

First Quarter 2009 Activity Report

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Forward looking statements

This Quarterly Activity Report includes statements that contain words or phrases such as “will”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue”, and similar expressions or variations of such expressions which are “forward looking statements”. Such forward looking statements are by their nature speculative and based on various assumptions. Any such statements are hypothetical with respect to prospective events and should not be construed as being indicative of the actual events which will occur or a guarantee of future performance. All forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward looking statements.

Important factors that could cause results to differ materially from the Company’s expectations include, among others:

- General economic and business conditions in Kuwait and other countries;
- The Company’s ability to successfully implement its strategy, growth and expansion plans and technological changes;
- Changes in the value of the Kuwaiti Dinar and other currency changes;
- Changes in Kuwaiti or international interest rates;
- Changes in laws and regulations that apply to investment companies in Kuwait;
- Changes in political conditions in Kuwait and other countries; and
- Changes in the foreign exchange control regulations in Kuwait.

Disclaimer: All information provided in this report is for information purposes only. All financial information is unaudited and is subject to an annual financial audit.

1. Executive Summary:

First Quarter Activities Report For Period Ended 31 March 2009

Comparative Performance at a Glance				
Quarterly comparison		Q1 2009	Q4 2008	Change %
Production	BOEPD	10,021	9,364	+9.5
Revenue	USD Million	25.5	29.2	-12.7
Corresponding Period		Q1 2009	Q1 2008	
Production	BOEPD	10,021	5,873	+70.6
Revenue	USD Million	25.5	13.9	+83.5

Quarterly production summary

- Kuwait Energy's Q1 2009 average daily working interest production was 10,021 barrels of oil equivalent per day (boepd), a 9.5% increase on Q4 2008; revenue was down 12.7% primarily due to the decrease in oil prices.
- The Q1 2009 production average was a 70.6% increase on Q1 2008 primarily due to the production adds from Area A, ERQ in Egypt and Nabrajah in Yemen which were acquired as part of the Oil Search Acquisition (effective 1 March 2008 and completed in August 2008).

Key activities during the period

Financial

- **Profit:** Reported a net loss of USD6.75million in Q1 2009, primarily due to the fall in oil prices.
- **Financing Facility:** Signed mandate letter with International Finance Corporation (IFC) for a USD50million facility which IFC is currently doing due diligence.

Operations

- **Reserves:** Reported WI 2P YE08 Reserves of 43.4mmboe, an increase of 27% from YE07 (excludes the Karim Small Fields in Oman as its reserves cannot be reported due to the Service Agreement).
- **Production:** Daily average production passed 10,000 boepd in January 2009.
- **Exploration:** Two exploration discoveries in Egypt, one in Area A (Shukheir NW-X2) and one in ERQ (Zahraa-1) occurred during the first quarter.
- **Development:** Successfully drilled 8 producing development wells with one of the wells in Shukheir NW proving up a significant extension to the field.
- **ISO 9001 and ISO 14001 Certification:** Balin Energy, a subsidiary of KEC was ISO certified in February 2009. KEC is the operator of E5 Block, Latvia with a 50% Working Interest and operates the Block through Balin Energy. ISO 9001 relates to Quality Management Systems and ISO 14001 relates to Environmental Management Systems.

Key activities during the period (Cont'd)

Business Development

- **Iraq:** Held Siba field workshop in which 11 representatives from Ministry of Oil, Iraq and from South Oil Company, Iraq attended.
- **Kuwait Facility Project:** Submitted pre-qualification documentation to Kuwait Oil Company.

