

2009

# Third 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:

### Third Quarter Activities Report For Period Ended 30 September 2009

Comparative Performance at a Glance				
Quarterly comparison		Q3 2009	Q2 2009	Change %
Production	BOEPD	12,611	10,493	+20.2
Revenue	USD Million	51.8	36.6	+41.5
Corresponding Period		Q3 2009	Q3 2008	Change %
Production	BOEPD	12,611	9,140	+37.9%
Revenue	USD Million	51.8	55.9	-7.2%
YTD Comparison		2009	2008	Change %
Production	BOEPD	11,059	7,759	+42.5%
Revenue	USD Million	114.0	85.2	+33.8%

#### Quarterly production summary

- Kuwait Energy's Q3 2009 average daily working interest production was 12,611 barrels of oil equivalent per day (boepd), a 20.2% increase on the previous quarter; revenue was up 41.5% primarily due to increase in production and also improving oil prices.
- The Q3 2009 production average was a 37.9% increase on Q3 2008, primarily due to production increases in Egypt from ERQ and Area A. During the quarter, production from ERQ in Egypt was restricted due to facility constraints. Once this issue is resolved and on completion of Al-Zahraa – 2 well, Kuwait Energy's production is expected to increase by about 1,100boepd.
- The Q3 2009 revenue compared to Q3 2008 is down 7.2%. This in part is owing to Q3 2008 revenues included sales from assets acquired from Oil Search Limited from March to June 2008. Additionally the lower average sales price realized in Q3 2009 (as compared to Q3 2008) contributed to lower revenues in Q3 2009, despite a 37.9% increase in production.

## Key activities during the period

### Financial

- **Profit:** Reported a net profit (unaudited) of USD10.0 million in Q3 2009.
- **Financing Facility:** Kuwait Energy was granted a reserve based loan facility of USD50million by International Finance Corporation, member World Bank. This loan is unique as it incorporated the terms of reserve based financing with an income participation element within a Sharia compliant structure.

### Operations

- **Reserves:** External reserves audit completed by Gaffney Cline & Associates for Egypt and Yemen. The audit of Ukraine has been deferred until the end of the year when the results of 3D seismic are available.
- **Production:** Daily average production in Q3 2009 increased by 2,118 boepd from the previous quarter.
- **Exploration:** Military approvals were obtained in Burg El Arab field, Egypt to drill three wells and drilling of two exploration wells commenced during Q3 2009.
- **Development:** Development drilling in Ukraine and Russia commenced.
- **HSE:** Kuwait Energy recorded nil Lost Time Incidents during Q3 2009.

### Business Development

- **Burg El Arab, Egypt:** Kuwait Energy signed a Sale & Purchase Agreement with the seller to acquire an additional 25% Working Interest in the Burg El Arab field in Egypt. The purchase transaction also includes the transfer of operatorship of the field to Kuwait Energy. On completion of this transaction, Kuwait Energy will have a total 75% Working Interest in the field.
- **Abu Sennan, Egypt:** Kuwait Energy completed the acquisition of an additional 12% Working Interest in this block and currently has 72% Working Interest in the field.
- **Latvia:** Kuwait Energy together with PKN was awarded the North Block tender of an offshore block in the Baltic Sea. The next step is to conduct joint geological/geophysical work program for the licensed area.
- **Kuwait Facility Project:** Kuwait Energy submitted a joint bid with its consortium partner Daelim Industrial Company, South Korea for the GC-16 project of Kuwait Oil Company on 21 June 2009. The bid is still under evaluation and the bid results are likely to be announced by mid November 2009.
- **Iraq:** Kuwait Energy submitted an application to the Ministry of Oil, Iraq for a contract to develop a discovered field following the submission of a conceptual development plan. A response from the Ministry of Oil is expected early 2010.

## 2009 Budget

Item	2009 Budget
Production	4.5 mmboc
Daily Average Production	12,371boc
Production Costs	USD31 million
Exploration Capital	USD60 million
Development Capital	USD88 million
Total Capital	USD148 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

Kuwait Energy has year-to-date drilled 6 exploration wells and 28 development wells of the 36 wells scheduled. There have been delays in drilling the scheduled exploration and development wells including Abu Sennan and Burg El Arab, Egypt owing to delays or non-receipt of military approvals to drill. As a result it is anticipated that Kuwait Energy will not drill 15 Exploration wells and 53 Development wells by the end of 2009.

