM for the deep exploration well;
- US$117.5 MM remaining facilities costs (from July 2018 onwards); and
- Up to US$48 MM p.a. OPEX (US$10.5 MM p.a. fixed, plus US$0.25/Mscf gas and US$3.0/Bbl condensate) and G&A costs of US$6.7 MM p.a.

The profiles are used, together with the cost estimates, as inputs to the economic model used to apply the economic limit tests and define the Reserves shown in Table 4 and Table 5.

2.6 Contingent Resources

Contingent Resources (Table 12 and Table 13) are attributed to the potential 5-year extension of the GDPSC.

2.7 Prospective Resources

Prospective Resources (Table 22) are attributed to two Prospects within the Siba Contract Area:

- Siba South: the southern culmination in the Yamama reservoirs up-dip of the Siba-2 well (Figure 8), where potential is recognised in the Yamama C and D zones.
- Siba Deep: the Khuff Formation (Figure 4) beneath the Siba Field.

Siba South is a dip-closed anticline, apparently spilling north-eastwards along the Siba anticlinal axis. Compared to the wells on the crest of the anticline (Siba-1 and Siba-4) reservoir quality at Siba-2 is relatively poor, with average net porosity of 9-12% and measured core permeability rarely exceeding 1 mD. Comparison of Siba-1, Siba-4 and Siba-3 in the main Siba field shows variation in reservoir quality consistent with control of facies by a syn-sedimentary expression of the present day structure. As part of their reservoir modeling work on the Siba Field, KE have used the inverted seismic volume, and this technique suggests improvement in reservoir quality from Siba-2 to the crest of the Siba South Prospect. KE has incorporated these results into the porosity model for the Prospect. Other reservoir parameters are derived from the field static model or from specific data from the existing Siba wells. The principal risk is in the development of the modelled reservoir quality throughout the Prospect.

Siba Deep will be the target of the exploration well commitment. The Permian Khuff unit produces gas in the region, the nearest successfully tested well reportedly being Mutriba-12 in northern Kuwait, approximately 100 km southwest of Siba. Gas from Jurassic reservoirs at that field is high in H_2S, although no data are available for gas from Permian reservoirs. No wells penetrate the pre-Cretaceous section at Siba and so a tentative, near top Khuff horizon has been interpreted based on regional analogy and character. Overall the structure defined at Khuff Formation level is an elongated anticline, whose axis is oriented approximately NE-SW and whose crest is at a depth of approximately 6,100 m ss. It is truncated to the northeast by the limit of the seismic data volume. The closure defined in KE's Low case broadly underlies that defined in the Yamama Formation, but those in the Best and High cases extend

significantly further to the southwest. Reservoir quality is unknown and is likely to comprise relatively tight dolomites with reliance on natural fractures for permeability. KE has estimated the potential GIIP using regional data to estimate potential reservoir properties. Separate pools in the Upper and Lower Khuff are considered as Prospects, but four stacked pay units are included in the High Case inputs. The principal risks are in the viability of all elements of the unproven petroleum system and play, and in the structural definition, especially with the current lack of data to define the northeast of the closure.

Table 22: Summary of Prospective Resources (Prospects) as at 30th June 2018, Siba, Iraq

(a) Gas (Bscf)

Prospect	Formation	Gross Field			KE WI (%)	Net to KE's Interest (WI Basis)			GCoS (%)
		Low	Best	High		Low	Best	High	
Siba South	Yamama C	19.9	83.7	200.4	30.0	6.0	25.1	60.1	43
	Yamama D	40.0	122.5	257.3		12.0	36.7	77.2	36
Siba Deep	Upper Khuff	25.8	166.0	650.9		7.7	49.8	195.3	6
	Lower Khuff	2.3	18.4	85.3		0.7	5.5	25.6	4

(b) Condensate (MMBbl)

Field	Formation	Gross Field			KE WI (%)	Net to KE's Interest (WI Basis)			GCoS (%)
		Low	Best	High		Low	Best	High	
Siba South	Yamama C	2.0	8.4	20.0	30.0	0.6	2.5	6.0	43
	Yamama D	4.0	12.2	25.7		1.2	3.7	7.7	36

Notes:

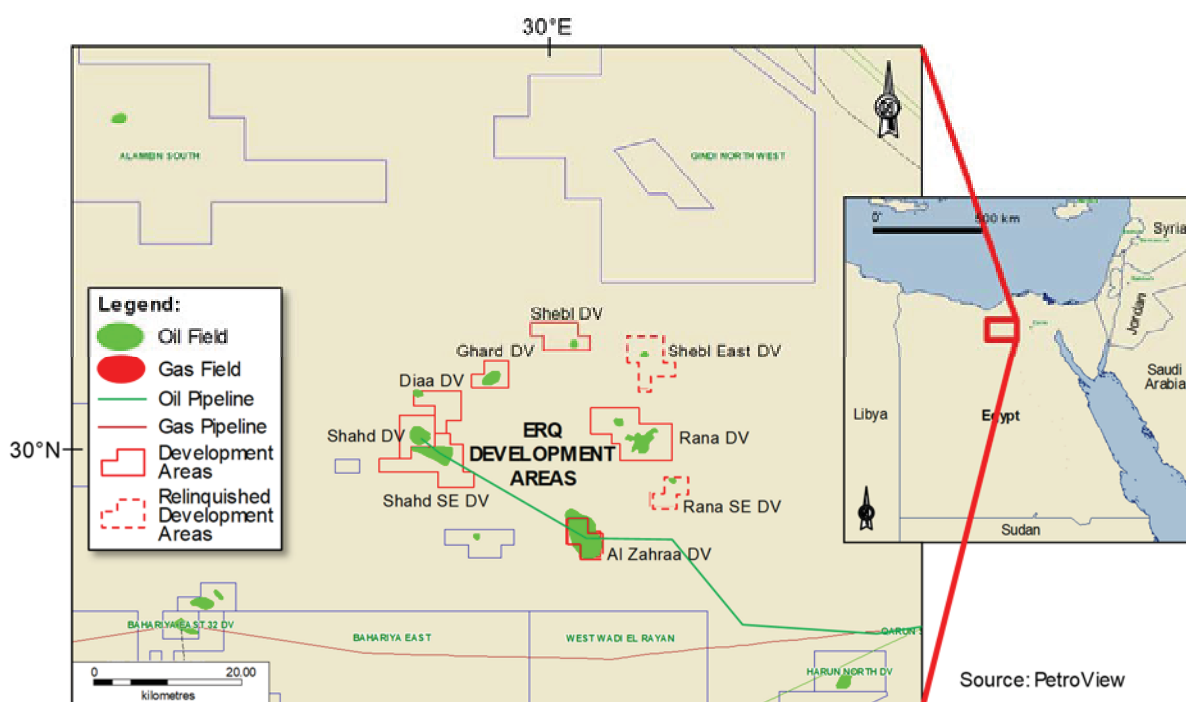
1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect, in the event that a discovery is made and subsequently developed.
2. Prospective Resources Net to KE's Interest are the Working Interest fraction of the Gross Prospective Resources; they do not represent the actual Net Entitlement under the terms of the GDPSC that governs the asset, which would be lower.
3. The GCoS reported here represents an estimate of the probability that drilling this Prospect would result in a discovery. This does not include any assessment of the risk that a discovery, if made, may not be developed.
4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.
5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.
6. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved.

3 East Ras Qattara, Egypt

3.1 History

KE holds a 49.5% WI in East Ras Qattara (ERQ). The Operator, Sipetrol, holds the remaining 50.5%. During the 7-year exploration phase, which expired in March 2011, 20-year development licenses (expiring at various dates in 2027-2031) were awarded for development areas that cover the nine discoveries made (Figure 9), though two of these have subsequently been relinquished. Exploration is still permitted within the remaining development licences, which also have an optional 5-year extension period beyond the expiry date.

Figure 9: ERQ Development Areas Location Map, Egypt

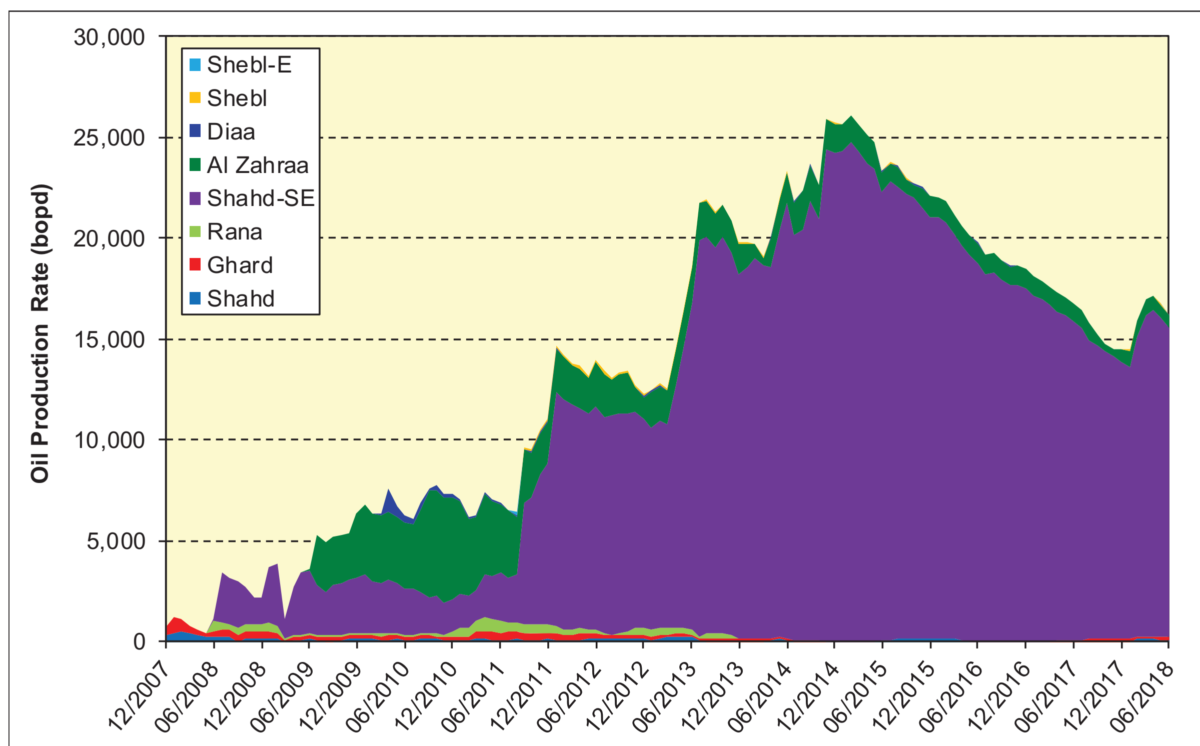


Since the discovery of a major extension to Shahd SE in 2011, this has been the dominant field with production steadily increasing as more wells have been drilled, reaching a peak of 24,000 bopd in early 2015 before declining gradually as the water cut has increased. The only other significant field is Al Zahraa. Figure 10 shows the history of production from the asset by field.

Construction of an 88 km oil export pipeline from Shahd/Shahd SE to a QPC (Qarun Petroleum Company) processing centre was completed in 2016, along with a spur pipeline from Al Zahraa. This reduced operating costs, as oil was previously exported by truck.

Total ERQ production for June 2018 averaged 16,220 bopd at a water cut of 50%. Of this, 15,300 bopd was from Shahd SE and 690 bopd from Al Zahraa. Cumulative production from all fields to end June 2018 was 52.2 MMBbl, of which 44.4 MMBbl was from Shahd SE and 6.0 MMBbl from Al Zahraa. The associated gas currently produced from ERQ is not sold.

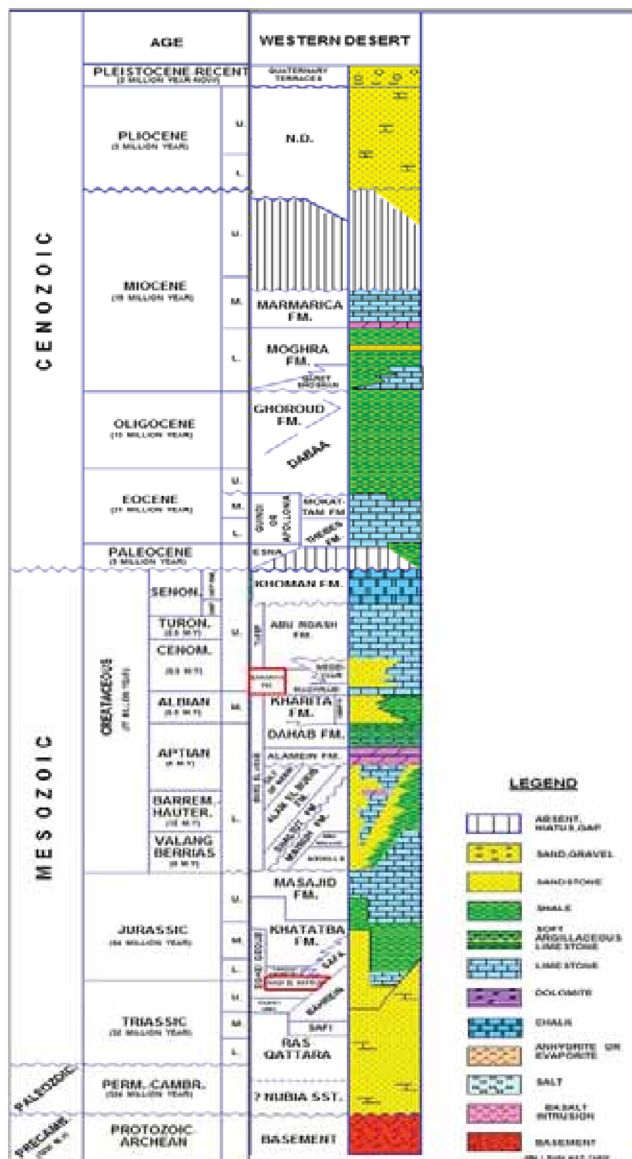
Figure 10: Production History, ERQ, Egypt



3.2 Geology

ERQ is located in the Alamein Basin, in the Western Desert. The producing reservoir in all the existing wells in ERQ except Diaa-1 is the Middle Cretaceous (Cenomanian) Upper and Lower Bahariya Formation (Figure 11), comprising sandstones interbedded with siltstones and carbonates. The sandstone units are considerably thicker in the Lower Bahariya than the Upper Bahariya, where the individual units are potentially isolated. Diaa-1 produces from sandstone in the Lower Cretaceous Kharita Formation immediately below the Bahariya. Additionally, gas was discovered in the Jurassic Wadi El Natrun Formation (Figure 11) by the Shahd-4 well, in a sandstone interval within this limestone formation.

Figure 11: Generalized Stratigraphy, ERQ, Egypt

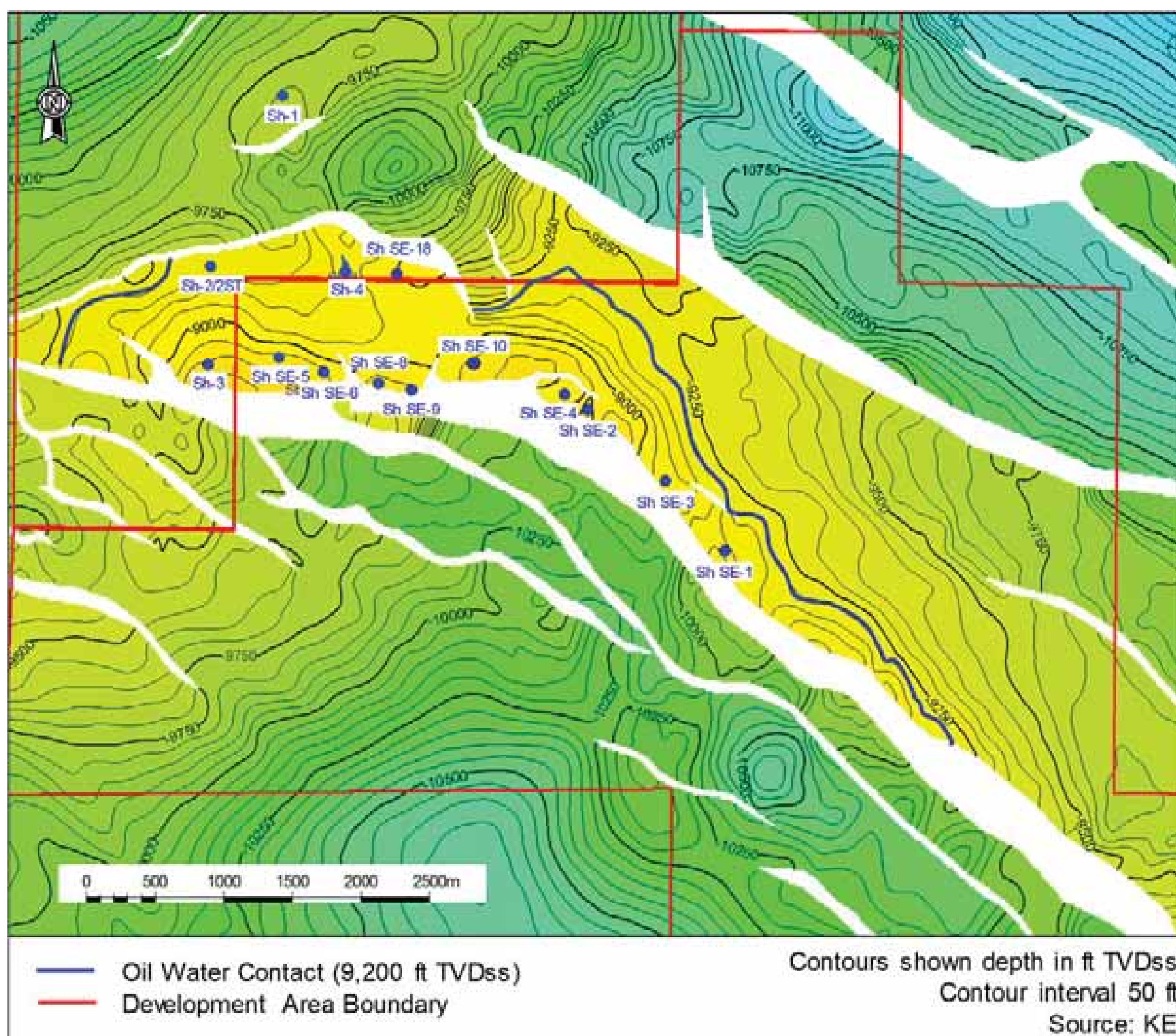


Source: KE

3.3 Shahd SE

Shahd SE (Figure 12) was discovered by well Shahd SE-1 which began production in July 2008 at a rate of 2,400 bopd. The reservoir lies at a depth of approximately 9,000 ft TVDss. Two further wells, Shahd SE-2 and Shahd SE-3, came on stream early in 2009 at 2,000 bopd and 250 bopd respectively. In 2011, Shahd-2 was drilled with results that led to a reinterpretation of the structure in this area. The well was then side-tracked and discovered a significant extension of the Shahd SE field. It came on stream at a rate of over 4,000 bopd. Subsequent wells have been very successful: Shahd SE-4 (initial rate 1,000 bopd) and Shahd SE-5ST (5,000 bopd) in 2011, Shahd-3 (4,600 bopd) and Shahd SE-6 (5,600 bopd) in 2013 and Shahd-SE-8 (4,300 bopd), Shahd-SE-9 (3,300 bopd) and Shahd-4 (1,000 bopd) in 2014, and Shahd SE-10 (3,250 bopd) and Shahd SE-18 (650 bopd) in 2018. All of these wells produce from the main Lower Bahariya reservoir, while oil is also present in the Upper Bahariya Formation.

Figure 12: Lower Bahariya Depth Map, Shahd and Shahd SE Fields, ERQ



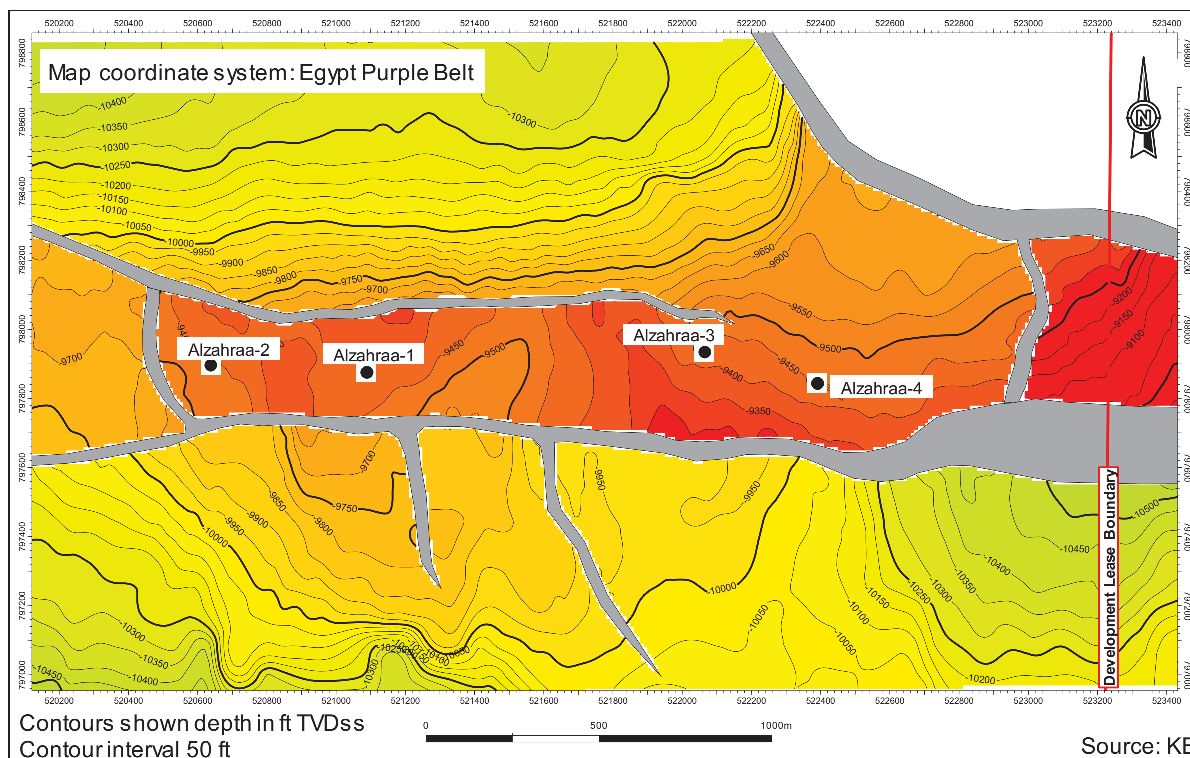
At year-end 2015, GCA reviewed the Operator's static and dynamic models of Shahd SE, which were updated in 2015 to take into account the three wells drilled in 2014, preliminary results from reprocessing of the 3D seismic data over the field, and production data. GCA accepted the model STOIIP of 95.1 MMBbl in the Lower Bahariya reservoir and 10.6 MMBbl in the Upper Bahariya as reasonable estimates. However, production data now suggest that the STOIIP in the Lower Bahariya reservoir must be larger than that, and GCA understands that the Operator is in the process of constructing new static and dynamic reservoir models based on data from seismic reprocessing and bio-stratigraphic studies completed in 2017.

3.4 Al Zahraa

Al Zahraa field was discovered in March 2009 with well Al Zahraa-1 (Figure 13), which began commercial production from the Lower Bahariya reservoir in June, 2009 at a rate of about 2,500 bopd. The reservoir lies at a depth of approximately 9,500 ft TVDss. A second well, Al Zahraa-2, came on stream in December 2009 at a rate of about 1,000 bopd, and a third, Al Zahraa-3, in August 2010 at over 2,000 bopd. Rates declined during 2011, but after installation of an ESP in Al Zahraa-3 in June 2012, the production rate from the Lower Bahariya reservoir rose to 2,200 bopd. Since then, it has steadily declined. All three wells are fitted with ESPs, but Al Zahraa-2 has been shut in since the end of 2016. Overall Lower Bahariya production in June 2018 was 690 bopd at a water cut of 84%.

A fourth well, Al Zahraa-4, was drilled in 2014, but unexpectedly found the Lower Bahariya to be water-bearing. It was put into production from the Upper Bahariya in July, 2014 at an initial rate of 500 bopd. Following a work-over in March, 2017, production has been steady at approximately 170 bopd, but was temporarily shut in during June 2018 awaiting a pump repair.

Figure 13: Lower Bahariya Depth Map, Al Zahraa Field



3.5 Other Fields

The remaining fields (Shahd, Ghard, Rana, Diaa and Shebl) each have one or two production wells. Initial rates varied from 120 to 1,400 bopd but generally declined fairly rapidly as the water cut increased. Artificial lift (SRP or ESP) has been installed in several of the wells. Hydraulic fracturing has also been tried, with variable results. Rana SE and Shebl SE have been relinquished.

3.6 Development Plans

A five-well drilling campaign began in late 2017, comprising Shahd SE-10 and Shahd SE-18, both already in production, Al Zahraa-5, planned to come on stream in January 2019, and two exploration/appraisal wells (Shahd-7 and Rana-3). A further production well is planned in Shahd SE in 2019 and another in Shahd field in 2020.

Additionally, five dedicated wells are planned to develop the main (extension) part of the Upper Bahariya reservoir at Shahd SE. These will be hydraulically-fractured vertical wells, to be drilled between 2019 and 2022 (two in 2021). Elsewhere in ERQ, including the original part of the Shahd SE field, existing wells will be recompleted in the Upper Bahariya once production from the Lower Bahariya is complete; these recompletions will include fracture treatments.

3.7 Reserves

Production forecasts have been made by decline curve analysis for the existing wells, using analogy to estimate the decline rate for those wells with short or no production history. This is complemented by a volumetric approach which was used to constrain the decline curve forecasts and to estimate the potential for additional wells. Production from the five planned Upper Bahariya wells in Shahd SE has been estimated by analogy with existing Upper Bahariya producers such as Shahd SE-7 and AL Zahraa-4.

Future cost estimates have been provided by KE. Key elements are as follows:

- US$3.5 MM per well for each new vertical well;
- US$4.5 MM per well for the dedicated Upper Bahariya wells in Shahd SE;
- US$0.40 MM to recomplete a well in the Upper Bahariya, including hydraulic fracturing, and US$0.45 MM to install artificial lift (other work-over costs are included in OPEX);
- US$2.2 MM for minor facilities CAPEX in 2018-19; and
- US$13.8 MM p.a. fixed OPEX plus approximately US$1.7/Bbl variable OPEX including handling and processing fees

Table 23 shows the breakdown by field of the Reserves attributed to ERQ.

Table 23: Field Level Breakdown of Reserves, ERQ, as at 30th June 2018

Field	Gross Field Oil Reserves (MMBbl)	
	Proved	Proved + Probable
Al Zahraa	0.27	1.07
Shahd SE	15.10	19.63
Shahd	0.26	0.35
Ghard	0.05	0.06
Rana, Diaa and Shebl	0.01	0.01
Total	**15.69**	**21.12**

Notes:

1. The Reserves shown here are included in the Reserves shown in Table 3.
2. Totals may not exactly equal the sum of the individual entries due to rounding.

3.8 Contingent Resources

The Shahd-4 well drilled at the end of 2014 was deepened below the productive Bahariya Formation to test deeper targets. It found gas with condensate in the Jurassic Wadi El Natrun (WEN) Formation (Figure 11) at a depth of 12,990 ft ss. The well encountered 63 ft of net pay and was tested at rates up to 24 MMscfd gas and 2,345 bpd condensate (a CGR of approximately 100 Bbl/MMscf). The discovery is in a structurally complex area and seismic resolution at this depth is not as good, so the Operator plans to drill a further wells to appraise the structure. Contingent Resources associated with the potential development of the WEN discovery are shown in Table 12 and Table 13.

3.9 Prospective Resources

Although the exploration licence expired at end 2011, exploration is still permitted within the development areas. KE has advised that the drilling of two exploration wells in the Diaa development area is a commitment. The first of these; Shahd-7, was drilled in 1H 2018 on the South Diaa Prospect, but did not make a discovery. The Contractor will bear the full cost the second well if it is a dry hole, but the well will be cost recoverable if successful. This well will target the East Diaa Prospect (Table 24).

The Upper Bahariya Formation is the target at East Diaa, which lies approximately 2.75 km east of the Diaa-2 exploration well. That well was drilled in late 2013/early 2014, finding oil in the Upper Bahariya, where it tested more than 100 bopd from a net sandstone reservoir interval of 16.5 ft. The Prospect is a footwall trap formed by regional NW-SE trending normal faults, although these are inferred to cross a series of orthogonal anticlinal folds and the fault throw is variable. The Prospect requires extensive development of cross fault seals and this, along with the development of the inferred reservoir section are the key risks.

Another exploration well, Rana-3, is expected to be drilled later in 2018 approximately 1.5 km south of Rana-1 and -2, both of which found oil in the Lower Bahariya Formation. No Prospective Resources volumes for Rana-3 have been presented to GCA for audit.

Table 24: Summary of Oil Prospective Resources (Prospects) as at 30th June 2018, ERQ (Egypt)

Prospect		Gross (MMBbl)			KE WI (%)	Net to KE's Interest (WI Basis) (MMBBl)			GCoS (%)
		Low	Best	High		Low	Best	High	
East Diaa	U Bah	0.6	1.5	3.2	49.5	0.3	0.8	1.6	22

Notes:

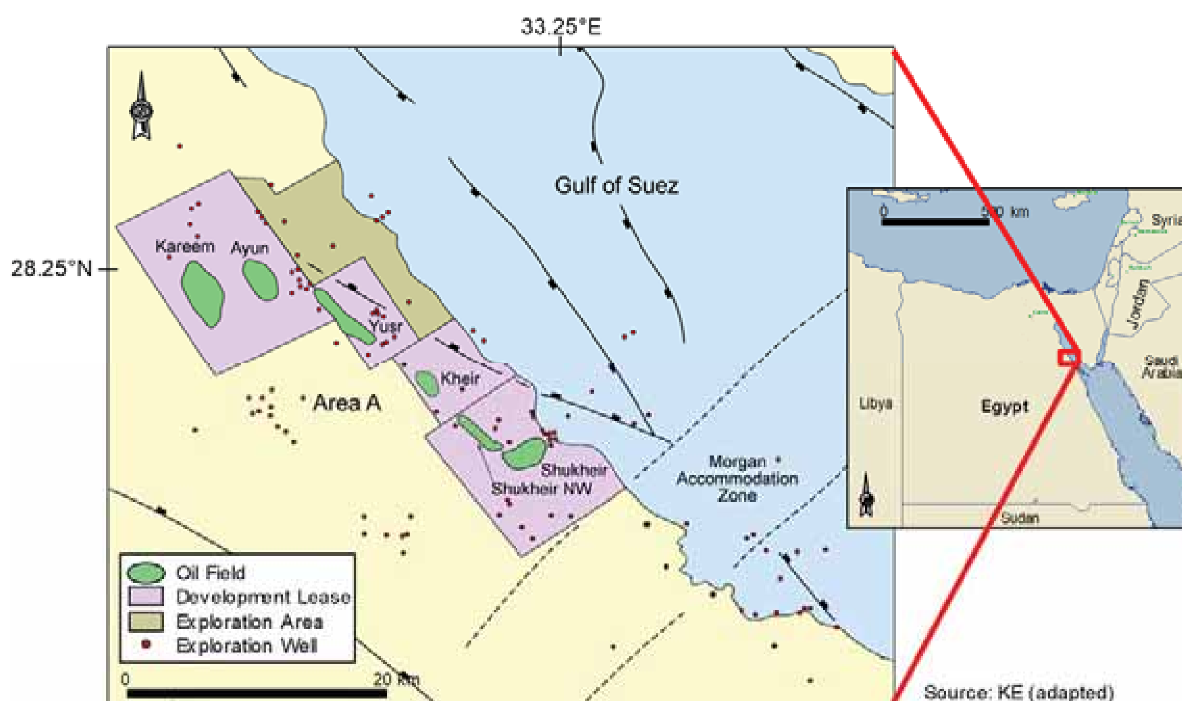
1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect, in the event that a discovery is made and subsequently developed.
2. Prospective Resources Net to KE's Interest are the Working Interest fraction of the Gross Prospective Resources; they do not represent the actual Net Entitlement under the terms of the PSC that governs the asset, which would be lower.
3. The GCoS reported here represents an estimate of the probability that drilling this Prospect would result in a discovery. This does not include any assessment of the risk that a discovery, if made, may not be developed.
4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.
5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.
6. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved.
7. U Bah = Upper Bahariya Formation.

4 Area A, Egypt

4.1 Background

Area A is located in the Eastern Desert, adjacent to the coast of the Gulf of Suez and comprises a group of five development areas and an exploration area (Figure 14), all combined under a single "Contract of Production and Exploration Service Agreement". KE is the Operator and holds a 70% WI with Petrogas holding the remaining 30%. The development lease for Shukheir North-West (NW) Field runs until July 2019 and has a possible 10-year extension; the development leases for the other fields were granted a 10-year extension in 2013 and now expire in June 2023. The exploration license is in a fifth two-year extension period running until September 2018, with commitments to drill three exploration wells (one of which had been drilled by the Effective Date of this report) and reprocessing of seismic data.

Figure 14: Area A Location Map, Egypt



Within the development leases are the producing Um El Yusr (Yusr), Kareem, Ayun, Shukheir and Shukheir NW oil fields. The first four of these have been in production since the 1960s, while Shukheir NW was discovered in 2008. The Kheir field is no longer producing, but a discovery was made in January 2018 by the South Kheir-1X well located on the border of the Shukheir NW development lease, and this well is now in production. Multiple producing sandstone reservoirs are found in the South Gharib, Belayim (including the Hammam Faraun and Sidri members), Kareem and Rudeis (including the Ayun and Yusr members) Formations of Miocene age. A stratigraphic column of the area is shown in Figure 15. The Thebes Limestone Formation of Eocene age is also productive in the surrounding area.

Production from Area A since 2002 is shown in Figure 16. Area A production in June 2018 was approximately 7,200 bopd, with 56% coming from Shukheir NW (including South Kheir), 40% from Yusr and 4% from the rest (Shukheir, Kareem and Ayun produced a total of 260 bopd from nine wells).

Figure 15: Generalised Stratigraphy, Eastern Desert, Egypt

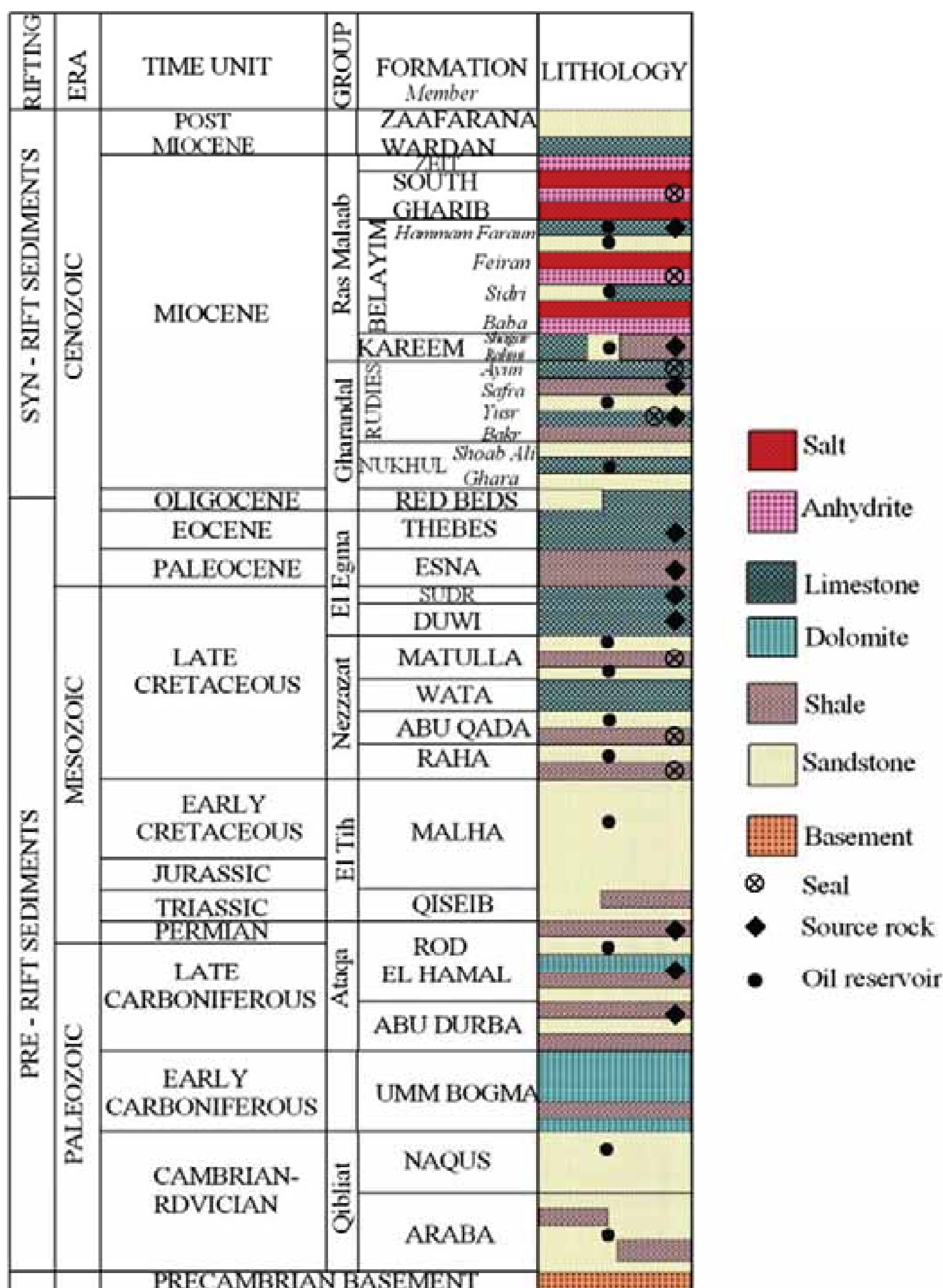
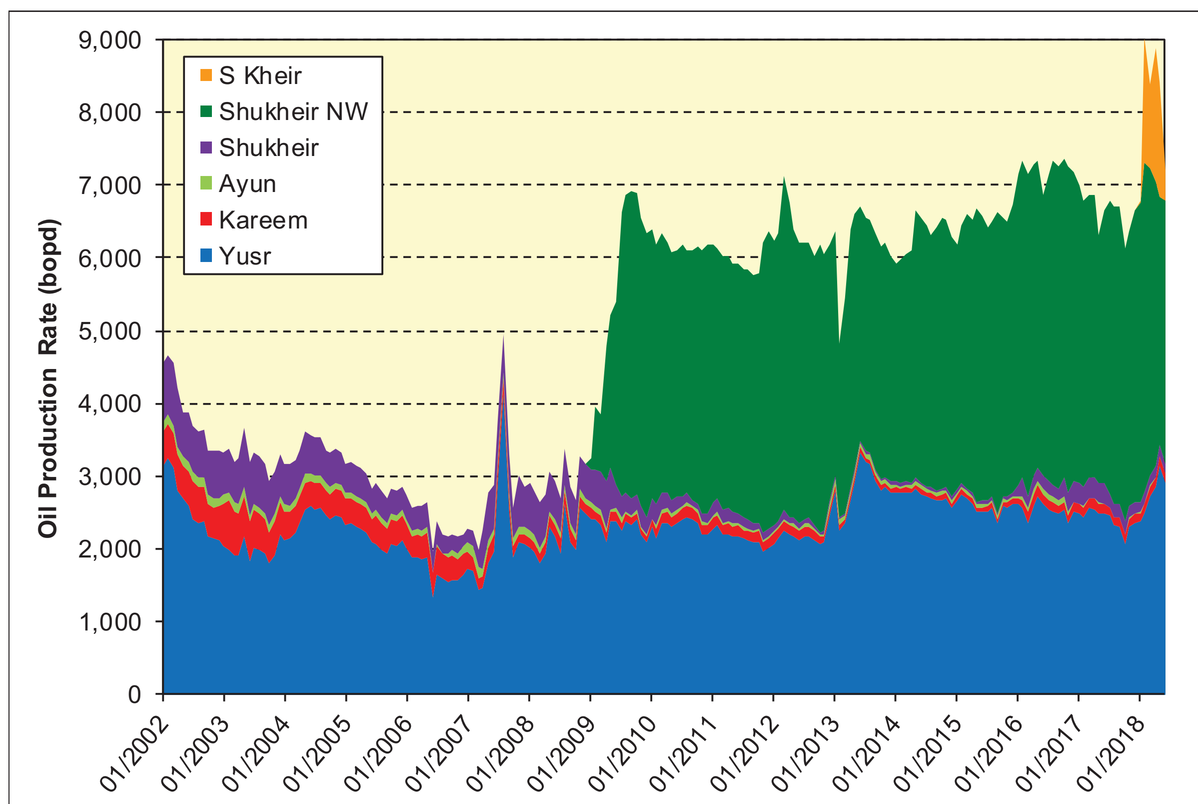


Figure 16: Area A Production Since 2002

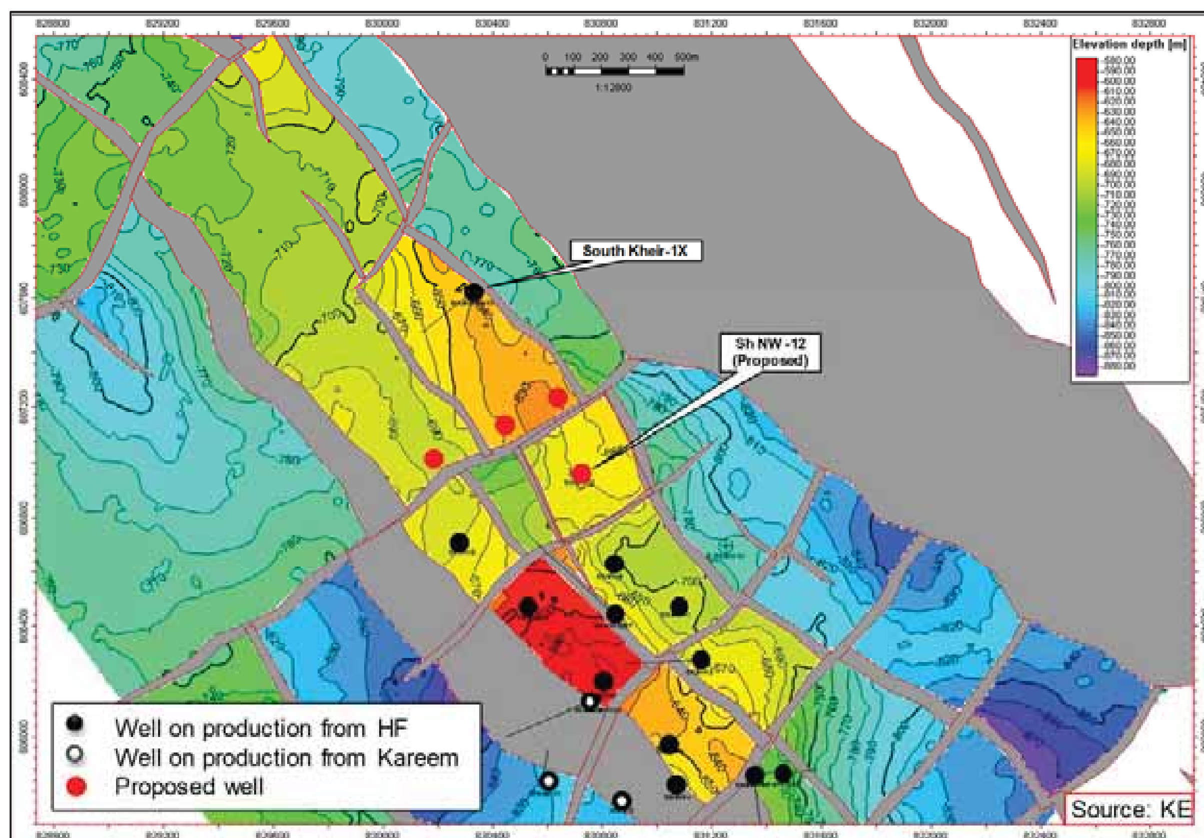


4.2 Shukheir NW

Shukheir NW lies in a heavily faulted area adjacent to the Shukheir field. Northwest to southeast trending normal faults and perpendicular antithetic faults are interpreted by KEE to divide the field into at least 20 blocks, but considerable uncertainty exists in the mapping due to the poor quality of the seismic data. Only eight of the fault blocks, all in the highest part of the structure, have been penetrated by the seventeen existing wells (Figure 17); wireline (MDT) pressure data suggest that these blocks are in hydraulic communication in some but not all of the sands, while the north-western part of the field is isolated from the rest. Four Miocene reservoirs have been identified, South Gharib, Hammam Faraun (from which most of the current production comes), the deeper Sidri reservoir where production potential has been identified from the logs, and the still deeper Kareem Formation. The Lower Miocene Rudeis Formation is also productive in the south-western part of the field referred to as the Ahmad area. The Hammam Faraun (HF), at a depth of approximately 2,000 ft ss, is a sandstone reservoir with four isolated but relatively thick (50 ft) productive zones with combined pay of up to about 220 ft and average porosity above 20%. Gas caps are present in some of the reservoirs and fault blocks.

Commercial production from Shukheir NW began in January 2009, initially at 1,100 bopd from one well, rising to a maximum of 4,300 bopd from seven wells in August 2009. Two further wells (Sh-NW-9 and Ahmad-1X) were drilled in 2011, the latter finding oil in three separate sands in the Kareem Formation in a previously undrilled fault block adjacent to the main field. Two further wells (Ahmad-2 and West Ahmad-1X) were drilled in 2012, the former finding oil in the Rudeis Formation (a new discovery) as well as in the Kareem Formation. Further wells in 2014 (Sh-NW-10ST) and 2015 (Sh-NW-11) came on stream at 700 bopd and 560 bopd respectively. On-going re-completions and pump optimisation have also contributed to maintaining production rates.

Figure 17: Top Hammam Faraun Depth Map, Shukheir NW Field



The discovery at South Kheir-1 appears to be separate from Shukheir NW except in the top layer of the Hamman Faraun, where some depletion is observed. Production from the well reached more than 1,800 bopd in April 2018, but declined sharply as water production increased.

Overall oil production in June 2018 averaged 3,619 bopd from 15 wells for Shukheir NW at a water cut of 48%, plus 439 bopd at a water cut of 73% from South Kheir-1. Cumulative production to end June 2018 was approximately 12.7 MMBbl.