2009 Budget

Item	2009 Budget
Production	4.5 mmboe
Daily Average Production	12,371boe
Production Costs	US\$31 million
Exploration Capital	US\$60 million
Development Capital	US\$88 million
Total Capital	US\$148 million

2009 Work Program

In 2009, we have a target to achieve the following work program together with our joint venture partners:

15 Exploration Wells
 53 Development Wells
 Over 200 Work-over Wells

In 2008, Kuwait Energy was unable to carry out some of its drilling work program as planned, owing to delays in receiving Military approvals in Egypt for Abu Sennan and Burg El Arab fields. We presently have received Military permit to drill one exploration well in Burg El Arab and a drilling rig has been commissioned to the area. We are actively pursuing with the Egyptian Military authorities to obtain drilling permits for Abu Sennan and commence drilling, to help us declare commerciality.

In Q1 2009, we drilled 4 exploration wells, 8 development wells and undertook 50 work-overs.

2. Reserves:

Kuwait Energy's working interest year end 2008 2P reserves increased by 27% on year end 2007 to 43.4mboe, as shown in the tables below.

Classification	Category	KEC WI Reserves/Resources mboe					YE08
		YE07 (NSAI)	Production	Exploration Adds	Revisions	Acq & Divest	
Reserves	2P	34,135	2,220	4,856	-4,714	11,389	43,445
Contingent Resources	2C	N/A	0	0	205,276	0	205,276
Prospective Resources	Best Estimate	N/A	0	0	548,870	167,000	715,870

1P RRR =	=	219.7%
2P RRR =	=	519.3%

Proven plus Probable Reserves (KEC Working Interest)				
	Sales Gas (mmcf)	Crude Oil (mbl)	Condensate (mbl)	Total (mboe)
Reserves year end 2007	104,286	13,335	3,420	34,135
Production	-294	-1,903	-23	-2,220
Revisions	-18,642	-2,636	1,074	-4,714
Exploration Discoveries	0	4,856	0	4,856
Acquisition/Divestments	0	11,389	0	11,389
Reserves year end 2008	85,350	25,041	4,470	43,445

Note:

1. Estimates above are KEC working Interest and are un-risked
2. Estimates above exclude Karim Small Fields (Oman) which is covered by a Service Agreement which does not allow external reporting of reserve volumes.

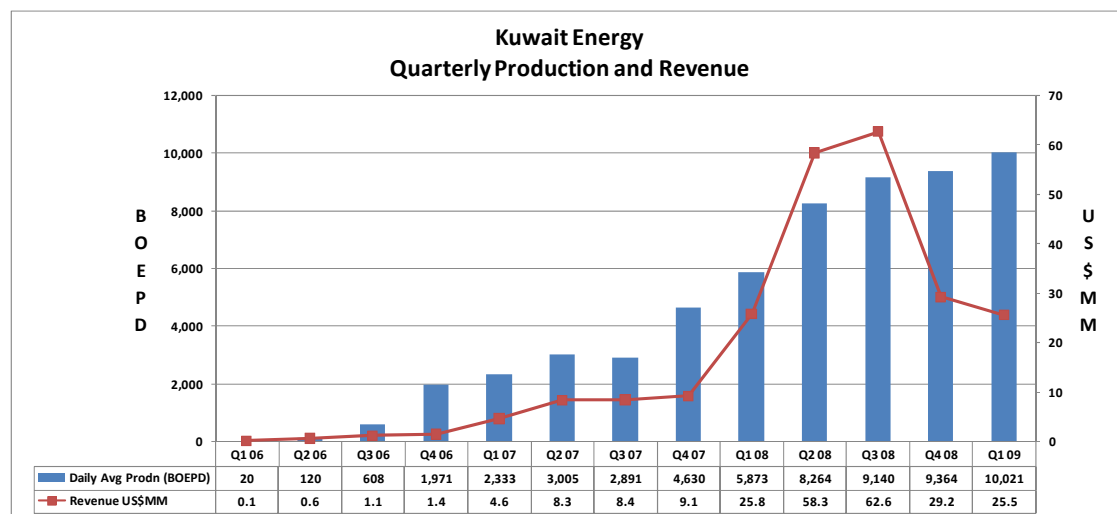
3. Production:

Kuwait Energy's working interest share of production and the revenue for the quarter ended 31 March 2009 is shown in the table below:

