

**Sequa Petroleum N.V.**  
**Condensed Consolidated Interim Financial Statements as at 30 June 2016**

31 August 2016

**Interim report of the Management and Supervisory Board**

The Management and Supervisory Boards of Sequa Petroleum N.V. (the 'Company') hereby present the condensed consolidated interim financial statements for the 6 month period ending 30 June 2016. The Company and its consolidated subsidiaries are considered to be 'the Group' in these financial statements.

**General information**

Sequa Petroleum N.V. is an oil and gas company founded on 27 August 2013 and listed on Euronext Marché Libre. The Company is a Dutch legal entity and a UK tax resident. The Company and Group prepare their accounts in US Dollars.

The Company focuses on taking discovered oil and gas reserves and resources from appraisal through to production. The Company is supported by a strong and dedicated shareholder group which includes its senior management as well as the privately owned Principal Investment holding company Sapinda Holding B.V.

The Company has assembled a highly experienced Management Board with a proven track record and with expertise in exploration, appraisal, development and production of oil and gas assets, both onshore and offshore, in jurisdictions around the globe. The Management Board membership in the 6 months to 30 June 2016 is shown below:

<b>Summary data</b>	<b>Jacob Broekhuijsen</b>	<b>Peter Haynes</b>	<b>Jim Luke</b>	<b>Jelte Bosma</b>
Gender	Male	Male	Male	Male
Age	53	62	58	53
Profession	Managing Director, CEO	Managing Director, Technical Director	Managing Director, COO	Managing Director, Business Development
Principal position	Chairman	Member	Member	Member
Nationality	Dutch	British	USA	Dutch
Other position relevant to this role (if any)	Sequa Employee	Sequa Employee	Sequa Employee	Sequa Employee
Date of appointment/re-appointment	3 June 2016	N/A	3 June 2016	3 June 2016
Current term of office	until GM 2017	N/A	until GM 2017	until GM 2017
Date of termination	N/A	1 July 2016	N/A	N/A
Securities held in Company	Yes (5.0%)	Yes (3.3%)	Yes (2.2%)	Yes (2.0%)
Benefit received on resigning from Board	N/A	Nil	N/A	N/A

Effective 1 July 2016, Peter Haynes has stepped down as a Director and gone on unpaid leave to focus on his continuing recovery from illness. The Company wishes Peter well.

The Company's Articles of Association specify a two tier Board structure with appropriate powers being reserved to the Supervisory Board. The members of the Supervisory Board are Lars Windhorst and Edwin Eichler (both employees of Sapinda Holding B.V.) and Jos van Rijswijk (an independent executive, formerly employed through the majority of his career by Royal Dutch Shell).

No transactions have been entered into between any member of the Management Board and the Company in which there was a conflict of interest.