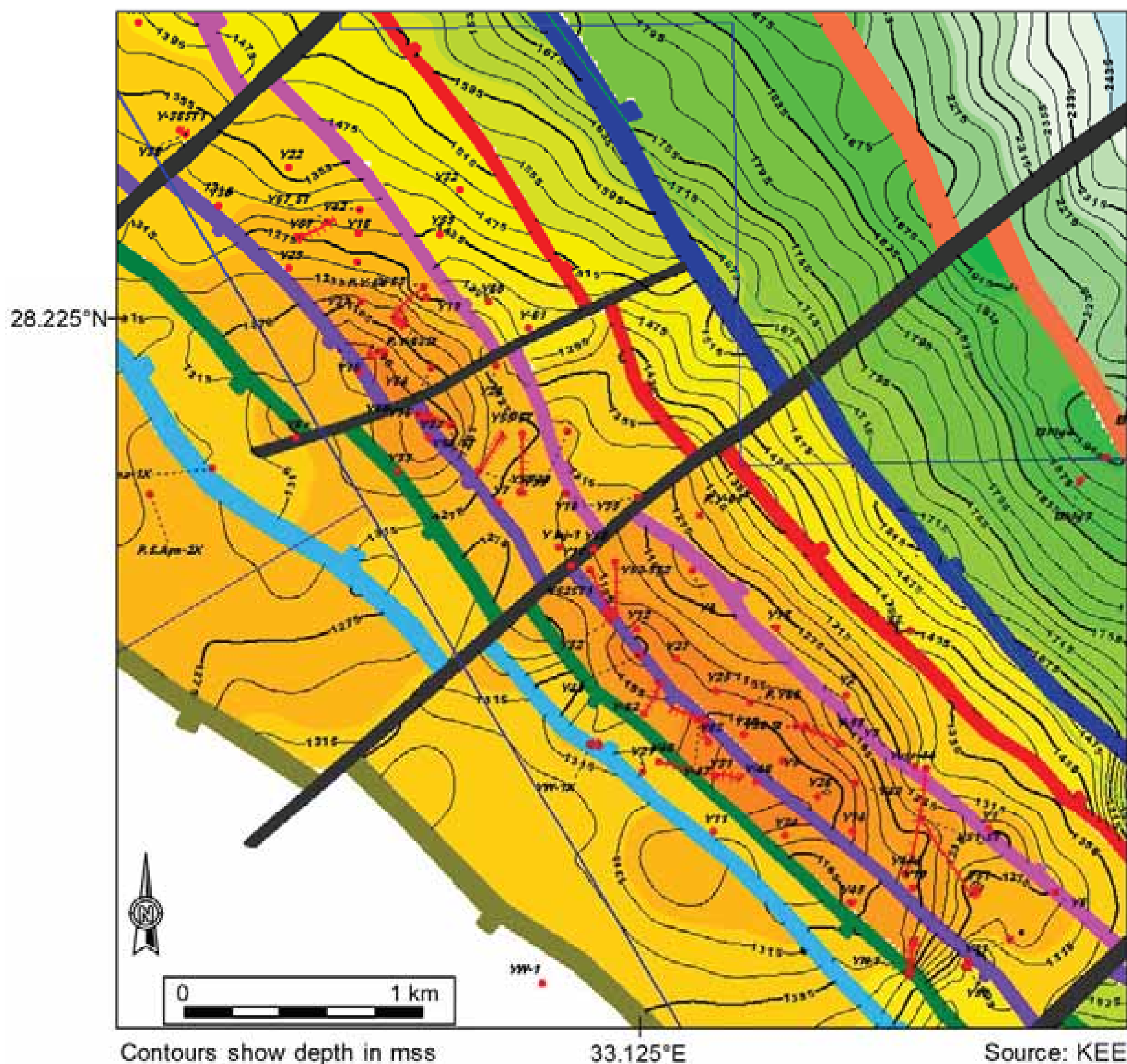
4.3 Yusr

Yusr is the largest of the older fields, and had produced approximately 57.0 MMBbl of oil at the end of June 2018. The structure of the field is dominated by a major northwest to southeast trending normal fault. Additional minor parallel and antithetic faults exist, which have resulted in the development of a central, high horst block and some compartmentalisation. Six zones are productive.

The main reservoir, referred to as the Yusr reservoir, comprises the Lower Miocene Rudeis II, III and IV sands at a depth of approximately 3,600-4,250 ft ss. It has individual sand thicknesses of up to 22 ft (overall thickness up to 100 ft) and average porosity of 20-30%. The slightly shallower Rudeis 1B is also a major contributor to production, while there is minor production from the Ayun, HF, Kareem and Thebes reservoirs. Total STOIIP in these reservoirs at Yusr is estimated by KEE to be approximately 169 MMBbl; this estimate has not been audited by GCA. Approximately 1.5 MMBbl has also been produced from the Rahmi, Rudeis IA, IC and ID, Turonian and Matulla reservoirs.

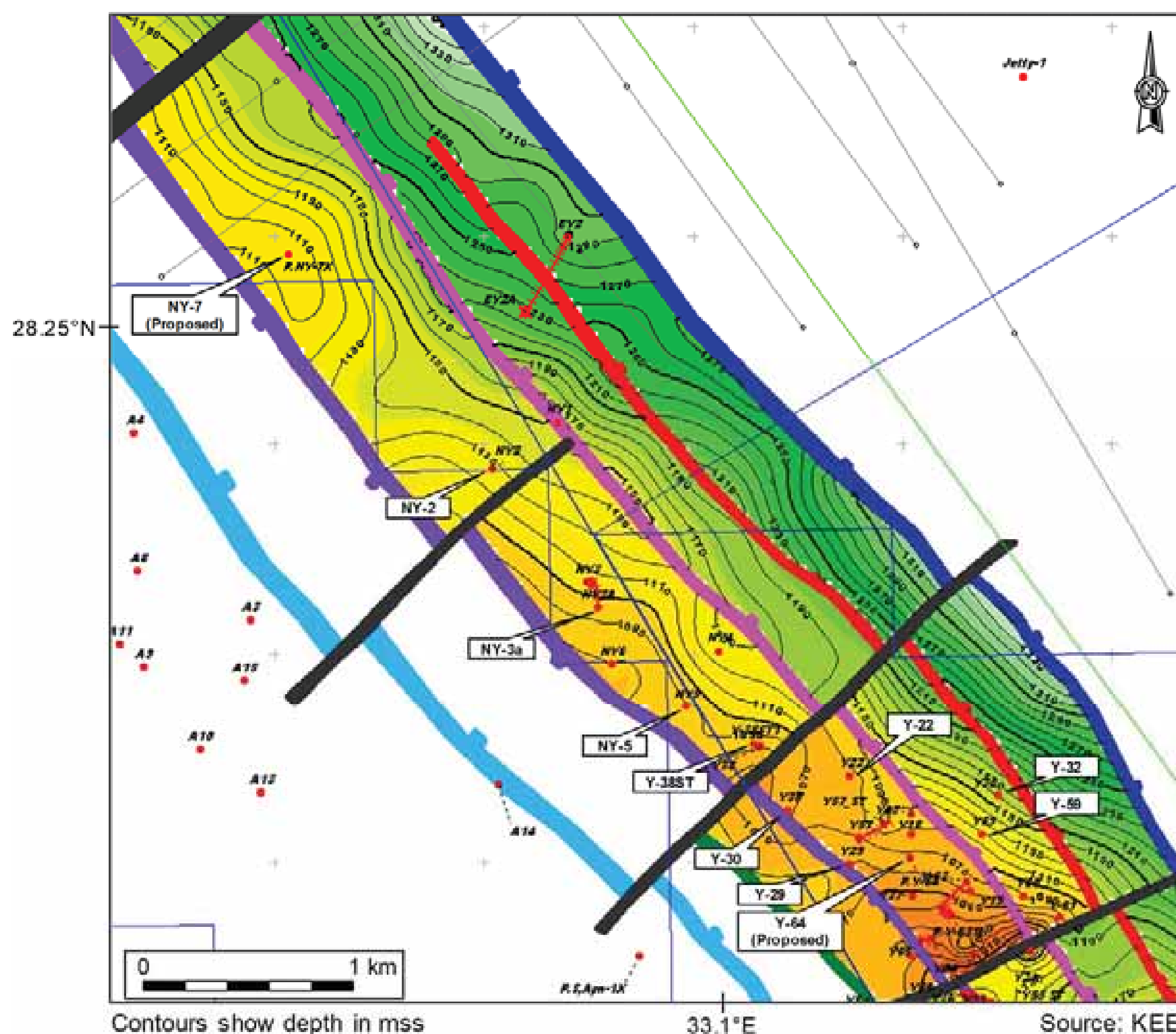
Figure 18 shows the top depth map for the Yusr sand over the main part of the Yusr field, while Figure 19 shows the top depth map for the Rudeis 1B sand over the northern part of the field, often referred to as Yusr North.

Figure 18: Top Yusr Depth Map, Yusr Field



Production from Yusr began in 1968 and reached a peak of 12,000 bopd in 1974, but had declined to approximately 2,000 bopd with a water cut of 60% by the time KEE took over as Operator in 2008. From 2009 to 2012, work-over activity ensured production remained fairly steady at about 2,200 bopd, with little decline. Two new wells were drilled in late 2012 and three more in the first half of 2013, increasing production to a peak of 3,300 bopd in June 2013. KE also began water injection in the Rudeis IB Formation in 2013, in one well (NY-3a), as the first stage of a water injection project (WIP). During the period 2014-2017, three new wells were drilled and approximately thirty work-overs or pump optimisations were performed, each activity adding roughly 100 bopd to production on average. Yusr-64 came on stream at the end of February 2018 at up to 465 bopd with a water cut of less than 20%.

Figure 19: Top Rudeis 1B Depth Map, Yusr North Area



Average production for the field in June 2018 was 2,895 bopd at a water cut of 78%, from 27 wells.

Despite the faulting present in the field, reservoir pressure and water production data show that an active aquifer supports production from most of the wells. A study performed in 2008 identified three regions where significant pressure depletion and absence of water production suggest an absence of aquifer support. The WIP was conceived to target these three areas, which are the Rudeis IB reservoir in Yusr North (Figure 19), and the Yusr sand in the South and Centre West of the main field.

After some further study and water injection tests, as well as delay due to the political situation in Egypt, construction of the water injection facilities was completed in April 2013 and injection began in the NY-3a well in Yusr North at a rate of 1,000 bwpd. Response to water injection, in terms of increasing reservoir pressure, increasing oil production rate and arrival of injection water tracers, was seen in two neighbouring wells (NY-5 and Y-22), but the response was initially lower than expected.

New static and dynamic reservoir models of the Rudeis IB sand in Yusr North were built by KEE in 2015 and matched to the production history. From these models, it was concluded that the NY-3a well is not optimally placed as a water injector, since it is separated from the main producing region by an area of poor quality sand. Consequently, water injection was

started in Y-32 in July 2016, at 500 bwpd, while the injection rate in NY-3a was increased to 2,000 bwpd with additional perforations added. Tracer response has now been detected in four wells, while reservoir pressure at Y-22 and Y-38ST has increased, enabling the latter well to start producing again. Also, Y-37 was put on production following a work over operation in December 2017.

4.4 Development Plans

Following the success of South Kheir-1, KE is planning three further development wells in South Kheir in 2019/20, as well as one in Shukheir NW in 2018 (Figure 17). Other developments currently anticipated in Shukheir NW include several recompletions of the existing wells. Three recompletions are also planned in Shukheir.

Three further injection points are planned for the Yusr North WIP area in 2018-19. All will use existing wells, after work-overs and/or recompletions. One additional producer in the Yusr North WIP area will also be added by working over a current Rudeis II producer. Current water injection capacity is 5,000 bwpd but it is planned to increase this to 10,000 bwpd. Water injection will be expanded to the two other target areas in 2020 (Yusr sand in the Centre West area) and 2021 (Yusr sand in the South area), which will involve drilling 7 production and 6 injection wells, as well as 2 water source wells. Modelling studies are planned to optimize the injection well locations and rates. Table 25 summarizes the development well schedule.

Table 25: Development Well Schedule, Area A

Year	Production Wells			Injection Wells			Water Source Wells		
	1P	2P	3P	1P	2P	3P	1P	2P	3P
2H 2018	1	1	1	0	0	0	0	0	0
2019	0	2	2	0	0	0	0	0	0
2020	0	3	3	0	2	2	0	0	0
2021	0	3	3	0	2	2	0	1	1
2022	0	2	2	0	2	2	0	1	1
Total	**1**	**11**	**11**	**0**	**6**	**6**	**0**	**2**	**2**

Notes:

1. All development wells relate to the Yusr WIP except the first four production wells, which are Shukheir NW and South Kheir wells.

4.5 Reserves

Future oil production from existing, producing wells in all the fields has been estimated using decline curve analysis. Production from the new wells and re-completions has been estimated on the basis of reservoir studies and analogy with the currently producing wells.

Incremental production profiles associated with the WIP for each of the three identified target areas were originally generated using material balance models in the 2008 study. Water injection is not an established recovery method in the area, although the reservoir would appear to be well suited to it. Probable and Possible Reserves are attributed to the wells planned for the remainder of the project. The incremental production profiles for the North area have been taken from KEE's recent modelling study, while those generated in the 2008 study have been used for the Centre West and South areas (with first incremental oil in 2019 and 2020 respectively).

Future CAPEX and OPEX profiles have been provided by KE, based on historical costs and forward projections, and include the following key elements:

- US$1.2 MM per new production well in Shukheir NW and South Kheir;
- US$1.73 MM per new production well, US$1.6 MM per new injection well and US$0.4 MM per water source well in Yusr;
- US$0.25 MM for a work-over and recompletion;
- US$2.4 MM CAPEX for facilities work at Shukheir NW in 2018-2020;
- US$1.2 MM CAPEX for water flood facilities upgrades (pumps, boosters, tanks and filters) in 2018-20;
- US$3.6 MM p.a. fixed OPEX plus US$0.4/Bbl variable OPEX for Shukheir NW; and
- US$3.3 MM p.a. fixed OPEX plus US$0.4/Bbl variable OPEX for the other fields.

Table 26 shows the breakdown by field of the Reserves attributed to Area A.

Table 26: Field Level Breakdown of Reserves, Area A, Egypt as at 30th June 2018

Field	Gross Field Oil Reserves (MMBbl)	
	Proved	Proved + Probable
Shukheir NW	0.67	3.86
South Kheir	0.13	3.84
Yusr	1.91	9.73
Kareem	0.08	0.23
Shukheir	0.09	0.33
Ayun	0.01	0.01
Total	**2.88**	**18.00**

Notes:

1. The Reserves shown here are included in the Reserves shown in Table 3.
2. Totals may not exactly equal the sum of the individual entries due to rounding.

4.6 Contingent Resources

Contingent Resources (Table 11) are attributed to two potential new wells that are not firmly planned. The first of these is NY-7X, which would be drilled at the northern end of the Yusr field, in the same fault block as NY-2 (Figure 19), targeting the Rudeis-1B sand.

The second is El Khalig-6. El Khalig is a small field, discovered in 1980, just to the east of the main Yusr field (it is not shown in Figure 14), that is no longer producing. This well would be drilled up-dip of El Khalig-4, the discovery well, to target attic oil in the Ayun sand.

No 1C Contingent Resources have been attributed to either well because of uncertainties in the structural interpretation due to the poor seismic quality.

4.7 Prospective Resources

GCA understands that KE has reprocessed seismic data over Area A and has identified exploration targets for the two further commitment wells (after South Kheir-1X). These are North El Khalig-1X and West El Khalig-1X, which GCA understands were being drilled in 3Q

2018, after the Effective Date of this report. No Prospective Resources estimates for these wells have been presented to GCA for audit.

5 Abu Sennan, Egypt

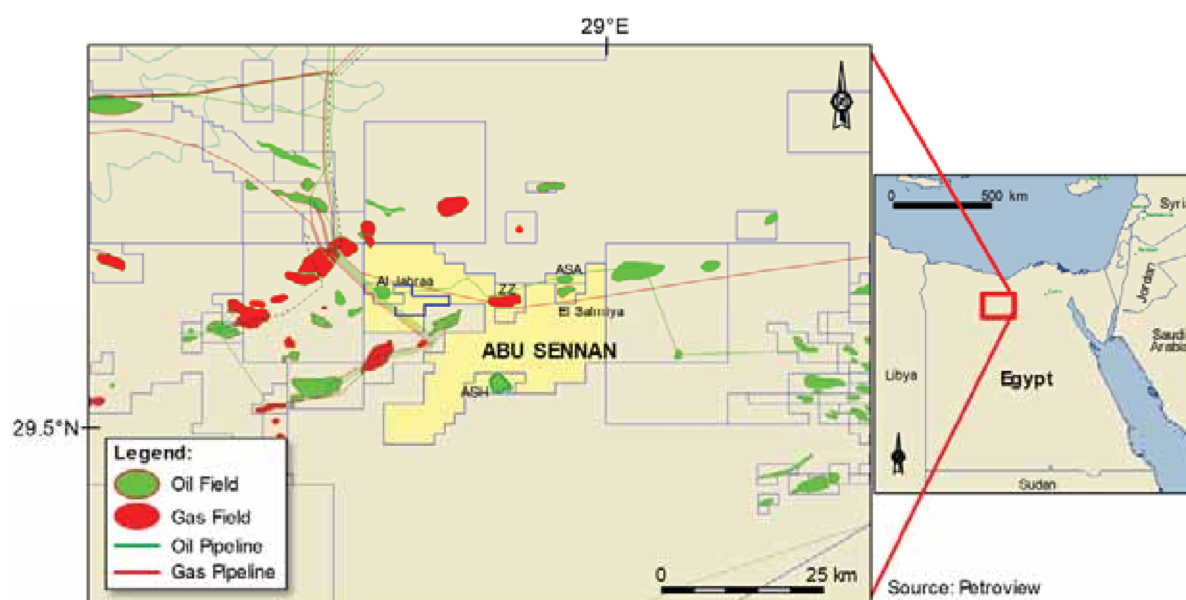
5.1 History

KE holds a 25% WI in the Abu Sennan concession through its subsidiary company KEE. It held 50% prior to farming out 25% to Global Connect Ltd at the end of 2016 (the deal is still subject to government and pre-emption approvals). The other partners are Rockhopper Exploration, holding a 22% interest, and Dover Investments Ltd (Dover), holding a 28% interest. KE carries all of Dover's costs related to the concession, and in return is entitled to receive Dover's share of the cost oil plus 7.5% of Dover's share of the profit oil attributed to the contractor group.

The concession lies in the Western Desert (Figure 20). Six 20-year development licenses have been granted covering the seven commercial discoveries that have been made. The development licenses are operated by the East Abu Sennan Petroleum Company, which is a joint venture (JV) between EGPC and the Contractor Group. The Contractor Group is represented by KEE. All decisions require approval from both parties.

The exploration license expired in May 2016, but a 5-year extension (3 years plus two 1-year extensions at the Contractor's option) covering the rest of the concession area (653.4 km^2, after relinquishments) was approved in September 2018. There is a commitment to spend a minimum of US$6 MM in the first 3-year period, to include two exploration wells, and a minimum of US$2 MM, to include one exploration well, in each 1-year extension period.

Figure 20: Abu Sennan Location Map, Egypt



Five wells were drilled on the concession prior to 1985, resulting in the discovery of oil in the ZZ field (formerly known as GP ZZ), but this was not developed at the time.

In 2008, KE acquired, processed and interpreted 3D seismic data covering most of the concession area. Activity was suspended in 2009 and 2010 awaiting military approvals, but four wells were drilled in 2011, discovering the Al Ahmadi, Al Jahraa and El Salmiya fields.

In July 2012, an extended period of trial production began following installation of rented processing facilities, with produced oil being exported by truck and produced gas being flared. Results were mixed, however, with some wells declining rapidly and others being limited by

restrictions on the amount of gas that could be flared. Two additional wells were drilled in 2013 and seven more in 2014, adding to production and discovering the ASA field as well as additional reservoirs in El Salmiya and Al Jahraa.

Three permanent production and processing stations were constructed in 2014, serving El Salmiya and ASA (the main station), Al Ahmadi and Al Jahraa respectively; these replaced the rented production facilities. A gas pipeline to a GPC gas facility located approximately 12 km from Al Ahmadi and 23 km from El Salmiya was also constructed in 2014. Rented gas handling facilities were installed and gas exports began in April 2015. Produced oil continues to be transported by truck.

A sixth discovery was made at ASH in 2015, and a seventh at Al Jahraa SE in 2016. In total, at least 18 separate accumulations have been discovered in the seven fields. The most significant is the AR-C reservoir at Al Jahraa/Al Jahraa SE, with a STOIIP estimated at between 16 and 34 MMBbl.

The 3D seismic data have been reprocessed and interpretation focusing on the main reservoirs is ongoing, with depth contour maps for Al Jahraa/Al Jahraa SE completed in time for use in estimating the STOIIP presented herein.

The oil production history is shown in Figure 21. The oil production rate peaked at 6,000 bopd in June 2015 before declining to approximately 2,500 bopd by June 2016. It subsequently remained fairly stable until April 2018, but May and June 2018 have seen a decline. Average rates in June 2018, and cumulative production to 30th June 2018 are shown in Table 27.

Figure 21: Production History, Abu Sennan, Egypt

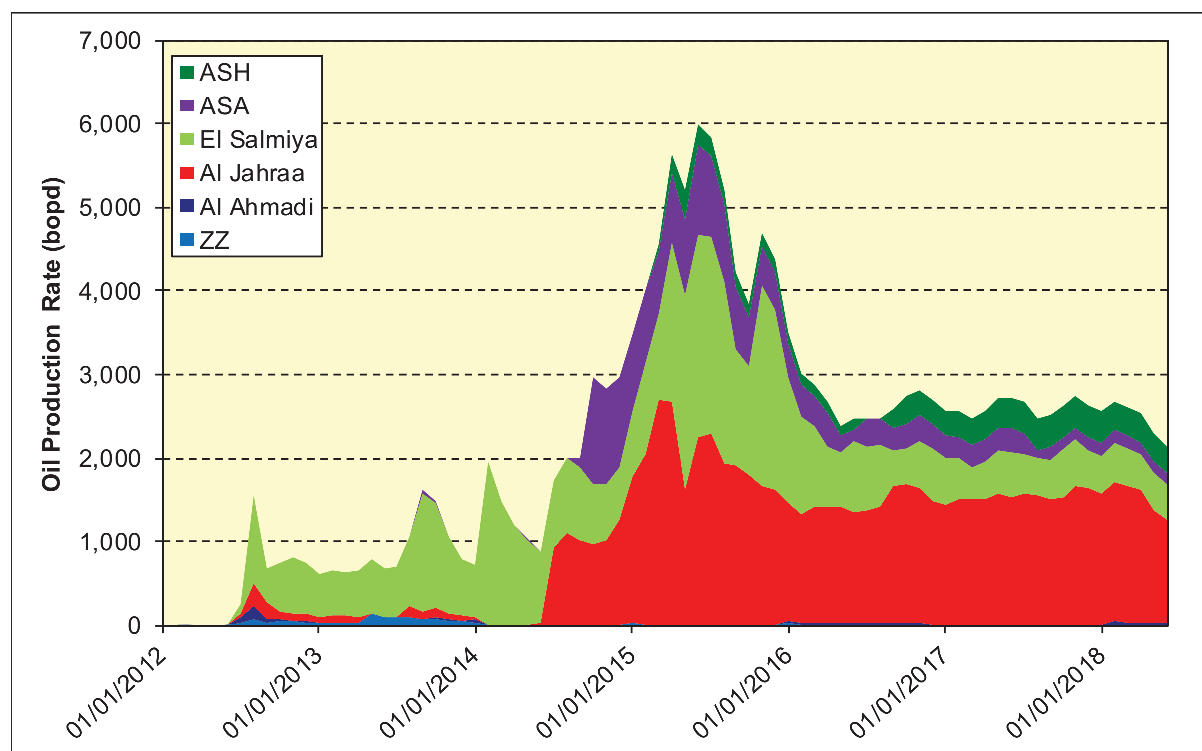


Table 27: Production Rates and Cumulative Production, June 2018

Field	Production Rate		Cumulative Production	
	Oil (bopd)	Gas (MMscfd)	Oil (MMBbl)	Gas (Bscf)
ZZ	0	1.78	37	1.03
Al Ahmadi	23	0.86	23	0.24
Al Jahraa	1,241	0.00	2,347	0.00
El Salmiya	429	4.01	1,932	4.86
ASA	132	0.00	620	0.00
ASH	311	0.00	309	0.00
Total	**2,136**	**6.65**	**5,268**	**6.13**

Notes:

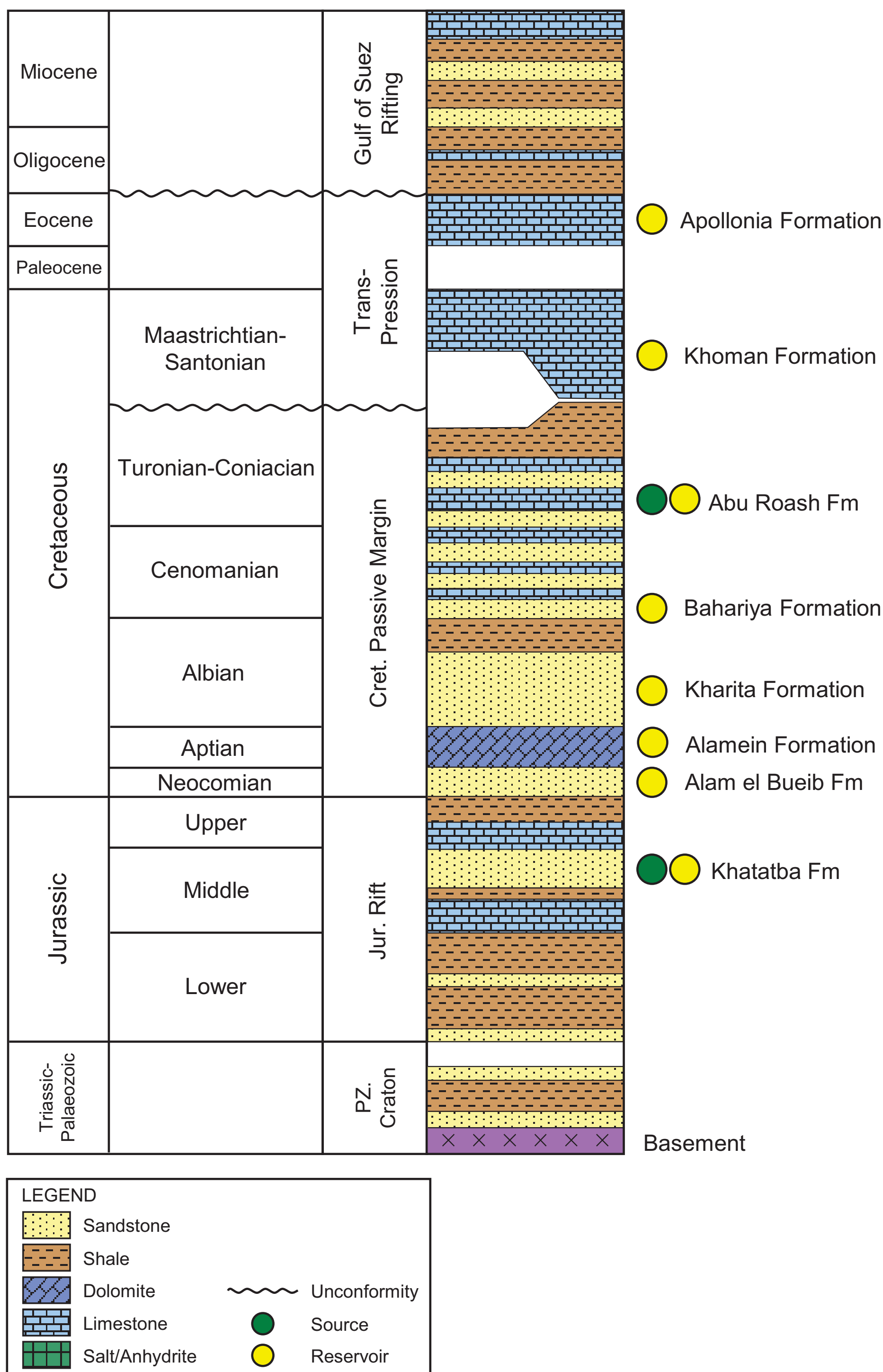
1. Al Jahraa SE production is included with Al Jahraa.
2. Totals may not exactly equal the sum of the individual entries due to rounding.

5.2 Geology

Geologically, Abu Sennan lies in the Abu Gharadig Basin in the Western Desert. Overall stratigraphy is summarised in Figure 22. The proven reservoirs are Cretaceous in age and comprise a series of interbedded marine sandstones and carbonates. The Lower Bahariya Formation and Abu Roash Members C, D, E, and G (AR-C, AR-D, AR-E and AR-G) are of Cenomanian to Turonian age, the Kharita Formation is of Albian age and the Alam El Bueib (AEB) Formation is of Neocomian age. Seals are provided mainly by interbedded marine mudstone units.

Additional prospective reservoirs are identified locally in sandstones of the deeper, Middle Jurassic Khatatba Formation. This formation also provides the principal hydrocarbon source rock, although distribution and level of maturity varies between fault blocks. Traps are provided by simple extensional fault blocks controlled by conjugate WSW-ENE and NW-SE normal fault sets but, in some cases, especially for the shallower plays, structural closures are controlled by later transpression.

Figure 22: Composite Stratigraphy, Abu Sennan and BEA, Egypt



5.3 HCIIP

Hydrocarbon initially in place (HCIIP) estimates made by KE for each of the fields and reservoirs are presented in Table 28. GOR was very high in some of the initial production tests and there has been debate as to whether the hydrocarbons exist in the reservoirs as volatile oil or gas condensate. Table 28 reflects the latest view, based on PVT reports and the production data.

Table 28: HCIIP Estimates as at 30th June 2018, Abu Sennan, Egypt

Field	Reservoir	Fluid	STOIIP/CIIP (MMBbl)			GIIP (Bscf)		
			Low	Best	High	Low	Best	High
ZZ	AR-G	Gas Condensate	0.2	0.2	0.2	2.1	2.7	3.2
	L Bahariya	Volatile Oil	0.1	0.2	0.2	0.2	0.3	0.4
Al Ahmadi	AR-G	Volatile Oil	0.1	0.1	0.1	0.2	0.3	0.4
	L Bahariya	Gas Condensate	0.3	0.4	0.4	4.0	5.0	6.0
Al Jahraa	AR-C	Oil	15.7	24.2	33.9	5.7	8.9	12.4
	AR-D	Oil	3.0	3.0	3.0	1.4	1.4	1.4
	AR-E	Oil	2.2	3.4	4.7	0.9	1.4	1.9
El Salmiya	AR-C	Volatile Oil	3.7	4.7	6.2	7.3	9.3	12.5
	AR-E	Oil	0.6	1.0	1.7	0.2	0.4	0.6
	L Bahariya	Volatile Oil	0.5	1.4	5.7	1.1	3.5	19.8
	Kharita	Volatile Oil	4.3	5.8	7.7	9.5	12.9	17.0
ASA	AR-C	Oil	0.9	1.5	2.3	0.4	0.7	1.1
	AR-E	Oil	5.6	6.1	6.7	2.7	2.9	3.2
ASH	AEB	Oil	2.9	5.7	11.4	4.1	8.0	16.0
Total			**40.0**	**57.6**	**84.2**	**40.0**	**57.7**	**95.8**

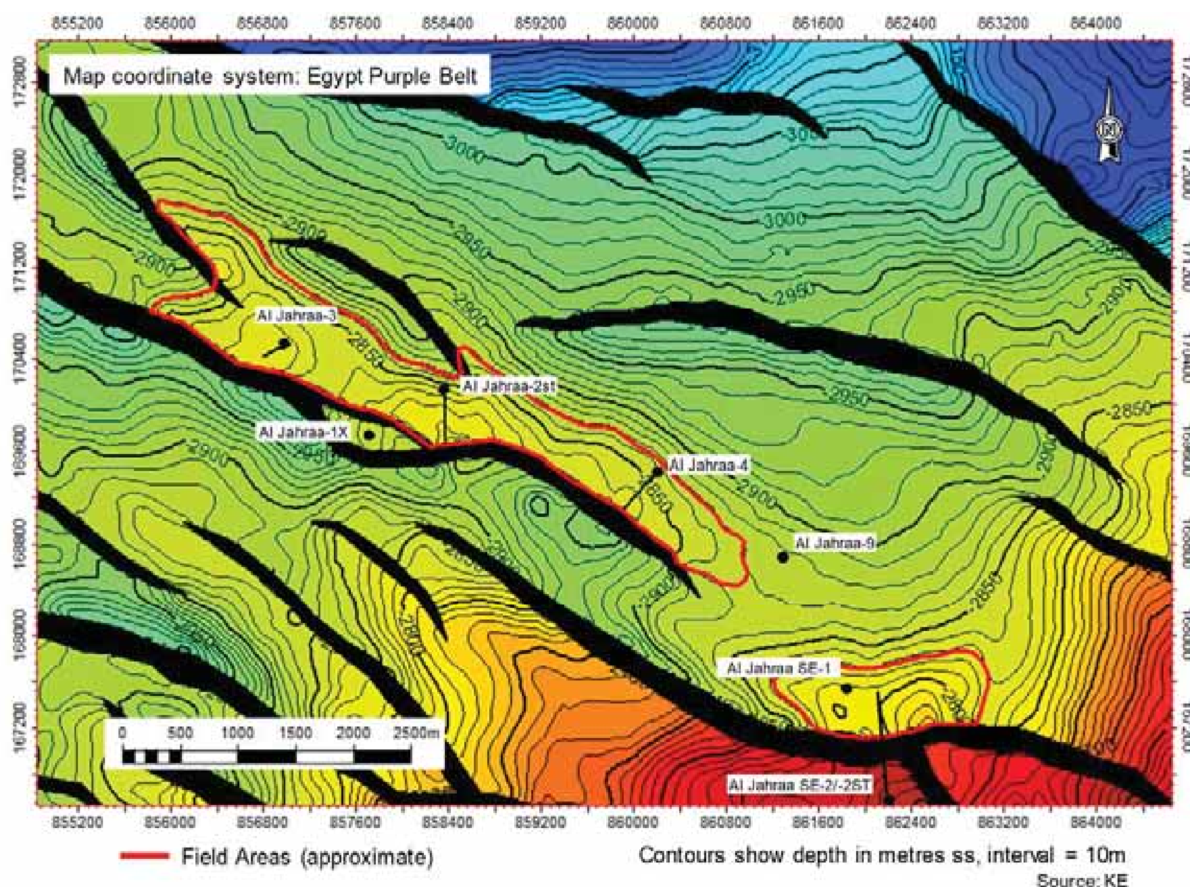
5.4 Al Jahraa Field

Al Jahraa is located on the western side of the concession area (Figure 20). Seven wells have been drilled to date (including Al Jahraa SE-1 and SE-2). Oil is found in the AR-C, AR-D and AR-E reservoirs, of which the most significant is the AR-C (Figure 23), at depths of 9,000-10,000 ft ss. All reservoirs contain light oil with a GOR of approximately 400 scf/stb. The field is an elongated anticline, partly controlled by a fault to the south. The Al Jahraa SE-1 well was drilled in 2016. It found oil in the AR-C at lower than the expected initial pressure, suggesting communication with the existing Al Jahraa wells that were already in production. However, the two oil pools in the AR-C (Al Jahraa and Al Jahraa SE) are separate and correspond to the two mapped structural closures, as indicated in Figure 23, with pressure communication taking place via an aquifer. This was confirmed by the Al Jahraa-9 well, drilled in 3Q 2017, which produced water from the AR-C when tested.

Al Jahraa-SE-2 was also drilled in 2017, initially as an exploration well on the southern side of the main bounding fault (Figure 23). It was drilled to a total depth of 3,460 m, in the Kharita Formation, but found no hydrocarbon so was side-tracked to the north of the fault where it encountered oil in the AR-C and AR-E, testing at 275 bopd in the latter.

Initial production rates of up to 1,200 bopd were achieved in the wells. Overall production from the AR-C reservoir at end June 2018 was 1.8 MMBbl, from four wells (Al Jahraa SE-1 and SE-2 were initially completed in the AR-E, although perforations in the AR-C were added in Al Jahraa SE-1 in October 2017). Reservoir pressure has fallen, indicating that the aquifer is of limited size, and KE is now implementing a water injection project in this reservoir, with water injection beginning in Al Jahraa-9 on 14th July 2018, at a rate of 2,000 bpd.

Figure 23: Top AR-C Reservoir, Al Jahraa Field

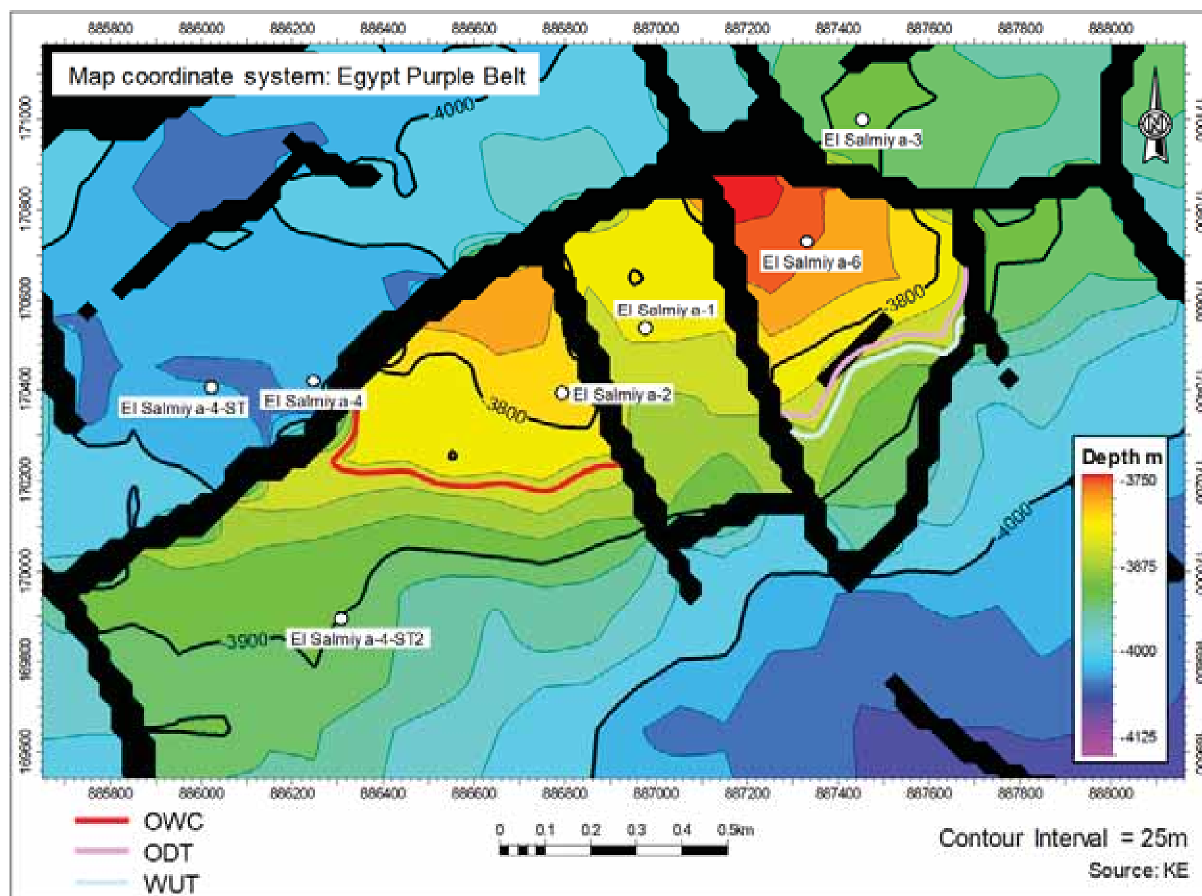


5.5 Other Fields

El Salmiya is located on the eastern side of the concession area (Figure 20). Five wells have been drilled in the field to date. Oil has been found in the AR-C, AR-E, Lower Bahariya and Kharita reservoirs at depths of 10,500 to 12,500 ft ss. Apart from the AR-E, where 33°API oil with a GOR of 200-300 scf/stb was found, all the reservoirs contain volatile oil with quite high GOR.

The field is a complex, heavily faulted, anticlinal structure, and there are at least two separate pools in each of the AR-C and Kharita reservoirs. Figure 24 shows the depth structure map for the Kharita reservoir, which is estimated to contain approximately 40% of the STOIIP in the field; only El Salmiya-2 and El Salmiya-6 have penetrated this reservoir, which is the deepest so far encountered.

Figure 24: Top Kharita Reservoir, El Salmiya Field



Although initial production rates of up to 3,500 bopd were achieved in several of the wells, production was initially constrained due to the high GOR. After gas export was put in place, rates increased but then declined quite steeply, confirming the compartmentalised nature of the reservoirs.

The ASA field is a tilted fault structure to the north of El Salmiya. Two wells and two side-tracks have been drilled in the field to date. Light oil with a GOR of approximately 400 scf/stb has been found in the AR-C and AR-E reservoirs at a depth of approximately 10,000 ft ss.

The ASH field lies in the southern part of the concession area. Previous wells in this area had been dry and there were doubts about the presence of source rock. However, the well discovered light oil with a GOR of approximately 1,400 scf/stb in the AEB Formation at a depth of 12,000 ft ss. The structure is difficult to resolve on seismic, being fairly small and faulted, but has a second culmination which will be the target for a second well. The existing well penetrated the OWC, and although an initial rate of more than 1,000 bopd was achieved, it declined rapidly as the water cut rose and it was side-tracked to a more up-dip location in 2016.

The ZZ (formerly GP ZZ) and Al Ahmadi fields have proven to be smaller than originally envisaged and to contain either gas condensate or very volatile oil with high GOR. Small volumes of oil and gas have been produced from one well in each field, and there are no plans for further development.

5.6 Development Plans

KE is planning up to nine new production wells in Abu Sennan over the period 2018-2022, one in ASA (2019), one in ASH (in 2020), one in El Salmiya (2020), and the remaining six in Al Jahraa. All of the Al Jahraa wells will be completed in the AR-C reservoir, where KE is planning to implement a water injection project with up to 5 water injection wells (including Al Jahraa-9). Table 29 shows the drilling schedule by year and by reserves case.

Table 29: Planned Drilling Schedule, Abu Sennan

Year	Production Wells			Water Injection Wells		
	1P	2P	3P	1P	2P	3P
2H 2018	2	2	2	0	0	0
2019	1	2	2	0	1	1
2020	2	3	5	0	1	1
2021	0	0	0	0	0	1
2022	0	0	0	0	0	1
Total	**5**	**7**	**9**	**0**	**2**	**4**

Notes:

1. The above table shows development wells only, not exploration wells or water source wells.
2. Although five wells target Proved volumes, these wells are uneconomic in the Proved case, so no Proved Reserves are attributed to them.

5.7 Reserves

GCA has audited production profiles prepared by KE for all the fields. Production from currently producing wells has been estimated by decline curve analysis, except for those in the AR-C reservoir in Al Jahraa, where the production profiles are taken from a material balance reservoir model constructed by KEE. This model is also used to forecast production from the planned wells in that reservoir, while initial oil production rates and decline rates for the other new wells have been estimated using regional analogues and recoverable volume estimates.

Probable and Possible Reserves, but no Proved Reserves, are attributed to the water injection project in Al Jahraa. Although five of the planned wells target Proved volumes, none of them is economic in the Proved case so no Proved Reserves are attributed to them.

Future CAPEX and OPEX profiles associated with the development plans have been provided by KE. Key elements include:

- US$3.5 MM per well, including flowline, for each new well in Al Jahraa or ASA;
- US$3.1 MM per well for an injection well;
- US$4.3 MM per well in ASH;
- US$4.5 MM per well in El Salmiya;
- US$0.3 MM for a major work-over and recompletion;
- US$8.0 MM facilities CAPEX over the period 2018-2020 (none in the Developed case), including the water injection project;
- Fixed OPEX of US$5.0 MM p.a.; and

- Variable OPEX of US$3.2/Bbl for transportation (trucking), processing and handling.

Table 30 shows the breakdown by field of the Reserves attributed to Abu Sennan.

Table 30: Field Level Breakdown of Reserves, Abu Sennan, Egypt as at 30th June 2018

Field	Gross Field Oil Reserves (MMBbl)		Gross Field Gas Reserves (Bscf)	
	Proved	Proved + Probable	Proved	Proved + Probable
Al Jahraa	0.71	7.85	0.00	0.00
El Salmiya	0.18	0.77	1.43	4.98
ASA	0.06	0.42	0.00	0.00
ASH	0.18	1.11	0.00	0.00
ZZ	0.00	0.00	1.01	3.89
Al Ahmadi	0.01	0.04	0.29	1.37
Total	**1.13**	**10.19**	**2.73**	**10.24**

Notes:

1. The Reserves shown here are included in the Reserves shown in Tables 3 and 5.
2. Totals may not exactly equal the sum of the individual entries due to rounding.

5.8 Prospective Resources

A significant amount of exploration potential remains in the Abu Sennan Concession and KE has matured five Prospects (Figure 25 and Table 31) from a larger portfolio of Leads. Each Prospect has 2-4 reservoir targets that could be tested with a single exploration well. The targets are in the established Upper Cretaceous plays (Abu Roash, Bahariya and Kharita Formations) and in some cases in deeper, higher risk Lower Cretaceous and Jurassic plays (AEB and Kharita Formations). The targets lie at depths between 2,000 m (6,500 ft) and 4,000 m (13,000 ft), being shallower in the ASF and ASK Prospects in the southwest part of the concession.

Figure 25: Location of Prospects

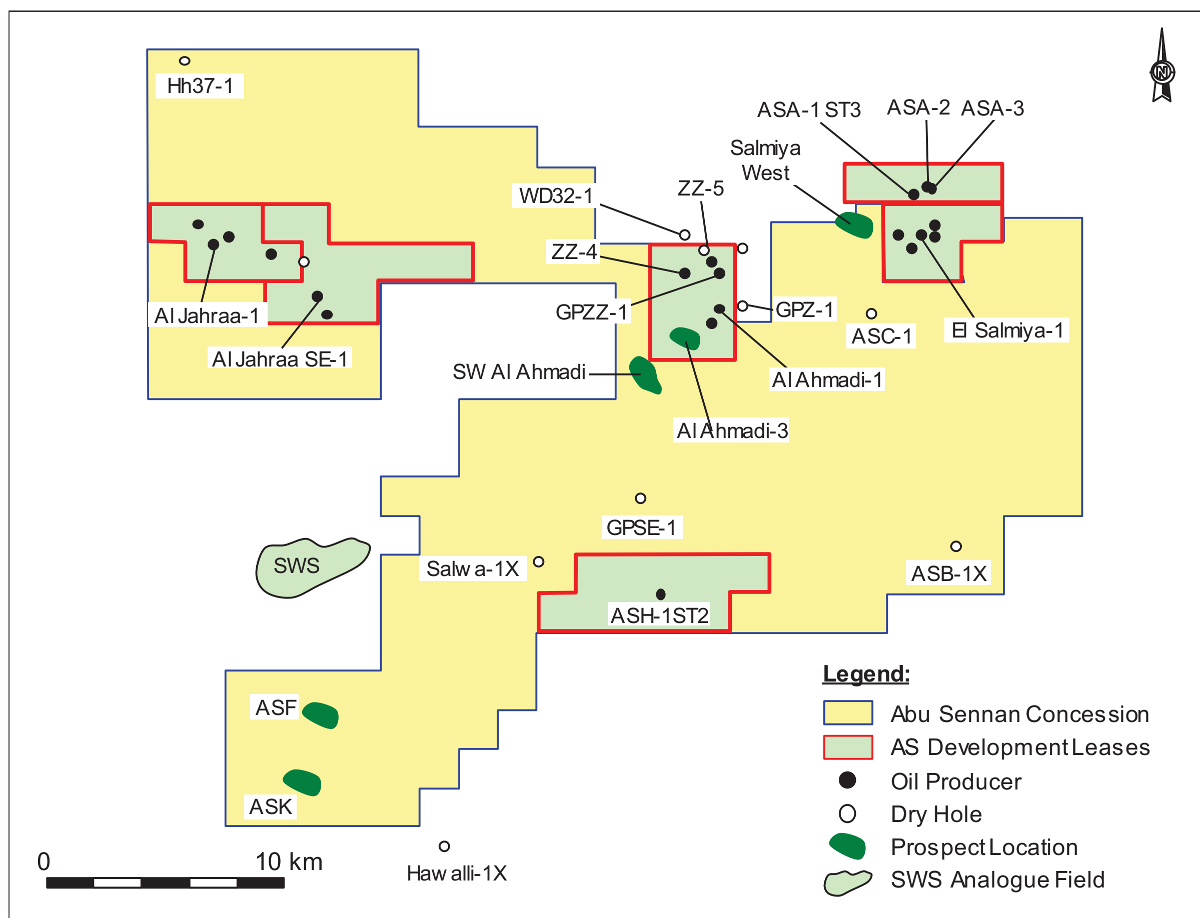


Table 31 reflects GCA's view on the volumetric uncertainty of each prospective target and the associated Geological Chance of Success (GCoS). While individual target volumes are mostly fairly modest, and there is some uncertainty on the nature of any fluids (oil or gas-condensate) that may be present in some of the targets, the chance of success in some of the Prospects close to the existing fields is relatively high.

Almost the entire license area is covered by 3D seismic data. The seismic dataset and its interpretation are sufficiently robust to define the Prospects presented, with some uncertainty surrounding the definition of small structural closures and the linkage between shallow and deep faults.