Daily Average Production BOEPD	Quarter Ended	
	Q1 2009	Q4 2008
Egypt		
BEA	124	182
Area A	2,654	2,269
ERQ	1,396	1,166
Egypt Total	4,174	3,617
Oman	2,440	2,305
Yemen	1,301	1,351
Ukraine	1,081	987
Russia	205	239
Indonesia	820	866
Total	10,021	9,364
Sales Revenue (USD million)	25.5	29.2
Sales Revenue (USD per boe)	28.27	34.65

The daily average production during the first quarter 2009 of 10,021boepd was up 7% on the last quarter in 2008. This increase in production was primarily due to the production start up of the recent exploration discoveries in Area A and ERQ in Egypt.

The table below shows a quarter-on-quarter comparison of daily average production (boepd) from 2006 until Q1 2009:



4. Capital Expenditure:

Total exploration and development expenditure is summarized in the table below:

	Q1 2009
	USD million
Exploration	6.4
Development	10.9
Total Capital Expenditure	17.3

4.1 Exploration activity:

Exploration expenditure during the first quarter was US\$6.4 million.

Kuwait Energy drilled four exploration wells out of the six scheduled during the first quarter with a success ratio of 50%. Military approvals delayed exploration drilling in Abu Sennan and BEA.

Country	Basin/Area	Well	Target	KEC Interest	Well Status
Egypt	Area A	Shukheir NW-X2	Oil	70%	Success
Egypt	Area A	East Um El-Yusr-1	Oil	70%	P&A, Dry Hole
Egypt	ERQ	Al-Zahraa-1	Oil	49.5%	Success
Egypt	ERQ	Dalia-1	Oil	49.5%	P&A, Dry Hole

Seismic Activity

Seismic activity during the first quarter is shown in the table below:

Country	Area/Basin	Type	Km2	Status
Egypt	Area A	3D	655	Data reprocessed

4.2 Development activity:

Development expenditure during the first quarter was US\$10.9 million with 8 out of 11 budgeted development wells being drilled.

- **Egypt** - Positive drilling results in Area A (Shukheir NW) and ERQ (Shahd SE).
- **Ukraine** – Work-over program suspended to evaluate reservoir issues preventing the work-over wells from economic production.
- **Oman** – Drilling delays experienced resulting in only 6 of the 9 scheduled development wells being drilled.

The table below provides the 8 development wells drilled during the quarter:

Country	Basin/Area	Well	Target	KEC Interest	Well Status
Egypt	ERQ	Shahd SE-3	Oil	49.5%	Producer
Egypt	Area A	Shukheir NW-3	Oil	70%	Producer
Oman	Karim	BM-17	Oil	15%	Producer
Oman	Karim	ARD-02	Oil	15%	Producer
Oman	Karim	WRD-32	Oil	15%	Producer
Oman	Karim	BM-18	Oil	15%	Producer
Oman	Karim	NSM004	Oil	15%	Producer
Oman	Karim	ZRA008	Oil	15%	Producer

5 Financials

Kuwait Energy reported a net loss of USD6.75million for the quarter ending 31 March 2009; this was primarily due to the fall in oil prices. However, this loss was anticipated and budgeted in our 2009 financial budget.

Estimated Consolidated Statements of Income for the quarter ending 31 March 2009

Consolidated Statements of Income	Actuals	Preliminary Budget
	Q1 2009 US\$MM	Q1 2009 US\$MM
Income		
Crude Oil Sales	25.3	31.9
Change in Stock	0.3	-
Less:- Cost of Sales		
Government Take	11.1	14.7
Operating Expenses	6.6	9.2
Depletion Expenses	9.5	10.4
Gross Profit	-1.7	-2.4
Expenditure		
General & Administrative Expenses	4.1	5.2
Financing & others	0.9	-
Total Expenses	5.0	5.2
Net Income for the period	-6.75	-7.6