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**Financial information**

- The Group made a post-tax loss for the period of USD 19.6 million (6 months to 30 June 2015: USD 12.1 million) which includes a pre-tax business development expense of USD 6.2 million (6 months to 30 June 2015: nil) associated with a deposit on the unsuccessful Total E&P Norge AS (Total) – Tellus Petroleum AS (Tellus) transaction described below. Net finance costs in the period were USD 10.9 million (6 months to 30 June 2015: USD 3.9 million) primarily relating to interest on shareholder loans and senior convertible bonds, partially offset by foreign exchange differences.
- In October 2015, it was announced that Tellus had entered into an agreement with Total to purchase interests in production licences representing 15% of the Gina Krog development on the Norwegian Continental Shelf. Upon entering into the agreement, the Group made an deposit to Total of NOK 50 million (USD 6.2 million). In April 2016, Total and Tellus agreed not to proceed with the transaction due to the challenging market environment at that time for raising leveraged debt finance. Accordingly, the advance payment of USD 6.2 million has been expensed to the income statement.
- General and administrative expenditure of the Group in the period was USD 10.2 million (6 months to 30 June 2015: USD 8.2 million), including legal and other advisory costs of USD 4.1 million in relation to unsuccessful transactions (6 months to 30 June 2015: USD 0.7 million). Underlying (non-transaction) costs have been reduced to USD 6.1 million (6 months to 30 June 2015: USD 7.5 million).
- During the period the Group benefited from the accrual of a tax asset of USD 7.7 million (6 months to 30 June 2015: nil) in relation to the activities of its wholly owned subsidiary Tellus. This amount represents 78% (the combined Norwegian Corporation and Special Petroleum Tax rates) of the Gina Krog deposit and other costs expensed by Tellus in the period.
- Total capital appraisal expenditure incurred in the 6 months to 30 June 2016, was reduced to a de-minimis level of USD 9 thousand (6 months to 30 June 2015: USD 1.2 million) to reflect the focus of the company on development assets in the current oil price environment. Sequa Petroleum Kazakhstan LLP is in the process of re-negotiating the scope of its work programme in relation to the Aksai licence, based upon the challenging climate in international oil & gas.
- During the 6 months to 30 June 2016, Sequa Petroleum N.V. has drawn down on its debt facilities with the Sapinda group. In March 2016, the Company received USD 5 million from Sapinda Invest S.à.r.l., and in June 2016 it received USD 0.6 million from Sapinda Asia Limited. These liabilities are split between non-current liabilities and other equity reserves due to the conversion feature included in the agreement. The facilities are described in more detail under ‘Going Concern’, below.
- At the balance sheet date, the total value of Group Non-current assets was USD 140.7 million (31 December 2015: USD 132.8 million), Group cash reserves were USD 1.3 million (31 December 2015: USD 10.8 million) and total Current assets were USD 4.0 million (31 December 2015: USD 19.6 million). Group Non-current liabilities were USD 189.3 million (31 December 2015: USD 178.7 million), and Current liabilities were USD 9.6 million (31 December 2015: USD 10.0 million). Overall the Group has net liabilities at 30 June 2015 of USD 54.2 million (31 December 2015: USD 36.3 million). As at the date of the financial statements, the Group has access to sufficient facilities to meet Current financial commitments. Going Concern and the Group’s financial position is further discussed below.

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**Strategy**

The Group's strategy is to create a successful European mid-cap independent oil and gas company with a focus on acquiring under-valued, discovered, material oil and gas assets that already produce or can be taken quickly to production. The business model aims to balance over time a diverse portfolio of appraisal and development opportunities with stable producing assets that deliver cash flows. The partnerships established will range from the acquisition of an appraisal licence and committing to co-invest in a work programme to evaluate and commercialise a potential resource to partnering with established industry players and capturing value opportunities from producing or developing assets.

The strategic focus for the Group is areas where market conditions and geological prospectivity allow for stable returns and high growth.

**Outlook**

In the current low oil price environment, the Group is actively seeking and evaluating production and short-term development opportunities in North West Europe and Kazakhstan.

The Group's initial investment deal was completed in January 2014 with the Group becoming operator and 75% owner of the Aksai licence in Kazakhstan. During 2015, the Group successfully extended the licence period to July 2018 and performed 2D seismic studies of the Eastern part of the Aksai licence. The results of further interpretation show the presence of prospective geological structures. The results of seismic studies will determine whether the Group undertakes further drilling and the location of any future wells. With a strong local team and track record as operator, the Group is well placed to pursue potential other opportunities which have already been identified in the Pre-Caspian Basin.

The Group completed the acquisition of Tellus Petroleum Invest A.S. (Tellus), a Norwegian independent oil and gas company, in September 2015. The acquisition of Tellus provides the Group with a platform for investment in an environment that provides strong support and incentives to independent E&P companies.

The Group has identified and is actively pursuing potential acquisitions in the Norwegian Continental Shelf (NCS), and is in parallel investigating potential sources of funding to enable jointly-funded acquisitions. The Group continues to evaluate further opportunities in North West Europe and Kazakhstan in the light of market conditions.

**Going Concern**

In assessing Group's ability to continue as a going concern, Management has reviewed the financial position of the Group, operating cost profile, capital expenditure plans and cash flow projections under a range of assumptions.