Volumes have been estimated from the results of the mapping and estimates of rock and fluid parameters from wells within Abu Sennan or in nearby analogues (SWS). The discovery of the ASH oil field (AEB reservoir) has lowered the migration risk in the southern part of the concession, which was previously thought to have been in a migration shadow (preventing hydrocarbon charge). Uncertainty remains within the individual Prospects, with the key geological risks being associated with trap integrity (fault seal), reservoir presence/quality and hydrocarbon migration in the southwest extremes of the concession. There is a risk that hydrocarbon present in the Al Ahmadi-3 Prospect, if any, may be gas.

Table 31: Summary of Oil Prospective Resources (Prospects) as at 30th June 2018, Abu Sennan, Egypt

Prospect		Gross (MMBbl)			KE WI (%)	Net to KE's Interest (WI Basis) (MMBbl)			GCoS (%)
		Low	Best	High		Low	Best	High	
ASF-1x	AR-C	0.9	2.2	5.1	25.0	0.2	0.5	1.3	14
	AR-E	0.4	1.0	1.9		0.1	0.2	0.5	6
	AR-G	0.6	1.2	2.4		0.2	0.3	0.6	24
	Bahariya	1.3	2.5	4.2		0.3	0.6	1.1	24
ASK-1x	AR-G	0.4	0.7	1.4		0.1	0.2	0.4	17
	Bahariya	0.8	1.6	2.6		0.2	0.4	0.7	17
	AEB	1.9	3.4	5.7		0.5	0.9	1.4	27
	Khatatba	1.9	3.3	5.3		0.5	0.8	1.3	35
Al Ahmadi-3	AR-C	0.1	0.3	0.6		0.0	0.1	0.2	32
	AR-G	0.1	0.2	0.4		0.0	0.0	0.1	32
	Bahariya	0.2	0.3	0.5		0.0	0.1	0.1	22
	Kharita	0.8	1.3	2.1		0.2	0.3	0.5	40
Salmiya West	AR-C	0.2	0.4	0.9		0.0	0.1	0.2	35
	AR-E	0.1	0.2	0.5		0.0	0.1	0.1	35
	Bahariya	0.2	0.4	0.6		0.0	0.1	0.2	42
	Kharita	0.9	1.5	2.4		0.2	0.4	0.6	36
SW Al Ahmadi	AR-C	1.6	5.0	13.5		0.4	1.3	3.4	35
	Bahariya	1.3	3.5	7.2		0.3	0.9	1.8	24

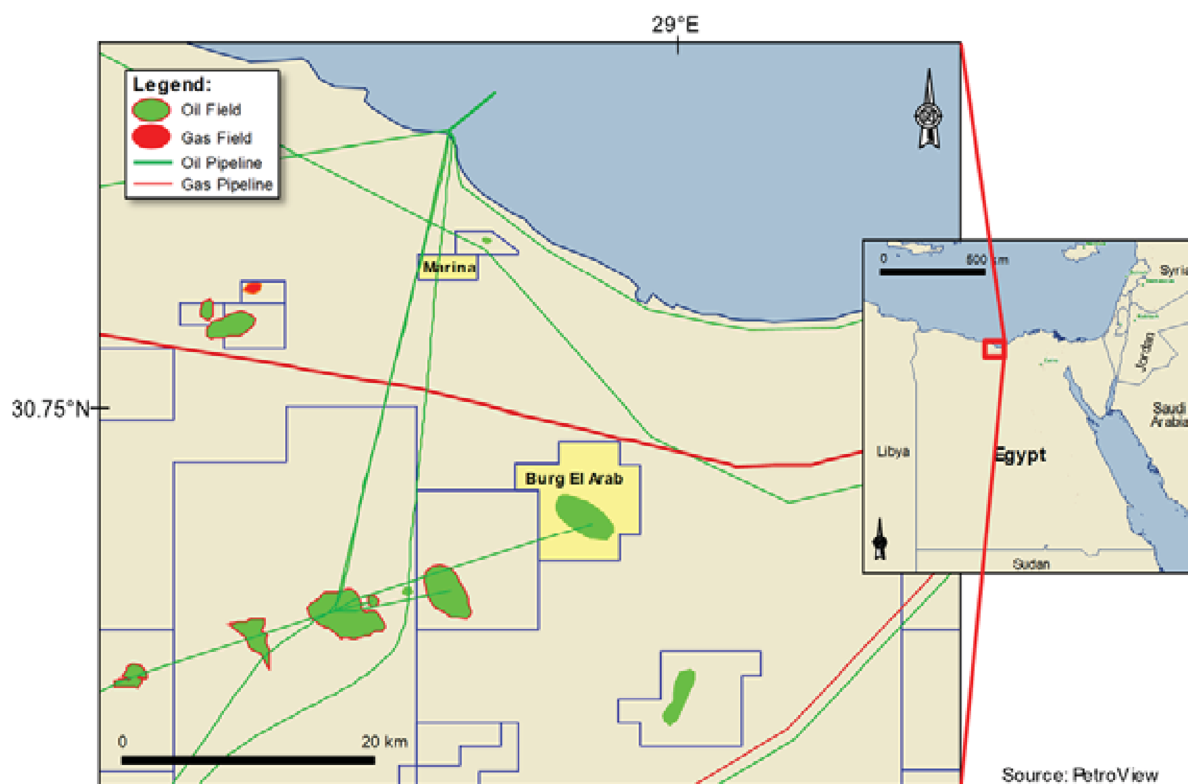
Notes:

1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect, in the event that a discovery is made and subsequently developed.
2. Prospective Resources Net to KE's Interest are the Working Interest fraction of the Gross Prospective Resources; they do not represent the actual Net Entitlement under the terms of the PSC that governs the asset, which would be lower.
3. The GCoS reported here represents an estimate of the probability that drilling this Prospect would result in a discovery. This does not include any assessment of the risk that a discovery, if made, may not be developed.
4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.
5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.
6. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved.
7. AR-C = Abu Roash Formation 'C' Member; AR-E = Abu Roash Formation 'E' Member; AR-G = Abu Roash Formation 'G' Member; AEB = Alam El Bueib Formation.

6 Burg El Arab, Egypt

KE holds a 100% WI in the Burg El Arab (BEA) Concession in the Western Desert (Figure 26). Despite being referred to as a Concession, the license is contractually structured as a PSC. BEA is operated by a JV between EGPC and the Contractor Group, all decisions requiring approval from both parties. KE took over from Gharib Oil as the Contractor Group's representative in the JV in 2009. BEA comprises two separate areas (the main block and the Marina block) in the Western Desert. The BEA oil field lies within the main block. Following a 5-year extension granted in 2015, the development license for the BEA field now expires in December 2021, but further extension is possible.

Figure 26: BEA Location Map

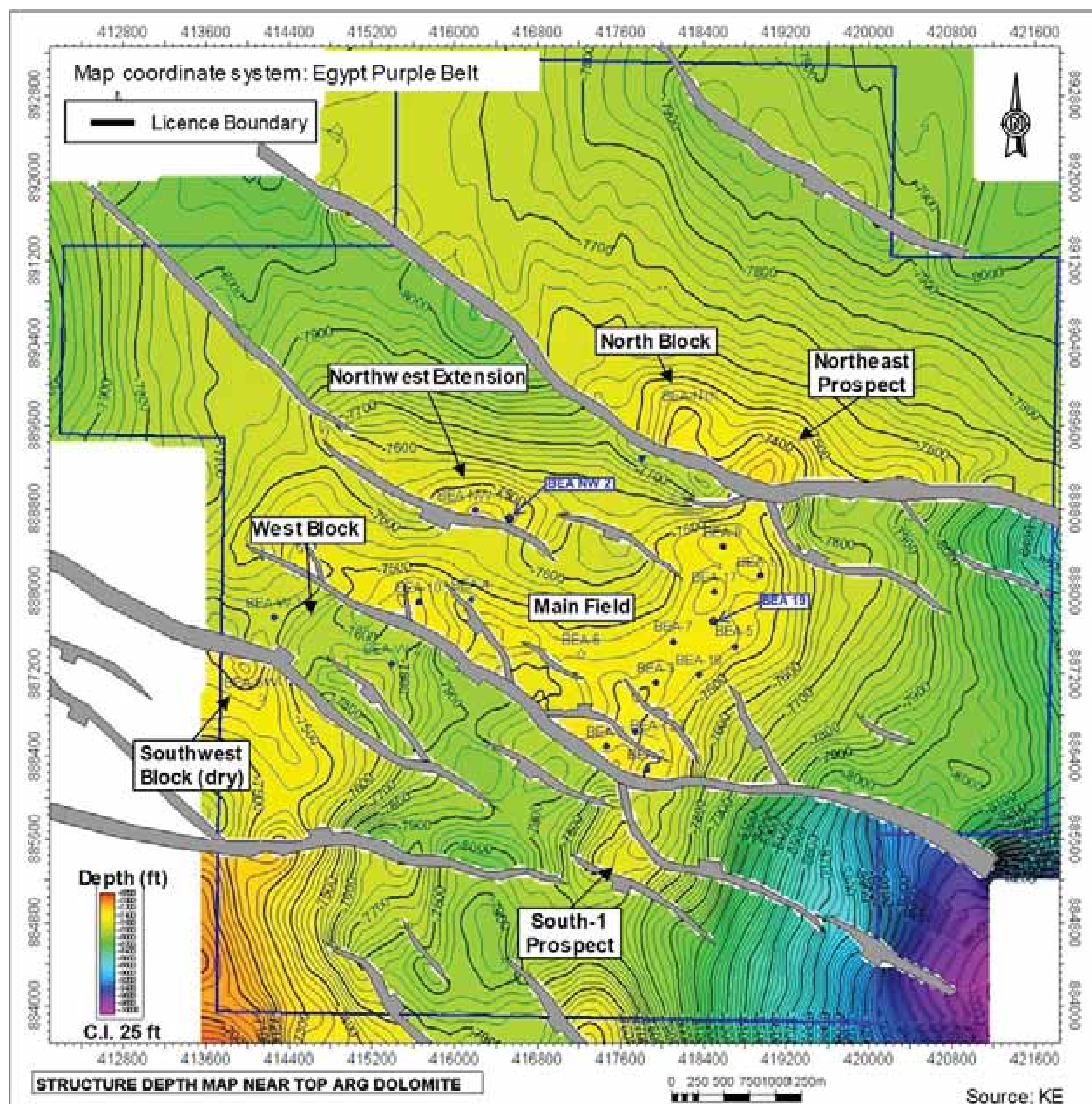


6.1 History

The BEA field (Figure 27) was first drilled in 1991 (well BEA-1) but the first successful production test did not occur until 1996 (BEA-2). Commercial production started in February 1997 (Figure 28). A total of 6 wells were drilled up to 1999 and another (BEA-7) commenced production in 2008. All these wells are located in the main part of the BEA field and produce from the Abu Roach G (AR-G) Dolomite and/or the Upper and Middle Bahariya Formations.

Since becoming the lead Contractor, KE has significantly reduced the mechanical problems that had previously plagued operations. The BEA-N-1X and BEA-W-1X wells were drilled in 2009/2010 but initially were not particularly successful. However, four new wells (BEA-8 to BEA-11) were drilled in 2011, with BEA-9 and BEA-11 discovering oil in the Lower Bahariya Formation and producing at initial peak rates of 750-1,000 bopd. In 2012, BEA-W-1X was re-perforated in the AR-D Formation, from which it produced at an initial rate of 1,400 bopd; this seems to be a relatively localised pool, however, as the AR-D was found to be water bearing at BEA-W-2.

Figure 27: BEA Field, Egypt

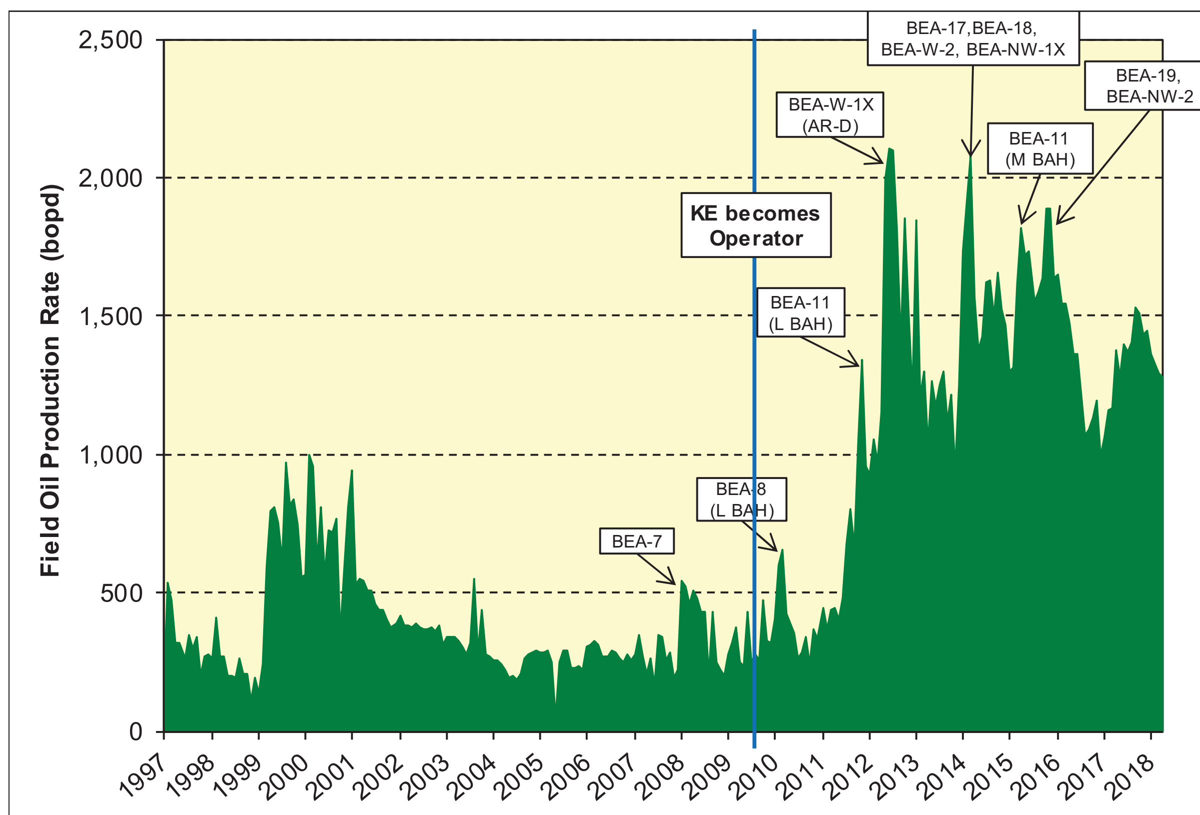


Production and accommodation facilities in the field were substantially replaced and upgraded in 2013, including construction of a new 6-inch diameter pipeline of 26 km length for oil export from BEA to El Hamra processing station.

Five further wells were drilled in 2013/2014, all reasonably successful apart from BEA-SW-1X, which was a dry hole. BEA-NW-1X found oil in the AR-G and the Upper and Middle Bahriya in an extension of the main field area. Most recently, two new wells (BEA-NW-2 and BEA-19) were drilled in 2015, which again were reasonably successful. On-going recompletions and pump optimizations have provided increments of 100-200 bopd from time to time.

The average production rate in the first six months of 2018 was approximately 1,360 bopd from 15 wells, with a water cut of approximately 58% (Figure 28). Cumulative oil production to end June 2018 was approximately 5.1 MMBbl. Only a small quantity of gas is produced from the field, and it is not sold.

Figure 28: Production History, BEA Field, Egypt



6.2 Geology

Geologically, BEA lies in the Alamein Basin, where oil-bearing reservoirs are found mainly in the Abu Roash and Bahariya Formations of Middle to Upper Cretaceous age (Figure 22).

The structural architecture of the field is dominated by a number of northwest to southeast trending normal faults (Figure 27). The original 7 wells, the 4 wells drilled in 2011 and BEA-17/-18/-19 are located in a central high horst block, while BEA-N-1X, BEA-W-1X and BEA-NW-1X/-2 lie in adjoining blocks to the north, west and northwest respectively. The productive reservoirs are the Abu Roash and Bahariya Formations of Middle to Upper Cretaceous (Cenomanian to Turonian) age at depths of approximately 7,400-8,000 ft. The AR-G Dolomite can be subdivided into two zones (AR-G I and AR-G II) and the (Upper/Middle) Bahariya into three. The Lower Bahariya is oil-bearing in BEA-9, BEA-11, BEA-17 and BEA-19, but water-bearing elsewhere. To date, the AR-D has been productive only in the West Block. The underlying Early Cretaceous (Aptian) Alamein Dolomite Formation produced oil during a short production test in the BEA-1 well but was dry in BEA-2. It could not be tested in BEA-1-ST for mechanical reasons and produced only water in BEA-W-1X, despite indications of oil from the log interpretation.

The reservoirs comprise a succession of interbedded clastic and carbonate deposits. Although the poor borehole integrity in the six oldest wells (drilled by the previous Operator) makes it difficult to identify net pay from the log data, the principal oil-bearing zones can be correlated across the existing wells. Reservoir quality varies, however, and individual sand bodies in the Bahariya Formation, particularly the Upper part, are unlikely to extend across the whole field.

6.3 STOIIP

KE last updated its STOIIP estimates in 2012 taking into account information from the four wells drilled in 2011. These STOIIP estimates are shown in Table 32. GCA's independent checks indicated that the overall volumes were reasonable in the aggregate. No update following the wells drilled in 2014 and 2015 has yet been presented to GCA, although the previous Low estimate for the West Block AR-D was adopted for the Best and High cases also, following the drilling of BEA-W-2. GCA understands that work on an updated reservoir model was in progress in 2017, based on inversion of reprocessed 3D seismic data over the main reservoir intervals that was completed in 2016.

Table 32: STOIIP Estimates, BEA Field, Egypt

Block	STOIIP (MMBbl)		
	Low	Best	High
Main and North	67	98	135
West	10	13	18
Total	**77**	**111**	**153**

6.4 Development Plans

Ten new development wells are planned comprising three each year from 2019 to 2021 and one in 2022. The first of these will be a horizontal well in the AR-G, which will be the first horizontal well in the field. Also planned in 2019 is West Block well BEA-W3, a vertical well to be completed first in the AR-D and then the AR-G. The remaining eight wells will be vertical and target the Middle and Upper Bahariya in the main part of the field.

6.5 Reserves

Reserves have been estimated using a combination of decline curve analysis for existing wells and volumetric methods.

The STOIIP estimates suggest that AR-G Dolomite and Middle/Upper Bahariya reservoirs in the main field are underdeveloped, with a current recovery factor of only 3-6%. Undeveloped Reserves have thus been attributed based on volumetric estimates of ultimate recovery, with ultimate recovery factors estimated based on analogues. These range from 8-15% for most of the reservoirs, apart from the Lower Bahariya (30-35%) and the AR-D (13-20%), both of which benefit from active aquifer support.

Future CAPEX and OPEX profiles have been estimated based on actual costs incurred in 2011-2017 and budgeted costs. Key elements include:

- US$4.75 MM for the horizontal well and US$2.3 MM per well for new vertical wells;
- US$0.2 MM for each recompletion;
- US$2.2 MM for minor facilities upgrades in 2018-20; and
- US$3.0 MM p.a. fixed OPEX plus US$2.1/Bbl variable OPEX.

The Proved case is truncated at the end of the licence period (December 2021).

6.6 Contingent Resources

Contingent Resources are attributed to a possible waterflood of the AR-G, Upper and Middle Bahariya reservoirs in the Main Block in the BEA field. The Lower Bahariya reservoir has an active water drive, so no water injection is needed there. Evaluation of the project is at an early stage and reservoir studies are on-going. Likely production profiles and costs are not yet defined, so Contingent Resources have been estimated based on the incremental recovery factor that might be achieved. This has been estimated at 5%, 15% and 25% in the Low, Best and High cases respectively (Table 11).

Contingent Resources are also attributed to the Marina area, where oil was previously discovered in the Alam El Bueib (AEB) Formation of Jurassic age (Figure 22) at a depth of about 9,600 ft by the Marina-1 well, though it produced at only 26 bopd in a test. This is a regionally productive reservoir and GCA understands that KEE plans to retest the well. Contingent Resources have been attributed to the structure based on STOIIP and notional (typical for such fields/formations in the area) recovery factor estimates.

6.7 Prospective Resources

Two Prospects, Northeast and South-1, have been identified in fault blocks adjacent to the existing BEA field (Figure 27). Both the Prospects are in proved reservoir intervals so are relatively low risk, but it should be noted that not every reservoir has been productive in all the wells drilled to date: several wells within the main field area have encountered some dry reservoir intervals, and the BEA-SW-1X well drilled in 2014 was unsuccessful. This indicates risks associated with trapping and with reservoir facies variation, which have been considered by GCA in estimating the GCoS shown, along with the Prospective Resources estimates, in Table 33.

Table 33: Summary of Oil Prospective Resources (Prospects) as at 30th June 2018, Burg El Arab (Egypt)

Prospect		Gross (MMBbl)			KE WI (%)	Net to KE's Interest (WI Basis) (MMBbl)			GCoS (%)
		Low	Best	High		Low	Best	High	
Northeast BEA	L Bah	0.2	0.5	1.0	100	0.2	0.5	1.0	26
	U Bah	0.2	0.5	1.1		0.2	0.5	1.1	26
	AR-G	0.1	0.3	0.7		0.1	0.3	0.7	34
South-1 BEA	L Bah	0.1	0.2	0.3		0.1	0.2	0.3	19
	M Bah	0.1	0.2	0.3		0.1	0.2	0.3	19
	U Bah	0.0	0.1	0.2		0.0	0.1	0.2	19
	AR-G	0.0	0.1	0.2		0.0	0.1	0.2	24

Notes:

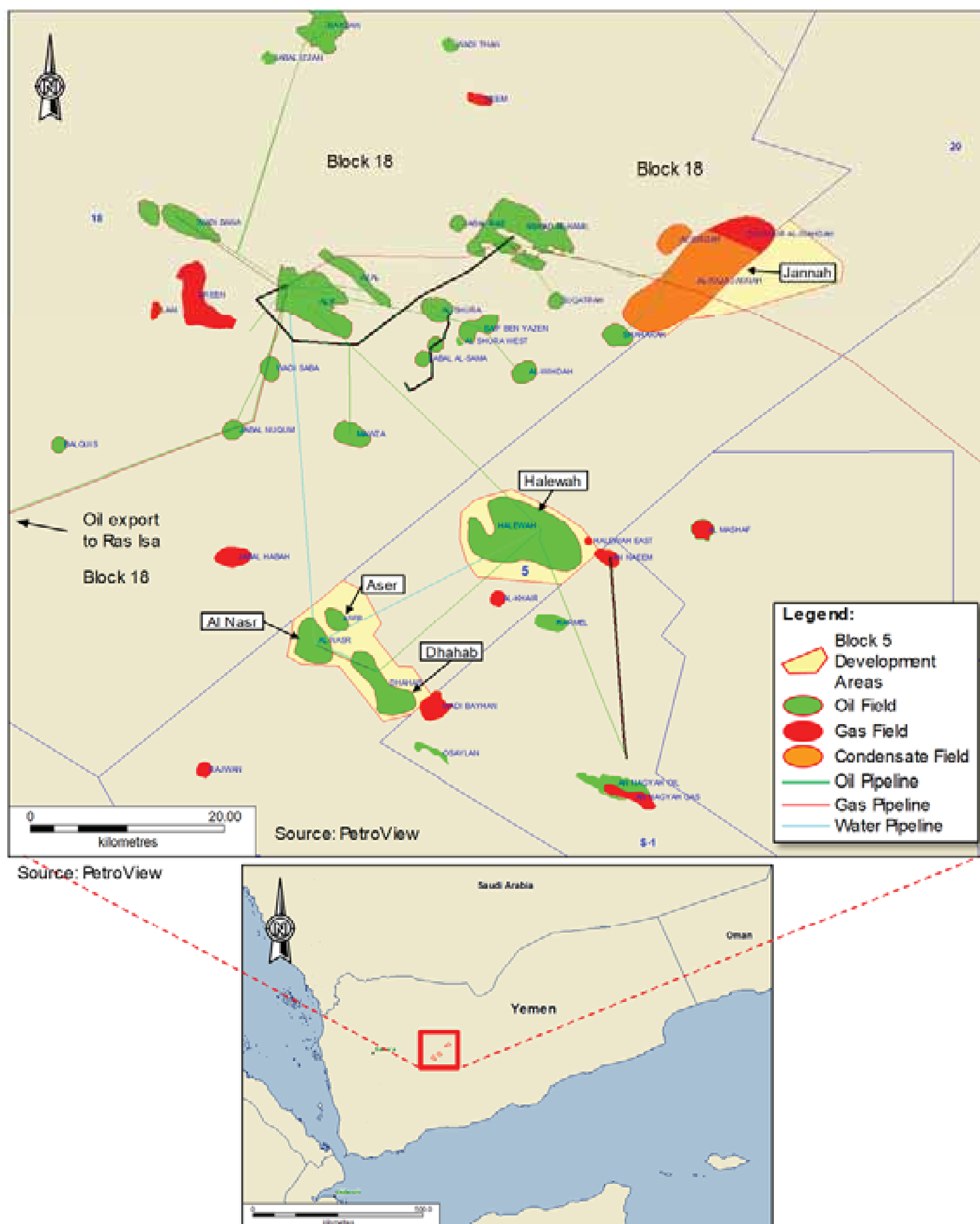
1. Gross Prospective Resources are 100% of the volumes estimated to be recoverable from the Prospect, in the event that a discovery is made and subsequently developed.
2. Prospective Resources Net to KE's Interest are the Working Interest fraction of the Gross Prospective Resources; they do not represent the actual Net Entitlement under the terms of the PSC that governs the asset, which would be lower.
3. The GCoS reported here represents an estimate of the probability that drilling this Prospect would result in a discovery. This does not include any assessment of the risk that a discovery, if made, may not be developed.
4. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that no discovery will be made or that any discovery would not be developed.
5. Identification of Prospective Resources associated with a Prospect is not indicative of any certainty that the Prospect will be drilled, or will be drilled in a timely manner.
6. Prospective Resources should not be aggregated with each other, or with Reserves or Contingent Resources, because of the different levels of risk involved.
7. L Bah = Lower Bahariya Formation, M Bah = Middle Bahariya Formation, U Bah = Upper Bahariya Formation, and AR-G = Abu Roash Formation 'G' Member.

7 Block 5, Yemen

In October 2012, KE purchased 100% of the shares of the Jannah Hunt Oil Company, which holds a 15% WI in Block 5 (also known as the Jannah Block) and is the Operator. The other partners are Exxon Saba Ltd, Total E&P Ltd and Newco (Private Limited) Enterprises S.A., with 15% each, and state-owned companies Kuwait Foreign Petroleum Exploration Company (KUFPEC) and Yemen Company for Investment in Oil and Minerals (YICOM), with 20% each.

The Block is located in the west of Yemen to the east of the capital Sana'a (Figure 29) and now covers three Development Areas defined around the producing fields, the remainder of the original Block 5 having been relinquished.

Figure 29: Location of Block 5, Yemen



Source: PetroView

The Block is covered by a Producing Sharing Agreement (PSA), through which the Contractor derives revenue from oil (and condensate) production in the form of Cost Recovery and Profit Share. The Contractor has no rights to any gas produced from the Block. For further details on the PSA terms, see Section 9.

7.1 History

Block 5 lies adjacent to the larger Block 18 (Marib Block) where oil was first discovered in the Alif field in 1984 (Figure 29). The Block contains three main producing oilfields, Al Nasr, Dhahab and Halewah, which were discovered in the mid-1990's and put in production in 1996 (Halewah), 1997 (Dhahab) and 1999 (Al Nasr). The small Aser field is no longer in production, while one well produces from the Jannah field, which is the extension into the Jannah Block of the large Al Raja gas condensate field located in Block 18.

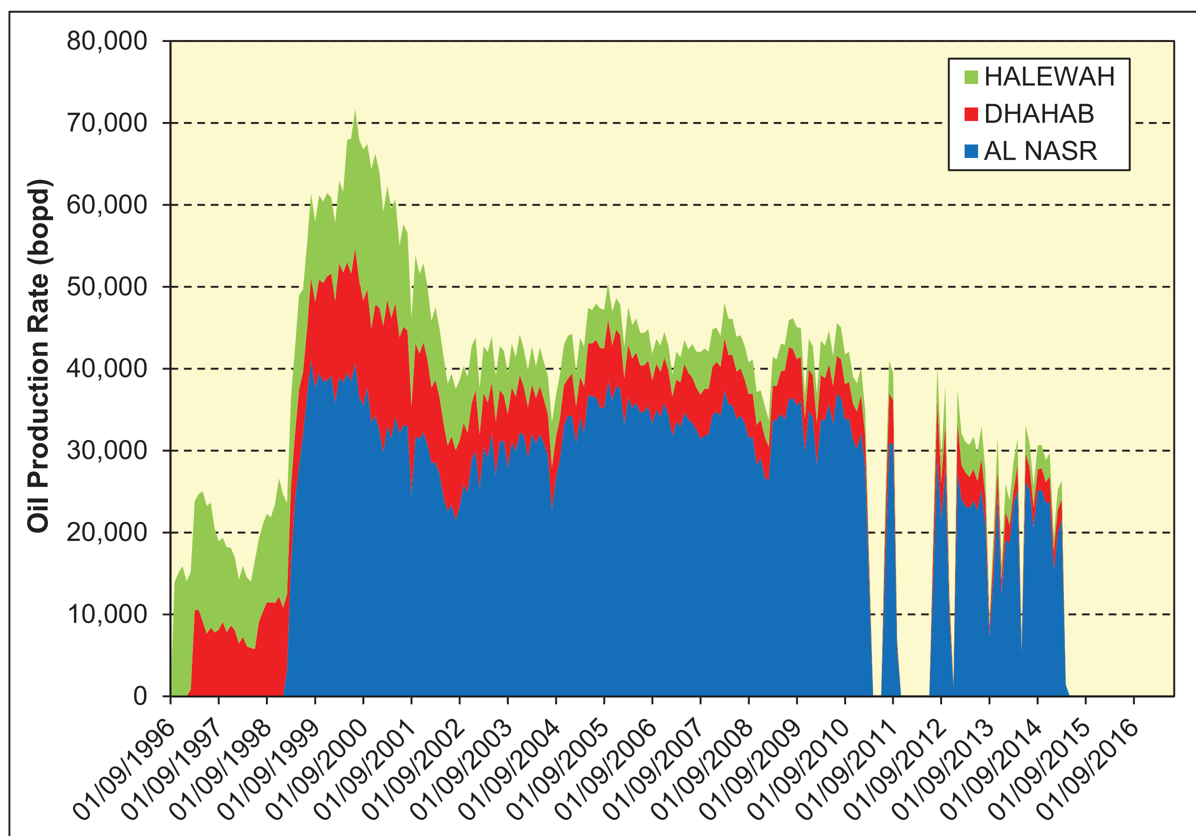
Al Nasr is an under-saturated oil reservoir that has been developed with water injection (using produced water from the Block 5 and Block 18 fields). Dhahab and Halewah are saturated oil reservoirs with gas caps. Produced gas from all three fields is re-injected into Dhabab and Halewah to maintain reservoir pressure. Oil is exported via a pipeline to the Alif processing facilities in Block 18 and from there via another pipeline to the port of Ras Isa on the western coast of Yemen. Production from Dhahab and Halewah is limited by gas handling capacity, due to the rising GOR in those fields.

Figure 30 shows the production history for the three main fields. Reservoir pressure has been maintained by gas and water injection, the fields have been regularly monitored, and occasional in-fill drilling allowed the overall production rate to be maintained at between 40 and 50 Mbopd until 2010, when it began to decline. From April 2011 onwards, production was interrupted on several occasions due to sabotage of the export pipeline to the coast. Most recently, no production has been possible since 7th April 2015 due to closure of the port at Ras Isa as a result of the ongoing civil unrest in Yemen.

Following the prolonged shut-ins in 2011 and 2012, a few wells were under-performing, either due to salt deposition in the well bore and around the sand face or as a result of cross-flow during the shut-in periods, and a couple of water injection wells in Al Nasr experienced mechanical problems, resulting in reduced water injection and a consequent reduction in oil production. While these are routine problems, fixing them was delayed because of the security situation; nonetheless, five work-overs were performed in 2014. Three new wells were also drilled in Al Nasr in 2013-2014, two testing at more than 3,000 bopd. The three wells together contributed more than 5,000 bopd to production after rates stabilized.

The production rates for March 2015, the last month of uninterrupted production, and cumulative production to date are summarized in Table 34.

Figure 30: Production History, Al Nasr, Dhahab and Halewah Fields



Source: KE

Table 34: Production Statistics, Block 5, Yemen

Field	Production Wells	Injection Wells[1]	Oil Production Rate (bopd)	Water Cut (%)	GOR (scf/stb)	Cumulative Oil Production (MMBbl)
Al Nasr	21	9	21,480	39	500	166.3
Dhahab	21	2	2,630	6	7,400	42.5
Halewah	19	2	2,240	15	20,900	42.2
Aser	-	-	-	-	-	0.1
Jannah	1	-	80	-	227,600[2]	2.2
Total	**62**	**13**	**26,430**	**-**	**-**	**253.2**

Notes:

1. Water injection in Al Nasr, gas injection in Dhahab and Halewah.
2. The GOR for Jannah corresponds to a condensate yield of 4.4 stb/MMscf.
3. Rates and ratios are for March 2015; cumulative to end June 2018.

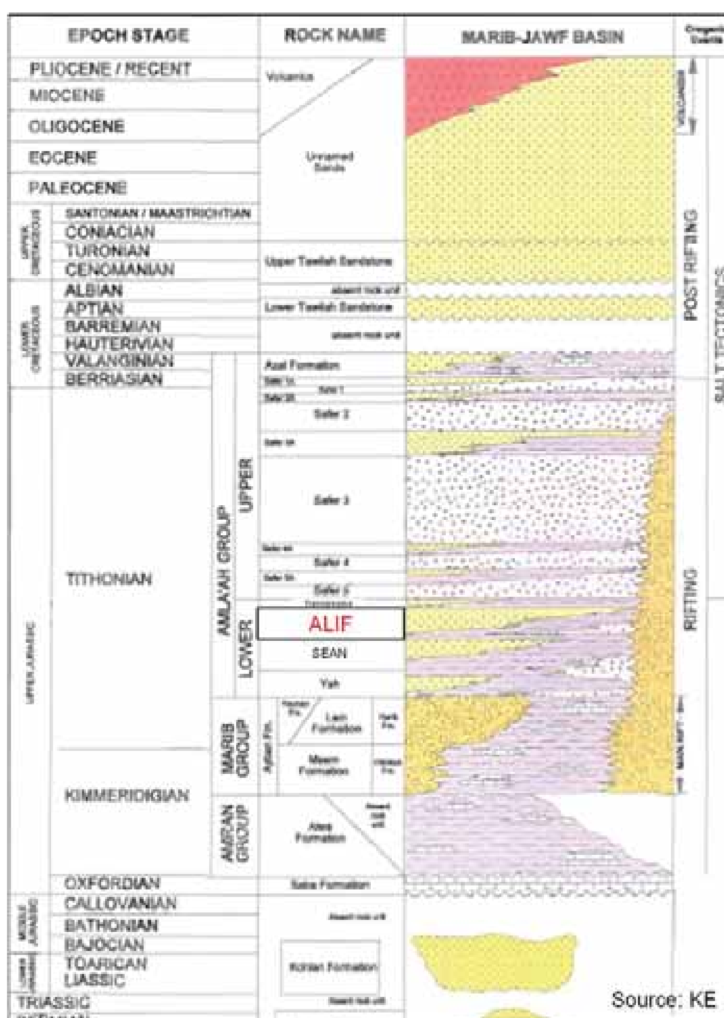
7.2 Geology

Geologically, Block 5 is located in the Sab'atayn Basin. The tectono-stratigraphic history of this region reflects crustal extension and active rifting in the late Jurassic followed by late syn-rift salt deposition and subsequent halokinesis. A series of NW-SE to W-E trending grabens formed the main depocentres for the deep marine sediments of Kimmeridgian age that would

form the prolific, oil-prone source rocks (Meem Formation, Marib Group) for Blocks 5 and 18. The other key elements of the play are the Tithonian Alif Formation reservoir sands and the overlying Safer Formation salt seal (Figure 31). The Alif Formation reservoir interval comprises braided fluvial sands divided into the Lower Alif (approximately 130 ft gross thickness), which is predominantly channel sands intercalated with silty-shaley over-bank deposits, and the Upper Alif (approximately 200 ft gross thickness) that tends to be more massive, albeit shaling-out towards the top.

The Al Nasr, Dhahab and Halewah fields are traps formed as a result of both fault-block rotation and drape, but principally salt tectonics that includes lubrication provided by the earliest salts of the Yah Formation and halokinesis of the more extensive Safer Formation salt cycles. Structural mapping is based upon 3D seismic data acquired in 2001, but the fields were discovered and appraised using 2D seismic data acquired in 1990-92. Typical reservoir parameter ranges are 20 to 26% for porosity, 7 to 13% for initial water saturation, 1.33 to 1.39 for formation volume factor and 354 to 535 scf/stb initial GOR.

Figure 31: Generalised Stratigraphy, Sab'atayn Basin, Yemen



7.3 Development Plans

Additional new wells were planned in Al Nasr in 2014 but drilling was delayed by the security situation. Once it is possible to restart production, the current plan is for ten new wells to be drilled in Al Nasr. A reservoir study to optimize the location of the new wells in Al Nasr was

undertaken in 2014. Additionally, a total of eight work-overs are scheduled for Al Nasr, to add additional perforations and/or squeeze off water production. These drilling and work-over activities are planned to be completed within two years of restarting production.

GCA was informed by KE that, at the effective date of this report (mid 2018), all oil production facilities remained intact and the pipeline from Block 18 to Ras Isa and the export facilities at Ras Isa itself remained largely intact, so that production could restart within 2 months of the port being re-opened.

The PSA would originally have expired on 8th June 2015. An extension of the PSA to 12th July 2016 was agreed in May 2015, and a second agreement was reached in March 2016, in full and final settlement of claims for Force Majeure events up to and including 7th March 2016, in which the new expiry date of the PSA was agreed to be 13th March 2018. GCA is not aware of any agreement regarding further extensions to compensate for non-producing days occurring after 7th March 2016.

7.4 Contingent Resources

Potential future oil production has been classified as Contingent Resources, as shown in Table 4 and broken down by field in Table 35. Two periods have been considered:

- From the eventual restart of production to the expiry of the PSA, assuming that lost production days occurring after 7th March 2016 will be compensated on the same basis as those occurring prior to that date; and
- A further 5-year extension of the PSA, which is mentioned as an option in the original PSA; eight additional wells in Al Nasr are included in this period.

Table 35: Field Level Breakdown of Contingent Resources, Block 5, Yemen, as at 30th June 2018

Field	Gross Field Oil To End of PSA[4] (MMBbl)		Gross Field Oil, Contract Extension (MMBbl)	
	1C	2C	1C	2C
Al Nasr	23.91	34.98	9.34	18.22
Dhahab	2.43	2.93	0.67	1.24
Halewah	2.51	2.83	1.11	1.59
Jannah	0.03	0.04	0.00	0.00
Total	**28.89**	**40.79**	**11.12**	**21.04**

Notes:

1. Gross Field Contingent Resources are 100% of the volumes estimated to be recoverable from the field or project in the event that development goes ahead.
2. The volumes reported here are "unrisked" in the sense that no adjustment has been made for the risk that the project may not go ahead in the form envisaged or may not go ahead at all (i.e. no "Chance of Development" factor, as defined under PRMS, has been applied).
3. Contingent Resources should not be aggregated with Reserves because of the different levels of risk involved and the different basis on which the volumes are determined.
4. The license for Block 5 has been extended until 13th March 2018 to account for Force Majeure days up to 7th March 2016, and is expected to be further extended to compensate for the Force Majeure period since that date.
5. Totals may not exactly equal the sum of the individual entries due to rounding.

Future production from existing wells has been estimated by decline curve analysis, taking into account the current production problems and the plans to fix them. Future production from the new wells has been estimated by extrapolation of the performance of nearby and recent in-fill wells.

Future CAPEX and OPEX estimates have been supplied by KE and are based on historical cost information and budgets. Key elements include:

- US$3.5 MM for each new development well, including flowlines;
- US$0.5 MM for each work-over;
- Fixed OPEX of US$2.5 MM per month while shut in and US$6.0 MM per month when producing; and
- Variable OPEX of US$2.5/Bbl.

Contingent Resources are additionally attributed to condensate potentially recoverable from East Halewah. As its name suggests, this lies adjacent to the Halewah field and is a down-thrown fault block where gas condensate was discovered in 2005. A 4-5 well development project tied in to the existing facilities has been under consideration for some time, but has been delayed by the lack of spare gas handling capacity. An extended well test is planned, once the security situation permits it, to reduce the uncertainty in in-place volumes.

7.5 Prospective Resources

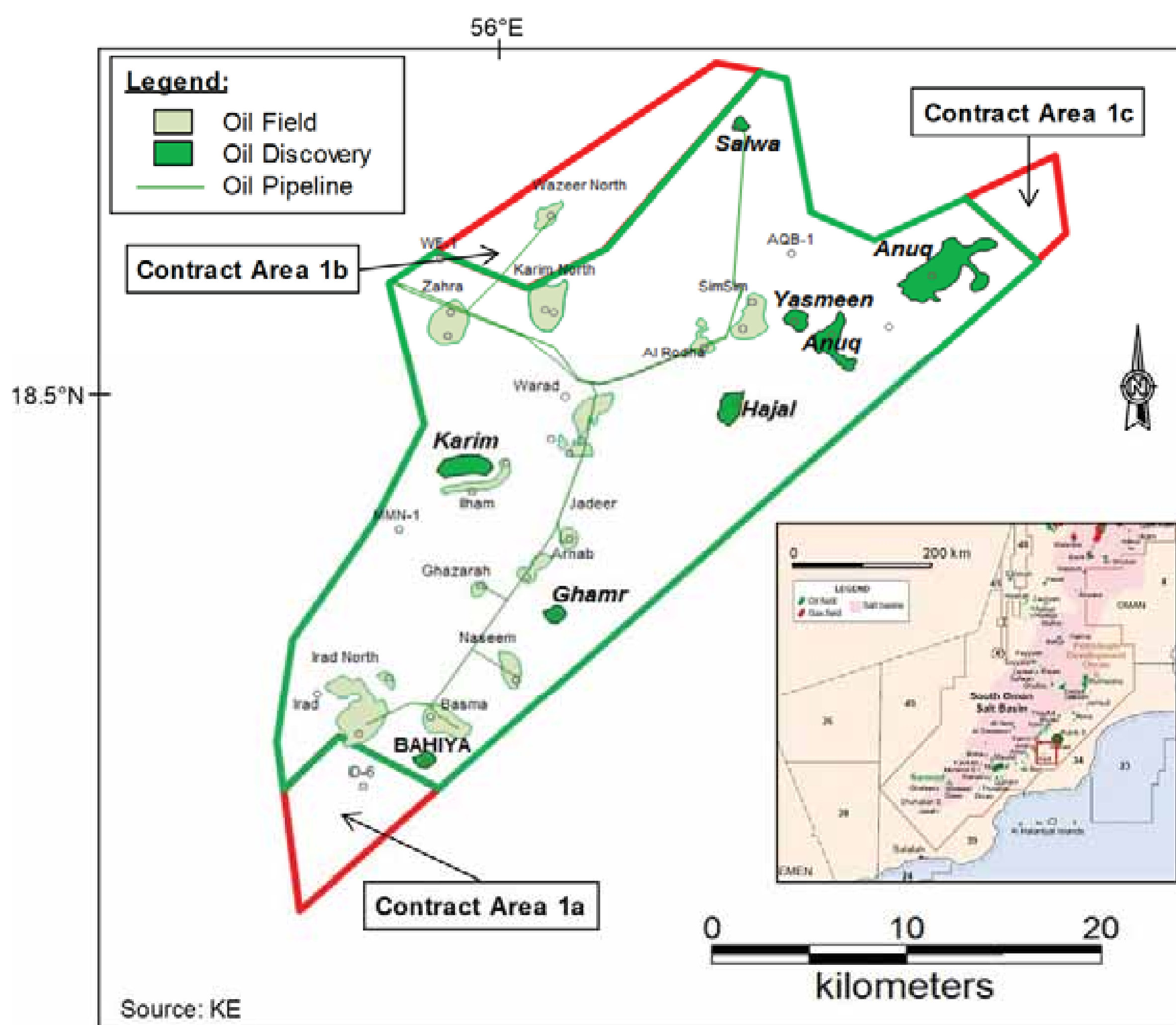
No Prospective Resources are current identified in Block 5.

8 Karim Small Fields, Oman

8.1 History

KE holds a 20% interest in Medco LLC, a subsidiary of Medco International Enterprise Ltd. Medco LLC holds a 75% interest in and operates a Service Agreement for Karim Small Fields (KSF), a group of 13 oil "fields" and 7 "discoveries" in southern Oman (Figure 32). The Service Agreement was initially for 10 years starting on 8th August, 2006, but was amended and restated on 28th April, 2015, and is now valid for 25 years from that date (or until termination of the underlying concession granted to PDO for Block 6, if earlier). It is for the provision of the technical services required for the operation of KSF on behalf of Petroleum Development Oman (PDO), the license holder. Under the terms of the Service Agreement, the Service Provider (Medco LLC) has no direct rights to any volumes of oil, either in situ or produced.

Figure 32: Location of Karim Small Fields, Oman



The six most significant fields are Simsim, Irad, Basma, Warad, Zahra and Jadeer, which together account for approximately 80% of the area's STOIIP (based on the Operator's estimates, which GCA has not audited). The seven other fields recognised in the Service Agreement are Al Rodha, Arnab, Ghazara, Ilham, Irad NE, Naseem and Wazer North, while the seven discoveries recognised in the Service Agreement are Anuq, Bahiya, Ghamr, Hajal, Karim, Salwa, and Yasmeen. All except Bahiya have some past production.

Production for the first six months of 2018 averaged approximately 14,700 bopd from approximately 250 active wells at an overall water cut of 85%. Production was from all of the fields and discoveries except Al Rodha, Irad NE and Yasmeem, and from a new discovery made late in 2016, Hajal SW.

The oil is typically under-saturated (low GOR) with gravity in the range of 20°-30°API, the shallower reservoirs containing heavier oil with viscosity of 100-600 cP and the deeper reservoirs containing lighter oil with viscosity of 4-15 cP. The high oil viscosity leads to relatively low oil production rates despite the reservoir quality being generally good, and also to early breakthrough of water from underlying aquifers. Recovery factors to date are estimated to be 8-24% (again based on Operator's estimates of STOIIP).

Since taking on the Service Agreement in 2006, Medco has undertaken extensive development drilling in KSF. Two rigs have been operating (reduced to one in 2017), and more than 300 new wells have been drilled, many of them horizontal. Oil production rate rose from approximately 11,000 bopd in 2006 to a peak of approximately 22,500 bopd in May 2012, since when it has gradually declined.

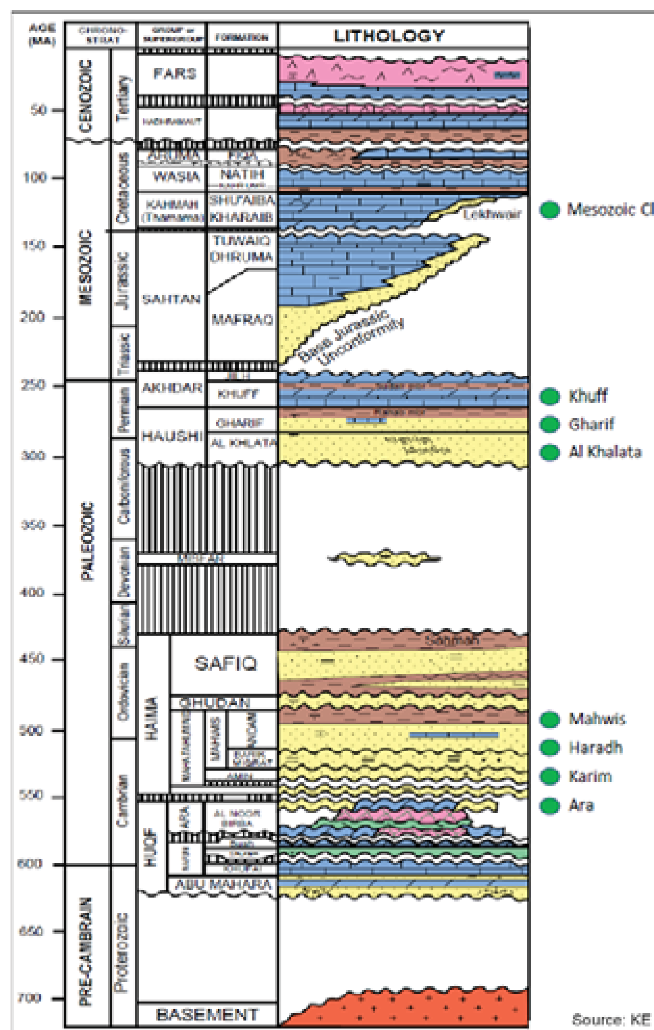
A water injection project began in the Simsim field in January 2013. The water injection rate was steadily increased to 12,500 bwpd, with 12 active water injection wells, though has fallen back to 7,500 bwpd due to scaling in some of the water source wells. The Operator estimates that the incremental oil production due to water injection had reached approximately 0.44 MMBbl by mid-2017. A polymer injection pilot in Simsim field is also under consideration and laboratory studies have been conducted; evaluation is in progress and an application for a pilot project may be made in 2018.