## 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					
		YE07 (NSAI)	Production	Exploration Adds	Revisions	Acq & Divest	YE08
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 (mbbl)	Condensate (mbbl)	Total (mboe)
<b>Reserves year end 2007</b>	<b>104,286</b>	<b>13,335</b>	<b>3,420</b>	<b>34,135</b>
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
<b>Reserves year end 2008</b>	<b>85,350</b>	<b>25,041</b>	<b>4,470</b>	<b>43,445</b>

Note:

- Estimates above are Kuwait Energy Working Interest and are un-risked
- 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:

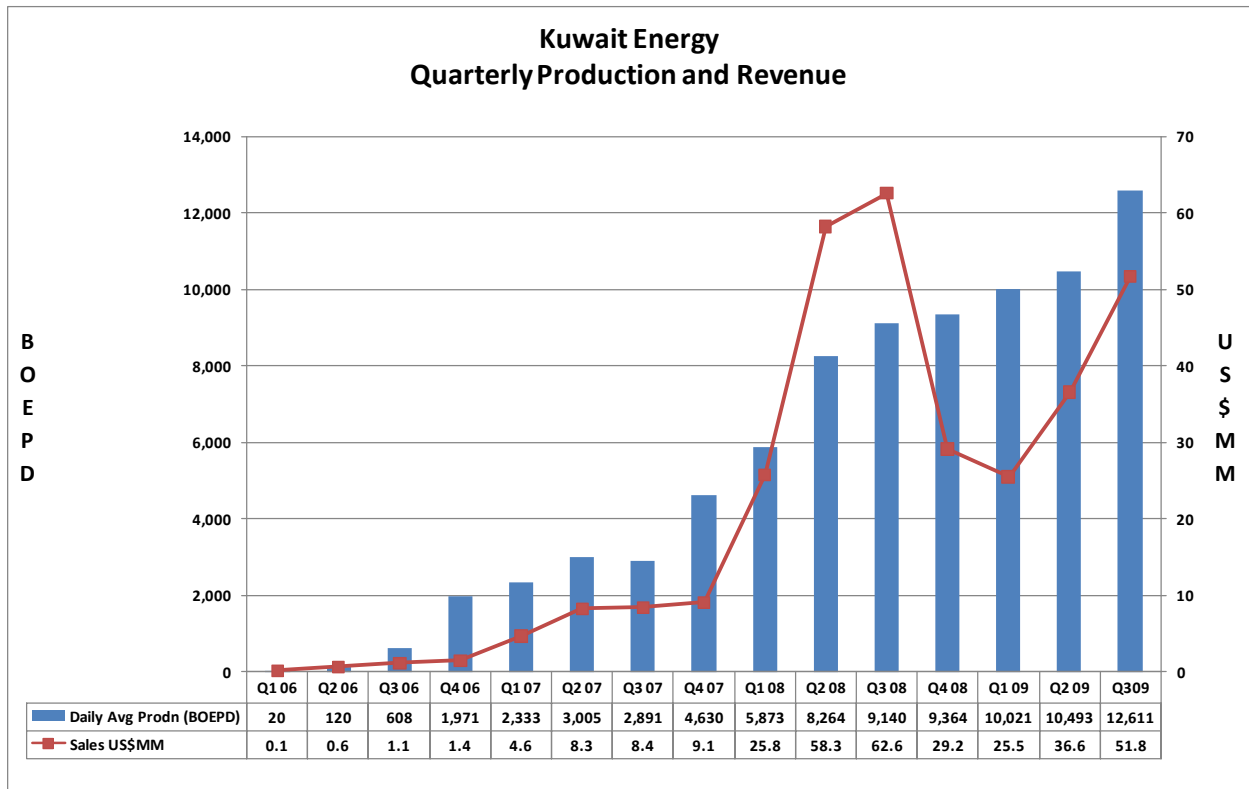
Kuwait Energy's working interest share of production and the revenue for the quarter ended 30 September 2009 is shown in the table below:

Daily Average Production	Quarter Ended	
	Q3 2009	Q2 2009
<b>BOEPD</b>		
<b>Egypt</b>		
BEA	227	138
Area A	4,892	3,674
ERQ	2,538	1,604
<b>Egypt Total</b>	<b>7,657</b>	<b>5,416</b>
Oman	2,776	2,514
Yemen	1,024	1,120
Ukraine	886	988
Russia	268	282
Indonesia*	0	173
<b>Total</b>	<b>12,611</b>	<b>10,493</b>
<b>Sales Revenue (USD million)</b>	<b>51.8</b>	<b>36.6</b>
<b>Sales Revenue (USD per boe)</b>	<b>44.71</b>	<b>38.33</b>

Kuwait Energy's Q3 2009 average daily working interest production was 12,611 barrels of oil equivalent per day (boepd), a 20.2% increase on Q2 2009. This was primarily due to the increased production from the ERQ and Area A fields in Egypt.

\* Note the ARD contract in Indonesia ended on the 22nd April and hence Kuwait Energy has exited from Indonesia.

The table below shows a quarter-on-quarter comparison of daily average production (boepd) from Q1 2006 until Q3 2009:



Kuwait Energy has experienced production growth virtually in every quarter since the Company began.

#### 4. Exploration Activity:

Exploration expenditure during Q3 2009 was USD6.2 million. Kuwait Energy commenced drilling of two exploration wells during Q3 2009.