In November 2015, the Company entered into a loan agreement with Sapinda Invest S.à.r.l. ('Sapinda Invest'), under which Sapinda Invest provides a convertible shareholder loan facility of USD 62.5 million through 2016 and 2017. The loan facility will be converted into ordinary equity shares of Sequa Petroleum N.V. upon the loan facility either having been drawn in full or after two years, whichever is earlier. On 10 May 2016, Sapinda Invest assigned USD 10 million of its obligations to Sapinda Asia Limited (a company wholly owned by Mr Lars Windhorst). The Group is reliant on the facilities to fund the commitments of the business. The Management and Supervisory Boards retain confidence regarding the commitment of Sapinda Invest and Sapinda Asia to honouring the loan agreements, although notes that the timing of the delivery of the funds was not in line with the requested drawdown timings during the six months to 30 June 2016, and notes that the fulfilment of these commitments is an essential part of the going concern

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assumption. As of 31 August 2016 funds under a rescheduled drawdown request for USD 2.5 million made to Sapinda Asia Limited had not been received, however the Management and Supervisory Boards have received confirmation that USD 0.5 million will be transferred by 2 September and the remaining USD 2 million will be received before 9 September. On that basis the Management and Supervisory Boards retain confidence that this funding will be received, albeit somewhat later than expected.

Management are proactively working to deliver an appropriate capital structure to finance existing and future activities going forward. Management acknowledges their dependence on the committed shareholder loan facility but retains a reasonable expectation that sufficient funds will be made available to allow the Group to continue in operational existence for at least twelve months and are therefore satisfied that it is appropriate to continue to adopt the going concern basis in the preparation of the consolidated and Company financial statements. Ultimately the repayment of the existing obligations depends on the ability to generate cash flows from future business activities.

### **Significant risks and uncertainties**

The Group is subject to a variety of risks including those which derive from the nature of a business undertaking oil and gas appraisal, development and future production and relate to the countries in which it conducts its activities. Outlined below is a description of the principal risk factors that may affect performance. Such risk factors are not intended to be presented in any order of priority. Any of the risks, as well as the other risks and uncertainties referred to in this annual report, could have a material adverse effect on business performance. In addition, the risks set out below may not be exhaustive and additional risks and uncertainties, not presently known to the Group, or which the Group currently deems immaterial, may arise or become material in the future. The Group publishes its policies on its website.

#### **Legislation, licence terms and conditions**

Oil and gas exploration / appraisal licences have work commitments that must be carried out within certain agreed timeframes. Failure to carry out these work commitments within the currently agreed timeframes, or to successfully negotiate extensions to the time permitted to carry out these work commitments, could result in the Group losing licences and the associated resource potential therein.

#### **Planning and permitting risk**

Planning for oil and gas projects requires long lead times for both sourcing equipment and obtaining necessary permits. Interruptions to either of these activities can delay the completion of such projects and may have a significant impact on valuation.

#### **Appraisal risk**

The Group employs advanced geoscience techniques, together with the support of experienced staff and consultants, to evaluate its appraisal prospects. However, such resource and technology only mitigates and cannot eliminate the risk that economically producible oil or gas will not be discovered through its appraisal efforts.

#### **Oil and gas prices**

The Group's asset value and the economic value of its projects depend on the price of oil and gas. The ability to raise capital in the future is sensitive to the price of oil and gas. Once the Group has oil and gas to sell, it may seek to mitigate this risk through appropriate long term contracts.

### **Exchange risk**

Although the Group reports in US dollars, it operates in Kazakhstan and Norway. Further, the Group's head office is in the United Kingdom where most costs are Sterling denominated and where it also enters into some Euro denominated contracts. The Group manages these exchange risks by trying to ensure where possible that all key operating contracts and expenditure commitments are either US dollar denominated or that the contract is fixed in US dollars, even if the final payment is in local currency. In addition, the Group maintains adequate amounts of funding in US dollars and the required currencies to meet its various local currency expenditure commitments.

### **Operational, HSE and environmental risks**

The Group's operations are subject to the environmental risks inherent in the oil and gas industry. In particular, the Aksai project involves drilling deep wells. Major incidents could occur, but this risk is mitigated by management supervision, careful choice and monitoring of contractors and the ongoing development and testing of management and emergency procedures.

### **Kazakhstan business environment risks**

The Kazakhstan government has exercised and continues to exercise significant influence over many aspects of the private sector. The government has been attempting to implement economic reform policies and encourage substantial private economic activity. These reforms are ongoing and may result in significant structural changes to the Kazakhstan economy.

The financial return on the activities in which the Group participates is also subject to unique economic, political, and social risks inherent in doing business in Kazakhstan.

These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to tax and other legislation, foreign exchange fluctuations, unenforceability of contract rights, and the transfer of property without fair compensation. The risks are managed through the employment of experienced employees with knowledge of the industry and local economy.