A cyclic steam stimulation (CSS) pilot project began in the Basma field in September 2013. The response to the initial steam injection was better than expected and CSS had been expanded to three wells in Basma and two wells in Ilham by mid-2015. Further CSS wells were planned but activities were put on hold due to the low oil price. Resumption of CSS activities in Ilham is now being considered.

8.2 Geology

KSF lies on the eastern flank of the South Oman Salt Basin, a prolific oil and gas province. A representative stratigraphic column is shown in Figure 33. The main reservoirs in the area are the Palaeozoic (Cambro-Ordovician) Karim, Haradh and Mahwis sandstones. These are typically good quality homogeneous sandstones that are laterally extensive with permeability of the order of 200-500 mD. Other reservoirs include the thin Al-Khalata glacial sandstone and the Gharif sandstone of Permian age. The depths of the productive formations vary from 2,450 ft (750 m) to 5,750 ft (1,750 m), generally being shallower in the south-west and deeper in the north-east.

Figure 33: Generalised Stratigraphy, Karim Small Fields



8.3 Development Plans

The Operator intends to continue drilling with a single rig at a rate of 18 wells per year over the four and a half years from mid-2018 to end 2022. This includes some exploration and appraisal wells. A total of 74 development wells are planned, with the largest number in Simsim, Jadeer and Ilham.

The revised Service Agreement includes a requirement to drill six appraisal wells in six discoveries within the first five years. Four have already been drilled and the Operator intends to drill the remainder in 2018-19. It also has a requirement to submit updated Field Development Plans (FDP) for at least three of the major fields in the first three years (Simsim is already done), and six Field Strategy Notes for the smaller, less developed fields (Ilham is already done). Further, a revised FDP must be submitted for each existing field for which the Operator intends to continue production beyond the first five years of the revised Agreement. The Operator is currently engaged in preparing plans for all of these tasks, and this is likely to result in additional drilling beyond that in the current 5-year drilling programme.

The Operator acknowledges that development for primary recovery is almost complete in the major fields, with limited scope for additional infill drilling. The focus for the future will be on water-flooding, CSS and other enhanced oil recovery activities. An expanded water injection

project in Simsim is planned, and water injection projects in Wazer North and Jadeer are also under study.

8.4 Future Production and Costs

Future oil production estimates have been made by GCA using field-level decline curve analyses. Three levels of forecast have been made, denoted Low, Best and High, by varying the future decline rates within ranges considered plausible given past production performance.

The development wells in the drilling programme to end 2022 (74 in total) have been included in GCA's Developed plus Undeveloped production forecasts. The impact of the current water injection project in Simsim has been included in the forecasts, but potential production from other water injection projects, the polymer injection pilot in Simsim and the CSS pilots in Basma and Ilham has not been included as limited estimates have been presented by the Operator and GCA does not have sufficient data to audit them or to make its own estimates.

GCA has estimated CAPEX associated with the future development activity included in GCA's production forecasts by adjusting the Operator's 5-year budget estimates. Total CAPEX from mid-2018 to end 2022 is estimated at US$248 MM (of which US$41 MM is included in the Developed cases). GCA has assumed that OPEX will remain fixed at its current level of approximately US$27.8 MM p.a. in real terms for the rest of field life.

8.5 Exploration Activity

The revised Service Agreement includes a commitment to drill nine exploration wells in the first five years (the "Exploration Period"); at least one of these must be drilled within each of Contract Areas 1a, 1b and 1c (Figure 32) within the first two years. The Operator drilled three exploration wells in 2016, one of which (Hajal SW-1) was successful, though the Operator's best estimate of the recoverable volumes in Hajal SW is only 0.3 MMBbl. The plan is to drill two more exploration wells per year from 2018 onwards. Six Prospects have been identified. The Operator's P50 STOIIP estimates range from 0.3 to 38.2 MMBbl, with chance of success estimates ranging from 13% to 30%. GCA is not in a position to audit these estimates. Additional work on target selection is ongoing. At the end of the Exploration Period, the exploration area (everything not within a field area or a discovery area) will be relinquished. The Service Provider has no rights to any non-associated gas that may be discovered.

9 Economic Assessment

GCA has conducted an economic limit test (ELT) for the Low, Best and High oil production profiles for each asset to assess Proved, Proved plus Probable and Proved plus Probable plus Possible Reserves. The economic limit (or economic cut-off) is defined as the production rate beyond which the net operating cash flows would be negative; this is the point in time that defines the end of the project's economic life.

Additionally, for each asset governed by a PSC/PSA or Service Contract, GCA has conducted an economic entitlement calculation based on the Contract's terms in order to derive KE's Net Entitlement Reserves. Such entitlements are made up of Cost Oil plus Profit Oil for PSC/PSAs in Egypt and Yemen, of Incremental Oil Share for the Area A Service Contract, Egypt, and of Cost Recovery and Remuneration Fees for the GDPSC/EDPSCs in Iraq.

Finally, GCA has estimated NPVs at a 10% discount rate for both the Proved and Proved plus Probable Reserves categories from the projected cash flows, discounted on a mid-period basis to 30th June 2018.

GCA's assessments have been based upon GCA's understanding of the fiscal and contractual terms governing these assets, and the various economic and commercial assumptions described herein.

9.1 Oil and Gas Pricing Scenario

GCA's Brent Crude oil price scenario for 3Q 2018, shown in Table 36, has been used as the reference oil price. The reference oil price has been adjusted for quality and location for each field in the portfolio, as advised by KE, as shown in Table 37.

For gas from Abu Sennan, as advised by KE, a price of US$2.65/MMBTU will apply if the Brent price is US$22/Bbl or more. A calorific value of 1.240 MMBTU/Mscf has been used to arrive at a gas price of US$3.29/Mscf.

Table 36: Brent Crude Oil Price Scenario

Year	Price (US$/Bbl)
2H 2018	78.84
2019	75.08
2020	70.19
2021	70.00
2022+	+2.0% p.a.

Table 37: Adjustments to Reference Oil Price by Field

Field	Adjustment (US$/Bbl)
Burg El Arab	-1.09
Abu Sennan	-1.89
ERQ	-0.74
Area A	-11.03

Notes:

1. For KSF (Oman) and fields in Iraq, see Sections 9.1.1 and 9.1.2 respectively.

9.1.1 KSF (Oman)

In Oman, contractor revenue at KSF is based on the "Effective Revenue", which is equal to the KSF oil production (in barrels) times the Oman Ministry of Oil and Gas (MOG) published selling price per barrel for Oman Blend crude oil. Historically, there has been only a narrow differential between the MOG published price and Brent prices, so equality between the two has been assumed.

9.1.2 Fields in Iraq

For the Siba gas field, the starting point for calculating the Contractor's revenue is a "Deemed Revenue" (see Section 9.3.1). This is calculated by converting the produced gas and condensate volumes into oil equivalent volumes (using contractually specified conversation factors of 6.0 Mscf/boe and 1.0 Bbl/boe respectively) and multiplying by a price per boe defined by the Service Contracts. This price is related to the Oil Sales Prices (OSPs) published by the State Oil Marketing Organization of Iraq (SOMO). To arrive at a SOMO OSP scenario, a US$5.90/Bbl discount to Brent has been applied (Table 38). This effectively prices the gas and condensate as shown in the right-hand columns of Table 38. It may be noted that the contractually deemed gas price specified in the GDPSCs is significantly higher than prevailing gas prices in the Middle East region.

For Block 9, "Deemed Revenue" is calculated in the same way, except that the gas price used is only half of the SOMO OSP on a per boe basis.

Table 38: Oil and Gas Price Scenario, Siba Field, Iraq

Year	Brent Crude (US$/Bbl)	SOMO OSP (US$/Bbl or US$/boe)	Effective Prices	
			Condensate (US$/Bbl)	Gas (US$/Mscf)
2H 2018	78.84	72.94	72.94	12.16
2019	75.08	69.18	69.18	11.53
2020	70.19	64.29	64.29	10.72
2021	70.00	64.10	64.10	10.68
2022+	+2.0% p.a.	Brent less US$5.90/Bbl		SOMO OSP/6.0

9.2 Costs

Estimates of CAPEX and OPEX have been provided by KE in the form of budgets, plans, historical costs and forecast costs, as described in the appropriate sections of this report. These cost estimates have been audited by GCA.

Costs have been escalated at 2.0% p.a. from 2019 onwards, except that for Area A in Egypt, the GPC Facility Tariff and the Baseline Production OPEX Reimbursement are held constant.

KE will be liable for abandonment costs in Area A in Egypt, but these are expected to be small and have not been included. The only other asset where KE has abandonment liability beyond plugging of exploration wells is KSF, as discussed in Section 9.3.6.

9.3 Contract and Fiscal Terms

9.3.1 Iraq: Siba

The applicable fiscal regime for Siba is defined in the GDPSC. The Contractor's revenue is made up of Cost Recovery and Remuneration Fees, which are derived from the "Deemed Revenue" (see Section 9.1.2).

Costs are divided into Petroleum Costs and Supplementary Costs. Petroleum costs are fully recoverable within the limit of 50% of the Deemed Revenue in any quarterly accounting period and are carried forward until recovered when this limit is exceeded. Supplementary Costs are fully recoverable within the limit of 60% of the Deemed Revenue less any Petroleum Costs recovered and Remuneration Fee paid. For the purpose of this assessment, a gross (to the Contractor group) unrecovered Petroleum Costs balance of US$683.0 MM for Siba has been used, as provided by KE.

The Remuneration Fee is paid from the same 50% of the Deemed Revenue as Petroleum Costs are recovered, with costs deemed to be recovered first. Any unpaid Fees are carried forward until sufficient Deemed Revenue is available. The Fee is paid for each boe of dry gas or condensate produced, according to the sliding scale shown in Table 39. The R-factor is the ratio of cumulative Contractor revenue to cumulative Contractor expenditures.

The Remuneration Fee is additionally multiplied by a performance factor during the required plateau production period (9 years) if the actual dry gas production rate fails to attain the required plateau production rate. The performance factor is then the ratio of net dry gas production rate to the required plateau production rate.

Table 39: Remuneration Fee, Siba Field, Iraq

R-Factor	Remuneration Fee (US$/boe)
Below 1.0	7.50
1.0 - 1.25	6.00
1.25 - 1.5	4.50
1.5 - 2.0	3.75
2.0 and above	2.25

A state partner holds a 25% participating interest in the Contractor Group. The state partner is carried on both CAPEX and OPEX by the other Contractor parties, who are

entitled to a proportionate share of the Cost Recovery that would otherwise have gone to the state partner. The state partner receives its participating share of the Remuneration Fees.

Training fund: the Contractor group is required to contribute a non-recoverable amount of US$1 MM annually for training purposes.

Iraqi corporate income tax is payable at 35% on the Remuneration Fees when paid.

KE's Net Entitlement is made up of KE's share of the Cost Recovery and Remuneration Fees. These are cash payments (although the Ministry has the option to pay with oil). However, GCA considers that KE is entitled to claim Reserves and/or Contingent Resources because of its exposure to capital at risk (the GDPSCs are "Risked Service Contracts" (RSCs) as defined by the SPE PRMS).

Volumes are estimated here by converting KE's Net Entitlement from US$ into oil equivalent volumes (boe), using the prevailing SOMO OSP. Since the produced fluids are gas and condensate, these oil equivalent volumes are reported in proportion to the prevailing CGR.

9.3.2 Siba Farm-Out Agreement

In October, 2016, KE signed a farm-out agreement with EGPC, reducing KE's revenue interest in Siba from 45% to 30% (cost interest from 60% to 40%). The deal has an effective date of 1st January 2016 and received final government approval in May 2017.

The consideration for the assignment of the interest is to be paid in part by EGPC absorbing KE's share of the EPC contract (which is being executed by PetroJet, an EGPC subsidiary), with the remaining amount to be funded by allocating 50% of EGPC's share of Cost Recovery. This arrangement has been modelled in the cash-flow calculations used to estimate the NPVs presented herein.

GCA has been advised by KE that the total amount to be paid by EGPC to KE, as included in the NPV calculation, was US$37.2 MM as at 30th June 2018. This amount is inclusive of the amount identified on the Balance for the Siba interest that is to be assigned to EGPC.

9.3.3 Iraq: Block 9

The applicable fiscal regime for Block 9 is defined in the EDPSC. The Contractor's revenue is made up of recovery of Petroleum Costs and Remuneration.

The Petroleum Costs are recoverable quarterly within 50% of the "Deemed Revenue", which is calculated as the net oil production (including any NGLs) times the SOMO OSP (see Section 9.1.2) plus the net dry gas production in boe times half the SOMO OSP. Unrecovered costs, including all exploration, appraisal and development costs prior to the start of production, are carried forward to the next quarter. For the purpose of this assessment, a gross unrecovered Petroleum Costs balance of US$93.5 MM has been used, as provided by KE.

Remuneration is limited to 30% of the difference between the Deemed Revenue and the Petroleum Costs recovered, and is paid for each boe of oil, NGL or dry gas produced above those used for cost recovery, according to the sliding scale shown in Table 40. The R factor is the ratio of cumulative Contractor revenue to cumulative

Contractor expenditures, the latter including Training Fund contributions and the signature bonus of US$25 MM.

Table 40: Remuneration Fee, Block 9, Iraq

R-Factor	Remuneration Fee (US$/boe)
Less than 1.0	6.240
1.0 - 1.5	4.992
1.5 - 2.0	3.744
2.0 - 2.5	2.496
2.5 and above	1.248

The Contractor Group is required to contribute a non-recoverable amount of US$1 MM annually to the Training, Technology and Scholarship Fund.

Iraqi corporate income tax is payable at 35% on Remuneration.

9.3.4 Egypt

The relevant elements of the Egyptian fiscal regime for petroleum operations as they currently stand, together with the applicable PSC and Service Contract terms, as they pertain to each asset, are summarised below and are assumed to remain constant going forward:

- Cost Recovery Limit:
  - Abu Sennan: 30% of Gross Production with any unused cost recovery going fully to EGPC;
  - Burg El Arab and ERQ: 35% of Gross Production with any unused cost recovery going into the Profit Split pool; and
  - Area A: no cost recovery provision.
- Cost Recovery Depreciation: exploration and development costs to be recovered at a rate of 20% p.a. for Abu Sennan and Burg El Arab, and 25% p.a. for ERQ. Operating cost may be recovered in the year incurred, subject to there being sufficient Cost Oil. Unrecovered costs can be carried forward until fully recovered. For the purpose of these assessments the following forward schedule of gross unrecovered historical costs provided by KE has been used:

Year	Unrecovered Costs (US$ MM)		
	BEA	Abu Sennan	ERQ
Balance at 30th June 2018	18.8	104.5	-
2H 2018 Addition	3.4	12.7	7.5
2019 Addition	4.2	18.6	11.3
2020 Addition	2.4	7.6	4.7
2021 Addition	0.8	4.0	2.4
2022 Addition	0.3	1.5	-
2023 Addition	0.0	0.1	-

- Production Sharing:
  - Abu Sennan: 82.1% of all hydrocarbon (after cost recovery) to EGPC and 17.9% to the Contractor Group.
  - Burg El Arab: 80% of gas and LPG production to EGPC and 20% to the Contractor Group; for profit oil the split is progressive based on average production rate as follows:

Production Rate (Mbopd)	Contractor Group Share (%)
< 25	22
25 – 50	20
50 – 100	18
≥ 100	15

  - ERQ: 70% of gas and LPG production to EGPC and 30% to the Contractor Group; for profit oil the split is progressive based on average production rate as follows:

Production Rate (Mbopd)	Contractor Group Share (%)
< 5	30
5 – 10	29
10 – 25	28
25 – 50	27
50 – 100	26
≥ 100	25

  - Area A: production sharing is only applicable to the incremental production above the contractually agreed Baseline (842 bopd in 2018, declining at 4-5% p.a. thereafter, which the Contractor must pay in cash if actual production is less) and it is based on average oil production rate as follows:

Production Rate (Mbopd)	Contractor Group Share (%)	
	Shukheir NW	Other Fields
< 0.5	0.0	0.0
0.5 – 1	57.0	51.5
1 – 2	55.0	51.0
2 – 3	53.5	50.5
3 – 4	52.0	50.0
4 – 5	50.5	49.5
≥ 5	49.0	49.0

- Production Bonuses (not applicable to Area A): when reaching certain rates of production, the following amounts (which are not cost recoverable) are payable (none have yet been paid for BEA but the first two have been paid for Abu Sennan and ERQ):

Production Rate (Mbopd)	Bonus (US$ MM)		
	BEA	Abu Sennan	ERQ
3	-	0.5	-
5	-	1.0	0.2
10	-	1.5	0.3
25	1.0	2.0	0.4
50	1.5	-	0.5
75	2.0	-	-
100	-	-	0.6

- Baseline Production OPEX Reimbursement (only applicable to Area A): US$0.61 for each barrel of Baseline Production achieved.
- GPC Facility Tariff (only applicable to Area A): US$1.20/Bbl.
- Corporate tax: applicable only to Area A where a 22.5% corporate tax rate applies. As advised by KE, depreciation is taken into account on a unit of production basis, with a balance of US$3.87 MM as at 30th June 2018.

9.3.5 Yemen

The relevant elements of the Yemen fiscal regime for petroleum operations as they currently stand, together with the applicable PSC terms pertaining to Block 5, are summarised below and are assumed to remain constant going forward.

- Royalty: the rate varies depending on average production rates as follows:

Production Rate (Mbopd)	Royalty Rate (%)
< 25.0	5.0
25.0 – 50.0	7.5
50.0 – 75.0	10.0
75.0 – 100.0	15.0
≥ 100	20.0

- Cost Recovery Limit: 27.5% of production before deduction of royalty.
- Cost Recovery Depreciation: all costs to be recovered in the year incurred; subject to the Cost Recovery Limit. Any allowable costs unrecovered in a year may be carried forward for recovery in the following year or years.
- Production Sharing based on an incremental sliding scale as follows:

Production Rate (Mbopd)	Contractor Share (%)
< 25	27.5
25 – 50	25.0
50 – 75	22.5
75 – 100	20.0
100 - 125	15.0
125 - 150	12.5
≥ 150	10.0

- Bonuses: no further production bonuses are likely to be payable.
- Annual payments: Training and Institutional Fees totalling US$0.4 MM p.a.
- Tax: the Contractor's income tax in Yemen is borne by the Ministry of Oil and Mineral Resources.

9.3.6 Oman

The relevant elements of KSF Service Agreement are:

- Cost Recovery: limited to 70% of the Net Revenue (derived by deducting Windfall Profit Cap from the Effective Revenue);
- Windfall Profit Cap: 50% of the Effective Revenue resulting from an oil price higher than the Base Oil Price, defined as US$120/Bbl on 1st January 2016 and escalating by US$2/Bbl p.a. thereafter (the Windfall Profit Cap is zero if the oil price is less than the Base Oil Price);
- Effective Revenue: the KSF oil production (in barrels) times the Oman Ministry of Oil and Gas (MOG) published selling price per barrel for Oman Blend crude oil;
- Profit Share: Remaining Revenue (Effective Revenue less Windfall Profit Cap less Cost Recovery) is shared between the Service Provider and PDO depending on the production method used as shown in Table 41; the applicable Service Provider share is the average of the three values, weighted by production by each class of method;

Table 41: Profit Share, KSF, Oman

Production Method	Service Provider Share (%)
Low Cost	12
Medium Cost	16
High Cost	30

Notes:

1. Low Cost Production Methods include the depletion production method and such other methods determined as low cost by PDO.
2. Medium Cost Production Methods include water flood or gas oil gravity drainage under generally accepted petroleum engineering practices or such other methods determined as medium cost by PDO.
3. High Cost Production Methods include heavy oil production achieved by cyclic steam or regular steam flood or such other methods determined as high cost by PDO.

- Service Rental: US$6.3 MM p.a. paid by the Service Provider to PDO; and
- Omani Corporate Tax of 12% is applied.

The revised KSF Service Agreement also contains provisions for Rewards (or penalties) payable each year to (or by) the Service Provider for any increase (or decrease) in 2P Reserves (adjusted for production) and/or Contingent Resources over that year. For this evaluation, no account has been taken of potential future Rewards (or penalties) as these cannot be assessed at the present time.

Under the revised Service Agreement, the Service Provider is responsible for all abandonment costs associated with KSF. GCA understands that discussions on are in progress between Medco and PDO and KE expects that provision for abandonment will be made on a yearly base, starting in 2018, which would permit these costs to be recovered. However, since the details are not yet finalized, and no estimates for the abandonment costs (which would mainly be for the wells, as there are minimal facilities within the KSF area itself) have been made available, GCA has modelled them as a lump sum of US$50 MM (US$40 MM for the Developed cases) spread out evenly from 2018 to the end of field life.

9.4 Sensitivity of Reference NPVs to Costs and Commodity Prices

The sensitivity to variation in costs and commodity prices of the reference Post-Tax NPVs attributed to the Proved plus Probable Reserves, at a discount rate of 10.0%, have been evaluated. Specifically, in the first instance, the reference oil prices (Table 36) have been varied by ±US$10/Bbl (gas price at Abu Sennan has not been varied since it is fixed by the contract; deemed gas price at Siba. Mansuriya and Block 9 is linked directly to the oil price, as discussed in Section 9.1.2). Secondly, the future CAPEX for each field has been varied by ±20%. Thirdly, the future OPEX for each field has been varied by ±20%. Results of these sensitivities are presented in Table 42. Corresponding sensitivities of the NPV10 estimates for the KSF Service Agreement for the "best estimate" oil production case are shown in Table 43. As before, discounting has been done on a mid-year basis to 30th June 2018. The base NPV10s in these tables are the same as those shown in Table 9 and Table 10.

Table 42: Sensitivity to Costs and Commodity Prices of Post-Tax NPV10 (US$ MM) of Future Cash Flow from Proved plus Probable Reserves, Net to KE's Interest, as at 30th June 2018

Asset	Base	Oil Price		CAPEX		OPEX	
		-US$10/Bbl	+US$10/Bbl	-20%	+20%	-20%	+20%
Block 9	574.0	528.4	600.3	612.1	503.2	578.4	568.5
Siba	337.6	332.8	344.7	342.0	333.2	339.1	336.1
ERQ	157.0	132.8	181.5	158.3	155.6	161.4	152.8
Area A	104.8	80.3	129.3	108.8	100.7	111.1	98.5
Burg El Arab	64.8	55.3	73.9	66.6	62.9	66.7	62.8
Abu Sennan	36.5	24.6	48.5	40.5	32.5	43.7	29.7
Total	**1,274.7**	**1,154.2**	**1,378.1**	**1,328.4**	**1,188.2**	**1,300.5**	**1,248.5**

Notes:

1. The NPVs are calculated from cash flows incorporating the fiscal terms governing the asset, discounted on a mid-period basis to 30th June 2018 at a discount rate of 10% p.a.
2. The NPVs do not include any contribution from Possible Reserves, Contingent Resources or Prospective Resources.
3. The NPVs shown here include payments due to KE related to the sale of a part of its interest in Siba to EGPC (see Section 11.3.2).
4. The reference NPVs reported here do not represent an opinion as to the market value of a property nor any interest therein.

Table 43: Sensitivity to Costs and Commodity Prices of Post-Tax NPV10 (US$ MM) of Future Cash Flow from Best Estimate Production Revenues, Net to KE's Interest, as at 30th June 2018

Asset	Base	Oil Price		CAPEX		OPEX	
		-US$10/Bbl	+US$10/Bbl	-20%	+20%	-20%	+20%
KSF	15.5	11.5	19.6	16.3	14.8	16.3	14.8

Notes:

1. The NPVs are calculated from cash flows incorporating the fiscal terms governing the asset, discounted on a mid-period basis to 30th June 2018 at a discount rate of 10% p.a.
2. The NPVs do not include any contribution from Possible Reserves, Contingent Resources or Prospective Resources.
3. KSF is shown separately from KE's other assets since, under the terms of the Service Agreement for KSF, no Reserves are attributable to Medco LLC in KSF, and thus none are attributable to KE.
4. The reference NPVs reported here do not represent an opinion as to the market value of a property nor any interest therein.

10 Valuation Opinion

GCA has additionally estimated the Fair Market Value (FMV) of KE's interest in its assets in Iraq, Egypt and Oman ("KE's Assets") as at 30th June 2018.

This valuation opinion has been prepared in accordance with the Reporting Standards for a Mineral or Petroleum Asset Valuation Report that are listed under Rule 18.34 in Chapter 18 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Pursuant to such requirements, this valuation opinion conforms to the VALMIN Code[2] and represents GCA's opinion of the FMV of KE's Assets in its capacity as a Competent Evaluator of Petroleum Assets.

The value range presented herein has taken into account the actual oil price and market sentiment during the first half of 2018. During this period, the oil price has been volatile and has seen fluctuations ranging from a low of US$61.9/Bbl to a high of US$80.4/Bbl. General market sentiment, which was very negative for much of 2015-16, has showed some signs of improvement in 2017-18 mainly due to supply-demand constraints and geo-political uncertainties. However, there is no clear and firm trend yet and GCA believes that the market in general remains exposed to considerable uncertainty.

Additionally, a significant proportion of the value proposition is from KE's assets in Iraq – Block 9 and Siba. It is noted that the Siba development project experienced significant delays due to factors beyond the control of the Contractor (customs clearance, approvals, permitting, security concerns, etc.). Development of the Faihaa field in Block 9 is the most significant project in KE's portfolio and could potentially also experience similar execution delays. There is a similar risk, though to a lesser degree, in Egypt.

GCA's valuation presented herein takes into account the uncertainty in future oil prices and the risks associated with project execution and potential cost overruns.

It should also be noted that the FMV of upstream oil and gas assets is subject to and dependent on the professional judgment of the valuer. No single value that can be considered accurate to the exclusion of all others, as a multitude of considerations have to been taken into account. Additionally, the FMV of an asset should not be confused with the value of an investment proposition in relation to the asset, which would need to take account of the specifics of that investment proposition. Further, any such value would also need to further take into account the particular risks and uncertainties highlighted herein, and how they are being addressed in that investment.

While contributing to the assessment of value, raw Net Present Values (NPVs) contained herein do not represent, in and of themselves, the value of the interests, but require consideration in the context of a number of other factors. In assessing a FMV, it is also necessary to take into account factors such as Reserves risk (i.e. that Proved and/or Probable Reserves may not be realized in their entirety or may be realized in a timeframe or at a cost different to that currently expected for their exploitation); differing perceptions of economic risk including future oil and gas prices and inflation effects on future capital and operating costs; perceptions of sovereign risk; other benefits, encumbrances or charges that may pertain to the interests; and generally the competitive state of the market at the time.

[2] The Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The VALMIN Code 2015), as prepared by the VALMIN Committee, a joint committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association, as amended from time to time.

This opinion should also be read, and is conditioned upon, considerations and assumptions contained or referenced in this CPR, which are deemed incorporated in this Valuation Opinion where relevant.

10.1 Key Considerations and Risks

In reviewing KE's Assets to determine their potential value, GCA has identified various key considerations or risks which may impact future value, which are discussed in the following sections.

10.1.1 Operator Capability

KE operates all its assets in Iraq and Egypt[3] apart from ERQ in Egypt. Any acquisition of KE will effectively change the operator of these KE-operated assets. GCA is not in a position to comment on the overall effectiveness the new operator. Additionally, GCA has not incorporated any impact on the production and operations of the KE-operated assets due to the prospective transition of operatorship after successful completion of the potential transaction into this valuation opinion. It is thus assumed that future and ongoing development activities, oil and gas field management activities, and production and other related activities will continue as currently envisaged by KE.

10.1.2 Development and Production Risk

By their nature, upstream oil and gas activities carry a certain level of risk. This can never be eliminated, although it may be reduced with better understanding of the subsurface resulting either from more data (e.g. seismic, new wells or further studies) and/or through the experience of the Operator. Estimates of Reserves are based on professional engineering judgment and are subject to future revisions, upward or downward, as a result of future operations or as additional data become available, and should not be considered a guarantee or prediction of results.

The current focus of development activities is in Iraq, specifically on development of the giant Faihaa oil field in Block 9 (see Section 1). The currently envisaged "Phase I" development plan will involve construction of permanent processing facilities and export pipelines for Yamama (light oil) production. Separate facilities and an additional export pipeline will be constructed for Mishrif (heavy oil) production. FEED is planned to start in 2019, with construction of the pipelines beginning in 2020 and the facilities in 2022. Current plans envisage both facilities coming on stream in 2024, with a combined plateau rate of 185,000 bopd targeted by 2025.

Although this schedule should be achievable, given the location of the field and recent experience with the Siba development, GCA considers that there is a risk of delay, particularly for the Mishrif development.

10.1.3 Cost Risks

Estimates of CAPEX and OPEX have been provided by KE in the form of budgets, plans, historical costs and forecast costs, and audited by GCA, as described in the appropriate sections of this report.

While GCA considers the cost estimates to be reasonable, it is noted that substantial cost risk specifically emanates from the Block 9 asset (Faihaa field development) in

[3] Burg El Arab and Abu Sennan are operated by Joint Ventures between EGPC and the Contractor Group, with KE representing the Contractor Group

Iraq. As of the Effective Date of 30th June 2018, nearly 95% of all future CAPEX and 75% of all OPEX is projected to be spent on development and production of the Faihaa field in the 2P Reserves case (Net to KE and excluding KSF, Oman). As noted in the Section 10.1.2, this project is exposed to a risk of schedule slippage due to factors that are beyond the control of the Contractor, and it is not unusual for projects with schedule slippage to incur cost overruns.

10.1.4 Facility, Safety and Environmental Liabilities

GCA has undertaken site visits to three of KE's assets in Egypt. GCA's visits were undertaken to examine the facilities and operations, and to assess their condition and state of operability. GCA does not warrant they are in compliance with any applicable regulations in terms of standards, rating, health, safety, and environment. GCA has not undertaken a site visit to any of the other assets described in this report. As such, GCA is not in a position to comment on the operations or facilities in place, their appropriateness and condition, or whether they are in compliance with the regulations pertaining to such operations. Further, GCA is not in a position to comment on any aspect of health, safety, or environment of such operations.

10.1.5 License Extension Risk

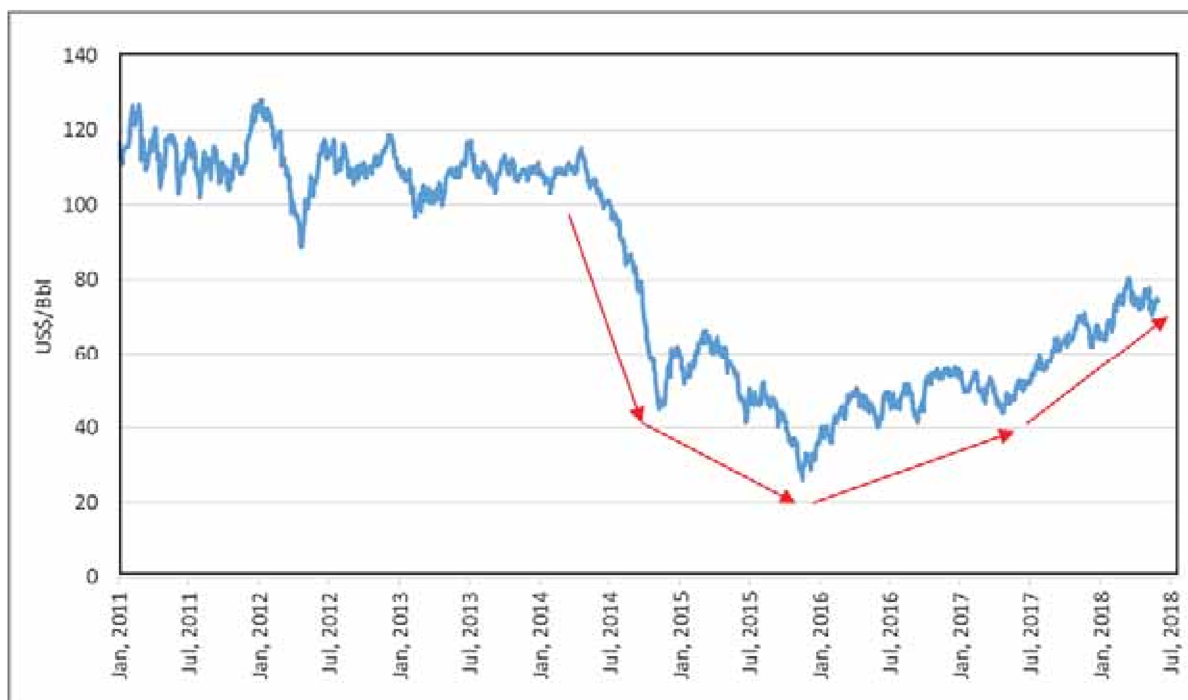
While all Proved Reserves have been estimated based on current licence periods, Probable Reserves in some assets in Egypt include volumes expected to be recovered during licence extension periods, and these volumes have been included in GCA's cash flow analysis. While it is reasonable to expect that the licences will be extended so long as production remains commercially viable, there remains a residual risk that such extensions are not forthcoming or may be subject to revised commercial terms. Potential upside (not included in GCA's cash flow analysis) is offered by 5-year extensions of the production contracts in Iraq, but these may be subject to revised commercial terms.

10.1.6 Oil Price Risk

The crude oil price is a key value driver and the overall value of KE's Assets is exposed to the oil price fluctuations in the international market. Crude oil price fluctuations have been particularly dramatic in the last 3 to 4 years (see Figure 34), ranging from a pre-crash high of nearly US$115/Bbl in June 2014 to a low of US$26/Bbl in January 2016. Since touching this low, the oil prices have recovered and over the last year have consolidated from an average price of US$46.4/Bbl in June 2017 to an average price of US$74.4/Bbl in June 2018. The oil price will continue to experience volatility in future.

The significant fall in the price of oil that began in late 2014 caused virtually all oil and gas companies to cut back on previously planned capital expenditures and to seek efficiencies in operating expenditure. As a result, costs in general declined. Though the crude oil prices have generally rebounded over the last year, GCA has not seen any evidence thus far of any substantial increase in costs, but there is a risk of cost increases if the oil price remains steady or increases further. GCA considers that KE has incorporated any such cost uncertainties in its business plan estimates. However, there remains a residual risk of future unexpected movements in cost linked to oil price fluctuations and related supply and demand scenarios.

Figure 34: Brent Crude Oil Spot Price (US$/Bbl)



Source: US Energy Information Administration (EIA)

10.1.7 Gas Price Risk

The gas price applicable to the Iraq assets is directly proportional to oil price and is thus independent of international gas prices.

The only other gas sales from KE's Assets are at Abu Sennan in Egypt and these are immaterial to the overall FMV of KE's Assets.

10.1.8 Exchange Rate Risk

Historically, the domestic currencies in Iraq and Egypt have seen significant fluctuations with respect to US$. However, over the last year (since 30th June 2017), the US$ exchange rates for both the Iraqi Dinar and the Egyptian Pound have shown relative stability. For assets in Iraq, GCA understands that the payments received and the costs incurred are primarily in US$. For assets in Egypt, the commodity price is considered in US$, but KE receives payments for its sales primarily in equivalent Egyptian Pounds. To balance the exposure, KE also spends money on operations in Egypt primarily in Egyptian Pounds.

10.1.9 Cash Flow Timing Risk

The valuation is based on the assumption that all cash flows from revenue recognition, invoice payment for expenditure, and tax/fiscal related payments occur in the middle of each calendar year. In actual operations, especially in Iraq and to a lesser extent in Egypt, there will be difference in timing of such cash flows, which may lead to an overall cash negative position for interim periods (monthly / quarterly) within the year.

Based on the data received from KE, it is seen that there are outstanding receivable balances as of the Effective Date for both the Iraq and Egypt assets, which have built up gradually over a number of years, especially in Egypt. However, it is seen that

since June 2017, nearly 90% of the sales revenue has been realized for both the Egypt and Iraq assets. Going forward, there remains a residual risk of payment defaults or delayed payment receipts.

10.1.10 Litigation Risk

In its valuation, GCA has not taken into account any particular litigation pertaining to the licenses and related technical, environmental or commercial operations, nor any other form of legal risk that may be faced by an interest holder in any of KE's Asset.

10.2 Valuation Methodology

The typical approach to assessing the potential value of assets such as those being assessed is to consider the future earnings potential through discounted cash flow (DCF) analysis, and compare this to value indications from analogous and recent market-based asset transactions (comparable transactions), if any are available. GCA considers this market standard approach to be the appropriate approach to use in this case and has done so. DCF analysis focuses on calculating NPVs from a range of different production and cost profiles associated with the different Reserves categories, under the applicable petroleum contract/fiscal regime, and with a set of market-based assumptions on crude oil and gas prices, exchange rate, cost escalations and discount rates, which are described in the following paragraphs. The key elements of the fiscal and tax regime relevant to KE's Assets in Iraq, Egypt and Oman are discussed in Section 9.3.

The final valuation opinion is a balanced conclusion from sets of all inputs (technical and fiscal), risk factors and other relevant considerations discussed in this report.

10.2.1 KE Asset Reserves

The base assessment of value of discovered petroleum assets typically centres around the perceived future earning potential of Proved plus Probable (2P) Reserves (commonly referred to as the "most likely" or "P50" case, defined such that there is an equal probability that the actual volume produced will be higher or lower than the estimate). Dependent upon risks and upside potential, the value range may be extended or narrowed to reflect the impact of relevant factors.

For KSF (Oman), the contractor has no right to claim Reserves, so the assessment of value has been based on the Best Estimate of future production and the resulting cash flow net to KE's interest in Medco LLC.

This FMV assessment excludes the impact of any value from Contingent and Prospective Resources.

10.2.2 Oil Price

As discussed in Section 10.1.6, oil prices have been extremely volatile in the past and there is no evidence to suggest that they will not be so in the future. Thus forecasting oil price into the future is inherently exposed to a degree of subjectivity. The base oil price scenario used for this valuation is GCA's own in-house 3Q 2018 Brent crude oil price scenario, which is broadly based on the market information illustrated in Table 44 and other in-house analyses, which are updated on a quarterly basis. GCA has relied upon forecasts and outlooks published by independent organizations in the recent past and public statements.

Table 44: Brent Price Forecasts, Outlooks and Scenarios (US$/Bbl)

Year	World Bank (WB)[1]	Energy Information Administration (EIA STEO)[2]	Energy Information Administration (EIA AEO)[3]	ICE Futures (Latest)[4]	GCA 3Q18
2H 2018	64.5	70.8	54.1	82.73	78.84
2019	64.5	65.9	58.9	80.33	75.08
2020	64.9	-	75.1	75.88	70.19
2021	65.4	-	85.1	71.89	70.00
2022	65.8	-	90.7	68.98	71.40

Notes:

1. Commodity Market Outlook – 24th April 2018. Note that the crude oil price forecast by the World Bank is the average price of Brent, Dubai and West Texas Intermediate (WTI), equally weighted. The price shown in the table is an implied Brent forecast back-calculated by GCA from this.
2. EIA Short-Term Energy Outlook – 6th March 2018.
3. EIA Annual Energy Outlook – 6th February 2018.
4. Intercontinental Exchange (ICE) Brent Futures – 28th September 2018.

The GCA 3Q 2018 scenario was based on the prevailing market conditions at 30th June 2018, which is the Effective Date of this valuation. As is evident from the ICE Futures at 28th September 2018, the oil price has subsequently increased in the near term (2018-20). However, the long term view on oil prices remains consistent with other sources. As the markets remain volatile, GCA has also run sensitivities to variations on the base oil price scenario (±US$10/Bbl).

The future oil price assumptions used in this valuation are based on GCA's perception of a relevant range, although in no event does this discount the possibility that the actual outcomes may lie outside this range for either short or prolonged periods of time.

10.2.3 Capital and Operating Costs

All estimates of CAPEX and OPEX were provided by KE in the form of budgets, plans, historical costs and forecast costs, and audited by GCA. These cost estimates were provided in US$ and used exchange rates of 17.67 Egyptian Pounds per US$ and 1,132 Iraqi Dinar per US$ to convert costs incurred in those currencies. GCA has applied US inflation of 2% p.a. from 2019 onwards to all costs except those fixed by contract. GCA has also looked at CAPEX sensitivities (±20% of the base CAPEX) in arriving at a reasonable value range for the KE Assets. Based on results in Table 42 and Table 43, OPEX is seen to have limited impact on NPVs. Hence, OPEX sensitivity is not a key driver in arriving at a reasonable value range for the KE Assets.

10.2.4 Discount Rate

Oil and gas companies only very rarely publish the discount rate, or rates, that they apply in oil and gas transactions. However, discount rates used in valuation exercises for transactions involving oil and gas assets of this kind reflect a number of factors, including the Weighted Average Cost of Capital (WACC) of exploration and production companies, which typically ranges from 8% to 12%.

The Weighted Average Cost of Capital (WACC) of individual listed companies may be observed from their trading prices on various international stock markets. The WACC incorporates influences of the asset mix, leverage and the management and growth performance of the company.

In addition to consideration of WACC, the discount rates applied would typically be increased by applying a Country Risk Premium to reflect the risk of carrying out operations in countries such as Iraq and Egypt.

For the purposes of this valuation, GCA has selected discount rates that are believed to be broadly consistent with those used by oil and gas companies as a whole contemplating transactions of the kind being undertaken here, based on GCA's experience of such transactions.

10.2.5 Other Adjustments

GCA's valuation of KE Assets has not assumed any adjustments for any net cash/debt or working capital positions that may be subject to future reconciliation.

10.3 Valuation Result and Discussion

10.3.1 DCF Analysis

Table 45 shows the Post-Tax NPVs Net to KE's interests as at 30th June 2018 at various discount rates for the 1P/Low case (i.e. 1P Reserves for assets in Egypt and Iraq and Low Case for the Oman asset) and 2P/Best case (i.e. 2P Reserves for assets in Egypt and Iraq and Best Case for the Oman asset) respectively, under the base oil price scenario. The overall value proposition is dominated by the Iraq assets, although as the discount rate increases from 10% to 20%, their contribution to the total NPV reduces from around 70% to 59%. This reduction is mainly due to Block 9, where a significant capital outlay is planned in order to realize the full field developments of the Faihaa field. At higher discount rates, Siba becomes more significant than Block 9 in NPV terms.

Table 46 shows the sensitivity of the NPVs to oil price (±US$10/Bbl), CAPEX (±20%) and a 2-year delay in the Faihaa field development in Block 9. These results show that the factor with the biggest impact on overall NPV (over the ranges considered) is the discount rate, followed by oil price and then CAPEX.

Table 45: Post-Tax NPV (US$ MM) of Future Cash Flow Net to KE's Interest, as at 30th June 2018, Base Oil Price Scenario

(a) 1P/Low Case

Field	Discount Rate (p.a.)				
	10%	13%	15%	17%	20%
Block 9 (Iraq)	325.2	229.0	180.1	140.5	94.9
Siba (Iraq)	280.2	258.0	244.6	232.2	215.3
ERQ (Egypt)	121.2	115.3	111.7	108.4	103.8
Area A (Egypt)	20.0	19.6	19.4	19.2	18.9
Burg El Arab (Egypt)	23.5	22.5	21.8	21.2	20.4
Abu Sennan (Egypt)	8.0	7.9	7.8	7.7	7.5
KSF (Oman)	10.4	9.8	9.4	9.1	8.6
Total	**788.5**	**662.0**	**594.9**	**538.3**	**469.4**

(b) 2P/Best Case

Field	Discount Rate (p.a.)				
	10%	13%	15%	17%	20%
Block 9 (Iraq)	574.0	393.5	304.9	235.1	156.6
Siba (Iraq)	337.6	313.5	299.1	285.9	267.9
ERQ (Egypt)	157.0	147.9	142.5	137.5	130.6
Area A (Egypt)	104.8	96.8	92.1	87.9	82.1
Burg El Arab (Egypt)	64.8	58.5	54.9	51.7	47.4
Abu Sennan (Egypt)	36.5	31.9	29.2	26.9	23.9
KSF (Oman)	15.5	14.4	13.7	13.0	12.2
Total	**1,290.2**	**1,056.5**	**936.5**	**837.9**	**720.8**

Table 46: Sensitivity to Oil Price, CAPEX and Delay of Post-Tax NPV (US$ MM) of Future Cash Flow Net to KE's Interest, as at 30th June 2018, 2P/Best Case

Discount Rate (% p.a.)	Base	Oil Price		CAPEX		2-Year Delay, Block 9
		+US$10/Bbl	–US$10/Bbl	+20%	-20%	
10%	1,290.2	1,397.5	1,165.4	1,202.7	1,344.5	1,216.2
13%	1,056.5	1,162.1	935.6	960.7	1,124.9	1,006.5
15%	936.5	1,040.7	818.4	837.7	1,011.1	901.6
17%	837.9	940.5	722.5	737.5	916.9	816.8
20%	720.8	820.6	609.4	619.7	803.5	718.2

10.3.2 Comparable Transaction Analysis

GCA has looked at transactions for onshore oil and gas assets in Iraq and Egypt over the last two years, which are summarized in Table 47.

Table 47: E&P Asset Transactions in Egypt and Iraq (2016-2018)

Project	Date	Vendor	Buyer	Equity (%)	Transaction Value (US$ MM)	Estimated WI 2P (MMBOE)	Implied US$/BOE
Atrush Block, Kurdistan	June 2018	Marathon Oil	ShaMaran Petroleum Corp.	15.0	60.0	15.4	3.9
West Qurna 1, Iraq	January 2018	Royal Dutch Shell	Itochu Corp.	19.6	550.0	1,705.2	0.3
East Gazalat, Egypt	June 2017	Echo Energy	Nostra Terra Oil & Gas Company	25.0	0.5	1.0	0.5
Abu Sennan and El Qa'a Plain, Egypt	April 2016	Beach Energy	Rockhopper Exploration	22.0 & 25.0	11.9	4.94[3]	2.4

Notes:

1. Transaction data is based on press releases and information available in public domain.
2. All transaction reflected here were announced on the date mentioned.
3. 4.94 MMBOE volume estimate includes 2C.

However, GCA is of the opinion that these transactions are not in fact comparable to the proposed transaction for the following reasons:

- Fiscal Structure: The transaction value, among other factors, is a reflection of the relevant fiscal and tax regime. Assets in the Kurdistan region of Iraq generally have very different fiscal arrangements as compared to the Service Agreements relevant to assets elsewhere in Iraq such as Block 9 and Siba. Also, GCA understands that West Qurna 1 has a far more stringent Remuneration Fee structure than Block 9 and Siba.

- Timing: As discussed in Section 10.1.6, the oil price has consolidated from an average price of US$46.4/Bbl in June 2017 to an average price of US$74.4/Bbl in June 2018. Thus, any transaction that is more than a year old does not reflect the prevailing market conditions relevant for the transaction considered in this report. This is especially true for the Abu Sennan and El Qa'a Plain transaction and to a lesser extent also for the East Gazalat transaction.

10.3.3 Fair Market Value Opinion

Taking into account all of the above, it is GCA's opinion that, as of 30th June 2018 and subject to a number of key assumptions outlined herein, the FMV pertaining to KE's interests in its assets in Iraq, Egypt and Oman is **between US$850 MM and US$1,050 MM**.