Country	Basin/Area	Well	Target	KEC Interest	Well Status
<b>Q1 2009</b>					
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
<b>Q2 2009</b>					
Egypt	ERQ	Marwa-1	Oil	49.5%	P&A, Dry Hole
Egypt	ERQ	Ghard -2	Oil	49.5%	Temporarily abandoned; to be tested
<b>Q3 2009</b>					
Egypt	BEA	BEA-N	Oil	75%	Currently drilling
Egypt	ERQ	Al Zahraa -2	Oil	49.5%	Currently drilling
<b>Q4 2009 Plan</b>					
Egypt	BEA	BEA-SW	Oil	75%	
Egypt	ERQ	Shebl-1	Oil	49.5%	
Egypt	Abu Sennan	Z Structure	Oil	72%	
Yemen	Block-43	Nab-20	Oil	28.33%	

## 4.1 Seismic Activity

Seismic activity during the nine months of 2009 is shown in the table below:

Country	Area/Basin	Type	Km/km <sup>2</sup>	Status
<b>Q1 2009</b>				
Egypt	Area A	3D	655km <sup>2</sup>	Reprocessing complete
<b>Q2 2009</b>				
Yemen	Block 35	2D	80km	Reprocessing complete
Yemen	Block 74	2D	1,320km	Reprocessing complete. Quality check in progress
Ukraine	BC	3D	220km <sup>2</sup>	Interpretation near completion
Pakistan	Kunri/Jherruck	2D	1,600km	Interpretation near completion
Russia	Luzskoye	3D	68km <sup>2</sup>	Acquired, processing underway
<b>Q3 2009</b>				
Ukraine	NY	3D	52km <sup>2</sup>	Interpretation of NY 3D commenced. Will be followed by static and dynamic modeling
<b>Q4 2009 Plan</b>				
Ukraine	Dubrivska	3D	112km <sup>2</sup>	Reprocessing and interpretation of data
Yemen	Block 74	3D	300km <sup>2</sup>	Tendering for acquisition of seismic data

## 5. Development Activity:

Development expenditure during the third quarter was USD5.6 million with 10 development wells drilled.

- Positive drilling results in Area A, Egypt and Karim, Oman.

The table below summarizes the 28 development wells drilled during the nine months of 2009:

Country	Basin/Area	No. of Wells	Target	KEC Interest	Well Status
Egypt	ERQ	1	Oil	49.5%	Producer
Egypt	Area A	6	Oil	70%	Producers
Oman	Karim	21	Oil	15%	Producers

### 5.1. Facilities

Country	Facilities
<b>Egypt</b>	<ol style="list-style-type: none"> <li>1. A study to upgrade the facilities in East Um Yusr in Area A is in progress.</li> <li>2. A conceptual design for a new permanent facility in Shukheir NW field in Area A is being prepared.</li> <li>3. Construction of Al Zahra facilities in ERQ field is nearing completion.</li> </ol>
<b>Ukraine</b>	No major projects undertaken.
<b>Oman</b>	New metering system installed and is expected to be operational 4Q'09.
<b>Yemen</b>	No major projects undertaken.
<b>Russia</b>	Tying in to the new facilities in progress.

## 6. Financials

Kuwait Energy reported a net profit of USD10.0 million for the quarter ending 30<sup>th</sup> September 2009; this was primarily due to increase in production and in oil prices over the last quarter.

### Estimated Consolidated Statements of Income: Quarter on Quarter Comparison

Consolidated Statements of Income	Actuals	Actuals
	3Q -2009 USD Million	2Q -2009 USD Million
<b>Income</b>		
Product Sales & Change in Stock	51.9	36.6
<b>Less:- Cost of Sales</b>	<b>0.0</b>	<b>0.0</b>
Government Take	-25.1	-17.1
Operating Expenses	-7.8	-5.2
G & A Expenses	-3.4	-2.2
<b>EBITDA</b>	<b>15.6</b>	<b>12.1</b>
Depletion Expenses	-10.3	-8.2
Deferred tax income	3.2	0.0
Financing and others	1.7	0.5
KFAS & Zakat	-0.1	0.0
<b>Net Income for the period</b>	<b>10.0</b>	<b>4.5</b>

### Estimated Consolidated Statements of Income: 3<sup>rd</sup> Quarter 2009 Comparison to Budget

Consolidated Statements of Income	Actuals	Budget
	3Q -2009 USD Million	3Q -2009 USD Million
<b>Income</b>		
Product Sales & Change in Stock	51.9	43.2
<b>Less:- Cost of Sales</b>	<b>0.0</b>	<b>0.0</b>
Government Take	-25.1	-21.7
Operating Expenses	-7.8	-6.7
G & A Expenses	-3.4	-3.7
<b>EBITDA</b>	<b>15.6</b>	<b>11.2</b>
Depletion Expenses	-10.3	-13.3
Gain on Divestments	0.0	17.0
Deferred tax income	3.2	0.0
Financing and others	1.7	0.0
KFAS & Zakat	-0.1	0.0
<b>Net Income for the period</b>	<b>10.0</b>	<b>14.9</b>

Note: All financial numbers are unaudited and September '09 numbers are on an estimated basis.