The accompanying financial statements reflect management's assessment of the possible impact of the current environment on the financial position of the Group. The future business environment may differ from management's assessment. The impact of such differences on the operations and financial statements of the Group may be significant.

### **Subsequent events**

Effective 1 July 2016, Peter Haynes has stepped down as a Director and gone on unpaid leave to focus on his continuing recovery from illness. The Company has no immediate plans to replace Mr Haynes as Technical Director, with Sequa's COO Jim Luke taking on responsibility for technical matters in the meantime.

Effective 6 July 2016, Benjamin Lee has concluded his contract as Interim Chief Financial Officer but has agreed to continue as a consultant to the Company advising on its ongoing investor process. Olly Horne, the Company's Interim Financial Controller, has assumed Mr Lee's financial responsibilities under the oversight of the Management Board.

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**Declaration by the Management and Supervisory Boards of Sequa Petroleum N.V.**

We confirm, to the best of our knowledge, that the condensed set of the consolidated financial statements for the period 1 January to 30 June 2016, which have been prepared in accordance with IAS 34 'Interim Financial Reporting', provides a true and fair picture of the company's assets, liabilities, financial position and results of operations.

We declare, to the best of our knowledge, that the interim report gives a true and fair overview of important events in the reporting period and their impact on preliminary results, the most important risk and uncertainties for the remaining six months of the accounting period, and significant transactions with related parties.

**Management Board:**

**Supervisory Board:**



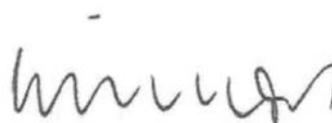
Mr Jacob Broekhuijsen  
Managing Director



Mr Jim Luke  
Managing Director



Mr Jelte Bosma  
Managing Director



Lars Windhorst



Jos van Rijswijk



Edwin Eichler

London, 31 August 2016

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**Condensed consolidated interim statement of financial position**

	Note	30 Jun 2016 USD'000	31 Dec 2015 USD'000	30 Jun 2015 USD'000
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill		17,737	17,737	–
Other intangible assets		81,045	81,018	98,824
Property, plant and equipment		113	161	251
Deferred tax assets		38,678	30,919	–
Other receivables		3,131	2,986	4,993
		<b>140,704</b>	132,821	104,068
<b>Current assets</b>				
Inventories		2,505	2,608	4,844
Other receivables		214	6,261	31,223
Cash and cash equivalents		1,298	10,767	34,008
		<b>4,017</b>	19,636	70,075
		<b>144,721</b>	152,457	174,143
<b>Equity and liabilities</b>				
<b>Equity</b>				
Called-up equity share capital		27,701	27,701	27,534
Share premium		4,541	4,541	127
Translation reserve		(25,952)	(26,048)	(711)
Other reserve		32,249	37,489	30,615
Retained deficit		(92,744)	(79,993)	(61,058)
		<b>(54,205)</b>	(36,310)	(3,493)
<b>Non-current liabilities</b>				
Borrowings	8	185,650	175,295	172,598
Provisions for abandonment obligations		296	296	280
Derivative financial instruments		3,157	2,956	–
Retirement benefit obligation		184	199	–
		<b>189,287</b>	178,746	172,878
<b>Current liabilities</b>				
Trade and other payables		5,484	6,075	4,758
Borrowings	8	4,155	3,946	–
		<b>9,639</b>	10,021	4,758
		<b>144,721</b>	152,457	174,143

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**Condensed consolidated interim statement of comprehensive income**

	Note	30 Jun 2016 USD'000	31 Dec 2015 USD'000	30 Jun 2015 USD'000
<b>Operating costs</b>				
Loss on business development activities		(6,160)	(30,419)	–
Other costs	4	<u>(10,240)</u>	<u>(16,966)</u>	<u>(8,205)</u>
		<b>(16,400)</b>	<b>(47,115)</b>	<b>(8,205)</b>
Finance income	5	<b>597</b>	3,051	1
Finance expense	6	<u>(11,546)</u>	<u>(12,931)</u>	<u>(3,936)</u>
Net finance costs		<u><b>(10,949)</b></u>	<u>(9,880)</u>	<u>(3,935)</u>
<b>Loss before taxation</b>		<b>(27,349)</b>	<b>(56,995)</b>	<b>(3,935)</b>
Taxation	7	<u>7,724</u>	<u>25,935</u>	<u>–</u>
<b>Loss for the period attributable to equity shareholders</b>		<b>(19,625)</b>	<b>(31,060)</b>	<b>(12,140)</b>
<b>Other comprehensive income</b>				
Items that may be reclassified to profit or loss:				
Currency translation adjustments		<b>96</b>	(26,086)	749
Other items:				
Re-measurement of defined benefit pension obligation		–	(70)	–
Tax re-measurement of defined benefit obligation		–	55	–
Release of contingent consideration		<u>–</u>	<u>–</u>	<u>–</u>
<b>Total comprehensive income for the period attributable to equity shareholders</b>		<u><b>(19,529)</b></u>	<u>(57,161)</u>	<u>(12,889)</u>