11 Other Topics

11.1 Business

So far as GCA is aware, KE's business is exclusively related to oil and gas exploration and production. The long term future of the company, as a stand-alone entity, would depend principally on its assets in Iraq, where its two main assets are likely to remain in production until the expiry of the Service Contracts (2032 or 2037 for Siba, 2043 for Block 9).

GCA has not conducted any assessment of the technical staff employed by KE. GCA believes it is not relevant for the proposed transaction because UEGL is already listed on the Hong Kong Stock Exchange and will obtain full control of KE as a result of the transaction.

Aside from the technical matters described in this report, other factors that might affect perceptions of the value of the company would include perceptions of economic and sovereign risk, including potential change in regulations; other benefits, encumbrances or charges that may pertain to a particular interest; and the competitive state of the market

11.2 Social and Environmental

Any social and environmental issues related to the exploration for and exploitation of hydrocarbons in KE's assets that GCA has noted are described in the relevant sections of this report, including the site visit reports in Appendix III.

Qualifications

GCA is an independent international energy advisory group of more than 55 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

In performing this study, GCA is not aware that any conflict of interest has existed. As an independent consultancy, GCA is providing impartial technical, commercial, and strategic advice within the energy sector. GCA's remuneration was not in any way contingent on the contents of this report.

In the preparation of this document, GCA has maintained, and continues to maintain, a strict independent consultant-client relationship with UEGL. Furthermore, the management and employees of GCA have no interest in any of the assets evaluated or related with the analysis performed as part of this report. GCA is independent of UEGL, its directors, senior management, and advisers, in compliance with Main Board Listing Rule 18.22.

Staff members who prepared this report are professionally qualified with appropriate educational qualifications and levels of experience and expertise to perform the work.

The team was led by Dr John Barker, Technical Director, Reservoir Engineering, who has 33 years' industry experience. He holds an M.A. in Mathematics from the University of Cambridge and a Ph.D. in Applied Mathematics from the California Institute of Technology. He is a member of the Society of Petroleum Engineers and of the Society of Petroleum Evaluation Engineers (membership number 802).

The report has been reviewed by Mr. Stephen Lane, Technical Director, who has over 40 years' industry experience in geology, petrophysics and economic modelling. Mr. Lane holds a BSc in Geology from the University of Manchester and is a member of the Society of Petroleum Engineers (membership number 3416400).

The valuation opinion has additionally been endorsed by Mr. Bill Cline, the Senior Advisor within GCA. He has over 30 years' experience in the international oil and gas industry and has managed a large number of GCA's engagements with national oil companies, governments and ministries worldwide, particularly with respect to property valuations for transactional or dispute resolution purposes. He graduated from the Edmund A. Walsh School of Foreign Service at Georgetown University in Washington D.C. with a BSc. degree in International Economics and completed his MBA at Southern Methodist University's Edwin L. Cox School of Business in Dallas. He is a member of the Society of Petroleum Engineers (membership number 0897082) and member and President Elect of the Association of International Petroleum Negotiators.

Notice

This document has been prepared for inclusion in a Circular to UEGL's shareholders once the form and context of its inclusion has been approved by GCA. It may not be distributed or made available, in whole or in part, for any other purpose. In line with standard contract conditions for work of this kind, UEGL has indemnified GCA, its affiliated entities and persons involved in the preparation of this report against any claims that might be made by UEGL or a third party resulting from use of or reliance on this report, except to the extent caused by GCA's fraud or gross negligence.

Yours sincerely,

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Appendix I
Abbreviated Form of PRMS

Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers

Petroleum Resources Management System

Definitions and Guidelines ([1])

March 2007

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definition of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in Resources definitions (2005). SPE also published standards for estimating and auditing reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The SPE PRMS document consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information.,

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that SPE PRMS will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

The full text of the SPE PRMS Definitions and Guidelines can be viewed at:
www.spe.org/specma/binary/files/6859916Petroleum_Resources_Management_System_2007.pdf

[1] These Definitions and Guidelines are extracted from the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System document ("SPE PRMS"), approved in March 2007.

RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

On Production

The development project is currently producing and selling petroleum to market.

The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%. The project "decision gate" is the decision to initiate commercial production from the project.

Approved for Development

All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way.

At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget. The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Justified for Development

Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.

In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.

Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes:

(1) the area delineated by drilling and defined by fluid contacts, if any, and

(2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that the locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Probable and Possible Reserves

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally

higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

Developed Reserves

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves

Developed Non-Producing Reserves include shut-in and behind-pipe Reserves

Shut-in Reserves are expected to be recovered from:

(1) completion intervals which are open at the time of the estimate but which have not yet started producing,

(2) wells which were shut-in for market conditions or pipeline connections, or

(3) wells not capable of production for mechanical reasons.

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

Undeveloped Reserves

Undeveloped Reserves are quantities expected to be recovered through future investments:

(1) from new wells on undrilled acreage in known accumulations,

(2) from deepening existing wells to a different (but known) reservoir,

(3) from infill wells that will increase recovery, or

(4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to

(a) recomplete an existing well or

(b) install production or transportation facilities for primary or improved recovery projects.

CONTINGENT RESOURCES

Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Development Pending

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Development Unclarified or on Hold

A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.

The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.

Development Not Viable

A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.

The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.

PROSPECTIVE RESOURCES

Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.

Prospect

A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.

Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

Lead

A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

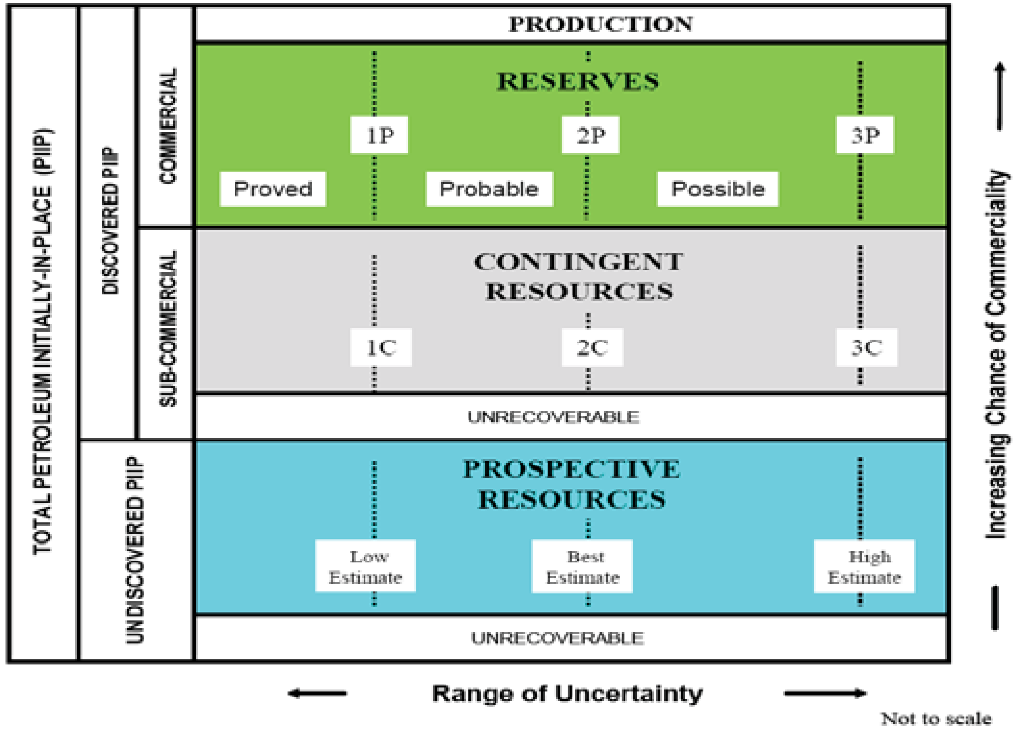
Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

Play

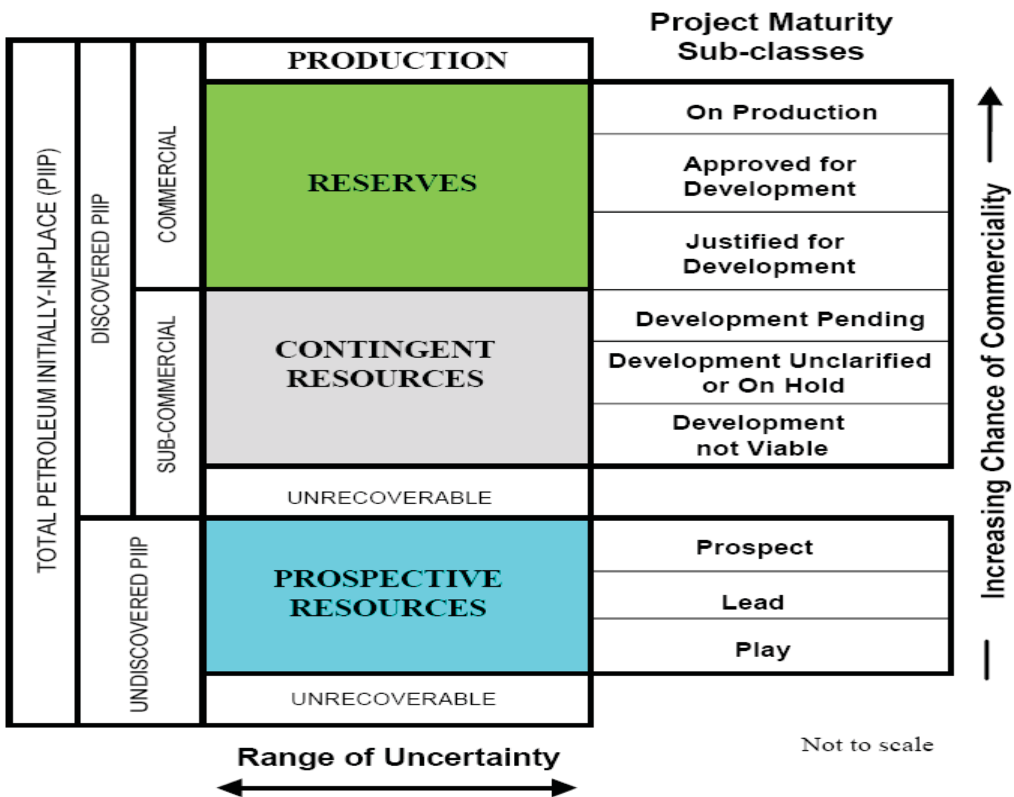
A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

RESOURCES CLASSIFICATION



PROJECT MATURITY



Appendix II
Glossary of Abbreviations

GLOSSARY

API	American Petroleum Institute
°API	Degrees API (a measure of oil density)
B	Billion (10^9)
BBbl	Billion barrels
Bbl	Barrels
/Bbl	Per barrel
BEA	Burg El Arab (Egypt)
boe	Barrels of oil equivalent
bopd	Barrels of oil per day
bpd	Barrels per day
Bscf	Billion standard cubic feet
BTU	British thermal units
bwpd	Barrels of water per day
CAPEX	Capital expenditure
CGR	Condensate to gas ratio
CIIP	Condensate initially in place
CO_2	Carbon dioxide
cP	Centipoise (a measure of viscosity)
CPI	Computer Processed Interpretation
CPR	Competent Person's Report
Dev	Developed
DST	Drill stem test
EGPC	Egyptian General Petroleum Corporation
ELT	Economic Limit Test
EPC	Engineering, Procurement and Construction
ERQ	East Ras Qattara (Egypt)
ESP	Electrical submersible pump
EUR	Estimated ultimate recovery
°F	Degrees Fahrenheit
FEED	Front end engineering and design
ft	Foot or feet
EDPSC	Exploration Development and Production Service Contract
G&A	General and administrative costs
GCoS	Geological chance of success
GDPSC	Gas Development and Production Service Contract
GIIP	Gas initially in place
GOC	Gas oil contact
GOR	Gas oil ratio
GPC	General Petroleum Corporation (Egypt)
GWC	Gas water contact
HCIIP	Hydrocarbons initially in place
H_2S	Hydrogen sulphide

JV	Joint Venture
km	Kilometres
km^2	Square kilometres
KSF	Karim Small Fields (Oman)
LPG	Liquefied petroleum gas
m	Metres
M	Thousand
MBbl	Thousand barrels
Mbopd	Thousands of barrels of oil per day
mD	Millidarcies (a measure of rock permeability)
MDT	Modular Dynamic Tester (a wireline logging tool)
MM	Million
MMBbl	Million barrels
MMBTU	Million British thermal units
MMscf	Million standard cubic feet
MMscfd	Million standard cubic feet per day
MMstb	Million stock tank barrels
MOG	Ministry of Oil and Gas (Oman)
Mscf	Thousand standard cubic feet
mya	Million years ago
n/a	Not applicable
NGL	Natural gas liquids
NIOC	National Iranian Oil Company
NPV	Net Present Value
NPV10	Net Present Value at 10% annual discount rate
ODT	Oil down to
OPEX	Operating Expenditure
OSP	Oil sales price
p.a.	Per annum
PDO	Petroleum Development Oman
ppm	Parts per million
PSA/PSC	Production Sharing Agreement/Production Sharing Contract
psi	Pounds per square inch
psia	Pounds per square inch (absolute)
PVT	Pressure volume temperature
scf	Standard cubic feet
scfd	Standard cubic feet per day
SOMO	State Oil Marketing Organisation (Iraq)
SRP	Sucker rod pump
ss	Sub sea
SSSV	Sub-surface safety valve
ST	Side track
stb	Stock tank barrel
STOIIP	Stock tank oil initially in place
T	Trillion (10^{12})

TCM	Technical committee meeting
TPAO	Türkiye Petrolleri Anonim Ortakligi
Tscf	Trillion standard cubic feet
TVD	True vertical depth
TVDss	True vertical depth subsea
TYC	The Yemen Company
Undev	Undeveloped
US$	United States Dollar
WI	Working Interest
WIP	Water injection project
1C	Low estimate of Contingent Resources
2C	Best estimate of Contingent Resources
3C	High estimate of Contingent Resources
2D	Two-dimensional
3D	Three-dimensional
1P	Proved Reserves
2P	Proved plus Probable Reserves
3P	Proved plus Probable plus Possible Reserves
1Q	First quarter (of year)
3Q	Third quarter (of year)
2H	Second half (of year)

Appendix III
Site Visit Reports

Summary

GCA, through its sub-contractor, undertook site visits to Area A on 22nd January 2017, Abu Sennan on the 23rd January 2017 and Burg El Arab (BEA) on 24th January 2017.

GCA's visits were undertaken to examine the facilities and operations, and to assess their condition and state of operability. The site visits were limited in duration and no testing of any kind was carried out. Each visit provided a snapshot of the overall facilities, pipelines and well sites, but it should be recognized that such short visits can only provide an overview of the condition of the facilities and the state of operations. GCA does not warrant they are in compliance with any applicable regulations in terms of standards, rating, health, safety, and environment.

GCA's overall impression was that the facilities appeared generally to be in good condition and fit for purpose relating to the current operations. No risk to continued operation due to mechanical conditions was obviously apparent, although ongoing maintenance remains important to the longevity of the facilities.

Some minor housekeeping issues were noted at all sites, such as loose cables, absence of hardstanding foundations, and some external corrosion in places, but these would not in themselves impact the capacity of the facilities to handle production as forecast. No obvious safety hazards were noted and there were no complaints from the staff about lack of safety measures.

AIII.1 Burg El Arab

BEA is located in the Western Desert, some 15 km off the main Cairo to Alexandria highway. Total field area is approximately 72 km². BEA is operated by a Joint Venture (JV) company owned equally by the Contractor Group (KEE 100%) and EGPC.

The one-day site visit commenced at about 11.30 am with a 45-minute HSE and operational discussion, followed by a three-hour site inspection.

The facilities at BEA are relatively simple processing facilities. There are production wells and flowlines that consolidate at a manifold. There is simple degassing in twin gas boots, after which the oil is stored in several storage tanks prior to being exported by pipeline. There are additional utilities and support facilities, including firefighting and power generation units. There are also a number of site roads providing access to the wells and facilities.

Personnel count on site is limited with 11 company personnel complemented by approximately 14 contractors per shift.

Oil is exported from the site via a 26 km, 6-inch above ground pipeline to the WEPCO facility, and from there to the El-Hamra terminal through a 35 km x 12-inch pipeline.

Produced water is treated and disposed of by truck to a safe disposal plant, although there is an abandoned well that has been recompleted for use as a disposal well as soon as the environmental approvals to start injection are obtained.

There is some H_2S production but only from the one well (BEA-W1X) that produces from the AR-D formation; H_2S scavenger is being injected to mitigate.

Commercial production from BEA began in 1997. The production and accommodation facilities were substantially replaced and upgraded in 2013, when the export pipeline was also constructed, and the original facilities are no longer in use. The new facilities, now fully operational, generally looked in good condition.

AIII.1.1 Storage Tanks

The 4 storage tanks (Figure AIII.1) seemed to be in a very good condition and well maintained. They are surrounded by a concrete bund wall of 2 m height on all sides. The individual capacity of each of the tanks is 2,400 Bbl, while the total oil production is currently approximately 1,200 bopd. The 4 storage tanks are connected from above to facilitate sample collection. Each tank has a sample collection box to prevent oil spill and the firefighting system services each of the tanks via pipelines.

Figure AIII.1: Storage Tanks

AIII.1.2 Manifold

Production is sent from the wells to the facilities and gathered via the production manifold of 18 slots. There are currently 8 flowlines connected to the manifold. The manifold appeared in a very good condition (Figure AIII.2) and well maintained while the flowlines entering the manifold seemed to have minor external corrosion but showed no signs of spills or physical damage.

The manifold area is a distance from any vehicular traffic, so although it is not fenced or otherwise protected it is not considered likely that any collision damage could occur. GCA understands that it is planned to fence all the facilities for extra protection.

Figure AIII.2: Manifold

The flowlines, as with pipelines generally at the site, are laid directly on the sand (Figure AIII.3), with no structural supports. Although this is not an international best practice, it is common practice in the Western Desert and there appears little risk from collisions or other hazards.

Figure AIII.3: Pipeline Installation

AIII.1.3 Export Facilities

The site had two pumps of similar size for pumping production to the WEPCO facility. Both appeared in good condition (Figure AIII.4). They are manufactured by Goulds Pumps and reportedly are 18 months old.

Figure AIII.4: Export Pumps

Although both pumps were connected, neither was operating at the time of the visit. One pump is designated as being in service and the other pump is on standby, for use when needed. There is also a blanked off connector for a spare portable pump to be installed in case of emergencies. The pump capacity was reported as 10,000 bopd and consequently is able to export of the field production of circa 1,200 bopd over a period of 2-3 hours each day.

Although the overall condition was good, there was some poor housekeeping, inasmuch as the electrical supply and earthing cables were strewn across the ground with no support or protection.

The site has one 6-inch export shipping line that runs for 26 km to export the daily production (Figure AIII.5). The export shipping line showed external corrosion where visible but was buried for most of its distance. GCA understands that corrosion inhibitor is injected in the shipping line.

Figure AIII.5: Export Pipeline

AIII.1.4 Gas Boots

The site has 2 gas boots, designed to remove associated gas from the oil production. They looked both in similar good condition, each reportedly of circa 1 MMscfd capacity. The operations personnel mentioned that the associated gas is less than 0.1 MMscfd typically.

The gas boots can work in parallel to handle larger capacities or one can be put on service and the other on standby. The gas is sent to the cold flare (vent).

AIII.1.5 Power Generation

There are 6 generators on site and they are all owned. There are 2 CAT generators (Figure AIII. 6) of 1 MW each, each generator being designed to support the camp, facilities and 6 of the production wells, with the other generator on standby. They seemed new and in an excellent condition although the diesel supply line and tank appears corroded and in relatively poor condition. GCA understands there is a plan to upgrade the supply line and tank.

Figure AIII.6: CAT Generators

The Client also has four 500 KW Generators supporting the remaining oil producing wells, with 2 operating and 2 on standby. The operations personnel confirmed that there is a maintenance and repair contract with MANTRAK for all the generators and the whole site has sufficient power for its needs.

AIII.1.6 Wellsites

There are 17 wells on site but only one well, BEA-17, was visited (Figure AIII.7). All wells are lifted by sucker-rod pump manufactured by LUFKIN. The tree valves and the pipeline of BEA-17 seemed to be old and to have some signs of a previous spill in the sand, although no spill was observed during the visit.

One well, BEA-W-1X, is reported to have production with some H_2S (reportedly 180-200 ppm). Operations personnel mentioned that they are injecting H_2S scavenger to treat the H_2S and the final concentration after the treatment is less than 10 ppm. There did not appear to be any specific facilities or monitors for H_2S production or release, although there are emergency breathing sets available.

Figure AIII.7: BEA-17 Well

AIII.1.7 Produced Water

The overall produced water rate is about 1,500 bwpd and is sent from the storage tanks to an open lagoon (Figure AIII.8). KE confirmed that they have a contract with UNICO to transport the water from the lagoon. The oil is skimmed prior to water removal.

Figure AIII.8: Produced Water Lagoon

The operations personnel mentioned that they have performed injectivity tests on the BEA-4 well and found it can accept up to 5,000 bwpd, but they were waiting for the environmental approvals and injection facilities to commence injection (GCA understands environmental approval was received on 16th February).

The company is also in communication with a company called ALAMIN to dispose of the produced water to one of ALAMIN's water disposal wells that can accept up to 7,000 bwpd of BEA water. The negotiations are reportedly nearly complete and just waiting on environmental fees and pipeline construction.

AIII.1.8 Firefighting

The firefighting system seemed new and in a very good condition. It has diesel, electric and jockey pumps as well as a small diesel tank and a water tank of 1,000 Bbl for cooling purposes. There is also a foam tank available for foam generation.

AIII.1.9 Maintenance Records

Some rudimentary maintenance records, with inspection records, were seen, as well as more detailed records for the main generators relating to whether running or not, previous maintenance, operating hours and next maintenance date.

AIII.1.10 Other Observations

- The site has one main building acting as site office with other support provided by mobile accommodation. The site itself is fenced and security is present (Figure AIII.9).

Figure AIII.9: Main Site Office, Carpark and Fencing

- Access from the main road to the site was provided by an initial stretch of badly maintained tarmac road (approximately 5 km long) followed by a stretch of compacted sand and stone road and finally by approximately 3 km of good quality sand and oil road.

These roads are the responsibility of the Government. Internal access roads were adequate and of compacted sand/stone construction.

- A copy of the HSE policy was available at the site and an HSE briefing was provided on arrival at the site. Personal protection equipment was evident and being used, including coveralls, safety shoes and helmets.

AIII.2 Abu Sennan

Abu Sennan is located in the Western Desert. It is operated by a Joint Venture (JV) company owned equally by the Contractor Group (KE 25%) and EGPC. There are several processing facility centres within the license area, at Al Ahmadi, Al Jahraa, ASH and El Salmiya. There are production wells and flowlines that consolidate at each facility, with produced gas being exported via a gas facility and pipeline to a nearby GPC gas plant. The facilities are relatively new, having been constructed in 2013-14.

The one-day site visit commenced at about 12:30 pm with a 45-minute HSE and operational discussion, followed by a two-hour site inspection. Due to the limited time available, only the El Salmiya site was visited. This is where the main East Abu Sennan base is located; the base is reached via an approximately 60 km long unpaved road from the Qarun main road.

During the site visit, the gas facility and oil station at El Salmiya were observed, as well as one oil production well (El Salmiya-6).

The gas facility has dehydration and compression equipment along with metering and ancillary services. Gas is exported from the gas facility via an 8” underground pipeline, 25 km long, to the GPC facility and then to the national gas grid. Oil is exported from the site via truck to a number of destinations. Produced water is disposed of by truck which transports it to a safe disposal plant.

AIII.2.1 Tanks

In El Salmiya oil station there are 5 oil storage tanks each of 2,400 Bbl capacity. All appeared to be in good condition (Figure AIII.10). The tanks are also serviced by the firefighting system. The oil is trucked from the tanks to either the BADR location or the GPC facility. The tanks were surrounded by a 2 m concrete bund wall. There was no fencing around the facility, but according to operations personnel a security fence is planned.

During the visit, the loading of one truck was observed. The Operations Manager mentioned that they transport about 2,680 bopd via trucks.

AIII.2.2 Manifolds

There are 2 manifolds that gather production through the flowlines from the El Salmiya Area (Figure AIII.11). The manifolds themselves looked in very good condition but some of the pipelines seemed to be old with minor external surface corrosion. As at BEA, the pipelines entering the manifold were laid directly on the stand with no other support.

Figure AIII.10: Production Tanks at El Salmiya Oil Station

Figure AIII.11: Production Manifold at El Salmiya Oil Station

AIII.2.3 El Salmiya Oil Station

Equipment at the El Salmiya oil station includes a rented, indirect heater that is used during the winter season to heat the oil to improve the water separation when required. The indirect heater looked in a good condition but it was not operating at the time of the visit.

There is a 3 phase separator that separates gas, oil and water. The separator is reportedly capable of handling 30 MMscfd and 5,000 bopd. It has pneumatic control valves to control the fluid level inside the separator. The separator looked new and in an excellent condition (Figure AIII.12).

Figure AIII.12: 3 Phase Separator

There are 2 air compressors to support the separator, manufactured by Stanley, which also looked new and in an excellent condition.

There are 2 gas boots inside the oil station, which separate the remaining associated gas from the production after the separator and send it to the gas facility. The gas boots have a capacity of 1 MMscfd and can work in parallel or in independent service. The gas boots appeared in good condition.

There are 2 electrically-operated shipping pumps (Figure AIII.13), both manufactured by Goulds. Each pump has a capacity of 15,000 bpd and both appeared to be in excellent condition. Although fully connected to the tanks, the pumps were not operating during the field visit.

Figure AIII.13: Shipping Pumps at El Salmiya Oil Station

Finally there is a firefighting system located between the oil station and the gas facility. The firefighting unit seemed in an excellent condition and it is the same type as the unit located at BEA.

AIII.2.4 El Salmiya Gas Facility

The gas facility (Figure AIII.14) is used to purify the gas coming from the oil station prior to shipping it through the 8-inch gas export pipeline. A small part of this produced gas is used to feed the gas generators inside the gas facility. The gas facility was originally used by Qarun Petroleum Company before being transferred to El Salmiya.

Figure AIII.14: General View of Gas Facility

The gas facility control room is equipped with the following:

- SCADA Compressors Control Panel - used to automatically control the compressors and the Molecular Sieve units;
- Rectifier Control Panel;
- Fire and Gas Detectors Unit;
- Switch Gear Unit; and
- UPS System – its main purpose is to provide the gas facility control units with back-up power in case the generators inside the facility go down.

A Free Water Knock Out (FWKO) drum is used to separate the free water associated with the gas before being processed. The FWKO drum is equipped with level control valves working automatically by SCADA and can handle 3,000 bwpd and 30 MMscfd. The FWKO drum looked in a good condition but its valves looked old with some external corrosion evident (Figure AIII.15); KEE has informed GCA that the valves were inspected, repaired and tested before installation and are under a new maintenance contract.

A closed drain vessel is used to collect the knocked out water and this looked in good condition with some minor external corrosion.

Figure AIII.15: FWKO Vessel and its Valves

A dehydration package is present and is used to remove the water associated with the gas. The dehydration unit has two molecular sieve towers, with a capacity of 28 MMscfd. At the time of the visit, one tower was operating and the other was under regeneration. Some valves of the molecular sieve unit and associated pipelines looked old and corroded, though KEE has informed GCA that all welds have been inspected and the pipe network was hydro-tested to the maximum rated pressure with water and nitrogen. There is also an indirect gas heater used for the molecular sieve regeneration purpose which looked in good condition.

A number of other equipment items were observed and appeared in good or reasonable condition including:

- Gas engines for the low and high pressure compressors;
- Rectifying tower after the dehydration unit for gas processing;
- Overhead drum; and
- Heat exchangers.

In addition, there were 2 generators at the gas facility (Figure AIII.16). One generator uses produced gas and is manufactured by Waukesha. It is used to supply the power demands of the gas facility, the oil station and the camp. Another rented standby generator is also available, this being a diesel generator manufactured by CAT.

There are also 2 air compressors to support the units, manufactured by ATLAS COPCO. One is in operation and the other one on standby.

Finally, there is a metering unit to meter the transported gas. This is a dual flow meter unit with a capacity of 16 MMscfd per meter, linked to the Control Unit. During the visit, only one meter was operating.

The produced sales gas is transported some 25 km to the GPC plant via an 8-inch shipping line. The first section of the line is on supports (Figure AIII.17) and the remaining section is buried. The unburied part and the valves looked to be in very good condition.

Figure AIII.16: Power Generators

Figure AIII.17: Gas Shipping Line

AIII.2.6 Water Treatment

The produced water goes to a safe disposal plant. Production is about 600 bwpd and is sent to an open pond, from where the water is trucked (through a contract with UNICO) to UNICO`s facilities for treatment.

AIII.2.7 Wells and Drilling

No rigs were observed during the visit but some time was made available to view the El Salmiya-6 well. It is a naturally flowing well producing about 200 bopd and about 1.6 MMscfd. The X-mas tree and valves looked in an excellent condition (Figure AIII.18).

Figure AIII.18: El Salmiya – 6 Well

AIII.2.8 Other Observations

- No leaks or signs of oil spills were seen during the visit.
- The operations personnel confirmed that there is No H_2S present in the production.
- Some maintenance records were present, specifically the hours of maintenance for the gas compressors, low pressure compressors and the air compressors.
- Also there was a reporting sheet for the routine activities on each compressor such as change-overs or greasing. The running hours of equipment are recorded manually in a sheet and on SCADA.

AIII.2.9 HSE

- A copy of the HSE policy was available on site as well as an Emergency Response Plan.
- Safety shoes, safety glasses, helmets and coveralls were provided to all personnel.

- The incident log was not inspected, but the HSE Manager mentioned that the last LTI was on 7th December 2015 (a vehicle accident) and there had been 408 Perfect HSE days without any incident.

- The facilities are all secured by fencing except for the El Salmiya oil station; GCA understands that fencing for the oil station is planned.

- The HSE Manager mentioned that a fire detection and alarm system is being commissioned for the camp, a tender for sewage water treatment has been launched, and there are plans for a water disposal well, which is waiting for environmental approvals.

- The condition of the road to the El Salmiya area is poor with sand dunes and potholes; GCA understands that it is intended to reconstruct this road.

AIII.3 Area A

This hydrocarbon producing area is located in the Eastern Desert in the region of Ras Gharib, covers some 300 km^2 and contains five fields that are currently producing: Shukheir NW, Shukheir, Yusr, Kareem and Ayun. Hydrocarbons have been produced since the 1960s, and at the time of the visit there were many producing wells with a large percentage shut-in.

The one-day site visit commenced at about 1.30 pm with a 45-minute HSE and operational discussion, followed by a 30-minute document and log review and a one-hour site inspection.

The facilities at Area A comprise of relatively simple processing facilities located at each of the fields. At most of the locations, there are production wells and flowlines that consolidate at a manifold with simple degassing/liquid separators. The oil is stored in several storage tanks prior to being exported from the facilities to the GPC terminal.

Kareem and Ayun production is pumped through a shipping line to the Yusr gathering station, blended with Yusr production and then treated for free water removal and delivered onwards to the GPC plant. The actual shipping process is reportedly the responsibility of GPC.

Shukhier NW production is transferred through a 6-inch pipeline to the Shukhier facility, where it is blended with Shukhier production, treated for free water removal and then delivered to the GPC facility.

There are additional utilities and support facilities including firefighting at all sites, but power is generally provided for all facilities by cable from the GPC facility, apart from rented generators located at several well sites. There are also a number of roads around the site providing access to the wells and facilities.

Personnel count on site is extensive with 107 company personnel complemented by approximately 45 contractors. The accommodation area was fenced off from the surrounding field area and had a gated entrance. Personal protection equipment (PPE) in the form of hard hats, boots, protective eye wear and coveralls were being provided to the operatives.

Produced water is reportedly handled by GPC as per an agreement. Some water is retained and used as part of the Yusr waterflood operation.

The site visit, being limited in time, focused on the Shukheir NW (SHNW) facility, which handles circa 60% of the production.

AIII.3.1 Storage Tanks

There are 3 storage tanks each of 2,400 Bbl capacity at the SHNW facility. The tanks are all new and appeared in excellent condition (Figure AIII.19). The tanks are connected to the firefighting system, visible around the tanks, and are surrounded by 1.5 m concrete bund walls on all sides.

Figure AIII.19: SHNW Storage Tanks

There are also 3 smaller oil storage tanks, each of 600 Bbl, capacity which also appeared in good condition.

AIII.3.2 Processing Facilities

There is one gas scrubber at the SHNW facility which separates the gas from entrained liquids before the gas is sent to the flare. The scrubber seemed old with some evidence of minor corrosion on the inlet/outlet flanges but no signs of damage or leakage (Figure AIII.20).

Figure AIII.20: Gas Scrubber

The SHNW facility has 3-phase separators, designed to separate the oil, gas and water from the production stream, with a reported capacity of nearly 31,000 bpd. The separators looked in very good condition and had level control valves which were also in good condition (Figure AIII.21).

Upstream of the separators are 3 manifolds that gather the production lines. Some of the flowlines entering the production manifold seemed old but no leaks were observed. The flowlines can be seen in Figures AIII.21 and AIII.22.

Three oil transportation/shipping pumps are present, each with a capacity of 5,000 bpd. The pumps seemed in good condition.

Figure AIII.21: Three-Phase Separator Unit

Figure AIII.22: Manifolds and Flowline Condition

Two chemical skids are used to store the H_2S Scavengers at the SHNW facility and these are part of an H_2S scavenger injection system. The system speared to be in good condition, as did the two chemical injection pumps, which are visible in Figure AIII.22. The HSE Manager was not aware of the concentration of H_2S before treatment but mentioned that after the treatment it was about 10 ppm. There were some H_2S detectors and a monitoring system present at the site.

A flare exists to dispose of the produced gas and to act as relief. The flare is located a fair distance from the facilities and can be seen in Figure AIII.23.

Figure AIII.23: Flare In Distance

AIII.3.3 Pipelines

A 6-inch pipeline is used for transportation of oil from SHNW to the Shukheir station. The pipeline looked new and in excellent condition; it is not buried but sits on piping supports (Figure AIII.24).

It was observed during the visit that some of the pipelines coming from the production wells run close to the main road. Some of these pipelines looked old but no leakage was seen.

Figure AIII.24: Oil Transport Line

AIII.3.4 Firefighting

Power is supplied to the SHNW facility by an overhead cable, but there is a 60 KW rented diesel generator located outside the facility to support the firefighting system. The firefighting system consists of one tank and 3 pumps (diesel, electric and jockey pumps) and looked in reasonable condition.

AIII.3.5 Yusr Water Flood Facilities

This water flood facility is used to treat and purify the produced water for use in the Yusr water injection project. The total capacity is about 5,000 bwpd and the water is sent to a water settling tank, then to a storage tank, then to the injection wells through the water injection pumps. The tanks look in good condition and can be seen in Figure AIII.25.

The two water injection pumps are manufactured by GE and each of 5,000 bwpd capacity. The Operations Manager mentioned that there is a plan to add a third water injection pump. The pumps and connections looked in very good condition (Figure AIII.26).

Figure AIII.25: Yusr Water Flood Facilities

Figure AIII.26: Oil Shipping Pumps inside SHNW Station

AIII.3.6 Area A Yard

There is an operating yard inside Area A which is used to store pipes, tools, connections, and SRP spares. The yard was well organized and the sections were well-segregated as shown in Figure AIII.27.

In addition the yard also possessed a chemical storage area plus a laydown area for other mechanical equipment, plus a roofed area.

Figure AIII.27: Area A Yard – Laydown Area

AIII.3.7 Wellsites

At the time of the visit, no drilling rigs were operating on Area A, although a workover rig is available. At the time of the visit it was working on a tubing replacement in the Yusr-51 well (Figure AIII.28). The SRP on the well is 15 years old and appeared to be in relatively poor condition, though this is contested by KEE.

One other wellhead was visited, SHNW-3, which was reported to be producing about 1,000 blpd with 38% water cut (Figure AIII.29). The SRP on this well looked in a very good condition, while the Xmas tree looked old although KEE states that it was installed in June, 2016.

Figure AIII.28: DASCO-24 Workover Rig

Figure AIII.29: Wellhead at Well SHNWX3

AIII.3.8 Other Observations

- Maintenance records were available at the site, which included cathodic protection records for wells and manuals for the maintenance, as well as maintenance records for downhole pumps including well conditions, plunger assembly, barrel assembly and seating since 2013.

- A copy of the HSE policy, in Arabic & English, was available at the site and an HSE briefing was received on arrival. All personnel were wearing their safety shoes, helmets and coveralls.

- The site has a manual incident log to record incidents including date, type, severity, cost, responsibility, location and description. There were 6 moderate incidents recorded with a report for each incident and an action tracking sheet.

- The site is fenced and there was gate security. The roads to the field are all paved with asphalt and there were no major signs of oil spills or other pollution at the site.

Appendix IV
Production and Cost Profiles

Production and cost profiles are presented in this Appendix for each field or license area, as appropriate, for the Proved Reserves and the Proved plus Probable Reserves.

The profiles are presented in the following order:

Block 9, Iraq	Tables AIV.1-2
Siba, Iraq	Tables AIV.3-4
ERQ, Egypt	Tables AIV.5-6
Area A, Egypt (Shukheir NW)	Tables AIV.7-8
Area A, Egypt (Other Fields)	Tables AIV.9-10
Abu Sennan, Egypt	Tables AIV.11-12
BEA, Egypt	Tables AIV.13-14

No production profiles are presented for KSF, Oman because the terms of the Service Agreement for KSF prohibit KE from claiming Reserves in KSF.

Notes applicable to all Tables:

1. Production and costs are shown up to the economic limit only.
2. Production and costs are shown gross (i.e. 100% of the totals for the field).
3. Costs are shown as 2018 real US$, i.e. with no inflation or escalation applied.

Table AIV.1: Block 9, Iraq

Proved Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	4.4	-	-	71.7	37.6
2019	11.0	-	-	80.4	48.1
2020	11.0	-	-	156.1	52.4
2021	11.0	-	-	457.9	52.2
2022	11.0	-	-	1,178.2	71.8
2023	11.0	-	-	995.5	66.9
2024	61.6	-	47.1	370.0	106.5
2025	64.4	-	44.1	283.3	106.5
2026	55.2	-	37.4	148.0	89.3
2027	47.3	-	31.7	132.3	75.5
2028	40.6	-	26.9	50.3	62.6
2029	34.7	-	22.7	5.3	52.8
2030	29.8	-	19.3	4.5	45.4
2031	25.5	-	16.3	4.3	42.8
2032	22.0	-	13.9	3.3	32.8
2033	18.8	-	11.7	2.7	27.4
2034	16.1	-	9.9	2.5	24.8
2035	13.8	-	8.4	2.3	22.6
2036	11.9	-	7.2	2.1	20.7
2037	10.2	-	6.1	1.9	18.7
2038	8.8	-	5.1	1.7	17.2
2039	3.8	-	2.2	0.2	8.1
Total	**523.6**	**-**	**310.0**	**3,954.3**	**1,082.8**

Table AIV.2: Block 9, Iraq

Proved Plus Probable Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	5.4	-	-	71.7	37.6
2019	11.0	-	-	80.4	48.1
2020	11.0	-	-	204.6	53.7
2021	11.0	-	-	503.4	53.5
2022	11.0	-	-	1,183.7	72.0
2023	11.0	-	-	1,159.9	71.3
2024	61.6	-	49.4	445.9	108.6
2025	67.5	-	50.7	306.7	112.7
2026	67.5	-	50.7	295.8	113.6
2027	67.5	-	50.7	189.8	109.3
2028	67.7	-	50.8	282.1	111.6
2029	67.5	-	50.7	264.5	111.8
2030	67.5	-	50.7	282.5	115.7
2031	67.5	-	50.7	182.3	129.1
2032	67.7	-	50.8	163.7	118.5
2033	67.5	-	50.7	11.4	114.2
2034	67.5	-	50.7	11.6	116.3
2035	66.7	-	49.7	11.6	116.0
2036	61.9	-	43.9	11.7	117.3
2037	57.0	-	38.2	11.7	116.5
2038	53.0	-	33.4	11.8	117.9
2039	24.8	-	14.7	1.5	59.1
Total	**1,060.6**	**-**	**736.6**	**5,688.3**	**2,124.3**

Table AIV.3: Siba, Iraq

Proved Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	-	0.45	3.1	130.6	10.7
2019	-	2.63	20.1	62.4	30.1
2020	-	4.52	36.6	70.2	39.9
2021	-	4.49	36.5	32.0	39.8
2022	-	3.67	36.5	-	37.3
2023	-	2.39	31.1	2.0	32.2
2024	-	1.50	23.0	-	27.4
2025	-	0.97	16.9	2.0	24.3
2026	-	0.65	12.5	-	22.3
2027	-	0.44	9.2	2.0	20.8
2028	-	0.32	6.8	-	19.8
2029	-	0.22	5.0	2.0	19.1
2030	-	0.13	3.7	-	18.5
Total	**-**	**22.38**	**240.8**	**303.2**	**342.3**

Table AIV.4: Siba, Iraq

Proved Plus Probable Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	-	0.93	3.1	130.6	12.1
2019	-	5.40	20.1	62.4	38.4
2020	-	9.28	36.6	70.2	54.2
2021	-	9.22	36.5	32.0	54.0
2022	-	7.53	36.5	-	48.9
2023	-	5.75	36.5	2.0	43.6
2024	-	4.88	36.6	-	41.0
2025	-	4.31	36.5	2.0	39.3
2026	-	3.91	36.5	-	38.0
2027	-	3.57	36.5	2.0	37.0
2028	-	3.27	34.1	-	35.5
2029	-	2.64	29.7	2.0	32.6
2030	-	1.92	26.0	-	29.5
2031	-	1.38	22.7	2.0	27.0
2032	-	0.52	9.9	-	12.6
Total	**-**	**64.51**	**437.7**	**305.2**	**543.8**

Table AIV.5: ERQ, Egypt

Proved Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	2.63	-	-	6.81	11.35
2019	4.04	-	-	10.77	20.65
2020	3.04	-	-	9.05	18.95
2021	2.15	-	-	9.05	17.44
2022	1.58	-	-	4.70	16.48
2023	1.08	-	-	-	15.63
2024	0.71	-	-	-	15.01
2025	0.45	-	-	-	14.56
Total	**15.69**	-	-	**40.38**	**130.07**

Table AIV.6: ERQ, Egypt

Proved Plus Probable Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	2.72	-	-	6.81	11.51
2019	4.75	-	-	10.77	21.85
2020	3.89	-	-	8.25	20.38
2021	2.91	-	-	9.45	18.73
2022	2.28	-	-	4.30	17.66
2023	1.63	-	-	0.40	16.56
2024	1.15	-	-	-	15.74
2025	0.81	-	-	-	15.17
2026	0.56	-	-	-	14.75
2027	0.43	-	-	0.40	14.53
Total	**21.12**	-	-	**40.38**	**166.88**

Table AIV.7: Area A, Egypt (Shukheir NW)

Proved Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	0.60	-	-	3.03	2.04
2019	0.19	-	-	0.43	0.66
Total	**0.80**	-	-	**3.46**	**2.70**

Table AIV.8: Area A, Egypt (Shukheir NW)

Proved Plus Probable Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	0.63	-	-	3.03	2.05
2019	1.38	-	-	2.93	4.15
2020	1.39	-	-	2.23	4.16
2021	1.08	-	-	0.25	4.03
2022	0.81	-	-	0.25	3.92
2023	0.62	-	-	0.50	3.85
2024	0.47	-	-	-	3.79
2025	0.49	-	-	0.25	3.80
2026	0.47	-	-	0.25	3.79
2027	0.34	-	-	-	3.74
Total	**7.70**	-	-	**9.69**	**37.28**

Table AIV.9: Area A, Egypt (Other Fields)

Proved Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	0.53	-	-	0.50	1.76
2019	0.89	-	-	0.25	3.45
2020	0.67	-	-	-	3.37
Total	**2.08**	-	-	**0.75**	**8.58**

Table AIV.10: Area A, Egypt (Other Fields)

Proved Plus Probable Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	0.55	-	-	0.90	1.87
2019	1.03	-	-	0.60	3.71
2020	0.98	-	-	7.33	3.69
2021	1.37	-	-	9.04	3.85
2022	1.50	-	-	7.06	3.90
2023	1.29	-	-	-	3.81
2024	1.01	-	-	0.25	3.70
2025	0.80	-	-	-	3.62
2026	0.66	-	-	-	3.57
2027	0.58	-	-	-	3.53
2028	0.52	-	-	-	3.51
Total	**10.30**	-	-	**25.18**	**38.77**

Table AIV.11: Abu Sennan, Egypt

Proved Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	0.34	-	1.02	0.30	3.57
2019	0.50	-	1.19	0.30	6.58
2020	0.29	-	0.53	-	5.93
Total	**1.13**	-	**2.73**	**0.60**	**16.07**

Table AIV.12: Abu Sennan, Egypt

Proved Plus Probable Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	0.42	-	1.15	11.69	3.88
2019	0.92	-	1.87	12.49	8.07
2020	1.16	-	1.71	17.30	9.43
2021	1.16	-	1.51	-	10.08
2022	1.01	-	1.10	-	9.90
2023	0.89	-	0.82	0.30	9.72
2024	0.80	-	0.57	-	9.24
2025	0.68	-	0.32	-	8.69
2026	0.57	-	0.27	-	8.35
2027	0.51	-	0.22	-	7.89
2028	0.45	-	0.19	-	7.48
2029	0.40	-	0.16	-	7.15
2030	0.36	-	0.12	-	6.87
2031	0.32	-	0.09	-	6.63
2032	0.29	-	0.08	-	6.45
2033	0.25	-	0.07	-	6.22
Total	**10.19**	-	**10.24**	**41.78**	**126.05**

Table AIV.13: BEA, Egypt

Proved Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	0.21	-	-	0.46	1.93
2019	0.56	-	-	10.24	4.18
2020	0.60	-	-	8.23	4.26
2021	0.63	-	-	7.36	4.32
Total	**2.00**	-	-	**26.29**	**14.69**

Table AIV.14: BEA, Egypt

Proved Plus Probable Case

Year	Gross Field Production			CAPEX (US$ MM)	OPEX (US$ MM)
	Oil (MMBbl)	Condensate (MMBbl)	Gas (Bscf)		
2H 2018	0.22	-	-	0.46	1.95
2019	0.66	-	-	10.24	4.38
2020	0.70	-	-	7.83	4.48
2021	0.77	-	-	7.56	4.62
2022	0.77	-	-	2.32	4.61
2023	0.58	-	-	0.20	4.22
2024	0.45	-	-	0.20	3.96
2025	0.40	-	-	-	3.83
2026	0.33	-	-	0.20	3.69
2027	0.31	-	-	-	3.66
2028	0.27	-	-	-	3.56
2029	0.19	-	-	-	3.40
2030	0.14	-	-	-	3.29
Total	**5.78**	-	-	**29.01**	**49.65**

A. OVERVIEW OF OIL AND GAS INDUSTRY IN THE AREA THAT THE TARGET OPERATES

The Arab Spring beginning in 2010 and subsequent political unrest in a number of MENA countries had a significant impact on the oil and gas sector. Political instability and damage to infrastructure meant that the MENA region has faced difficulty in sustaining its supply. The outbreak of civil war in Libya led to heavy damage to the primary oil exporting port, Es-Sider. After being shut for two years due to a blockade by a military faction, Es-Sider reopened in September 2016 and contributed to the ramp up of Libyan production in 2017; however in June 2018 export terminals Ras Lanuf and Es-Sider closed again to tanker loadings due to fighting and several storage tanks were reported to have been damaged. Because of the current political situation in Yemen, since early 2015 many upstream operators suspended operations in the country.

MENA Energy Sector Outlook

The BP Statistical Review estimates that the Middle East region, plus Africa, held 934 billion barrels of oil reserves as of 31 December 2017, representing 55% of the world's oil reserves. The Middle East region, plus Africa was also estimated to hold 48% of the world's proved natural gas reserves, totalling 3,282 trillion cubic feet as of 31 December 2017. Oil production in the Middle East region, plus Africa during 2017 averaged 39.7 million barrels per day, accounting for 42.8% of the total world daily production. In addition, in 2017 the region produced 86 billion cubic feet per day of natural gas, representing 24.0% of the world's total production.

Iraq

According to the BP Statistical Review, Iraq had approximately 149 billion barrels of proved oil and 124 Tcf of proved gas reserves as of 31 December 2017 and remains one of the least explored of the world's major oil and gas producing countries. Since 2010, the country has been the largest contributor to OPEC's capacity growth as a result of signing development contracts with various IOCs. Despite investment constraints as a result of the low oil price and in light of the recent political and security situation in the country, production increased by 40% between 2014 and 2017, according to the BP Statistical Review. Significant new oil and gas discoveries have been made in recent years in the Kurdistan region of Northern Iraq, although activity has slowed down significantly post the oil price collapse in 2014.

Following the removal of UN sanctions in 2003, many international oil and gas companies have entered Iraq in the last decade. Particularly in Southern Iraq, the largest producing assets are now operated by IOCs. The Federal Oil Ministry held two, largely successful petroleum license rounds in 2009, which led to the award of technical service contracts for some of the country's biggest producing and undeveloped assets. Development of these fields has driven the country's production growth in recent years. A third gas-focused license round was held in

October 2010. Three gas development contracts were awarded to consortia led by KOGAS, TPAO and the Target Group. A fourth petroleum license round was held in 2012 for 12 blocks, including Block 9, which was awarded to the Target Group and Dragon Oil. A fifth licensing round was held in April 2018 for 11 blocks, however companies were given little time to evaluate the acreage and fiscal terms as the round was fast-tracked to complete before the 12 May elections and only three won blocks: Crescent Petroleum, Geo-Jade Petroleum and the Group.

In November 2016, OPEC agreed to cut production for the first half of 2017 by approximately 1.2 million barrels per day, and Iraq agreed a production target of 4.4 million barrels per day. The main production cuts came from the Southern and Northern state-operated fields; some production has been cut as maintenance was carried out at certain IOC-operated southern fields, but further reductions are not expected as the contractors could still be eligible to receive remuneration under the terms of the contract. Kurdistan is also unlikely to cut production. Following the June 2018 OPEC agreement, output from OPEC countries is expected to rise and Iraq will be able to produce above its production target.

Oil

In 2017 Iraq consumed 791,000 bbl/d of petroleum and other liquids. Iraq's oil consumption, which grew by an annual average of 7% from 2004 to 2013, declined slightly in 2014 and 2015 mostly because of the ISIS activities in Northern Iraq before growing again in 2016 and 2017.

Total liquids production in Iraq is expected to reach 5.4 million bbl/d by 2020, primarily due to several large oil fields ramping up production. The pace of future production growth depends on factors such as political stability, the security situation and key infrastructure projects.

The Ministry of Oil oversees oil and gas production and development in non-Kurdish regions through its operating entities, North Oil Company and Midland Oil Company in the central region, and South Oil Company and Missan Oil Company in the Southern regions. Production in the northern region is controlled by the Kurdistan Regional Government. In March 2018 the Iraq's parliament voted to establish a new National Oil Company to manage its energy sector and serve as umbrella organization for Iraqi state oil firms.

Gas

Although some investments have been made in gas infrastructure, Iraq has focused primarily on development of oil resources since the country opened up in 2010.

According to the BP Statistical Review, Iraq had 124 trillion cubic feet of proved natural gas reserves as of 31 December 2017 with the majority of the reserves held as associated gas from the southern fields. Three gas development technical

service contracts were awarded in 2010: Mansuriya (awarded to the Target Group) were to be linked to dedicated power plants and Siba (also awarded to the Target Group) and Akkas were to contribute to the southern domestic network. However, Mansuriya and Akkas are under *force majeure* as they are located in territories occupied by militants.

Some of the natural gas produced is used as fuel for power generation, while many power stations are burning liquids for power generation due to a lack of gas supply. The majority of Iraqi natural gas production is presently being flared, or burned away, as there is insufficient infrastructure to transfer the gas to demand centers. To reduce flaring, Iraq signed an agreement with Royal Dutch Shell and Mitsubishi to create a new joint venture, Basra Gas Company, to capture flared gas in the Basra Province.

Egypt

Oil

According to the BP Statistical Review, Egypt had total proved oil reserves of approximately 3.3 billion barrels as of 31 December 2017. Egypt is the largest non-OPEC oil producer in Africa. According to the 2018 BP Statistical Review, domestic oil consumption in Egypt grew nearly by 48% from 2000 to 2017. The emergence of the Western Desert as a key oil producing region since 2000 has managed to offset a large part of the decline from the Gulf of Suez. New finds in the Mediterranean deepwater offshore and in mature productive areas in the Gulf of Suez and Nile Delta may offer Egypt substantial additional oil resources in the future. Egyptian liquids production may continue to fall in the longer term in the absence of any major discoveries. In its effort to mitigate declining liquids production, Egypt has held numerous exploration bid rounds in recent years.

Gas

According to the BP Statistical Review, as of 31 December 2017, Egypt had approximately 64 Tcf of proved reserves. Close to 90% of Egypt's known natural gas reserves are located in the Nile Delta and Mediterranean basin.

Egypt's natural gas sector has expanded rapidly over the last decade as domestic gas consumption grew by 191% from 2000 to 2017 while during the same period, gas production more than doubled, according to the BP Statistical Review.

The gas landscape in Egypt is expected to change significantly in the medium term. New fields are forecasts to allow the country to reduce costly Liquid Nitrogen Gas imports and end ongoing supply shortfalls. Including further projects to be sanctioned, the country could potentially achieve a surplus of gas supply by 2020.

In February 2018 the Egyptian Government passed executive regulations to liberalize the gas market allowing private sector participation. The law allows upstream operators with contracts signed post-2013 to either market their share of profit gas or sell to EGAS (as is the current arrangement); private companies will also be able to import gas or Liquid Nitrogen Gas directly for sale into the domestic market. Over time a wholesale market is therefore expected to develop. Onshore assets are the ones likely to benefit the most from the liberalization as they generally receive lower gas prices than offshore assets.

Since the election of Abdel Fattah el-Sisi in 2014 and with the return of political stability in the country, the government (and EGPC) has made significant efforts to pay down its debts to the IOCs present in Egypt.

Yemen

Yemen is a small non-OPEC oil producer, facing continued declining output. Due to the civil violence in Yemen since 2011 and hostilities ramping up in 2015, disruption has been caused to the upstream industry with many upstream operators forced to evacuate staff and suspend operations.

Oil

According to the BP Statistical Review, Yemen had total proved oil reserves of approximately 3 billion barrels as of 31 December 2017. Production has been declining steadily since reaching a peak in 2002 at 457,000 bbl/d.

Oil production has been dominated by two blocks, Masila (Block 14) and Marib-Jawf (Block 18) from two prolific basins: Say'un – Al Masila and Sab'atayn. In the absence of sizeable new discoveries, liquids production decline was forecast to accelerate. The Masila (Block 14) license expired in late 2011, and operations have been taken over by a newly-formed government operating company.

The Ras Isa and Ash Shihr export terminals closed in April 2015. The re-opening of the Ash Shihr export terminal in July 2016 led to a partial restart of state-operated oil fields in the east of the country.

Gas

According to the BP Statistical Review, as of 31 December 2017, Yemen had 11 Tcf of proved natural gas reserves. Most of Yemen's gas reserves and resources are from the Yemen Liquid Nitrogen Gas project, which has been shut since April 2015. Yemen's 2017 natural gas production was 25 Bcf, well below its 2013 peak of 367 Bcf.

The Yemeni government has sought to address the country's declining revenue from its dwindling oil output by monetizing gas. The government is likely to move away from heavily subsidized diesel generated power generation, and incentivizing gas on commercial terms can help achieve this. However, given the current security situation and political instability, gas developments are unlikely to be sanctioned in the short to medium term.

Overview of Target Group assets

The assets of the Target Group are primarily related to the exploration, development, production and sale of hydrocarbons.

The Company will acquire the entire issued and to be issued ordinary share capital of the Target, and will have the right to participate actively in such exploration, development and production. Revenue working interest for the Target Group ranges from 15% to 100% for each of the production sites as set out in the table below.

Location	Group Revenue Working Interest (%)	Group Operated	Phase	Average Working Interest Daily Oil and Gas Production			
				Year ended 31 December 2016	Year ended 31 December 2017	Six months ended 30 June 2017	Six months ended 30 June 2018
				(boepd)			
Iraq							
Block 9	60[(2)]	Yes	Production	3,985	9,583	8,822	10,395
Siba[(1)]	30[(3)]	Yes	Production	–	–	–	–
Iraq Total				**3,985**	**9,583**	**8,822**	**10,395**
Egypt							
Abu Sennan	25[(4)]	Yes	Production	1,772	867	1,667	971
Area A	70	Yes	Production	5,055	4,654	4,720	5,685
Burg El Arab	100	Yes	Production	1,363	1,257	1,143	1,398
ERQ	49.5	No	Production	9,843	8,081	8,643	8,044
Egypt Total				**18,033**	**14,859**	**16,173**	**16,097**
Oman KSF	15[(5)]	No	Production	**2,444**	**2,377**	**2,410**	**2,198**
Total				**24,462**	**26,819**	**27,405**	**28,690**

(1) Siba commenced commercial production in September 2018.

(2) The Target Group and Dragon Oil entered into agreements to transfer a 15% working interest in Block 9 in Southern Iraq to Dragon Oil, in connection with the settlement of a dispute between the Target Group and Dragon Oil (6.43% of which would be on a past net costs basis, and 8.57% for a lump sum of US$100 million (equivalent to approximately HK$780 million)). The agreements were subject to certain conditions precedent, including obtaining Iraqi Government approval to the transfer. In September 2018, Dragon Oil terminated the agreements, however the parties are continuing to work towards effecting the settlement and transfer.

(3) In 2017, the Target Group completed the farm-out of a 15% revenue interest and a 20% cost interest in Siba to EGPC.

(4) In 2017, the Target Group completed the farm-out of 25% of its working interest in Abu Sennan to GlobalConnect Ltd.

(5) The Target Group entered into an agreement on 6 November 2018 to sell its interest in Karim Small Fields in Oman, which remains subject to completion.

B. REGULATORY FRAMEWORK IN THE TARGET AREA AND COMPLIANCE WITH LOCAL REGULATIONS

1. Oil and Gas Regulatory Regime

The Target Group is subject to the different oil and gas regulatory regimes applicable to each jurisdiction in which its business is conducted. The Target Group is committed to complying with applicable local laws and regulations, and as at the Latest Practicable Date, so far as the Target Group is aware, there are no material, unremedied breaches of such regulations which would be likely to result in any of its licenses being revoked.

2. Environmental Regulatory Regime

The Target Group is subject to various environmental regulations in the jurisdictions where it operates, relating to air emissions and restrictions on the flaring of gas, the storage, transport, packaging, and handling of contaminated earth and hazardous materials, and water usage and disposal.

The Target Group is committed to:

- promoting environmental objectives and responsibilities as an integral part of the duties of management;

- conducting an environmental impact assessment study prior to any major project, *i.e.*, drilling, installation of new facilities;

- applying internationally recognized environmental, health, and safety standards such as the International Finance Corporation's Performance Standards and the European Bank for Reconstruction and Development Performance Requirements;

- complying with all applicable environmental laws and regulations and, where adequate laws do not exist, adopting and applying standards that reflect the Target Group's strong commitment to the environment;

- evaluating hazards and risks pertaining to the Target Group's operations that have the potential to affect the environment and implementing appropriate control measures to minimize as far as practicable these risks;

- establishing and ensuring that environment management systems, which are designed to protect the environment, are not only followed, but promote environmentally sound working practices consistent with the environmental risks and hazards identified and efficient operating conditions;

- communicating openly and positively with interested parties on environmental matters and fostering a culture of concerned, responsible attitudes to environmental issues in its employees. Inviting discussion of the environmental and social concerns of individuals, communities and organizations directly affected by operations in which the Target Group is involved;

- rehabilitating as appropriate areas disturbed by exploration or production activities and minimizing the generation of wastes and their environmental effects;

- providing appropriate environmental training to staff, including ways to understand and address public concerns and maintaining appropriate emergency response plans; and

- conducting operations in an energy efficient manner and undertaking reviews as appropriate of the progress and effectiveness of activities in compliance with the above.

The Target Group endeavours to follow the local rules and regulations applicable to each jurisdiction in which its business is conducted and is not aware of any specific material project risks from environmental, social, and health and safety issues, or material environmental liabilities of the Target Group's projects or properties.

3. Tax and Royalties

Iraq

The Target Group's license in Siba, is governed by a gas development and production service contract, while the Block 9 license is governed by an exploration, development and production service contract.

The fiscal regime under the service contracts operates on a cost recovery/remuneration fee basis. The Partners are entitled to apply for the recovery of a proportion of their costs, with cost recovery entitlement for petroleum costs capped at 50% of "deemed revenue" in any quarter and supplementary costs capped at 60% of "deemed revenue" less any petroleum costs recovered and remuneration fee paid in any quarter ("deemed revenue" being calculated by multiplying the amount of oil, dry gas, LPG and condensate produced by the provisional export oil price for the quarter, as defined; for Block 9, gas produced is multiplied by 50% of the provisional export oil price for purposes of the calculation of deemed revenue). Unrecovered costs in any quarter can be carried forward to the next quarter until complete recovery is achieved (or, if sooner, until the contract terminates or finally expires). Petroleum costs are fully recoverable within the limit of 50% of the deemed revenue in any quarterly accounting period for all Iraq assets, and supplemental costs for Siba are fully recoverable within the limit of 60% of the deemed revenue, less any petroleum costs recovered and remuneration fee paid.

For Siba, in addition to the cost recovery amounts, a remuneration fee is paid to the Partners (and shared between the Partners in proportion to their revenue interest) for each barrel of oil or boe of dry gas, LPG or condensate produced. The remuneration fee is paid from the same 50% of the "deemed revenue" as the petroleum cost recovery, with costs deemed to be recovered first. The production plateau rate for Siba is 100 mmscfd (gross) for a period of nine years. A performance factor applies if the production rate is below plateau by multiplying that factor of production to plateau by the remuneration fee.

The remuneration fee for Block 9 is capped at 30% of the "deemed revenue" after petroleum cost recovery has been deducted. This remuneration fee is paid for each boe of oil, natural gas liquids or dry gas produced above those used for cost recovery on a sliding scale, in cash or in kind. The Target Group will receive the remuneration fee for Block 9 as production in kind (*i.e.*, receiving payment in oil), unless the government elects to pay in cash, while it will receive the remuneration fee for Siba in cash, unless the government elects to pay in kind.

The remuneration fee is adjusted by the ratio of aggregate Partner annual revenue to annual exploration, development and operating expenditures since inception ("**R**" factor) for Siba and Block 9 and additionally by a performance factor for Siba.

According to the Iraq Ministry of Oil, the remuneration fee rates that the Target Group has for its service contracts are among the highest in Iraq.

A 35% corporate income tax is applied to each contractor's remuneration fee. A number of barrels of oil equivalent valued at the amount of these tax payments is included in the Target Group's 2P net entitlement reserves but is also accounted for as a reduction in the net present value of the Target Group's future net revenue, as prepared by GCA. In addition, under all

of the service contracts, the contractors are required to pay a non-recoverable training fee of US$1 million (equivalent to approximately HK$7.8 million) per year to the Iraq Ministry of Oil. Under the Block 9 contract, the Partners paid an initial signature bonus of US$25 million (equivalent to approximately HK$195 million) to the Iraq Ministry of Oil. Payment of these costs is split amongst the Partners on the basis of their working interest percentages.

Egypt

Under the PSCs, a royalty of 10% of gross production is payable to the Egyptian government and is borne by the EGPC on behalf of the Partners. The corporate income tax in respect of the PSCs is also paid by EGPC on behalf of the Partners.

During the exploration phase of the Abu Sennan PSC, Partners must give mutually agreed numbers of EGPC employees an opportunity to attend and participate in training programs relating to exploration and development operations. If the total cost of such programs is less than US$50,000 (equivalent to approximately HK$390,000) in any financial year, Partners are required to pay EGPC the amount of the shortfall within 30 days following the end of the financial year. EGPC has the right to have the US$50,000 (equivalent to approximately HK$390,000) allocated for training paid directly to it for training purposes. The Partners are also obliged to pay certain bonuses to EGPC upon reaching various production milestones as well as a bonus of US$500,000 (equivalent to approximately HK$3,900,000) upon the approval of each development lease within the contract area; to date, six development leases have been approved in Abu Sennan. Payment of these fees and bonuses is split amongst the Partners on the basis of their cost interest percentages.

Area A is governed by a service contract comprising (i) an exploration services agreement governing the non-producing fields, and (ii) a production services agreement governing the six producing fields, namely, Kareem, Ayun, Um El-Yusr, Shukheir, Shukheir North West and South Kheir.

Under the terms of the service contract, GPC holds the exclusive right, title and interest to any hydrocarbon produced by the Partners. In return, GPC pays the Partners a service fee of US$0.61 per barrel (adjusted for inflation) for maintaining the baseline production in addition to a share of any incremental production above the determined baseline. Liquid petroleum production up to the determined baseline belongs to GPC. The percentage of the remaining incremental production for each of the six producing fields in Area A other than the Shukheir NW and South Kheir fields, where gross production reaches above 500 bopd, allocated to the Partners in any quarter is based on the average production rate for that quarter and ranges from a 49.0% to 51.5% share. Under the service contract, the contractor is required to pay GPC a facility tariff of US$1.20 per barrel (adjusted for inflation) and, if production falls below the baseline production level, a fee of US$2.65 per barrel (adjusted for inflation) below the baseline production level.

Oil produced from the Shukheir NW and South Kheir fields, or from future commercial discoveries outside the Um El Yusr, Kareem, Ayun and Shukheir development leases, above the baseline of 500 bopd for that field is allocated to the Partners in a percentage ranging from 49% to 57%, and the remaining percentage is allocated to GPC. For production below the baseline of 500 bopd, no production is allocated to the Partners.

Cost recovery is not applicable under the Area A service contract.

Tax regime

A corporate income tax of 22.5% of taxable profit is payable by each Partner of the Area A services agreement and Kuwait Energy (Eastern Desert), and each Partner's production allocation is gross before tax.

According to article (3-g) of the concession agreements, Kuwait Energy Egypt Limited and KEC Egypt Limited (Egypt branches) are subject to the Egyptian Income Tax Law on a concession by concession basis and should comply with the requirements of such laws with respect to the filing of returns, the assessment of tax and keeping and presenting of books and records. The concessions are subject to corporate income tax at the standard rate of 40.55%. The income tax liability, which remains the obligation of the contractor, is however, payable by EGPC on behalf of the contractor. All income taxes payable by EGPC in the name of the contractor and on his behalf, are considered income to the contractor in determining the income tax and the taxes shall be calculated on the grossed up taxable income using the full gross up formula that is stipulated in the concession agreements.

In July 2014, the Egyptian government announced a 10% withholding tax payable on dividends and other cash distributions to shareholders. At present, the Target Group's only Egyptian subsidiary, Kuwait Energy (Eastern Desert), which holds the Target Group's interest in Area A in Egypt is subject to those taxes once its General Assembly decides to pay dividends or any other cash distributions to shareholders. There have been no dividends or any cash payments by Kuwait Energy (Eastern Desert) to shareholders since its inception. In case the Kuwait Energy (Eastern Desert) General Assembly approved a cash dividends distribution to shareholders, it shall be taxable at 10%, without deducting any charges. However, this shall not apply to the dividends distributed in the form of bonus shares. The tax rate on the dividends shall be reduced to 5%, without deducting any charges, if the participation in the distributing company exceeds 25% of its capital or voting rights. This is provided, however, that the holding period of the stocks or equity shares shall not be less than two years. The Egyptian government also announced a temporary 5% income tax effective for 2014 on any profits above 1 million Egyptian pounds, in addition to the already existing income tax regime, applied at progressive rates up to 25%. In 2015, the Egyptian government announced that income tax would be reduced to 22.5%. Only Kuwait Energy (Eastern Desert) was subject to both changes in income tax.

C. HISTORICAL EXPERIENCE IN THE TARGET AREA

Founded in 2005, the Target Group is one of the largest independent crude oil and natural gas companies focused on the MENA region, based on estimated reserves. With full-cycle capabilities across exploration, appraisal, development and production of oil and gas assets, its primary mission is the secure, environmentally-conscious and sustainable production of hydrocarbons. The Target Group is indigenous to the MENA region, with production and development assets located in southern Iraq and Egypt, and with an operations hub in Kuwait, corporate headquarters in Bahrain and a registered office in Jersey. The Target Group's management team has built strong relationships with various stakeholders in the MENA region and has an extensive track-record of successfully completing development projects and delivering production growth. The Target Group employs and trains a large number of local people. As of 31 December 2017, a significant portion of its full-time employees were local to the country of operation.

Iraq

The Target Group's activities in Iraq are governed by service contracts with BOC on a cost recovery and remuneration fee basis. Under the service contracts, the Target Group is entitled to recover its capital expenditures and operating costs for work it undertakes in development and operations in Block 9 and Siba.

The Target Group's service contracts in Iraq provide that a JMC be established for each asset between the Partners and the Iraqi government. As a result, commercial and planning decisions made by the Target Group and its Partners, and the scope of the Target Group's work plan for each of its assets in Iraq, have to be approved by the Iraqi government during periodic meetings of the JMC for each asset.

Block 9

Block 9 is an oil field block comprising a gross area of approximately 865 km^2 and located north of the city of Basra, adjacent to the Iranian border. A Target Group company, KE Basra, is the operator of the block with a 60% revenue and cost interest, held through the exploration, development and production service contract entered into with BOC on 27 January 2013.

The Target Group is currently producing from Block 9 under an amendment to the service contract entered into in September 2015, and later extended by the Iraqi government, which allows the Target Group to continue production until the completion and commissioning of the oil export pipeline serving the Block 9 area.

The Target Group commenced the drilling of the Faihaa-1 exploratory well in Block 9 in March 2014. Production from the Faihaa-1 well in Block 9 commenced in October 2015. On 12 September 2016 production testing commenced from the Faihaa-2 well in Block 9 and commercial production commenced on 2 October 2016.

Commercial production from the Faihaa-3 well and Faihaa-4 wells in Block 9 in Iraq commenced on 12 February 2017 and 5 February 2018, respectively. In each case, production was pursuant to an early production arrangement agreed with the government.

Siba

Siba began commercial production of gas and condensate in September 2018.

The Iraqi governmental partner in the field, BOC, has been fully involved and informed in all relevant procurement and development decisions impacting the timetable and the Target Group has communicated to the Iraqi government that the contractual performance obligations in the Siba gas development service contract entered into with BOC require a production plateau rate of 100 mmscfd to be achieved by 1 July 2018. Based on having achieved the initial production plateau rate of 25 mmscfd in the third quarter of 2018, the Target Group expects to meet this plateau target in the fourth quarter of 2019.

The Target Group has a 30% revenue interest and a 40% cost interest in the license over the Siba field, held through the gas development and production service contract entered into with BOC.

Egypt

In Egypt, the Target Group operates under a mix of production sharing contracts and service contracts, with the majority of the Target Group's assets (Abu Sennan, Burg El Arab and ERQ) operating under production sharing contracts with the EGPC, whereas Area A is operated under a service contract with GPC.

ERQ

One of the Target Group's most significant producing assets is the ERQ license area. The Target Group holds a 49.5% working interest in the ERQ license, held through a PSC entered into with EGPC. Development leases with a 20-year term and a five-year extension option have been granted over nine fields discovered within the ERQ PSC area. The development leases expire at various dates between 2027 and 2031, each with an option for a five-year extension subject to approval from the Egyptian Ministry of Petroleum.

Area A

The Target Group's Area A asset currently covers an area of approximately 300 km^2 and is located in the Eastern Desert adjacent to the Gulf of Suez. The Target Group holds a 70% working interest under a service contract with the license holder, GPC. The production services agreement is scheduled to expire on June 2023 with an option for a ten year extension subject to approval from GPC. The Target Group successfully renewed the two-year exploration license for Area A, which will expire in September 2020.

Burg El Arab

The Burg El Arab PSC covers a gross area of approximately 68 km^2 and is located in the Alamein Basin in the Western Desert. The Target Group has a 100% working interest in the Burg El Arab licence, held through the PSC entered into with EGPC. A 20-year development lease was granted over the oil field discovered in the PSC area in 1996. The development lease is scheduled to expire at the end of December 2021, after acquiring the five-year optional extension. The Target Group is in active discussions with EGPC and the Egyptian government to renew the Burg El Arab license for an additional ten years beyond December 2021.

Abu Sennan

The Abu Sennan PSC covers an area of approximately 776 km^2 and is located in the Abu Gharadig Basin in the Western Desert. The Target Group has a 25% working interest in the Abu Sennan licence, held through the PSC entered into with EGPC. The Target Group successfully amended the Abu Sennan PSC with a new law no.88 for 2018, which extends the exploration license for an additional five years starting from September 2018.

EGPC acts as primary off-taker for oil and gas produced under the PSCs in Egypt with the right to purchase a specified portion of the Partners' oil and gas at a price determined under the PSC (generally at a slight discount to Brent Crude prices). As a result of the political unrest in Egypt beginning in 2011, the pace of payments received from EGPC has slowed, but this has improved since June 2012, with payments from EGPC currently paid, on average, after 90-120 days.

Yemen

In Yemen, the Target Group currently only holds the Block 5 asset, with a 15% operated working interest. Due to the political and security situation in Yemen, Block 5 production has been shut-in since April 2015. However, the Target Group is regularly monitoring the security situation in Yemen and intends to resume its operations at Block 5 when it deems it is safe to do so. The Target Group continues its HSSE activities including facilities maintenance and routine safety inspections to ensure preparedness when the circumstances allow it to resume operations.

The Block 5 production sharing agreement was originally set to expire on 8 June 2015, but it was extended to 13 March 2018 in full and final settlement of all *force majeure* claims by the Target Group up to and including 7 March 2016, due to production being interrupted on several occasions as a result of sabotage of the main oil export pipeline and the closure of the port at Ras Isa since 7 April 2015. In due course, the Target Group expects YICOM to confirm an additional extension covering days lost between 8 March 2016 and the date when production resumes.

D. RISK FACTORS

Risks relating to the Target Group

The Target Group expects a substantial amount of its future activity to focus on Iraq, which presents a high-risk environment

The Target Group has focused its near term growth strategy on its Iraqi assets and expects to invest a substantial portion of its capital expenditures to develop the Block 9 and Siba assets in southern Iraq, in particular. Iraq, which accounted for 95.3% of the Target Group's 2P oil reserves as of 30 June 2018, remains subject to significant instability and violence in certain regions.

Further deterioration of the political and security situation in Iraq, such as the fall of the current government or heightened civil unrest, could lead to an increase in violence and terrorist activity and contribute to volatile operating and market conditions in the oil and gas industry, which in turn could jeopardize the Target Group's ability to operate safely in the country and negatively affect the Target Group's ability to develop its assets in Iraq. For example, recent humanitarian protests in Basra, Iraq, resulted in partial disruption of the Target Group's Block 9 and Siba operations in July 2018. Escalation of such protests to widespread civil unrest could inhibit the Target Group's ability to operate in Iraq, and may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Iraqi authorities may be unable to provide the necessary degree of peace, order, stability and security for the Target Group to carry out its operations or its appraisal and exploration program in the country, particularly with regard to infrastructure development, safety and protection of the Target Group's physical property. For example, the Target Group faces the risk that the contractor group in Iraq may be delayed in the execution of mine-clearing operations in the areas where the Target Group plans to operate, due to administrative processes or delayed governmental approvals.

Foreign companies operating in Iraq, particularly oil and gas companies, may be particular targets for violent criminal or terrorist actions, and such criminal or terrorist action against the Target Group's personnel, facilities or third-party infrastructure may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects. In addition, the possible threat of criminal or terrorist actions against the Target Group may have an adverse impact on the ability of the Target Group to adequately staff its operations or may have an adverse impact on operating costs. The Target Group may also face higher operating costs, or a significant shortage of necessary personnel, equipment or supplies, as a result of increased demand from multiple IOCs simultaneously building up and maintaining their local presence in Iraq.

Beginning in June 2014, militants affiliated with ISIS launched attacks on a number of cities and villages across the northern and western parts of Iraq, seizing control over a large swathe of territory and advancing towards the national capital of Baghdad. As a result of military operations by Iraqi and U.S. forces in November 2017, ISIS-affiliated militants are now primarily confined to pockets of the countryside and the situation is less hostile, although sporadic hostilities continue in certain areas in northwestern Iraq. As the political and security situation continues to develop, uncertainty remains regarding the future stability and operating climate in Iraq.

The Target Group's Iraqi assets, furthermore, are subject to a number of operational and other risks, including those related to geopolitical circumstances, contractual arrangements, geological factors or legislation.

In relation to Block 9, the Target Group may fail to achieve its production targets for the field as a result of, for example, inadequate availability of transport (trucks), or due to geopolitical conditions in Iraq, lack of success from wells not yet in production or from additional wells planned for 2019 onwards, or geological factors. In addition, the Target Group may fail to obtain Iraqi governmental approvals, including for the Target Group's full field development plan for Block 9 (which it plans to submit in 2019) in a timely manner, or at all, due to the Target Group's inability to meet the work and exploration expenditure obligations under the service contract, or for other reasons. Additionally, increased production prior to the availability of newly constructed pipelines or other infrastructure will increase the Target Group's reliance on trucking assets to transport oil and gas to market, and as a result may expose the Target Group to additional HSSE risks as a result of increased trucking of oil, which is generally more hazardous. For example, in March 2018, an oil tanker driver contractor at Block 9 (Iraq) was killed when the tanker he was driving crashed and caught fire.

The Target Group raises quarterly invoices to the BOC in relation to its production from Block 9. After approval of the invoice amount, in order to settle the invoice, SOMO allocates a cargo shipment for a specific quantity of crude oil to the Target Group to be lifted on a specific date in accordance with the terms of the relevant export oil sales agreement. The Target Group then sells the cargo of the allocated crude oil to Vitol under the Crude Oil Purchase Agreement, in exchange for cash payments, which are made to the Target Group, thus reducing the receivables due from BOC to the Target Group. As of 30 June 2018, since oil production at Block 9 began in late 2015 the Target Group has received four such cargo payments related to Block 9 in the aggregate amount of US$116.3 million (equivalent to approximately HK$907.1 million), which represents the Target Group's share of the proceeds from the sale of the total 2,272 kbbl cargo allocated by SOMO in respect of Block 9, partly offset in accordance with the Vitol Facility. The Target Group's fifth cargo lifting started on 30 October 2018, and the Target Group completed the sale of this lifting to Vitol in November 2018. There can be no guarantee that the Target Group will receive further cargo payments at the times it anticipates, or at all. If the balance of receivables due to the Target Group from BOC

increases, or if BOC decides to reduce or altogether eliminate cargo payments, the Target Group may be required to change its development programs, or seek additional external funding in the form of equity and/or debt financing to maintain its projected schedule of exploration, appraisal and development work.

The Target Group's service contracts in Iraq for each of the Block 9 and Siba assets provide that a JMC be established for each asset between the Partners and the Iraqi government. As a result, commercial and planning decisions made by the Target Group and its Partners, and the scope of the Target Group's development plan for each of its assets in Iraq, are required to be approved by the Iraqi government. The Iraqi government could refuse to approve for any reason the Target Group's conduct of its responsibilities under its licenses, or could subject operational decisions to lengthy delays or consultation requirements.

If a new oil and gas law is enacted in Iraq, and if its provisions override, invalidate or supersede the terms of the Target Group's service contracts, the Target Group may be required to accept terms for some or all of its agreements in Iraq that are different and less favorable to those set out in the Target Group's current arrangements, or such agreements may be repudiated entirely, potentially resulting in significant downward revision of the Target Group's estimated reserves and resources, and undermining the Target Group's ability to achieve its strategy.

Finally, production cuts by OPEC, of which Iraq is a member, may affect the Target Group's ability to produce oil from its assets in Iraq, which may in turn affect its ability to meet its production objectives.

Any of these factors may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group's operations in Egypt could be negatively affected by changes in government policy and economic developments

Egypt, which has accounted for a significant portion of the Target Group's oil production and revenue, has been subject to profound political upheaval and multiple changes of government in 2011, as a result of which commercial activity and economic conditions in Egypt were negatively affected, however Egypt is taking bold steps forward.

In economic terms, Egypt faced a significant loss of foreign currency revenue and reserves, primarily from the decline of external investment and foreign tourism due to the onset of political unrest during the period between 2011 and 2013.

However, on 3 November 2016, Egypt announced liberalization of the foreign exchange market and introduced a programme of reform. The Target Group managed to collect its yearly oil sales regularly and has received excellent support from the government regarding the payment of dues since the turmoil in 2011. From 2014 to 2018, EGPC dues have been reduced from +/- US$6 billion (equivalent to

approximately HK$46.8 billion) to almost +/- US$1.2 billion (equivalent to approximately HK$9.4 billion), reflecting the strategy of the government to satisfy its obligations under these dues by the end of 2019.

While EGPC's payments to the Target Group, which currently account for a significant portion of the Target Group's revenue, are typically made in U.S. dollars, a continuing shortage of U.S. dollars within the Egyptian government and EGPC may result in part of all of such payments being remitted to the Target Group in Egyptian pounds rather than U.S. dollars, subjecting the Target Group to the risk of currency fluctuations between the Egyptian pound and U.S. dollars. For example, in the six months ended 30 June 2018 and 2017, and the years ended 31 December 2017 and 2016, a total of US$8.7 million (equivalent to approximately HK$67.9 million), or 12.7%, US$32.8 million (equivalent to approximately HK$255.8 million), or 60.6%, and US$78.1 million (equivalent to approximately HK$609.2 million), or 78.2%, and US$60.5 million (equivalent to approximately HK$471.9 million), or 78.4%, respectively, of the Target Group's revenue received from EGPC was received in Egyptian pounds.

EGPC may increase the proportion of its payments in Egyptian pounds and as a result the Target Group may be subject to additional exposure to the value of the Egyptian pound, or to higher levels of receivables from EGPC to the extent the Target Group opts to await the availability of U.S. dollars for payment. Despite that, the Target Group has a strong business relationship with EGPC which facilitates positive coordination regarding the collection of receivables. If the proportion of payments received from EGPC in Egyptian pounds substantially increases going forward, the Target Group may receive more Egyptian pounds than it needs to fund its operating expenses in Egypt, causing a decline in the U.S. dollar value of its Egyptian revenues and increased exposure to the value of the Egyptian pound. Furthermore, due to an increasingly constrained global foreign exchange market for Egyptian pounds, the Target Group may be unable to convert certain quantities of its Egyptian pounds to U.S. dollars going forward, which could limit the Target Group's ability to distribute cash to other jurisdictions within the Target Group.

The Target Group is dependent on the Egyptian General Petroleum Corporation for a significant portion of its revenues, profitability and cash flows, and receivables due may be paid irregularly and subject to significant delay

The Target Group generates a significant portion of its revenues from sales of oil and gas in Egypt to EGPC under the terms of its production sharing agreements for Burg El Arab, ERQ and Abu Sennan, and from the service contract governing the Target Group's interest in Area A. Total revenues from EGPC amounted to 68.8% of the Target Group's revenue in the six months ended 30 June 2018, compared with 57.4% in the same period in 2017, 54.7% in 2017, 76.0% in 2016 and 94.3% in 2015.

Under the terms of these agreements, EGPC has agreed to pay the Target Group its share of the proceeds of sale of oil and gas produced, including those amounts the Target Group is permitted to recover in order to defray operational, exploration, appraisal and development costs and to reflect the Target Group's profit entitlement.

Historically, and particularly during periods of high oil prices, EGPC has remitted payments due to the Target Group several months in arrears, resulting in significant fluctuations in the outstanding receivables due from EGPC to the Target Group in the past. This situation has improved since 2014, in the context of lower oil prices and also reflecting the Target Group's efforts to collect money owed by EGPC. Although EGPC receivables have been reduced over the last three years, as of 30 June 2018, the total amount of receivables due to the Target Group from EGPC was US$73.9 million (equivalent to approximately HK$576.4 million), of which US$25.6 million (equivalent to approximately HK$199.7 million) were considered past due, but not impaired as of that date. EGPC's payments may continue to be received on an irregular and unpredictable basis that is outside the Target Group's ability to predict or control. Any remittance to the Target Group which serves to reduce the balance of receivables from EGPC will be partly or wholly offset by new receivable obligations incurred by EGPC due to new production by the Target Group in Egypt.

In spite of the recent positive trend, EGPC's payments could become irregular and significantly delayed again, potentially resulting in liquidity issues for the Target Group.

The Target Group currently relies upon cash flows from its assets in Egypt to fund a portion of its operations and capital expenditures, both in Egypt and in other jurisdictions. Given the Target Group's dependence on receipt of cash from EGPC for a substantial portion of its operating cash flows, the execution of the Target Group's development programs – which are funded in part by these cash flows – may be adversely affected by the unpredictable nature of the timing and amounts eventually paid by EGPC. If substantial amounts of receivables from EGPC are outstanding for a prolonged period, or if EGPC alters its current practice of making periodic payments in a manner disruptive to the Target Group, the Target Group may be required to cancel or delay certain of its projects and, as a result, the Target Group may be unable to successfully implement its development program.

In addition to its role as the Target Group's largest single counterparty due to its role in Egypt, EGPC is also a partner of the Target Group in Block 9 and Siba in Iraq. Following the assignment of a 15% revenue participating interest and a 20% cost participating interest in the Target Group's Siba field, and a 10% participating interest in the Target Group's Block 9 asset to EGPC, the Target Group relies on EGPC to pay its share of costs for the development of Siba and Block 9. Because of the difficulty for EGPC to obtain U.S. dollars since the significant currency devaluation resulting from the free float of the Egyptian pound in November 2016, and in the context of on-going currency fluctuations, the projected schedule of development work on Siba and/or Block 9 may be delayed if EGPC is unable to provide for its share of costs in a timely manner.

There can be no assurance that EGPC will meet its existing or future payment obligations to the Target Group, that the political or economic situation in Egypt will not deteriorate, or that the Egyptian government will be successful in improving financial stability and maintaining domestic order. The Target Group

may therefore be unable to collect some or all of its outstanding receivables, or may accrue increased amounts of outstanding receivables, either of which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group may face further delays with the development of the Siba field which may result in, among other things, the imposition of significant fees or other penalties by the Iraqi government in the event of unauthorized delays in the achievement of the required plateau level of gas production

The Target Group is required to maintain a plateau production rate of 100 mmscfd of dry gas from its Siba field in Iraq for a minimum period of nine years commencing in July 2018. To date, the Target Group has faced delays with the development of the Siba field as a result of, amongst other things, delays in contract awards, delays in raw water supply and customs clearance, a lack of availability of local resources, visa difficulties for workers or HSSE-related delays. For example, in 2015, drilling on the Siba-5 development well was suspended due to a slanted rig which resulted in an unsafe working environment. The Target Group has also faced delays related to the award process for the contract for the construction of well flow lines to connect the Siba wells to the gas processing plant. The Target Group expects Siba to achieve its contractual gas plateau production rate in the fourth quarter of 2019. However, there is a risk that the production plateau will not be achieved at that time. Furthermore, the production capacity of the Siba wells is unknown, and as a result the production plateau may not be achieved in that timeframe, or at all. As a result, the Target Group may fail to fully develop its 2P gas reserves and achieve its daily average productions targets for the field, which may adversely affect its ability to meet its obligations under the Siba service contract.

As a result of such delays, the Iraqi government may seek to impose significant fees or other penalties on the Target Group for delays in the achievement of the required plateau level of gas production from Siba. If imposed, such fees or penalties may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group's ability to operate depends on its ability to obtain, retain or renew required drilling rights, licenses, concessions, permits and other authorizations necessary for its operations, many of which are subject to change, and certain formalities of which may not always be satisfied

The Target Group conducts its exploration, appraisal and development operations pursuant to rights under production sharing agreements, service contracts and licenses, concessions, permits and other authorizations and approvals (together, "**licenses**") from governmental and local authorities. The ability of the Target Group to operate its business depends on the granting and continued validity of such licenses, which are subject to the discretion of the relevant governmental authorities and cannot be assured. The Target Group may face significant financial penalties and/or litigation or have its existing and future licenses suspended,

terminated or revoked, or may fail to obtain approval for extensions or renewals for such licenses, if it fails to fulfill the specific terms of any of its existing or future licenses or if it operates its business in a manner that violates applicable laws or regulations, which could result in increased costs, reputational harm and failure to achieve the Target Group's strategy. Government authorities may also, upon renewal or extension of a license, or at any other time, impose unilateral changes to the key terms of any of the Target Group's licenses, including terms relating to price, volume of production, cost recovery, and liability. Additionally, if governmental authorities or policies were to change, the validity of the Target Group's rights under such licenses or concessions could be challenged. It may from time to time be difficult to ascertain whether the Target Group has complied with obligations under production sharing contracts and licenses as the extent of such obligations may be unclear or ambiguous, and regulatory authorities in jurisdictions in which the Target Group does business may not be forthcoming with confirmatory statements that work obligations have been fulfilled, which can lead to further operational uncertainty.

Generally, the Target Group's petroleum agreements grant a license for the exploration and appraisal of hydrocarbons within defined areas and provide for certain commitments (for example, exploration and appraisal drilling commitments) to be completed within specified timeframes. If the Target Group is unable to meet the specified requirements and/or deadlines for commitments set out in its exploration licenses, it may be required to relinquish those licenses or may otherwise fail to secure a waiver, amendment or extension of such requirements, which could result in premature termination, expiration, suspension or cancellation of any of the Target Group's material exploration licenses. In certain cases, the Target Group is required to provide letters of credit when it enters into minimum work commitments, which it may have to write off if an asset is relinquished. Even if the terms of the Target Group's exploration licenses are met, the ability of the Target Group to initiate production in respect of the hydrocarbon reserves for which it has exploration licenses depends on its ability to convert its exploration licenses into production licenses. The Target Group may be unable to negotiate commercially reasonable terms for development and production, and its development plans may be subject to delays or difficulties arising from the political, environmental and other conditions in the areas where potential reserves and resources are located. Factors such as equipment or staff shortages, infrastructure problems, adverse weather conditions and natural disasters may also make it uneconomical to develop potential reserves and resources. In addition, the conversion of exploration licenses into development and production licenses will require approval from central, regional or local governments, which may be delayed or altogether unavailable for reasons beyond the Target Group's ability to predict or control.

The Target Group may be unsuccessful in its attempts to renew existing licenses, and may be unable to gain approval for any applications for additional licenses, at all or on terms and within a timeframe satisfactory to the Target Group. The Target Group's Block 9 license in Iraq included an initial five-year exploration period, which expired in February 2018, but which is expected to be extended for an

additional two years, subject to approval by BOC, and the satisfaction of certain conditions, including the Target Group having satisfied the minimum work and expenditure obligations under the service agreement and undertaking to drill an additional exploratory well during the extension period. Of these conditions, only the undertaking to drill an additional exploratory well during the extension period remains. If a discovery is made immediately prior to the end of the seventh year of the exploration period, and certain conditions are met, a further extension of the exploration period of up to two years may be available in respect of that area covered by an appraisal plan for appraisal operations to be carried out. If a development period were to be granted it would, under the service agreement, have a duration of 20 years for an oil field and 30 years for a gas field, with an option to extend the term for an additional five years to any potential development period that may be granted (subject to approval and to the negotiation of new terms and conditions). While the Target Group expects that the license expiry date will be further extended beyond February 2018, no assurance can be given that the Target Group will be successful in obtaining such an extension to the license expiry date. Any failure to achieve an extension may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

In addition, the nature of the jurisdictions in which the Target Group operates is such that certain formalities with regard to the execution of agreements may not, in a small number of cases, be satisfied, and government consents may not in all cases be formally received, or may be received with delay. For example, government delays in granting the required permits in Iraq initially caused the projected schedule of exploration work on the Siba field to be delayed. Non-compliance with certain technical obligations under the Target Group's licenses may give rise to enforcement action by the relevant authorities, and the Target Group may not be successful in enforcing any or all rights under its agreements or defending against claims of license invalidity, particularly against governmental authorities. Although governmental authorities may agree to waivers and extensions, such authorities are also generally entitled to revoke the Target Group's licenses in such circumstances or refuse applications for further licenses, extensions, permits or other approvals because of non-compliance. Moreover, the Target Group may, for commercial, legal, or other reasons, be unable to comply with certain specific terms or requirements of the licenses it holds, including the meeting of specified deadlines for prescribed tasks and other obligations set out in the work programs attached to its licenses in circumstances that may entitle the relevant authority to suspend or withdraw the terms of such license.

Even where the Target Group is in compliance with the terms of its licenses and all applicable laws and regulations, any of its licenses could be revoked, materially altered, or successfully challenged by the Target Group's license counterparties or by third parties. In addition, administration and interpretation of the laws and regulations governing the Target Group's licenses by government authorities vary considerably and may be under-developed, untested and subject to change, challenge or invalidation. The Target Group therefore has limited control over whether or not such licenses and other regulatory requirements (or renewals or

extensions thereof) are granted, when such licenses or renewals may be granted, the terms on which they are granted or renewed, any fees, levies, taxes, duties or other costs payable in connection therewith and the general tax regimes to which the Target Group's assets in the relevant jurisdiction will be subject.

Moreover, although a substantial proportion of the Target Group's service contracts and PSCs permit some form of cost recovery by the Target Group for its incurred exploration, appraisal and development costs, there may be disputes with governmental authorities with regard to whether a given cost was properly incurred and should be subject to the cost recovery mechanism. As a result, the Target Group may in some cases fail to recover substantial costs for its exploration, appraisal and development activities.

A portion of the licenses pursuant to which the Target Group and its Partners conduct operations are solely exploration licenses, and as such the assets which are the subject of those licenses are not currently producing, and may never produce commercial quantities of, oil or gas. Typically, these licenses have a limited life before the Target Group or its Partners (as the case may be) are obliged to seek to convert the license to a production license, extend the license or relinquish the license area. If hydrocarbons are discovered during the exploration license term, the Target Group or its Partners (as the case may be) may be required to apply for a production license before commencing production. If the Target Group or its Partners (as the case may be) comply with the terms of the relevant exploration license, the Target Group would normally expect that a production license would be issued; however, no assurance can be given that any necessary production licenses will be granted by the relevant authorities on terms acceptable to the Target Group and/or its Partners (as the case may be), or at all, and the failure to obtain such a license on acceptable terms may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

As a result of third-party administration and interpretation of its licenses, even for those assets in which the Target Group is acting as operator, the nature and timing of the Target Group's exploration, appraisal, development, production and other activities, or its ability to execute its strategy according to plan or at all may be adversely affected, including by substantial delays or material increases in costs. There can be no assurance that the views of the relevant government agencies regarding the development of the fields that the Target Group or its Partners operate or the compliance with the terms of the licenses, permits, agreements or relevant legislation pursuant to which the Target Group conducts its operations will coincide with the Target Group's views, which might lead to disagreements that may not be resolved and any such disagreement, if not resolved in a commercially acceptable way or at all, may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects. Any inability of the Target Group to comply with the terms of its licenses, successfully defend against claims, or obtain, retain or renew its licenses on terms satisfactory to it may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group's development programs are capital intensive and the Target Group may be unable to implement these programs and fulfill its licensing commitments in the longer term if funding for such capital expenditure is not available

As of 30 June 2018, the Target Group's development plan, and the terms of certain of the Target Group's licenses, are expected to require about US$0.7 billion (equivalent to approximately HK$5.5 billion) of development capital expenditure through 2021, of which a substantial majority is expected to be directed towards the Target Group's Block 9 and Siba assets. In particular, approximately 92% of the Target Group's 2P reserves (on a working interest basis) are categorized under SPE-PRMS guidelines as "undeveloped", and improving their status to that of "developed" reserves will require significant capital expenditure. The Target Group's development programs include, among other things, drilling wells, building and improving infrastructure and upgrading production technology in an effort to improve access, reduce operating expenses and enhance profit margins.