## Condensed consolidated interim statement of changes in equity

	Share capital USD'000	Share premium USD'000	Translation reserve USD'000	Other reserve USD'000	Retained deficit USD'000	Total equity USD'000
At 31 December 2014	27,534	127	38	-	(48,918)	(21,219)
<i>Total comprehensive income</i>						
Loss for the period	-	-	-	-	(12,140)	(12,140)
Other comprehensive income	-	-	(749)	-	-	(749)
Total comprehensive income	-	-	(749)	-	(12,140)	(12,889)
<i>Transactions with owners of the company</i>						
Issue of convertible notes	-	-	-	30,615	-	30,615
Total transactions with owners of the company	-	-	-	30,615	-	30,615
<b>At 30 June 2015</b>	<b>27,534</b>	<b>127</b>	<b>(711)</b>	<b>30,615</b>	<b>(61,058)</b>	<b>(3,493)</b>
<i>Total comprehensive income</i>						
Loss for the period	-	-	-	-	(18,920)	(18,920)
Other comprehensive income	-	-	(25,337)	-	(15)	(25,352)
Total comprehensive income	-	-	(25,337)	-	(18,935)	(44,272)
<i>Transactions with owners of the company</i>						
Issue of ordinary shares	167	4,414	-	-	-	4,581
Contingent shares on business combination	-	-	-	6,874	-	6,874
Total transactions with owners of the company	167	4,414	-	6,874	-	11,455
<b>At 31 December 2015</b>	<b>27,701</b>	<b>4,541</b>	<b>(26,048)</b>	<b>37,489</b>	<b>(79,993)</b>	<b>(36,310)</b>
<i>Total comprehensive income</i>						
Loss for the period	-	-	-	-	(19,625)	(19,625)
Other comprehensive income	-	-	96	-	-	96
Total comprehensive income	-	-	96	-	(19,625)	(19,529)
<i>Transactions with owners of the company</i>						
Issue of convertible notes	-	-	-	1,634	-	1,634
Release of contingent shares on business combination	-	-	-	(6,874)	6,874	-
Total transactions with owners of the company	-	-	-	(5,240)	6,874	1,634
<b>At 30 June 2016</b>	<b>27,701</b>	<b>4,541</b>	<b>(25,952)</b>	<b>32,249</b>	<b>(92,744)</b>	<b>(54,205)</b>

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**Consolidated statement of cash flows**

	Period ending	30 Jun 2016	31 Dec 2015	30 Jun 2015
		USD'000	USD'000	USD'000
<b>Loss after taxation</b>		<b>(19,625)</b>	(31,060)	(12,140)
Adjustments for:				
Depreciation and amortisation		52	115	59
Finance income		(47)	(2,134)	(1)
Finance expense		11,546	12,931	3,763
Exchange differences		(84)	(917)	173
Taxation		(7,724)	(25,935)	-
Loss on business development activities		6,160	30,149	-
Re-measurement of contingent consideration		(83)	(928)	-
Movement in working capital		1,071	(7,666)	(6,345)
		<b>(8,734)</b>	5,615	(14,491)
Interest paid		<b>(5,110)</b>	(5,115)	-
Tax paid		<b>(1,278)</b>	-	-
<b>Net cash flows used in operating activities</b>		<b>(15,123)</b>	(30,560)	(14,491)
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment		-	(38)	(26)
Purchase of intangible non-current assets		(9)	(4,424)	(4,466)
Business combination net of cash acquired		-	1,274	-
Other advances and deposits on business development activities		-	(39,065)	(30,100)
Interest received		47	463	1
<b>Net cash used in investing activities</b>		<b>38</b>	(41,790)	(34,591)
<b>Cash flows from financing activities</b>				
Proceeds from borrowings		5,555	82,291	82,291
<b>Net cash inflow from financing activities</b>		<b>5,555</b>	82,291	82,291
<b>Increase/(decrease) in cash and cash equivalents in the period</b>		<b>(9,529)</b>	9,941	33,210
Cash and cash equivalents at start of the period		10,767	798	798
Effect of movements in exchange rates on cash held		60	28	-
<b>Cash and cash equivalents as at end of the period</b>		<b>1,298</b>	10,767	34,008