The Target Group incurred total capital expenditure cash outflow for the purchase of intangible exploration and evaluating assets, purchase of oil and gas assets and purchase of other fixed assets of US$86.1 million (equivalent to approximately HK$671.6 million) in 2016, US$84.3 million (equivalent to approximately HK$657.5 million) in 2017, US$53.9 million (equivalent to approximately HK$420.4 million) in the six months ended 30 June 2017 and US$35.1 million (equivalent to approximately HK$273.8 million) in the six months ended 30 June 2018. Going forward, the success of the Target Group's strategy will be substantially dependent upon its ability to fund its estimated US$0.7 billion (equivalent to approximately HK$5.5 billion) of development capital expenditures that are expected to be required through 2021. The level of funding required to successfully execute the Target Group's development programs could be substantially higher or lower, depending upon geological factors, the success rates of the Target Group's on-going exploration and appraisal program, the level of funding costs and operating expenses, the availability of required personnel and equipment and other factors.

The Target Group intends to fund its planned capital expenditures from a combination of amounts available under borrowings, operating cash flows resulting from production and sale of oil, natural gas and condensate, the sale of certain assets or the agreement of farm-out financing arrangements in respect of certain assets, and potentially from corporate restructuring, refinancing of current debt, new borrowings or from capital markets funding in the form of equity or debt.

In the longer term, the Target Group may not be able to generate sufficient funds from such sources or to do so at commercially acceptable or reasonable terms and/or cost.

If the Target Group raises additional debt in the future, it may become more leveraged and subject to additional or more restrictive financial covenants and ratios, and/or may be required to extend security over its assets for the benefit of lenders. Additionally, the Target Group's ability to refinance certain or all of its outstanding debt, is dependent on the conditions of the capital markets and the Target Group's financial condition at such time, which may limit the Target Group's access to financing sources at favorable rates, or at all.

Any inability of the Target Group to generate or procure sufficient financing for capital expenditures in the longer term could adversely affect its ability to expand its business and meet its stated reserve and production targets, could result in the Target Group facing unexpected costs and delays in relation to the implementation of its exploration, appraisal and development plans and could adversely affect the Target Group's ability to maintain its production at current levels and meet its commitments under certain of its exploration or development licenses. This may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Certain government approvals relating to assets required to complete financing transactions or transfer title to significant assets to or from the Target Group may not be received

Any transfer or assignment of interests in, or title to, an asset by or to the Target Group, as the case may be, typically requires the consent of, or is subject to pre-emption rights by, the relevant government that is a party to the petroleum contract or PSC. If the relevant parties fail to obtain the requisite consents, or if pre-emption rights are exercised, or if the relevant parties fail to follow the transfer or assignment procedure as specified under the relevant petroleum contract, the transfer or assignment of the relevant licenses or interests will not take effect.

The Target Group is dependent on the efforts of certain members of management and on its ability to attract and retain key technical staff

The Target Group's business is highly dependent upon skilled personnel and professional staff in the areas of oil and gas exploration, appraisal and development, operations, engineering, and business development, and in particular on the regional knowledge and relationships of senior management in the jurisdictions in which the Target Group operates. In particular, the Target Group's Non-Executive Chairman, Dr. Mansour Aboukhamseen and the Chief Executive Officer, Abdel Fatah Badwi, have a number of key relationships that are important to the success of the Target Group's strategy. These named individuals and other key members of management are employed on the basis of 30 or 90 calendar days' notice periods, with no covenants not to compete with the Target Group, and may leave the Target Group at any time. The Target Group has experienced recent management changes which in its view has strengthened the Target Group; although the Target Group expects that the replacement members of senior management will allow them to maintain relationships with external stakeholders, including governments and

commercial Partners, there can be no assurance that such relationships will be maintained. Were any of these key members of management to depart, the Target Group may not be able to locate suitable replacement personnel in a timely manner, or at all. The departure of any of these individuals, or any impediment to any of them performing their duties, may reduce the Target Group's ability to successfully implement its strategy and may have an adverse impact on its business, results of operations, financial condition and prospects.

Global competition in the oil and gas industry for management and technical personnel with relevant expertise and exposure to international best practices is intense due to the small number of qualified individuals in the labor market. The Target Group places a particular emphasis, as part of its strategy, on hiring local staff rather than expatriates wherever possible, and as a result may have difficulty hiring and retaining qualified management and technical personnel in countries which have a limited supply of such personnel available locally. The Target Group may be unable to retain its existing senior management and technical personnel or attract additional qualified personnel as the Target Group grows its operations in existing and new jurisdictions. As a result, the Target Group may face significant costs in attracting and retaining specialist personnel necessary for the operation and expansion of its business, and there can be no assurance that it will be able to do so in every, or any, case. Any failure to attract, retain or replace qualified technical personnel could significantly delay or prevent the successful implementation of the Target Group's strategy, which may have an adverse impact on its business, results of operations, financial condition and prospects.

The Target Group may be unable to obtain the services of skilled third-party contractors

The Target Group relies on third-party independent contractors to carry out various operational tasks in its exploration, appraisal and development operations, including carrying out drilling activities, delivering hydrocarbons to counterparties and maintaining the Target Group's assets and infrastructure. Some of the services required for the Target Group's operations and developments are currently only available on commercially reasonable terms from a limited number of key providers in each of the Target Group's operating jurisdictions. In addition, as a result of the decline in market prices for oil and gas, service providers are exiting the industry, which may affect the Target Group's ability to rely upon third-party independent contractors in the future.

The Target Group relies on third-party contractors performing satisfactorily and fulfilling their obligations. Any failure by a third-party contractor, or a violation of the Target Group's various licensing obligations by a contractor working on the Target Group's behalf, may lead to delays or curtailment of the production, transportation and delivery of the Target Group's hydrocarbons. In addition, the costs of third-party contractors may increase, in particular during periods of high prices for hydrocarbons, leading to higher expenses, which the Target Group may be unable to match with corresponding revenue increases. Any dispute with, or failure

in performance by, third-party service providers, external contractors or consultants and associated increases in operating costs or inability on the part of the Target Group to find adequate replacement services on a timely basis, if at all, could result in delays or curtailment of the production, transportation and delivery of the Target Group's hydrocarbons, which in turn may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

There is also a risk that third-party contractors may not operate in accordance with the Target Group's HSSE standards or other policies, including anti-corruption and anti-bribery policies or with applicable law, and that the Target Group could incur significant regulatory penalties or forfeit key licenses as a result, which in turn may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group faces risks associated with its transfer to Dragon Oil of a 15% working interest in Block 9 in southern Iraq

The arbitration proceedings to which the below summary relates are confidential. The below summary does not, and is not intended to, waive that confidentiality and/or any privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

On 11 February 2018 the Target Group and Dragon Oil entered into settlement and transfer agreements, pursuant to which the Target Group agreed to transfer a 8.57% participating interest in Block 9 to Dragon Oil in exchange for consideration of US$100 million (equivalent to approximately HK$780 million) (subject to working capital adjustments), and a 6.43% participating interest in Block 9 to Dragon Oil in full settlement of a dispute with Dragon Oil, which would increase Dragon Oil's total participating interest in Block 9 from 30% to 45% (the "**Dragon Oil Transaction**"). If the Dragon Oil Transaction is completed, the Target Group would continue to act as operator of the Block 9 field and would maintain a participating interest of 45%. Completion of the Dragon Oil Transaction was subject to certain conditions precedent, including obtaining the Iraqi Government's approval. The Iraqi Government is yet to provide that approval. On 19 September 2018, Dragon Oil terminated the settlement and transfer agreements and recommenced arbitration proceedings in respect of the dispute. Notwithstanding the above, the parties continue to work towards obtaining the Iraqi Government's approval to the transfer to Dragon Oil of the 15% participating interest in Block 9. It is hoped that such approval will be provided and, if it is, the parties have agreed to settle the arbitration on the settlement terms previously agreed. Additionally, a joint operating agreement has been signed by the Target Group, EGPC and Dragon Oil, but not yet dated pending BOC approval of the Dragon Oil Transaction. Under the terms of this joint operating agreement Dragon Oil and EGPC will have influence over the development of Block 9, through their participation on an operating committee and various sub-committees (finance, technical, field development and field project steering), which make recommendations to the operating committee. With representation on each of these committees, Dragon Oil will have more

influence over Block 9 operations, including for example, in relation to overall project execution strategy, and the Target Group may therefore lose influence over the appraisal and development of Block 9, which could result in such programs being carried out in a way that is adverse to the Target Group's interests, in a manner that does not fully take into account the Target Group's recommendations and views, or on different timescales and/or at higher cost than the Target Group would want. The loss of control and the related consequences may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group could face significant litigation and other costs as a result of any decision to exit certain jurisdictions and/or assets

From time to time, the Target Group has decided, and may decide in the future, to exit certain jurisdictions. For example, in order to focus management attention and the Target Group's financial resources on its exploration, appraisal and development assets in the MENA region, the Target Group sold its assets in Ukraine in April 2014 and in Russia in December 2014. In addition, the Target Group exited its Block 43 asset in Yemen in 2015, gave written notice to terminate the production sharing agreement in relation to Block 49, Yemen on 1 April 2018, and its Mansuriya license in Iraq was terminated in September 2018.

The below summary does not, and is not intended to, waive any confidentiality and/or privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

On 17 July 2017, DNO filed for arbitration with the International Chamber of Commerce against the Yemen MOM and a member of the Target Group. In the arbitration, DNO seeks an award recognising the validity of its relinquishment of Block 43 in Yemen (which had previously been disputed by the Yemen MOM), and for certain damages relating to Yemen MOM's refusal to recognise the validity of that relinquishment. Further, although DNO makes no substantive claims against the Target Group, DNO seeks declarations that the relevant member of the Target Group is: (i) bound by the provisions of the Block 43 PSA and the Block 43 JOA; (ii) jointly and severally liable for the performance of the obligations of the Block 43 Contractor; and (iii) liable to share in the obligations of the Block 43 Contractor and all liabilities and expenses incurred by DNO in connection with the joint operations. The Yemen MOM has filed a number of counterclaims against the Block 43 Contractor. The Yemen MOM currently quantifies its counterclaims at approximately US$100 million (equivalent to approximately HK$780 million). In the event that the Yemen MOM's counterclaims succeed, the Target Group's potential exposure will be limited to the relevant member's participating interest in Block 43 at the relevant time, which may have an adverse impact on the Target Group's financial position. The relevant member of the Target Group held a participating interest of 28.33% in Block 43 from 5 October 2009 to 30 June 2015, when it withdrew from Block 43. However, because the Block 43 PSA parties also carried a 15% participating interest held by Yemen Oil & Gas Corporation under the Block 43 PSA,

the relevant member of the Target Group was, in effect, liable for 33.33% of the obligations under the Block 43 PSA during that period. In the arbitration, the Yemen MOM has also asserted that the relevant member of the Target Group's withdrawal on 30 June 2015 was not effective. The validity or otherwise of that withdrawal has the potential to affect the period in respect of which the relevant member of the Target Group will be liable (as one of the entities comprising the Block 43 Contractor) in respect of the Ministry's counterclaims. The Target Group is evaluating the merits of DNO's claims and the Yemen MOM's counterclaims in so far as they apply to the Target Group.

As a result of relinquishing certain licenses or exiting certain of these jurisdictions, the Target Group could face claims and potential litigation if Partners, governmental bodies or other stakeholders challenge the Target Group's actions, or if the Target Group is found to be liable to contribute to residual or remedial costs subsequent to exiting an asset, or if the Target Group is required to pay other exit-related costs which may arise. Any or all of these charges, claims and costs, individually or in the aggregate, could arise after a significant period of time after the Target Group's relinquishment of or exit from an asset and in any event could result in substantial additional payments, including in fulfillment of work commitments under certain licenses, and may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group may choose to pursue investment opportunities in countries in which it has no previous investment experience, including markets that have significant social, economic and political risks

To date, the Target Group's most significant projects and investments have been in Egypt, Iraq, Yemen and Oman. However, the Target Group's future development may not be restricted regionally, and although its current focus remains on the MENA region, the Target Group may change its strategy to pursue opportunities in other countries within the greater MENA region or beyond in which the Target Group has had limited operating experience. It may therefore undertake projects and make investments in countries in which it has little or no previous or current operating or investment experience. The Target Group may not be able to fully or accurately assess the risks of investing in such countries, or may be unfamiliar with the laws and regulations in such countries governing the Target Group's projects and investments.

As a result, the Target Group may be unable to successfully pursue opportunities in new jurisdictions. In addition, investment opportunities in certain jurisdictions may be restricted by legal limits on foreign investment in local assets or classes of assets. The projects and investments that the Target Group may make in such markets could lose some or all of their value and may generate returns that are substantially lower than those previously experienced by the Target Group's other projects and investments. Any such failure to accurately access the risks of investing and operating in such new countries, any failure to successfully pursue opportunities and any investment losses or lower than expected returns could also

lead to increased costs and increased management focus and time in managing such projects and investments, each of which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group's ownership structure is subject to risks associated with foreign ownership restrictions in Kuwait

Kuwaiti law contains local ownership requirements stating that nationals of GCC countries must retain ownership of at least 51% of the outstanding share capital of Kuwaiti companies. As a result of these Kuwaiti law ownership requirements the Target has entered into certain arrangements (the "**KEC Kuwait Restructuring**") with entities established in the GCC to permit the Target to exercise ownership and control of KEC Kuwait. As a result, under the Target Group's current ownership structure, KEC Kuwait is not technically a direct subsidiary of the Target, but the Target has control over KEC Kuwait by virtue of a Management Agreement and "total return swap" arrangement (the "**TRS**"). To implement this ownership arrangement, the Target engaged in an on-going exchange offer for the shares of KEC Kuwait. As of 30 June 2018, shareholders holding approximately 94.15% of the shares of KEC Kuwait have transferred their shares in KEC Kuwait (in exchange for ordinary shares in the Target) to a GCC SPV structure, with the SPV, Awal II Shares and Securities Co. SPC, maintaining legal title to the KEC Kuwait shares while the Target maintains contractual rights to any economic benefit of such KEC Kuwait shares (by way of the TRS). Although the Target Group believes this structure sufficiently takes the requirements of Kuwaiti law into account, if there is a change in the relevant foreign ownership laws of Kuwait or in their interpretation or application, the Target Group's ownership and control of KEC Kuwait could be challenged or unwound.

Under the conditions of the Iraq government's approval of the Target Group's restructuring in 2011, KEC Kuwait has become a subsidiary of the Target and has taken full ownership of KE Iraq, the Target Group entity which is party to the Target Group's license interests in Siba in Iraq. KEC Kuwait has also transferred its interest in the Block 9 service contract to KE Basra, a wholly-owned subsidiary of KEC Kuwait. Pursuant to economic interest assignment agreements, the Target has all the rights and ultimate responsibility for the obligations in respect of (i) KEC Kuwait's indirect interest in the Block 9 service agreement through KE Basra and (ii) KE Iraq's interest in the Siba service agreement.

The Target Group's growth and continuation of the development of its assets may place significant demands on its management and infrastructure, which may restrict the Target Group's ability to successfully execute its strategy

The Target Group has experienced significant growth over a short period of time. This rapid growth in a relatively short period of time has placed, and may continue to place, significant demands and strains on the Target Group's systems, internal controls and senior management. Additionally, the Target Group's strategy is to focus on further developing its existing assets to achieve higher production levels. Management of this growth and development requires, among other things:

- the continued development of financial and management controls and information technology systems;
- implementation of additional or updated internal controls, including financial and other reporting procedures;
- effective co-ordination among management, logistical, technical and finance teams;
- personnel training and hiring of new personnel; and
- continued access to financing.

If the Target Group is unable to successfully integrate new personnel or systems, or otherwise fails to successfully manage its growth and development, it may experience an adverse impact on its business, results of operations, financial condition or prospects.

The Target Group is subject to cyber security risks and security breaches and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents

The Target Group relies on IT and other operational systems for the proper functioning of its business and operations across the jurisdictions in which it operates, including certain technology systems and exploration and appraisal applications, in particular those licensed from Schlumberger, IHS Halliburton and other global providers. The Target Group may be subject to disruptions of its IT systems and applications arising from events that are either wholly or partially beyond its control, or which might have an adverse effect on the Target Group, should its control systems fail, such as computer viruses, malware, loss of connectivity of its IT and other operational systems, cyber-based attacks and attempts by hackers and similar unauthorized users to gain access to or to corrupt or otherwise make unavailable the Target Group's IT systems, and electrical or telecommunication outages. Any extended period of interruption of or degradation in the Target Group's IT and operational systems which impedes its operations may cause it to lose revenue, to incur liabilities or to fail to meet its regulatory and/or

contractual and/or license obligations. While the Target Group has not incurred any material cyber-attacks or security breaches to date, a number of other companies in the oil and gas industry have disclosed cyber-attacks and security breaches, some of which have involved intentional attacks. Attacks may be targeted at Target Group, its Partners, its suppliers, other counterparties or each of the above.

Despite the Target Group's efforts to ensure the integrity of its systems, it is possible that the Target Group may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including third parties outside the Target Group, such as persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. Remediation may be costly, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants, and the Target Group may have inadequate insurance coverage or insurance limits to compensate for losses resulting from any such interruption. In addition, the Target Group's Partners and third parties who provide products, services or support to the Target Group could also experience any of the above cyber risks or security breaches, which may have an adverse impact on the Target Group's business and could result in a loss of suppliers or revenue.

The Target Group is subject to risks relating to its workforce, including industrial action and strikes

The Target Group's operations may be affected by strikes, lock-outs or labor disruptions involving its employees and the employees of third parties, including employees of contractors retained to carry out the Target Group's exploration, appraisal or development programs and the employees of transportation infrastructure operators needed to run the Target Group's operations. Significant delays or disruptions to operations caused by any labor actions may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group could suffer unexpected costs, delays or other losses, or fail to capitalize on new commercial opportunities, if its Partners and counterparties do not perform or comply with license terms and applicable regulations, or if the Target Group and its Partners fail to co-operate

Although the Target Group maintains significant day-to-day control as the operator of the majority of its assets, it does not operate its ERQ asset in Egypt, and it may suffer unexpected costs or other losses if any counterparty to any contractual arrangement does not meet its obligations under such arrangements. In particular, the Target Group cannot control the actions or omissions of its Partners under its PSCs. The Target Group is jointly and severally liable for the obligations of former and current Partners under certain of its petroleum contracts and PSCs. If such

Partners breach the terms of the petroleum contracts or PSCs or any other contractual arrangements relating to their interests, the Target Group may face liability for such breach, even if the Target Group is not at fault, which may in turn have an adverse impact on the business, results of operations, financial condition or prospects of the Target Group. In addition, where the Target Group is the operator of an asset, its Partners will have consultation and voting rights in relation to significant and/or operational matters, or, in some cases, the Target Group's operatorship may not be governed by a concluded joint operating agreement. In such cases, approval of significant and/or operational matters may not be forthcoming in a timely manner, which could in turn result in significant delays, losses, liabilities or increased costs to the Target Group, or the loss of potential growth in production or reserves, each of which may in turn have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

In certain cases the Target Group, when acting as operator, may face additional costs above and beyond its contractually defined role, if one or more of its Partners are unable or unwilling to fund their commitments. For example, a Partner may default on its obligations to fund capital or other funding obligations in relation to such assets whether as a result of such Partner's insolvency or otherwise. In such circumstances, the Target Group may be required under the terms of the relevant operating agreement to contribute all or part of any such funding shortfall, regardless of the percentage interests that it agreed with such Partner under such arrangements. Typically, the defaulting Partner will be required to cure its default in a period of time set out under the relevant agreement. Where the defaulting party refuses, or is unable, to cure its default, the Target Group and the other Partners may acquire the defaulting partner's interest in the license. As a result and despite the original intentions of the Target Group, its exposure to a particular license may increase such that the Target Group bears a greater proportion of the risks and costs involved, which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects. In addition, the Target Group may also be subject to claims by its Partners regarding potential non-compliance with its obligations.

Where the Target Group is not the operator of an asset, such as in the ERQ field in Egypt, it will have consultation rights and voting rights in relation to significant and/or operational matters, but it will not have control over day-to-day management, including with regard to operational and technical decisions, resource allocation, and health, safety and environmental issues. Third-party operators may refuse to share technical or operational data, or may fail to exercise the requisite technical or operational skill in carrying out exploration, appraisal and development work, resulting in delays or less successful results than might otherwise be the case, each of which may in turn have an adverse impact on the Target Group's business, results of operations, financial condition or prospects. For example, the Target Group may believe a particular drilling campaign or location of a particular well would be beneficial for its own reserve position or that a particular asset is commercially viable. Without the agreement of its Partners, however, Target

Group would be unable to undertake the appropriate exploration or development activities to advance or protect its own commercial position, which could may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

As a non-operator, although the Target Group may have certain rights under an operating agreement, the Target Group will have limited powers to determine the operations and costs relating to a particular asset. In addition, it is possible that the interests of the Target Group, on the one hand, and the operator and/or other Partners, on the other will not always be aligned which could result in possible project delays, additional costs or disagreements. Accordingly, the Target Group may be required to undertake (or cease undertaking) certain actions in relation to a particular asset which it does not believe are in the best interests of the Target Group. As a result, the Target Group may suffer unexpected costs and/or be required to contribute to costs which it does not believe are an efficient use of its capital if an operator and/or Partners determine that a particular course of action with which the Target Group disagrees should be taken under agreements governing the relationship. For example, the Target Group may be required to fund capital or other obligations in relation to such assets at times specified by an operator that may be less than optimal for the Target Group. In addition, the Target Group's Partners may have incentives to delay or attempt to delay certain decisions being taken in relation to investments or expenditure at points when the Target Group considers such decisions to be in its interests.

Operator mismanagement of an asset or failure on the part of the Target Group's Partners to effectively coordinate the operation of that asset may result in significant delays, losses, liabilities or increased costs to the Target Group, or the loss of potential growth in production or reserves. Furthermore, to the extent the Target Group seeks, for business, financial, legal or other reasons, to co-operate with any of its Partners in order to pursue exploration and appraisal drilling opportunities, or in order to develop or monetize an asset, any failure on the part of the Target Group or such Partners to successfully co-operate with one another may hinder the Target Group's ability to increase its reserves or production or lead to disagreements or disputes between or among Partners. Any such mismanagement, failure to co-operate or dispute may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group is, or could be, involved in disputes which could adversely impact its business

The arbitration proceedings summarised below are confidential. The below summary does not, and is not intended to, waive that confidentiality and/or any privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

The Target Group is subject to risks relating to legal and regulatory proceedings to which it or its subsidiaries, associates, joint ventures and Partners are or could become a party, either now or in the future. The Target Group is currently involved in the following disputes:

- *Ukrnafta arbitration*

CPC, a member of the Target Group, and Ukrnafta entered into Joint Activity Agreement #410/95 (the "**JAA**") on 14 September 1995 for exploration and development of the Rudivsky-Chervonozavodsky gas condensate field in the Ukraine (the "**RC Field**") by CPC and Ukrnafta. Over thirty supplemental, amendment and addendum agreements to the JAA were executed by CPC and Ukrnafta.

On 28 September 2007 CPC made a request for arbitration which CPC submitted to the Arbitration Institute of the Stockholm Chamber of Commerce claiming that Ukrnafta is in breach of the JAA as a result of: (i) its refusal to permit CPC to make additional investments in the JAA in violation of the provisions of the JAA permitting CPC to make such investments in order to restore its investment in the RC Field back to the 50% level envisaged by the JAA; (ii) its undertaking of independent exploration and development works on the RC Field outside of the scope of the JAA and without the authorization of the Managerial Committee (as defined in the JAA); and (iii) its refusal to share with CPC relevant information about the RC Field and developments thereon. CPC argues Ukrnafta has shut CPC out from its rights to the RC Field in violation of its contractual obligations.

On 24 September 2010, the arbitral tribunal issued its decision and awarded CPC the amount of US$145.7 million (equivalent to approximately HK$1,136.5 million) plus US$1.2 million (equivalent to approximately HK$9.4 million) in costs (the "**Award**"), and terminated the JAA. The Target Group is now seeking to enforce the arbitral award in various jurisdictions;. The Target Group is committed to vigorously pursuing the Award wherever it is able to locate and attach Ukrnafta's assets.

UK action by Ukrnafta to strike out UK enforcement order

An application for recognition and enforcement of the Award in England was filed with the High Court on 8 September 2016 and resulted in an ex-parte order with permission to enforce the Award and serve the order on the defendant in the Ukraine, dated 10 October 2016. By order of 4 January 2017, the time for service was extended. By letter of 21 April 2017 CPC's English lawyers were served with Ukrnafta's acknowledgement of service and an application to set aside the abovementioned orders of 10 October 2016 and 4 January 2017. Following discussions between both parties' representatives, it was agreed that Ukrnafta should file a Statement of Case, which was

submitted by Ukrnafta on 1 September 2017. CPC's Defence was submitted on 9 November 2017. Ukrnafta filed a reply on 19 January 2018. On 13 April 2018 the parties agreed on a list of common ground and issues, for example in relation to the involvement of foreign law experts. Ukrnafta filed its latest submission on 29 June 2018. On 21 September 2018 the court, at a directions hearing, gave summary judgment in favour of CPC and struck out the allegations of fraud. The trial has now been scheduled to take place in February 2020.

Ukrnafta Texas counterclaim

The below summary is given only as a statement of the status of the case as at the Latest Practicable Date and does not purport to be anything other (including predictions about possible future developments).

On 23 February 2009, Ukrnafta filed suit in Texas against CPC, Taurex Resources plc, Robert Bensh, and KEC Kuwait., seeking nearly US$80 million (equivalent to approximately HK$624 million) in damages for alleged negligent misrepresentation, fraud, misappropriation of trade secrets, and other claims arising out of CPC's change of domicile from Texas to Delaware. Ukrnafta requested a trial by jury. CPC moved in the litigation to confirm the arbitral award it obtained against Ukrnafta. On 2 October 2017, the court entered an order confirming the Award, and on 13 November 2018, the court awarded summary judgment in favor of CPC on all of Ukrnafta's claims based on the preclusive effects of the Award. On 30 November 2018, Ukrnafta voluntarily dismissed its claims against Taurex and KEC Kuwait. On 6 December 2018, the court severed the claims against Bensh and entered a final judgment on all other claims.

Enforcement Proceedings

Despite extensive efforts to have the Award set aside at the seat (Sweden), the Swedish courts have upheld the Award and it is enforceable in Sweden. In addition, CPC has so far successfully obtained recognition of the Award in France, the Netherlands and the US. Especially in the Netherlands and the US, where Ukrnafta actively opposed the recognition of the Award, the courts were able to review the merits of Ukrnafta's resistance against recognition of the Award – to a large extent similar to the arguments brought up in the setting aside proceedings – and found that Ukrnafta did not manage to prove the existence of any of the limited grounds for refusal contained in the 1958 New York Convention for the Recognition and Enforcement of Foreign Arbitral Awards.

- *DNO Block 43 abandonment arbitration*

In relation to Block 43, DNO filed for arbitration with the International Chamber of Commerce against the Yemen MOM and KEC Yemen on 17 July 2017. In the arbitration, DNO seeks an award recognising the validity of its relinquishment of Block 43 (which had previously been disputed by the Yemen MOM), and for certain damages relating to the Yemen MOM's refusal to recognise the validity of that relinquishment. Further, although DNO makes no substantive claims against KEC Yemen, DNO seeks declarations that KEC Yemen is: (i) bound by the provisions of the Block 43 PSA and the Block 43 JOA; (ii) jointly and severally liable for the performance of the obligations of the Block 43 Contractor; and (iii) liable to share in the obligations of the Block 43 Contractor and all liabilities and expenses incurred by DNO in connection with the joint operations. The Yemen MOM has filed a number of counterclaims against the Block 43 Contractor in the arbitration. The Yemen MOM currently quantifies its counterclaims at approximately US$100 million (equivalent to approximately HK$780 million). In the event that the Yemen MOM's counterclaims succeed, KEC Yemen's potential exposure will be limited to its participating interest in Block 43 at the relevant time. KEC Yemen held a participating interest of 28.33% in Block 43 from 5 October 2009 to 30 June 2015, when it withdrew from Block 43. However, because the Block 43 PSA parties also carried a 15% participating interest held by Yemen Oil & Gas Corporation under the Block 43 PSA, KEC Yemen was in effect liable for 33.33% of the obligations under the Block 43 PSA during that period. In the arbitration, the Yemen MOM has asserted that KEC Yemen's withdrawal on 30 June 2015 was not effective. The validity or otherwise of that withdrawal has the potential to affect the period in respect of which KEC Yemen will be liable (as one of the entities comprising the Block 43 Contractor) in respect of the Ministry's counterclaims. DNO served its statement of claim on 5 July 2018. The Yemen MOM served its defence and counterclaim, and KEC Yemen served its defence, on 6 September 2018. DNO's defence to counterclaim and reply, and KEC Yemen's defence to counterclaim, were served on 6 December 2018. Further pleadings are to be served by the parties in January and February 2019. The final hearing has been fixed for five days between 8 April and 12 April 2019, in Paris. The Target is evaluating the merits of DNO's claims and the Yemen MOM's counterclaims in so far as they apply to KEC Yemen; and

- *Dragon Oil arbitration*

In relation to Block 9, Dragon Oil filed for arbitration with the International Chamber of Commerce against certain members of the Target Group on 4 April 2016. Dragon Oil has alleged various breaches of contract and trust relating to: (i) the Block 9 JBA (as amended); and (ii) correspondence and exchanges between the Target Group and Dragon Oil during October and November 2012. Dragon Oil has requested relief in the form of a transfer of a 12.86% participating interest in the Block 9 EDPSC (the "**Disputed Interest**")

from the Target Group to Dragon Oil or, in the alternative, an account of profits or damages currently pleaded in the amount of US$135.5 million (equivalent to approximately HK$1,056.9 million) (excluding interest and costs) in lieu of that transfer. In the arbitration, the Target Group has denied Dragon Oil's claims. One of the members of the Target Group named in the arbitration has also raised a jurisdictional objection to its inclusion as a party to the arbitration. On 11 February 2018, the Target Group and Dragon Oil entered into settlement and transfer agreements, pursuant to which, upon completion of those agreements: (i) the Target Group would transfer to Dragon Oil a 15% participating interest in the Block 9 EDPSC (6.43% of which would be on a past net costs basis, and 8.57% in exchange for a lump sum of US$100 million (equivalent to approximately HK$780 million)); and (ii) Dragon Oil would withdraw the arbitration. Upon the signing of the settlement agreement on 11 February 2018, the parties agreed to stay the arbitration pending completion of the settlement, and to vacate the final hearing. Completion of the settlement was subject to certain conditions precedent, including obtaining the Iraqi Government's approval for the Dragon Oil Transaction. The Iraqi Government is yet to provide that approval. On 19 September 2018, Dragon Oil: (i) exercised its rights to terminate the settlement and transfer agreements; and (ii) lifted the stay of arbitration, recommencing the arbitration proceedings. The parties have agreed a procedural timetable for the remainder of the proceedings and a final hearing is now scheduled to take place between 20 and 24 May 2019. Notwithstanding the above, the parties continue to work towards obtaining the Iraqi Government's approval to the transfer to Dragon Oil of the 15% participating interest in the Block 9 EDPSC and settling the dispute.

Unfavorable developments in any or all of these proceedings could result in the loss of the Target Group's claim in the relevant case, which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Current or future actions of the Target Group may result in litigation or disputes in the future. Defence and settlement costs with regard to litigation and disputes can be significant, even in respect of claims that have no merit. Damages claimed against the Target Group under any such litigation or dispute may be material or may be indeterminate, and the outcome of such litigation or dispute, including reputational damage, may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group may face unanticipated increased or incremental costs in connection with decommissioning obligations

Upon the cessation of petroleum production and/or expiry or termination of petroleum contracts and PSCs, contractors are commonly required, under the terms of relevant agreements or local law, to dismantle and remove equipment, cap or seal wells and generally make good production sites. The costs associated with

decommissioning or penalties for failure to decommission a facility may have an adverse effect on the Target Group's business, results of operations, financial condition or prospects.

Risks relating to the oil and gas industry

The market price of oil and gas has historically been volatile and may remain low, which may adversely impact the Target Group's business, results of operations, financial condition, prospects and ability to maintain or increase its revenues

Crude oil sales have historically accounted for substantially all of the Target Group's revenue, and sales of crude oil, natural gas and condensate will constitute the Target Group's primary sources of revenue going forward. Global oil and gas prices are affected by global supply and demand, particularly in the United States, Europe and Asia (notably China), as well as trading activities by market participants and others either seeking to secure access to oil and gas or to hedge against commercial risks, or as part of investment portfolio activity. Historically, oil and gas prices have been highly correlated with global economic activity and gross domestic product growth, and as a result are, and will likely continue to be, subject to substantial and unpredictable volatility. The oversupply and uncertainty about future demand have had a significant adverse effect on global oil prices, and have resulted in an adverse effect on the Target Group's ability to maintain or increase its revenues.

Global oil and gas prices remained at high levels from 2011 through the third quarter of 2014, followed in the last quarter of 2014 by a significant fall in the price of Brent Crude Oil and natural gas. The price of Brent Crude Oil and natural gas continued to decline and remain low through 2015 and early 2016. The price of Brent Crude Oil decreased from a high of above US$125 a barrel in the first quarter of 2012 to a low of approximately US$25 a barrel in January 2016. It has since risen, with significant fluctuations. Brent Crude Oil prices averaged approximately US$52.3, US$43.7 and US$54.1 a barrel for the years ended 31 December 2015, 2016 and 2017, respectively, and US$70.7 a barrel for the six months ended 30 June 2018. The Target Group's average realized oil price for the years ended 31 December 2015, 2016 and 2017 was US$49.6, US$38.8 and US$50.2 a barrel, respectively and US$65.8 for the six months ended 30 June 2018. However, if oil and gas prices remain at or below current levels over the longer term, certain of the Target Group's operations may not be economically viable with the result that the Target Group may elect not to produce from certain assets at lower prices, or its Partners may not want to continue production regardless of the Target Group's position. Additionally, oil and gas prices affect the speed of cost recovery under the service agreements of the Target Group's Iraqi assets. As a result, the present value of the Target Group's reserves and resources may decline, and the Target Group may be required to recognize impairment charges on the value of its assets.

Oil and gas are globally and regionally traded commodities and, as a result, the Target Group is unable to control the prices it receives for its oil and gas, which is generally sold with reference to market prices. In addition, because oil and gas sales are the Target Group's primary source of revenue, and given that neither the Target Group nor any of its subsidiaries currently hedge its exposure to oil and gas prices, its financial results are exposed to adverse oil and gas price changes. The decline in oil prices significantly affected the Target Group's revenue in 2015, causing revenue to decline by 42.5% from 2014 to 2015, despite similar production levels. Revenue in 2016 further decreased by 10.8%, compared with 2015, as a result of a decrease in the average realized oil price. In 2017, however, revenue increased by 46.4%, compared with 2016, largely as a result of increases in production from Block 9 in Iraq and in the average realized oil price; revenue also increased by 13.0% in the six months ended 30 June 2018, compared with the six months ended 30 June 2017, largely as a result of increases in the average realized oil price. Contributing further to the volatility of its financial results, the Target Group may not be able to engage in meaningful hedging against declines in oil and gas prices in the future, should it decide to do so and there can be no guarantee that any hedging strategies the Target Group may decide to implement in the future will be successful. Any inability to engage in meaningful hedging, or the use of unsuccessful hedging strategies, will expose the Target Group to declines in the price of oil and gas, and may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

As a result, the net present value of the Target Group's reserves will fluctuate according to changes in hydrocarbon futures prices for many reasons, including but not limited to:

- global and regional supply (including in particular new supply from unconventional sources such as shale) and demand, and market expectations and speculation regarding future supply and demand for oil and gas;
- geopolitical uncertainty and terrorism or the threat thereof, particularly in the MENA region;
- political, economic and military developments in oil and gas producing regions, particularly in the MENA region;
- availability and cost of infrastructure including pipelines, tanker ships and other transport, as well as drilling rigs and other extraction and processing equipment;
- global aggregate petroleum refining capacity;
- price, availability and market acceptance of alternative energy sources and new technologies, including, for example, shale oil and gas;
- exchange rate fluctuations;

- the ability of the members of OPEC and other oil-producing nations to set and maintain specified levels of oil and gas production and thereby influence market prices;

- governmental regulations and actions, including export restrictions, taxes, repatriations and nationalizations; and

- weather conditions and natural disasters.

Under IFRS, the net capitalized cost of an oil and gas asset may not exceed its recoverable amount, which is based upon estimated future net cash flows from that asset's oil and gas reserves. The Target Group carried out reviews of the recoverable amount of its assets in accordance with IAS 36 Impairment of assets. The reviews led to the recognition of impairment losses, which have been recognized in the Target Group's consolidated income statement, in the following amounts: US$8.5 million (equivalent to approximately HK$66.3 million) in 2015 and US$50.8 million (equivalent to approximately HK$396.2 million) in 2017 on the Block 5 field in Yemen; US$10.6 million (equivalent to approximately HK$82.7 million) in 2015 and US$7.2 million (equivalent to approximately HK$56.2 million) in 2016 on the Burg El Arab fields in Egypt (US$15.6 million (equivalent to approximately HK$121.7 million) of which, however, was reversed in 2017); US$25.2 million (equivalent to approximately HK$196.6 million) in 2015 and US$32.6 million (equivalent to approximately HK$254.3 million) in 2016 on the Abu Sennan fields in Egypt; US$16.9 million (equivalent to approximately HK$131.8 million) in 2015 and US$54.5 million (equivalent to approximately HK$425.1 million) in 2016 on the Siba field in Iraq; and US$7.8 million (equivalent to approximately HK$60.8 million) in 2015 and US$33.9 million (equivalent to approximately HK$264.4 million) in 2017 on the Mansuriya field in Iraq. If the net capitalized costs exceed this limit, the Target Group will be required to charge the amount of the excess against earnings. If oil or gas prices were to decline further, the net capitalized cost of the Target Group's oil and gas assets may approach or exceed their recoverable amount, resulting in an impairment charge on the Target Group's consolidated income statement. In 2017, for every US$1 per barrel decline in the Target Group's oil price assumptions, the impairment charge would have increased by approximately US$1.5–2.5 million (equivalent to approximately HK$11.7-19.5 million) and the Target Group's revenue would have been affected by approximately US$54 million (equivalent to approximately HK$421.2 million). While any such charges would not directly affect the Target Group's operating cash flows, the charges to earnings could be viewed unfavorably in the market and could limit the Target Group's ability to borrow funds or comply with covenants contained in current or future credit agreements or other debt instruments, which could result in the delay of the Target Group's development programs. This may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

As a result of the continuing volatility in oil and gas prices, the Target Group may have difficulty implementing its strategy and its development programs. If the Target Group incurs fixed operating costs in excess of its average marginal cost of production, and the Target Group is unable to change production levels or lower its operating costs in response to then-current oil and gas price levels, the Target Group's results of operations and financial condition could be adversely impacted. Should oil and/or gas prices remain low or continue to decline, revenues from production would also decline and the Target Group may be unable to reduce its exploration, appraisal and production costs in line with the lower production revenues, which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Rising climate change concerns have led and could lead to additional legal and/or regulatory measures which could result in project delays or cancellations, a decrease in demand for fossil fuels and additional compliance obligations, each of which could adversely impact the Target Group's costs and/or revenues

There is continued and increased attention to climate change from all sectors of society. This attention has led, and is likely to continue to lead, to additional regulations designed to reduce greenhouse gas emissions and potential demand for fossil fuels. International agreements (for example, the Paris Accord and the Kyoto Protocol) and national and/or regional legislation and regulatory measures (for example, carbon taxes, cap-and-trade or efficiency standards) to limit or reduce greenhouse gas emissions are currently in various stages of discussion or implementation and it is difficult to predict with certainty their timing and outcome.

It is expected that a growing share of the Target Group's greenhouse gas emissions will be subject to regulation, resulting in increased compliance costs and operational restrictions. It is also expected that greenhouse gas emissions regulation will focus more on suppressing demand for fossil fuels. Any reduction in demand for fossil fuels, as a consequence of such increased attention to climate change, could in the long-term affect the Target Group's operations and could have an adverse effect on the Target Group's business, results of operations, financial condition or prospects.

If the Target Group is unable to find economically viable, as well as publicly acceptable, solutions that reduce its greenhouse gas emissions and/or the greenhouse gas emissions intensity of new and existing projects in response to such legal and/or regulatory measures, the Target Group could experience additional costs, financial penalties, compliance obligations, delayed or cancelled projects, and/or reduced production and reduced demand for fossil fuels, which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group faces drilling, exploration and production risks and hazards that may affect its ability to produce oil and gas at expected levels, quality and costs

Oil and gas exploration and production operations are subject to certain risks including premature decline of reservoirs, invasion of water into producing formations, encountering unexpected formations or pressures, low permeability of reservoirs, blowouts, oil spills, explosions, fires, equipment damage or failure, natural disasters, geological uncertainties, unusual or unexpected rock formations and abnormal geological pressures, uncontrollable flows of oil, gas or well fluids, severe adverse weather or tidal conditions, shortages of skilled labor or suppliers, access to utilities such as water, sabotage of oil and gas pipelines, pollution and other environmental risks, the occurrence of any of which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group's operations expose it to significant HSSE compliance costs and potential liabilities

Numerous international and national laws and regulations affect the Target Group's operations and regulate matters such as discharges of hazardous substances, handling and disposal of waste and the health and safety of employees. The technical requirements of these laws and regulations are becoming increasingly complex and compliance with such regulations is increasingly expensive. Furthermore, regulators are becoming increasingly proactive in enforcing such laws and regulations.

The Target Group may be subject to the imposition of damages, clean-up costs of spills, remediation, fines and penalties, compensation to third parties and, in certain cases, criminal sanctions for non-compliance with environmental laws and regulations. There are certain risks inherent in the Target Group's activities, such as accidental spills, leakages, explosions, blow-outs, equipment damage or failure, natural disasters, geological uncertainties, fires or other unforeseen circumstances that could expose the Target Group to further significant liabilities. Such liabilities may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects. Certain laws in the jurisdictions in which the Target Group operates, or in which it may operate in the future, provide for joint and several liability for violations of local health, safety and environmental regulations, and may expose the Target Group to liability for the conduct of others, including its Partners.

The enactment of new or more stringent environmental laws, or new interpretation and enforcement of existing environmental laws, could have a significant impact on the extent of such liabilities and operating and capital costs. For example, as a result of new environmental regulations, the Target Group may need to modify its current operations in certain jurisdictions, purchase new equipment, upgrade staff and contractor accommodation, install pollution control equipment or perform clean-up operations, each of which could give rise to the incurrence of additional costs and may otherwise have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

In addition, failure to provide a safe working environment, to manage environmental risks or to comply with its health, safety and environment policies and applicable health, safety and environmental laws and regulations may result in harm to the Target Group's employees or the communities near the Target Group's operations, or result in delays. In particular, although the Target Group is investing a significant amount of effort in improving HSSE standards and at the same time increasing production, operations at the Target Group's various operating sites will continue to be considered as a challenge in order to achieve full compliance with all Target Group HSSE requirements, along with increasing the HSSE awareness of site personnel.

Should such improvements to the Target Group's HSSE management system be delayed or not materialize, the Target Group may face increased risks of environmental damage, injury to persons and loss of life. They could also result in significant delays to drilling programs, significant costs to remediate such incidents, a partial or total shutdown of operations, significant damage to equipment owned by the Target Group and by third parties and personal injury or wrongful death claims being brought against the Target Group. Government authorities may also force cessation of the Target Group's operations in a given jurisdiction on a temporary or permanent basis or revoke its licenses if the Target Group fails to comply with laws and regulations. The Target Group could face fines and penalties, liability to employees and third parties for injury, liability for environmental pollution and other financial consequences, any of which may be significant. The Target Group could also suffer reputational damage, industrial action or difficulty in recruiting and retaining skilled employees. Any of these may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

It is not possible to predict what future health, safety and environmental laws and regulations will be enacted or how current regulations will be interpreted, applied, modified or enforced. Furthermore, any new environmental or health and safety regulations or requirements could, if significant and costly, impair the Target Group's ability to implement its respective strategy and restrict the Target Group's ability to predict or control the nature and timing of its operations. The Target Group's ability to undertake these activities at all may be adversely impacted, including by substantial delays or material increases in costs. Such additional costs, interruptions or delays may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group's development programs may be subject to delay as a result of shortages of appropriate drilling rigs and other related equipment

Oil and gas exploration, appraisal and development activities are dependent on the availability of drilling rigs and related equipment and the provision of third-party services in the locations where these activities will be conducted. The Target Group contracts or leases services and equipment from third-party providers and suppliers in most of its jurisdictions of operation. Such equipment and services

may not be readily available at the times and places required by the Target Group's development program, or according to the terms of its licenses. The Target Group does not currently hold long-term contracts for the continued use of drilling rigs and other necessary equipment, and is therefore subject to the risk that contracts for critical equipment may not be renewed upon expiry, or may be renewed at commercially unfavorable terms. A high level of market demand for scarce items of equipment may affect the availability of such equipment to the Target Group and may delay its exploration, appraisal and development activities. Even if drilling rigs and other necessary equipment can be obtained, significantly increased operating costs may outweigh the operational benefits. In addition, although costs of third-party equipment have recently decreased due to the recent fall in oil price, they could rise again. If the Target Group is unable to agree contracts with third-party providers or suppliers for key equipment on commercially favorable terms or at all, such failure may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group may not be able to keep pace with technological developments in the industry

The oil and gas industry is characterized by rapid and significant technological advancements and introduction of new products and services using new technologies which can dramatically improve efficiency and decrease the cost of production. New technology, when first developed, may be scarce and competition to acquire or use it may be high. Other oil and gas companies may have greater financial or other resources that allow them to access such advancements ahead of the Target Group. The Target Group may not be able to respond to these competitive pressures or acquire or access new technologies on a timely basis or at an acceptable cost. If one or more of the technologies the Target Group uses now or in the future were to become obsolete and it was unable to access more advanced technologies on commercially acceptable terms or at all, this may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects. In addition, any new technology that the Target Group implements may have unanticipated or unforeseen adverse consequences, either to the Target Group's business or to the industry as a whole.

The market in which the Target Group operates is highly competitive

The oil and gas industry is very competitive, including in the regions where the Target Group has assets. The key areas in respect of which the Target Group faces competition are:

- acquisition of exploration and production licenses, or interests in such licenses, at auctions or sales run, or through licensing rounds, by governmental authorities;
- securing additional offtakers of production;
- acquisition of other companies that may already own licenses or existing hydrocarbon producing assets;

- differentiating technologies;
- engagement of third-party service providers whose capacity to provide key services may be limited;
- purchase, leasing, hiring, chartering or other procuring of equipment that may be scarce; and
- employment of qualified, experienced and skilled management and oil and gas professionals.

Competition in the Target Group's markets is intense and depends, among other things, on the number of competitors in the market, their financial power, their degree of geological, geophysical, engineering and management expertise, their degree of vertical integration and pricing policies, their ability to develop properties on time and on budget, their ability to select, acquire and develop reserves and their ability to foster and maintain relationships with the host governments of the countries in which they have assets. The Target Group's competitors include those entities with greater technical, physical and financial resources than it does.

The effects of operating in a competitive industry may include higher than anticipated prices for the acquisition of licenses or assets, accepting licensing terms providing for increased obligations, the hiring by competitors of key management personnel, restrictions on the availability, or increase in cost of, equipment or services, as well as potentially unfair practices, including unconscionable pressure on the Target Group directly or indirectly or the dissemination of false or misleading information or rumors by competitors or third parties. Such unconscionable pressure can be expected to arise out of disparities in the relative bargaining power of the affected parties and includes the stronger party exploiting the weaker party's disadvantage, or the stronger party relying on its rights in a harsh or oppressive manner, failing to disclose a material fact, misrepresentation or otherwise unfairly benefiting from a transaction at the expense of the weaker party.

If the Target Group is unsuccessful in competition against other companies, this may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group faces significant uncertainty as to the success of any exploration, appraisal and development activities

Oil and gas exploration activities are capital intensive, subject to financing limitations and their successful outcome cannot be assured. The Target Group undertakes exploration activities, which are frequently subjected to unexpected problems and delays, and incurs significant costs, which can differ significantly from estimates, with no guarantee that such expenditure will result in the discovery

of commercially producible oil or gas. Appraisal results for discoveries are uncertain. Appraisal and development activities involving the drilling of wells across a field may be unpredictable and may not result in the outcome planned, targeted or predicted, as only by extensive testing can the properties of an entire field be more fully understood. It is difficult to estimate the costs of implementing any exploration and/or appraisal drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions, such as over-pressured zones and changes in drilling plans and locations. The Target Group may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, breaches of security, title problems, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

Oil and gas exploration, appraisal and development activities are inherently hazardous and are vulnerable to potentially uninsurable operating difficulties, natural disasters and other problems which can damage the Target Group's property and reputation, and disrupt production and the Target Group's insurance coverage may not be adequate for covering all liabilities and losses that could result from its operations and unforeseen interruptions

Developing oil and gas resources and reserves into commercial production involves a high degree of risk. The Target Group's exploration, appraisal and development operations are subject to all the risks common to the oil and gas industry. The Target Group's operations are vulnerable to natural disasters, including fire, earthquakes, floods and tropical storms. Operating difficulties, including unexpected geological variations and equipment failure, could create unanticipated costs and disrupt production for indeterminate periods. Oil and gas fields and related infrastructure are also known to be targets of military operations and terrorism in certain countries, including Yemen and Iraq. In particular, Yemen's main oil export pipeline has been periodically sabotaged by tribesmen since 2011, resulting in interruptions to production. Additionally, the Ras Isa Export Terminal has been shut down since 2015, which has led to a complete suspension of the Target Group's production in Yemen. A significant accident or incident at one of the Target Group's operations, as a result of action by employees of the Target Group, its third-party contractors or its Partners or otherwise, could result in significant reputational damage, monetary damages in the form of repair and remediation costs, litigation expenses, fines or other liabilities, and could also result in loss of the relevant license or loss of permission to operate in the affected jurisdiction altogether.

Adequate insurance coverage at reasonable rates for the above and certain other risks is not always obtainable. Although the Target Group maintains insurance for certain losses, the Target Group's insurance may not cover every potential risk associated with its operations, in every significant jurisdiction, which in addition to natural disasters also exposes the Target Group to uninsurable liability for claims

including pollution, environmental damage, fires and cratering. There are also certain types of losses (such as from wars, acts of terrorism or acts of God, business interruption, property risks and third-party (public) liability) that may not be insured or generally are not insured because they are either uninsurable or not economically insurable. In addition, the Target Group's insurance does not currently provide coverage for the consequences of any business interruptions, such as equipment unavailability, equipment failure or labor disputes, nor does it cover damage or disruption caused by terrorist incidents. The occurrence of a significant adverse event not fully or only partially covered by insurance may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Actual or perceived failure by the Target Group to address social and environmental issues or corporate responsibility matters may adversely affect the Target Group

In certain locations where the Target Group operates, there may be highly sensitive social and environmental matters both on the ground locally and as perceived globally. Oil and gas companies are facing increasing demands to conduct their operations in a manner consistent with environmental and social goals. Investors, customers and governments are more actively following the oil and gas industry's performance on environmental responsibility and human rights, including performance with respect to the development of alternative and renewable fuel resources. Operations by the Target Group can cause reputational damage and may influence its various stakeholders. Furthermore, actions of international bodies may harm the objectives of the Target Group and its regional partners. If the Target Group becomes subject to adverse publicity or perception as a result of any actual or perceived failure to address social and environmental issues or corporate responsibility matters, its reputation may be adversely affected, which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group is affected by global economic and financial conditions

The Target Group may be affected by the general state of the economy and business conditions, including but not limited to, the occurrence of recessions and inflation, unstable or adverse credit markets, fluctuations in operating expenses, technical problems, work stoppages or other labor difficulties, property or casualty losses which are not adequately covered by insurance, and changes in governmental regulations, such as increased taxation or the introduction of new regulations, increasing operating costs and capital expenditure, which may adversely impact the Target Group's business, results of operations, financial condition or prospects. Weak global or regional economic conditions may negatively affect the Target Group's business in ways that it cannot predict. Global financial markets and economic conditions have been severely disrupted and volatile in recent years and remain subject to significant vulnerabilities, such as the deterioration of fiscal balances and the rapid accumulation of public debt, continued deleveraging in the banking sector and a limited supply of credit. As a result of disruptions in the credit

markets and higher capital requirements, lenders may increase margins on lending rates, enact tighter lending standards, require more restrictive terms, or refuse to refinance existing debt at all. Additional tightening of capital requirements, and the resulting policies adopted by lenders, could further reduce lending activities. The Target Group may experience difficulties obtaining financing commitments and cannot be certain that financing will be available on acceptable terms or at all. If financing is not available when needed, or is available only on unfavorable terms, the Target Group may face difficulties in meeting its future obligations as they come due. The Target Group's failure to obtain such funds may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects, as well as its ability to service its indebtedness.

Risks relating to the jurisdictions in which the Target Group operates

The Target Group operates in jurisdictions that are subject to significant political, economic, legal, regulatory, tax and social uncertainties

The Target Group has operations or interests in Egypt, Iraq and Yemen, and may, in the future, explore the potential for licensing opportunities in other jurisdictions. As a result, the Target Group's exploration, appraisal and development operations are exposed to the significant political, economic, legal, regulatory, tax and social risks of the jurisdictions in which it operates. These risks potentially include:

- expropriation, which could, among other things, take the form of the cancellation, or termination of, or a unilateral change or a series of unilateral changes to or unfavorable renegotiation of, the Target Group's PSCs, service contracts or other contracts, licenses, permits, authorizations or approvals;

- nationalization of property;

- the unilateral imposition of onerous new or unforeseen obligations on the Target Group;

- instability in political, economic or financial systems;

- uncertainty arising from underdeveloped and rapidly changing legal, regulatory and tax systems;

- bribery and corruption;

- civil strife, war, hostilities, armed conflict, guerrilla activities, terrorism and piracy;

- restrictions on production, including as a result of concerted action by members of OPEC and/or other oil-producing nations;

- capital controls;
- price controls;
- currency exchange restrictions or currency devaluations;
- foreign ownership limitations; and
- restrictions or the imposition of tariffs or duties on imports of certain goods or exchange controls.

Certain of the jurisdictions in which the Target Group operates and has interests in have less-developed legal systems than more established economies, which could result in risks such as:

- a higher degree of discretion and corruption on the part of governmental authorities;
- ineffective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or in an ownership dispute;
- a lack of judicial or administrative guidance on interpreting applicable local rules and regulations;
- inconsistencies or conflicts between and within various laws, regulations, decrees, orders, resolutions and judgments; or
- relative inexperience of the judiciary and courts in such matters.

As a result, the Target Group may be unable to reliably establish, protect or defend legal rights or title to assets (and, in particular rights to explore for, develop and produce oil and gas) in the jurisdictions in which the Target Group operates and proposes to operate. Any such failure to establish, protect or defend its legal rights or title to assets may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects. The Target Group's rights under its petroleum contracts, PSCs and other assets, in particular those petroleum contracts and PSCs in which the Target Group has acquired its interests from a third party rather than directly from the relevant government, may be subject to prior unregistered agreements or transfers that have not been recorded or detected through title research and title may be affected by such undetected defects. There can be no assurance that the Target Group's title to some of its license interests or other assets, including those interests which the Target Group has acquired from a third party rather than directly from the relevant government, will not be challenged or impugned. Any such challenge may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

In certain of the jurisdictions in which the Target Group operates or has interests, in particular, Iraq, Egypt and Yemen, there is a recent history of civil and political conflict including civil war and governmental change by *coup d'état*:

- in Egypt, which accounts for a significant portion of the Target Group's oil production and revenue, the political environment has been subject to profound upheaval and multiple changes of government in recent years, as a result of which commercial activity and economic conditions in Egypt have been negatively affected and have not yet fully recovered. In economic terms, Egypt has faced a significant loss of foreign currency revenue from the decline of external investment and foreign tourism since the onset of political unrest in early 2011, which included mass protests in 2011 and 2013 and dissolution of the government by the armed forces in 2013, as Egypt's foreign exchange reserves have significantly fallen. Because Egypt, acting via EGPC, is a net importer of oil, it depends on a sufficient inflow of U.S. dollars from foreign investment, tourism, borrowing and other sources to fund its oil imports as well as to process U.S. dollar payments through EGPC to counterparties, including the Target Group. The decline in foreign currency revenue and reserves has had a significant impact on the finances of the Egyptian government, resulting in certain state-owned entities being unable to fulfill their contractual obligations with foreign counterparties. However, this has improved during 2017-2018 and as of 31 October 2018 the foreign currencies reserve has significantly increased to US$44.5 billion (equivalent to approximately HK$347.1 billion);

- in Iraq, beginning in June 2014, militants affiliated with ISIS launched attacks on cities and villages across the north and west of Iraq. Although ISIS-affiliated militants are now confined to pockets of countryside and the situation is less hostile, sporadic hostilities continue in certain areas. Additionally, recent humanitarian protests in Basra, Iraq, resulted in partial disruption of the Target Group's Block 9 and Siba operations in July 2018. Although the Target Group's Iraq assets are fully operational, any escalation of civil unrest could cause further disruption to the Target Group's operations in Iraq;

- in Yemen, the country's main oil export pipeline has been periodically sabotaged by tribesmen since 2011, resulting in interruptions of production. Additionally, in September 2014, Yemen's capital, Sana'a, was captured by Houthi rebels leading to the dissolution of the Yemen parliament and the subsequent flight of the president, Abd Rabbuh Mansur Hadi to Saudi Arabia in March 2015. Following this, there has been a sustained conflict between a Saudi-led coalition and Houthi rebels, which has led to the closure of the Ras Isa Export Terminal and a complete suspension of the Target Group's production in Yemen; and

- local or regional armed conflict could result in the partial or complete closure of pipelines or of particular ports or significant sea passages, such as the Straits of Hormuz or the Suez Canal, potentially resulting in higher costs, congestion of ports or sea passages, vessel delays or cancellations on some trade routes.

In any of the Target Group's present or future jurisdictions of operation, it may be difficult or impossible to obtain insurance coverage to protect against civil strife, outbreaks of infectious disease, acts of war, labor unrest, armed conflict and other security incidents and as a result, the Target Group's insurance program may generally exclude this coverage. Consequently, such risks may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Any political or governmental instability could have a particularly significant impact on the Target Group, because its principal assets are petroleum contracts and/or PSCs granted by the governments in the jurisdictions in which it operates. The Target Group will be required to negotiate the terms of its exploration and development projects with these governments and enter into petroleum contracts and PSCs, as applicable, with the relevant authorities. However, such governments may impose conditions that could affect the viability of any given project, such as providing the government with free carried interests, requiring local company participation or providing subsidies for the development of the local infrastructure or other social assistance. Additionally, if significant political changes occur, whether at the local, national or international level, there can be no assurance that the relevant governments will not seek to revise the terms of such petroleum contracts or PSCs in a manner adverse to the Target Group.

Any of the above or other factors could result in delay to the oil and gas exploration, appraisal and development by the Target Group in the affected country or region and could restrict the Target Group's ability to achieve its strategy with regard to the nature and timing of its exploration, appraisal, development and other activities. Such risks could also result in disruption to the Target Group's production and development activities, as a result of damage to equipment and infrastructure. Any of these events could adversely impact global oil and gas prices, and consequently may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Changes in oil and gas regulation or other governmental policies in any of the Target Group's operating jurisdictions, as well as actions of or determinations by OPEC and/or other oil-producing nations, could have a negative effect on the Target Group

Governments of oil and gas producing jurisdictions typically exercise significant influence over their domestic oil and gas industries, as well as many other aspects of their respective economies. Any governmental action concerning

the oil and gas industry in the jurisdictions in which the Target Group operates (such as a change in oil or gas pricing policy or taxation rules or practice, or renegotiation or nullification of existing contracts or oil and gas exploration policy, laws or practice), may have an adverse impact on the Target Group's business.

Furthermore, actions taken or determinations by OPEC and/or its members, which include Iraq (where the Target Group has its Block 9 and Siba assets) may have an adverse impact on the Target Group's operations, including through the placing of restrictions on its production pursuant to decisions of OPEC or other similar organizations or groups. To the extent enforced by national governments, such actions or determinations could also materially affect the price of hydrocarbons and, consequently, the price of the net present value of the Target Group's reserves. Any requirement for the Target Group to cut production may have an adverse impact on the Target Group's assets in Iraq and the Target Group's business and/or prospects.

As a result of changes in law or policy, or in the interpretation of existing law or policy, governments could also require the Target Group to grant to them larger shares of oil and gas or revenues than previously agreed, lower agreed cost recovery rates, or postpone or review projects, nationalize assets, or make changes to laws, rules, regulations or policies which, in each case, may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Militant activity and terrorism in certain of the regions in which the Target Group operates may affect its business

Militant activity and terrorism are major problems in certain of the regions in which the Target Group operates. There is a risk that companies such as the Target Group, and their employees and third-party contractors, may be singled out. While there have been no direct incidents involving the Target Group's operations, there have been incidents involving terrorist activity, including attempted hijackings, in the vicinity of areas in which the Target Group operates.

Such attacks and kidnappings could severely disrupt the Target Group's operations across a broad geographical area. The security environment in such regions is likely to remain volatile as a result of continuing terrorism. If the Target Group or its employees and third-party contractors are the subject of any attacks, kidnappings or other security threats, it may be required to incur additional expenditure through increased insurance premiums, hiring additional security or equipment, replacement of assets and additional safety protections. Furthermore, any such event may have an adverse impact on the Target Group's ability to staff its operations adequately and could affect its reputation.

The occurrence of any of the above could result in a long-term delay to the Target Group's operations in the affected region and could restrict its control over the nature and timing of its exploration, appraisal, development, production and other activities. Such interruptions, expenditure or delays may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The security situation in Yemen has caused the Target Group to cease exploration, appraisal, development and production in the country, and may affect the validity of the Target Group's licenses if it is unable to obtain and maintain effective security arrangements for Target Group personnel and assets in the country

Al-Qaeda in the Arabian Peninsula, ISIS and Houthi insurgents have in recent years increasingly asserted their presence in Yemen, and Yemen's oil and gas industry has been severely affected by violence and sabotage by local tribesmen. Since 2015, a coalition led by Saudi Arabia has conducted military operations by using airstrikes to restore the former Yemeni government, toppled by Houthi forces. Due to the political and security situation, the Target Group's non-Yemeni employees were evacuated and, since 7 April 2015, when the Ras Isa Export Terminal and SAFER Exploration & Production Operations Company Block 18 were both shut down, the Target Group's Yemen operations have been placed under *force majeure*.

The Target Group's Block 5 production sharing agreement in Yemen was originally set to expire on 8 June 2015, but it was extended to 13 March 2018, in full and final settlement of all *force majeure* claims by the Target Group up to and including 7 March 2016, due to production being interrupted on several occasions as a result of sabotage of the main oil export pipeline and the closure of the port at Ras Isa since 7 April 2015. In due course, the Target Group expects YICOM to confirm an additional extension, covering days lost between 8 March 2016, and the date when production resumes. However, if the Target Group's Block 5 license is not renewed, or is subject to new unfavorable financial terms, the Target Group would discontinue its operations in Yemen.

To reflect the situation, the Target Group's investment in the Block 5 field in Yemen was written down in 2017, due to the reclassification of the asset's 2P reserves to contingent resources. The Target Group will need to incur costs to resume the operation of its assets in Yemen, and whether such costs would be approved by the government for cost recovery, may become more uncertain the longer the Target Group's assets in Yemen remain suspended.

The Target Group may fail to comply with various anti-corruption and anti-bribery laws and regulations and with international sanctions regimes

The Target Group currently conducts business in a number of jurisdictions that have been allocated low scores on Transparency International's "Corruption Perception Index". The Target Group is subject to various anti-corruption and anti-bribery laws and regulations which generally prohibit companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits. Doing business in the jurisdictions in which the Target Group operates brings with it inherent risks associated with enforcement of the Target Group's legal and contractual rights and third-party obligations, fraud, bribery and corruption. Fraud, bribery and corruption are more common in some jurisdictions than in others. In addition, the oil and gas industries have historically been shown to have often been vulnerable to corrupt or unethical practices.

The Target Group could be affected by sanctions regimes established by, among other authorities, the European Union, the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State (including the Iran Sanctions Act and CISADA) and the United Nations Security Council (collectively, "**International Economic Sanctions**"). Sanctions can be imposed or threatened under International Economic Sanctions on companies engaging in certain types of transactions with specified countries, entities or individuals. Sanctions that could be imposed on the Target Group under International Economic Sanctions could include, among others, a prohibition or limitation on the Target Group's ability to obtain goods or services on the international market or to access the U.S. or international capital markets, which, in turn, may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Although the Target Group has in place formal policies and procedures designed to ensure compliance with applicable anti-fraud, anti-bribery and other anti-corruption and sanctions laws and regulations, including International Economic Sanctions, the Target Group does business, and may continue to do business in the future, in countries and regions where governmental corruption has been known to exist, and where the Target Group may face, directly or indirectly, corrupt demands by officials, or the risk of unauthorized payments or offers of payments by one of its employees or consultants. If it is proven that the Target Group's existing safeguards and any future improvements are ineffective in preventing such unauthorized payments, or if its employees and consultants have engaged in conduct for which the Target Group is held responsible, the Target Group may be exposed to civil and criminal penalties and reputational damage for such actions. In addition, as a result of the Target Group's anti-corruption, anti-bribery and anti-fraud policies and safeguards, there is a risk that the Target Group, by virtue of such policies of refusing to engage in bribery or corruption as a matter of policy, could be at a commercial disadvantage and may fail to secure contracts or new business opportunities within certain jurisdictions.

Tax regimes in certain jurisdictions are subject to differing interpretations and are subject to change

The tax regimes in certain jurisdictions in which the Target Group operates are not clearly codified and therefore can be subject to varying or inconsistent interpretation and legislative or administrative change in those jurisdictions. For example, while the Target Group operates on the basis that it is not tax resident in Kuwait, the Kuwaiti tax authority could challenge this position in the future.

The interpretation of relevant tax law by the Target Group and its relevant subsidiaries as applied to its respective transactions and activities may not agree with that of the relevant tax authorities in the jurisdictions where the Target Group operates, including Iraq, Egypt, Kuwait, or other relevant jurisdictions. Although the Target Group will be required to pay taxes on remuneration fees in respect of Siba, the Target Group has historically only been required to pay corporate income

tax in respect of Area A in Egypt and tax on remuneration in Block 9 in Iraq, as its other producing assets have been held under PSCs with comprehensive fiscal regimes (which operate on a "tax paid" basis). Accordingly, the Target Group does not have the same track record of paying taxes and interacting with taxation authorities in those jurisdictions. These factors may increase the Target Group's susceptibility to adverse sovereign taxation action, which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

Consequently, any profits from activities of the Target Group in such jurisdictions may be assessed additional income tax or additional transactional taxes (for example, stamp duty, withholding tax or VAT), which, in each case, could result in significant additional taxes, penalties and interest, any of which may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects. In addition, the amount of tax the Target Group pays could increase substantially as a result of changes in, or new interpretations of, tax laws, which may have an adverse impact on its liquidity and results of operations. During periods of high profitability in the oil and gas industry, there are often calls for increased or windfall taxes on oil and gas revenue. Taxes have increased or been imposed in the past and may increase or be imposed again in the future. In addition, taxing authorities could review and question the Target Group's tax returns leading to additional taxes and penalties which may have an adverse impact on the Target Group.

Risks relating to the Target Group's financial profile

The Target Group's significant leverage may make it difficult for the Target Group to service its debt, and operate its business

The Target Group is highly leveraged. The degree to which the Target Group will remain leveraged could have important consequence, including, but not limited to:

- making it more difficult for the Target Group to satisfy its obligations with respect to its other debt and liabilities;
- increasing the Target Group's vulnerability to, and reducing its flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of the Target Group's cash flow from operations to the repayment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow, and limiting the ability to obtain additional financing to fund working capital, capital expenditures, acquisitions, joint ventures or other general corporate purposes;

- limiting the Target Group's flexibility in planning for, or reacting to, changes in its business and the competitive environment and the industry in which the Target Group operates; and

- placing the Target Group at a competitive disadvantage as compared to its competitors, to the extent that they are not as highly leveraged.

The Target Group and its subsidiaries may incur substantial additional indebtedness in the future, including in connection with any future acquisition.

Inflation could increase the Target Group's costs and decrease the Target Group's operating margins

The economies of the countries in which the Target Group operates, particularly Iraq and Egypt, have, during certain periods in the past, experienced high rates of inflation. While the Target Group incurs a substantial portion of its operating expenses in U.S. dollars, it has incurred and will continue to incur a certain amount of expenses in the local currencies of the countries in which it has operations. As a result, the Target Group tends to experience increases in certain of the Target Group's local currency costs which are sensitive to rises in the general price levels, including salaries and energy utility costs, in countries with high inflation rates. The Target Group may not, however, be able to maintain the prices the Target Group charges for the Target Group's products and services at, or increase the Target Group's prices to, levels sufficiently high in order to preserve the Target Group's operating margins, due to competitive pressures, regulatory requirements or other reasons. Accordingly, high rates of inflation in countries in which the Target Group operates may have an adverse impact on the Target Group's business, results of operations, financial condition or prospects.

The Target Group requires a significant amount of cash to service its debt and sustain its operations. The Target Group's ability to generate sufficient cash depends on many factors beyond its control

The Target Group's ability to meet its other debt service obligations, including under the Vitol Facility, the ENBD Facility and the Convertible Loans, or to refinance its debt or to fund working capital and capital expenditures, depends on its future operating and financial performance, which will be affected by its ability to successfully implement the Target Group's business strategy as well as general economic, financial, competitive, regulatory and other factors beyond its control. The Target Group cannot assure investors that its business will generate sufficient cash flow from operations, that currently anticipated revenue and production growth and operating improvements will be realized or that future debt or equity financing will be available to the Target Group in an amount sufficient to enable it to pay its debts when due, or to fund its other liquidity needs, including the repayment at maturity of any then-outstanding amounts under the Convertible Loans. If the Target Group cannot generate sufficient cash to meet its debt service requirements or if future cash flows from other capital resources are insufficient to pay its obligations as they mature or to fund its liquidity needs, the Target Group may,

among other things, need to restructure or refinance all or a portion of its debt, obtain additional financing, delay planned capital expenditures or investments or sell material assets. The Target Group cannot assure investors that it would be able to accomplish any of these alternatives on a timely basis or on commercially reasonable terms, if at all.

In the event that the Target Group is unable to satisfy its debt obligations, borrowings under other debt agreements or instruments that contain cross default or cross acceleration provisions may become payable on demand, and it may not have sufficient funds to repay all of its debts.

Restrictive covenants in the Vitol Facility, the ENBD Facility, the Convertible Loans, or other forms of financial indebtedness may restrict the Target Group's ability to operate its business. The Target Group's failure to comply with these covenants, including as a result of events beyond its control, could result in an event of default that may adversely affect its business, results of operations and financial condition

The Target Group is subject to various negative covenants restricting, among other things, the Target Group's ability to:

- incur or allow to remain outstanding certain indebtedness;
- sell, transfer or otherwise dispose of certain assets; and
- create or incur certain liens;

All of these limitations will be subject to significant exceptions and qualifications. Covenants to which the Target Group is subject, or in the future may be subject, could limit its ability to finance its future operations and capital needs and its ability to pursue business opportunities and activities that may be in its interest.

The restrictions contained in the Target Group's covenants in the Vitol Facility, the ENBD Facility and the Convertible Loans, or other forms of financial indebtedness could affect the Target Group's ability to operate its business and may limit its ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect the Target Group's ability to finance its operations, make strategic acquisitions, investments or alliances, restructure its organization or finance its capital needs. Additionally, the Target Group's ability to comply with these covenants and restrictions may be affected by events beyond its control. These include prevailing economic, financial and industry conditions. If the Target Group breaches any of these covenants or restrictions, or fails to obtain necessary waivers or amendments, or to file required notices with any related creditors, it could be in default under the Vitol Facility, the ENBD Facility, the Convertible Loans or other forms of financial indebtedness (as the case may be).

E. EXISTING CLAIMS

Legal and arbitration proceedings

Ukrnafta arbitration

CPC, a member of the Target Group, and Ukrnafta entered into the JAA on 14 September 1995 for exploration and development of the RC Field in the Ukraine by CPC and Ukrnafta. Over thirty supplemental, amendment and addendum agreements to the JAA were executed by CPC and Ukrnafta.

On 28 September 2007 CPC made a request for arbitration which CPC submitted to the Arbitration Institute of the Stockholm Chamber of Commerce claiming that Ukrnafta is in breach of the JAA as a result of: (i) its refusal to permit CPC to make additional investments in the JAA in violation of the provisions of the JAA permitting CPC to make such investments in order to restore its investment in the RC Field back to the 50% level envisaged by the JAA; (ii) its undertaking of independent exploration and development works on the RC Field outside of the scope of the JAA and without the authorization of the Managerial Committee (as defined in the JAA); and (iii) its refusal to share with CPC relevant information about the RC Field and developments thereon. CPC argues Ukrnafta has shut CPC out from its rights to the RC Field in violation of its contractual obligations.

On 24 September 2010, the arbitral tribunal issued its decision and awarded CPC the amount of US$145.7 million (equivalent to approximately HK$1,136.5 million) plus US$1.2 million (equivalent to approximately HK$9.4 million) in costs, and terminated the JAA. The Target Group is now seeking to enforce the arbitral award in various jurisdictions. The Target Group is committed to vigorously pursuing the Award wherever it is able to locate and attach Ukrnafta's assets.

UK action by Ukrnafta to strike out UK enforcement order

An application for recognition and enforcement of the Award in England was filed with the High Court on 8 September 2016 and resulted in an ex-parte order with permission to enforce the Award and serve the order on the defendant in the Ukraine, dated 10 October 2016. By order of 4 January 2017, the time for service was extended. By letter of 21 April 2017 CPC's English lawyers were served with Ukrnafta's acknowledgement of service and an application to set aside the abovementioned orders of 10 October 2016 and 4 January 2017. Following discussions between both parties' representatives, it was agreed that Ukrnafta should file a Statement of Case, which was submitted by Ukrnafta on 1 September 2017. CPC's Defence was submitted on 9 November 2017. Ukrnafta filed a reply on 19 January 2018. On 13 April 2018 the parties agreed on a list of common ground and issues, for example in relation to the involvement of foreign law experts. Ukrnafta filed its latest submission on 29 June 2018. On 21 September 2018 the court, at a directions hearing, gave summary judgment in favour of CPC and struck out the allegations of fraud. The trial has now been scheduled to take place in February 2020.

Ukrnafta Texas counterclaim

The below summary is given only as a statement of the status of the case as at the Latest Practicable Date and does not purport to be anything other (including predictions about possible future developments).

On 23 February 2009, Ukrnafta filed suit in Texas against CPC, Taurex Resources plc, Robert Bensh, and KEC Kuwait, seeking nearly US$80 million (equivalent to approximately HK$624 million) in damages for alleged negligent misrepresentation, fraud, misappropriation of trade secrets, and other claims arising out of CPC's change of domicile from Texas to Delaware. Ukrnafta requested a trial by jury. CPC moved in the litigation to confirm the arbitral award it obtained against Ukrnafta. On 2 October 2017, the court entered an order confirming the Award, and on 13 November 2018, the court awarded summary judgment in favor of CPC on all of Ukrnafta's claims based on the preclusive effects of the Award. On 30 November 2018, Ukrnafta voluntarily dismissed its claims against Taurex and KEC Kuwait. On 6 December 2018, the court severed the claims against Bensh and entered a final judgment on all other claims.

Enforcement Proceedings

Despite extensive efforts to have the Award set aside at the seat (Sweden), the Swedish courts have upheld the Award and it is enforceable in Sweden. In addition, CPC has so far successfully obtained recognition of the Award in France, the Netherlands and the US. Especially in the Netherlands and the US, where Ukrnafta actively opposed the recognition of the Award, the courts were able to review the merits of Ukrnafta's resistance against recognition of the Award – to a large extent similar to the arguments brought up in the setting aside proceedings – and found that Ukrnafta did not manage to prove the existence of any of the limited grounds for refusal contained in the 1958 New York Convention for the Recognition and Enforcement of Foreign Arbitral Awards.

Dragon Oil arbitration

The arbitration proceedings summarised below are confidential. The below summary does not, and is not intended to, waive that confidentiality and/or any privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

On 4 April 2016, Dragon Oil filed for arbitration with the International Chamber of Commerce, which was subsequently served against members of the Target Group on 12 May 2016.

Dragon Oil has alleged various breaches of contract and trust relating to: (i) the Block 9 JBA and (ii) correspondence and exchanges between the Target Group and Dragon Oil during October and November 2012. Specifically, Dragon Oil alleges that a contract (or, alternatively, a trust) arose between the Target Group and Dragon

Oil regarding a pro rata share of the 30% participating interest previously intended for TPAO under the JBA, prior to TPAO's exit from the Block 9 consortium. The pro rata share claimed by Dragon Oil, namely the Disputed Interest, equates to a 12.86% participating interest in the Block 9 EDPSC. Dragon Oil alleges that the Target Group's failure to deliver the Disputed Interest to Dragon Oil following TPAO's exit constitutes a breach of contract/trust. Dragon Oil has requested relief in the form of a transfer of the Disputed Interest from the Target Group to Dragon Oil or, in the alternative, an account of profits or damages currently pleaded in the amount of US$135.5 million (equivalent to approximately HK$1,056.9 million) (excluding interest and costs) in lieu of that transfer. In the arbitration, the Target Group has denied Dragon Oil's claims. One of the Target Group companies named in the arbitration has also raised a jurisdictional objection to its inclusion as a party to the arbitration.

Following the exchange of the parties' submissions and evidence in the arbitration, a final hearing on jurisdiction and the merits was fixed for five days between 12 and 16 February 2018.

On 11 February 2018, the Target Group and Dragon Oil entered into settlement and transfer agreements, pursuant to which, upon completion of those agreements: (i) the Target Group would transfer to Dragon Oil a 15% participating interest in the Block 9 EDPSC (6.43% of which would be on a past net costs basis, and 8.57% for a lump sum of US$100 million (equivalent to approximately HK$780 million)); and (ii) Dragon Oil would withdraw the arbitration. Upon the signing of the settlement agreement on 11 February 2018, the parties agreed to stay the arbitration pending completion of the settlement, and to vacate the final hearing.

Completion of the settlement was subject to certain conditions precedent. Among other conditions, one of the conditions precedent was that the parties would obtain the Iraqi Government's approval of the transfer to Dragon Oil of the 15% participating interest in the Block 9 EDPSC. Under the transfer agreement, the back-stop date for obtaining that approval and satisfaction of the other conditions precedent was 11 May 2018. The Iraqi Government is yet to provide that approval.

On 19 September 2018, Dragon Oil: (i) exercised its rights to terminate the settlement and transfer agreements; and (ii) lifted the stay of arbitration, recommencing the arbitration proceedings. The parties have agreed a procedural timetable for the remainder of the proceedings and a final hearing is now scheduled to take place between 20 and 24 May 2019.

Notwithstanding the above, the parties continue to work towards obtaining the Iraqi Government's approval to the transfer to Dragon Oil of the 15% participating interest in the Block 9 EDPSC, and settling the dispute.

DNO Block 43 abandonment arbitration

The below summary does not, and is not intended to, waive any confidentiality and/or privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

On 17 July 2017, DNO filed for arbitration with the International Chamber of Commerce against Yemen MOM and KEC Yemen, which was subsequently served on those parties on 6 August 2017.

DNO served its Statement of Claim on 5 July 2018. The Yemen MOM served its defence and counterclaim, and KEC Yemen served its defence, on 6 September 2018. DNO's defence to counterclaim and reply, and KEC's defence to counterclaim, were served on 6 December 2018. Further pleadings are to be served by the parties in January and February 2019. The final hearing has been fixed for five days between 8 April and 12 April 2019, in Paris.

In the arbitration, DNO seeks an award recognising the validity of its relinquishment of Block 43 (which had previously been disputed by the Yemen MOM), and for certain damages relating to the Yemen MOM's refusal to recognise the validity of that relinquishment. Further, although DNO makes no substantive claims against KEC Yemen, DNO seeks declarations that KEC Yemen is: (i) bound by the provisions of the Block 43 PSA and the Block 43 JOA; (ii) jointly and severally liable for the performance of the obligations of the Block 43 Contractor; and (iii) liable to share in the obligations of the Block 43 Contractor under the PSA and all liabilities and expenses incurred by DNO in connection with the joint operations.

The Yemen MOM has filed a number of counterclaims against the Block 43 Contractor in the arbitration. The Yemen MOM currently quantifies its counterclaims at approximately US$100 million (equivalent to approximately HK$780 million). In the event that the Yemen MOM's counterclaims succeed, KEC Yemen's potential exposure will be limited to its participating interest in Block 43 at the relevant time. KEC Yemen held a participating interest of 28.33% in Block 43 from 5 October 2009 to 30 June 2015, when it withdrew from Block 43. However, because the Block 43 PSA parties also carried a 15% participating interest held by Yemen Oil & Gas Corporation under the Block 43 PSA (the share of liability associated with which must therefore be disregarded), KEC Yemen was in effect liable for 33.33% of the obligations under the Block 43 PSA during that period.

By notice dated 24 May 2015, KEC Yemen gave notice of its intention to withdraw from the Block 43 PSA and the Block 43 JOA with effect from 30 June 2015. In the arbitration, the Yemen MOM has asserted that KEC Yemen's withdrawal was not effective. The validity or otherwise of KEC Yemen's withdrawal from Block 43 has the potential to affect the period in respect of which KEC Yemen will be liable (as one of the entities comprising the Block 43 Contractor) in respect of the Yemen MOM's counterclaims. The Target Group is currently conducting a detailed review of the merits of the case.

F. NON-GOVERNMENTAL ORGANISATION IMPACT

The Target Group is of the view that there are no non-governmental organisations that have an impact on the sustainability of the Target's mineral or exploration projects.

A. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

B. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up.

The Directors are not aware as at the Latest Practicable Date of any material adverse change having occurred since the effective date of the Competent Person's Report.

C. DISCLOSURE OF INTERESTS OF DIRECTORS

1. Share Interests of Directors and Chief Executive

As at the Latest Practicable Date, the following Director had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) or which were otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code:

Name of Directors	Nature of Interest	Number of Shares	Approximate percentage or attributable percentage of shareholding
Zhang Hong Wei	Attributable interest of controlled corporation	18,754,300,230	71.32%

Note: Out of the 18,754,300,230 shares, 10,657,758,250 shares were beneficially held by He Fu International Limited, 4,447,453,416 shares were beneficially held by United Petroleum & Natural Gas Holdings Limited, and 3,649,088,564 shares were beneficially held by United Energy Holdings Limited. United Petroleum & Natural Gas Holdings Limited and United Energy Holdings Limited are companies wholly-owned by Million Fortune Enterprises Limited, which is in turn wholly-owned by Mr. Zhang Hong Wei. He Fu International Limited is wholly-owned by Huilan Investment Limited, which is wholly-owned by 東方集團有限公司. 東方集團有限公司 is 94% owned by 名澤東方投資有限公司, which is in turn wholly-owned by Mr. Zhang Hong Wei. Therefore, Mr. Zhang Hong Wei is deemed to be interested in those 18,754,300,230 shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code.

2. Director's Interests in Competing Business

As at the Latest Practicable Date, none of the Directors and their respective associates had interests in the business which compete or were likely to compete, whether directly or indirectly, with the business of the Group, or which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder.

3. Director's Interests in Assets

None of the Directors has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries, or the Target or any of its subsidiaries, during the period since 31 December 2017, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

4. Director's Interests in Contract and Arrangement

As at the Latest Practicable Date, no contract or arrangement of significance in relation to the Group's or the Target Group's business to which the Company or any of its subsidiaries, or the Target or any of its subsidiaries, was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

5. Director's Service Contracts

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

6. Substantial Shareholders

Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity and nature of interest	Number of Shares	Approximate % shareholding
Zhang Hong Wei *(Note a)*	Attributable interest of controlled corporation	18,754,300,230 (L)	71.32% (L)
名澤東方投資有限公司 *(Note a)*	Beneficial owner	10,657,758,250 (L)	40.53% (L)
東方集團有限公司 *(Note b)*	Beneficial owner	10,657,758,250 (L)	40.53% (L)
Huilan Investment Limited *(Note c)*	Beneficial owner	10,657,758,250 (L)	40.53% (L)
He Fu International Limited *(Note d)*	Beneficial owner	10,657,758,250 (L)	40.53% (L)
Million Fortune Enterprises Limited *(Note a)*	Beneficial owner	8,096,541,980 (L)	30.79% (L)
United Petroleum & Nature Gas Holdings *(Note e)*	Beneficial owner	4,447,453,416 (L)	16.91% (L)
United Energy Holdings Limited *(Note e)*	Beneficial owner	3,649,088,564 (L)	13.88% (L)

Note:

(a) 名澤東方投資有限公司 and Million Fortune Enterprises Limited are wholly owned by Mr. Zhang Hong Wei.

(b) 名澤東方投資有限公司 owns 94% shares of 東方集團有限公司.

(c) Huilan Investment Limited is wholly owned by 東方集團有限公司.

(d) He Fu International Limited is wholly owned by Huilan Investment Limited.

(e) These companies are wholly owned by Million Fortune Enterprises Limited.

(f) (L) denotes long position and (S) denotes short position.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

D. EXPERTS AND CONSENT

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
RSM Hong Kong (Reporting Accountants of the unaudited pro forma financial information)	Certified Public Accountants, Hong Kong
Deloitte Touche Tohmatsu (Reporting Accountants of the Target)	Certified Public Accountants, Hong Kong
Gaffney, Cline & Associates	Independent Competent Person and Competent Evaluator as defined in the Listing Rules

As at the Latest Practicable Date, all the experts listed above were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of the experts listed above have any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2017, the date to which the latest published audited financial statements of the Enlarged Group were made up.

All of the experts listed above have given and have not withdrawn their written consents to the issue of this circular with inclusion of their respective letter or reports and references to their names in the form and context in which they appear.

E. LITIGATION

Certain subsidiaries of the Group were in dispute with the Pakistani government on the applicability of windfall levy on its production of oil and condensate. On 29 December 2017, the government's approval for the execution of windfall levy was granted and the windfall levy became applicable on the subsidiaries. Based on legal advice, the management believes that the applicability of the windfall levy is prospective (i.e. from the date of the government's approval). If the applicability of windfall levy is retrospective, further provision for the windfall levy of approximately HK$194.3 million would be required.

Certain subsidiary of the Group received various tax orders in an attempt to re-assess tax liability for prior years by the Pakistani tax department. They are currently appealing against these orders and the cumulative exposure for the pending tax cases is approximately HK$105.5 million.

The Company is of the view that there are reasonable grounds to believe that outcome of these proceedings will be in favour of the subsidiary and that no outflow of economic benefits from the subsidiary is expected based on evaluation of the subsidiary's independent tax advisor, hence no provision in respect of aforementioned amount has been made in the consolidated financial statements.

Save as disclosed above, to the best knowledge of the Company, there was no litigation or claim of material importance pending or threatened against any member of the Group as at the Latest Practicable Date.

Certain members of the Target Group are involved in ongoing matters of arbitration, the below summaries of which do not, and are not intended to, waive any confidentiality and/or any privilege in respect of the arbitration proceedings (or otherwise) belonging to the Target Group.

On 4 April 2016, Dragon Oil filed for arbitration with the International Chamber of Commerce, which was subsequently served on certain members of the Target Group on 12 May 2016. Dragon Oil has alleged various breaches of contract and trust relating to: (i) the JBA and (ii) correspondence and exchanges between the relevant members of the Target Group and Dragon Oil during October to December 2012. Dragon Oil has requested relief in the form of a transfer of a 12.86% participating interest in the Block 9 EDPSC from the Target Group to Dragon Oil or, in the alternative, an account of profits or damages currently pleaded in the amount of US$135.5 million (excluding interest and costs) in lieu of that transfer. A final hearing is scheduled to take place between 20 and 24 May 2019. The potential outcome in relation to this dispute could be: (i) an award in favour of the Target Group dismissing the claim by Dragon Oil; or (ii) a transfer of: (a) part of the Target Group's participating interest in Block 9; or (b) an amount in cash, to Dragon Oil.

On 17 July 2017, DNO filed for arbitration with the International Chamber of Commerce against the Yemen MOM and a member of the Target Group, seeking an award recognising the validity of its relinquishment of Block 43 in Yemen and for certain

damages relating to Yemen MOM's refusal to recognise such. Although DNO makes no substantive claims against the Target Group, DNO seeks declarations that a member of the Target Group is: (i) bound by the provisions of the Block 43 PSA and the Block 43 JOA; (ii) jointly and severally liable for the performance of the obligations of the Block 43 Contractor; and (iii) liable to share in the obligations of the Block 43 Contractor and all liabilities and expenses incurred by DNO in connection with the joint operations. The Yemen MOM has filed a number of counterclaims against the Block 43 Contractor in the arbitration. The Yemen MOM currently quantifies its counterclaims at approximately US$100 million. The Target Group's potential exposure to the Yemen MOM's counterclaims will be limited to the relevant Target Group member's participating interest in Block 43 at the relevant time. However, in the arbitration, the Yemen MOM has asserted that the relevant member of the Target Group's withdrawal on 30 June 2015 was not effective. The validity or otherwise of that withdrawal has the potential to affect the period in respect of which the relevant member of the Target Group will be liable (as one of the entities comprising the Block 43 Contractor) in respect of the Yemen MOM's counterclaims.

Furthermore, CPC, a member of the Target Group, and Ukrnafta entered into the JAA on 14 September 1995 for exploration and development of the RC Field by CPC and Ukrnafta. Over thirty supplemental, amendment and addendum agreements to the JAA were executed by CPC and Ukrnafta.

On 28 September 2007 CPC made a request for arbitration which CPC submitted to the Arbitration Institute of the Stockholm Chamber of Commerce claiming that Ukrnafta is in breach of the JAA as a result of: (i) its refusal to permit CPC to make additional investments in the JAA in violation of the provisions of the JAA permitting CPC to make such investments in order to restore its investment in the RC Field back to the 50% level envisaged by the JAA; (ii) its undertaking of independent exploration and development works on the RC Field outside of the scope of the JAA and without the authorization of the Managerial Committee (as defined in the JAA); and (iii) its refusal to share with CPC relevant information about the RC Field and developments thereon. CPC argues Ukrnafta has shut CPC out from its rights to the RC Field in violation of its contractual obligations.

On 24 September 2010, the arbitral tribunal issued its decision and awarded CPC the amount of US$145.7 million (equivalent to approximately HK$1,136.5 million) plus US$1.2 million (equivalent to approximately HK$9.4 million) in costs, and terminated the JAA. The Target Group is now seeking to enforce the arbitral award in various jurisdictions. The Target Group is committed to vigorously pursuing the Award wherever it is able to locate and attach Ukrnafta's assets.

An application for recognition and enforcement of the Award in England was filed with the High Court on 8 September 2016 and resulted in an ex-parte order with permission to enforce the Award and serve the order on the defendant in the Ukraine, dated 10 October 2016. By order of 4 January 2017, the time for service was extended. By letter of 21 April 2017 CPC's English lawyers were served with Ukrnafta's acknowledgement of service and an application to set aside the abovementioned orders of 10 October 2016 and 4 January 2017. Following discussions between both parties' representatives, it was agreed that Ukrnafta should file a Statement of Case, which was

submitted by Ukrnafta on 1 September 2017. CPC's Defence was submitted on 9 November 2017. Ukrnafta filed a reply on 19 January 2018. On 13 April 2018 the parties agreed on a list of common ground and issues, for example in relation to the involvement of foreign law experts. Ukrnafta filed its latest submission on 29 June 2018. On 21 September 2018 the court, at a directions hearing, gave summary judgment in favour of CPC and struck out the allegations of fraud. The trial has now been scheduled to take place in February 2020.

The following summary is given only as a statement of the status of the case as at the Latest Practicable Date and does not purport to be anything other (including predictions about possible future developments). On 23 February 2009, Ukrnafta filed suit in Texas against CPC, Taurex Resources plc, Robert Bensh, and KEC Kuwait, seeking nearly US$80 million (equivalent to approximately HK$624 million) in damages for alleged negligent misrepresentation, fraud, misappropriation of trade secrets, and other claims arising out of CPC's change of domicile from Texas to Delaware. Ukrnafta requested a trial by jury. CPC moved in the litigation to confirm the arbitral award it obtained against Ukrnafta. On 2 October 2017, the court entered an order confirming the Award, and on 13 November 2018, the court awarded summary judgment in favor of CPC on all of Ukrnafta's claims based on the preclusive effects of the Award. On 30 November 2018, Ukrnafta voluntarily dismissed its claims against Taurex and KEC Kuwait. On 6 December 2018, the court severed the claims against Bensh and entered a final judgment on all other claims.

Despite extensive efforts to have the Award set aside at the seat (Sweden), the Swedish courts have upheld the Award and it is enforceable in Sweden. In addition, CPC has so far successfully obtained recognition of the Award in France, the Netherlands and the US. Especially in the Netherlands and the US, where Ukrnafta actively opposed the recognition of the Award, the courts were able to review the merits of Ukrnafta's resistance against recognition of the Award – to a large extent similar to the arguments brought up in the setting aside proceedings – and found that Ukrnafta did not manage to prove the existence of any of the limited grounds for refusal contained in the 1958 New York Convention for the Recognition and Enforcement of Foreign Arbitral Awards.

F. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the Transaction Agreement with the Target;

(b) the share sale and purchase agreement dated 27 June 2018 entered between Super Success International Holdings Limited, a wholly-owned subsidiary of the Company, and Orient Group Investment Holding Limited in relation to the acquisition by Success International Holdings Limited of the approximately 48% of the equity interests in the Orient Group Beijing Investment Holding Limited comprising 22,929,377 shares held by Orient Group Investment Holding Limited;

(c) the sale and purchase agreement dated 28 February 2018 entered into between Dragon Prime Hong Kong Limited, a wholly-owned subsidiary of the Company, and OMV Maurice Energy Limited ("**OMEL**", now known as UEP Alpha Limited) in relation to the acquisition of the entire issued share capital of OMEL by Dragon Prime Hong Kong Limited;

(d) The sale and purchase agreement dated 28 February 2018 entered into between Dragon Prime Hong Kong Limited and OMV (PAKISTAN) Exploration Gesellschaft m.b.H. ("**OPAK**", now known as UEP Beta GmbH) in relation to the acquisition of the entire issued share capital of OPAK by the Dragon Prime Hong Kong Limited;

(e) the conditional share purchase agreement dated 24 October 2017 and entered into between the fifteen shareholders of the Asia Resources Oil Limited ("**AROL**") and the sellers of the entire issued share capital of AROL and KNGS Exploration and Development Limited, an indirect wholly-owned subsidiary of the Company, in respect of the acquisition of the entire issued share capital of AROL; and

(f) The shareholders agreement dated 25 November 2016 entered into between the Company, Orient Group Co., Ltd and OGIHL in respect of the jointly incorporation of Orient Art Limited in Beijing and in British Virgins Islands.

Except as disclosed above, no other material contract has been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date.

G. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection by Shareholders at the principal place of business of the Company at Unit 2505, 25/F., Two Pacific Place, 88 Queensway, Hong Kong during normal business hours (Saturdays and public holidays excepted) from the date of this circular up to and including 28 January 2019:

- the memorandum of continuance and by-laws of the Company;
- the annual reports of the Company for years ended 31 December 2016 and 2017;
- the material contracts referred to under the paragraph "Material contracts" in this appendix;
- the contracts referred to in the paragraph headed "Director's Service Contracts" in this Appendix;
- this circular;

- all reports, letters or other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in the listing document; and

- a written statement signed by the reporting accountants setting out the adjustments made by them in arriving at the figures shown in their report and giving the reasons therefor.

H. MISCELLANEOUS

1. The Company Secretary of the Company is Mr. Hung Lap Kay, who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants and has more than twenty years' experience in auditing, accounting and financial management.

2. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

3. The Hong Kong head office and principal place of business of the Company is Suite 2505, 25/F., Two Pacific Place, 88 Queensway, Hong Kong.

4. The Hong Kong branch share registrar and transfer office of the Company is Tricor Secretaries Limited located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

5. In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.