## **Notes to the consolidated financial statements for the half year to 30 June 2016**

### **1 General information**

Sequa Petroleum N.V. (the 'Company') is an oil and gas company listed on Euronext Marché Libre. The Company is a Dutch legal entity and a UK tax resident. The Company focuses on taking discovered oil and gas reserves and resources from appraisal through to production. The Company is supported by a strong and dedicated shareholder group which includes its senior management as well as the privately owned Principal Investment holding company Sapinda Holding B.V.

The Company is domiciled in The Netherlands, having its statutory seat in Amsterdam. The address of the Company's registered office is 42 Upper Berkeley St, London, W1H 5QL, United Kingdom. The condensed consolidated interim financial statements (the 'financial statements') for the 6 month period ended 30 June 2016 comprise the interim financial statements of the Company and its consolidated subsidiaries (the 'Group').

### **2 Basis of preparation**

These interim financial statements for the period ended 30 June 2016 are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' and the accounting policies as set out in the Annual Report and Accounts 2015. These interim financial statements should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2015 and are available upon request or can be downloaded from the Company's website.

The interim financial statements do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last financial statements.

These interim financial statements are presented in US dollars (USD), which is the functional currency of the Company. All financial information presented in USD has been rounded to the nearest thousand, except where otherwise indicated.

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

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### 3 Segmental analysis

As at 30 June 2016, the Group had subsidiary oil and gas companies in Kazakhstan and Norway. The Kazakhstan and Norwegian businesses have similar products and services and are considered to form part of a single Appraisal and Production reportable segment. This is considered to be the only reportable segment of the Group. All corporate activities can therefore be assigned to this segment as well. Accordingly, no additional segmental analysis is disclosed.

### 4 Other costs

Other costs comprise of the following items:

	Half year	
	2016 USD'000	2015 USD'000
Expensed exploration / appraisal costs	362	1,519
Depreciation and amortisation	52	59
Legal and other professional fees	3,408	1,139
Consulting costs	638	616
Staff costs	4,923	4,097
Other administration costs	857	775
	<u>10,240</u>	<u>8,205</u>

### 5 Finance income

	Half year	
	2016 USD'000	2015 USD'000
Interest on short-term bank deposits	47	1
Fair value movement on derivative financial instruments	83	–
Foreign exchange gains	467	–
	<u>597</u>	<u>1</u>

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**6 Finance expenses**

	Half year	
	2016 USD'000	2015 USD'000
Interest on loans from shareholders	3,380	1,250
Interest on senior convertible bonds	8,163	2,511
Withholding tax		–
Other finance expenses	3	2
Foreign exchange loss	0	173
	<u>11,546</u>	<u>3,936</u>

**7 Taxation**

The (credit)/charge for taxation in the period is as follows:

	Half year	
	2016 USD'000	2015 USD'000
Deferred taxation on the origination and reversal of temporary differences	<u>7,724</u>	<u>–</u>

**Deferred taxation**

Due to the nature of the Group's appraisal activities there is a long lead time in either developing or otherwise realising exploration / appraisal assets. A deferred tax asset will only be created if there is reasonable certainty that profits will be earned in the foreseeable future. A deferred tax asset associated with unutilised tax losses is recognised in relation to the Group's Norwegian business development activities since such tax losses will be eligible for a cash tax refund on cessation of trade.

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**8 Borrowings and facilities**

	<b>Jun 2016</b>	Dec 2015
	<b>USD'000</b>	USD'000
<i>Expiring within one year</i>		
Loan notes	<b>4,155</b>	3,946
	<b>4,155</b>	3,946
<i>Expiring after more than one year</i>		
5% USD five year senior convertible bonds	<b>178,192</b>	175,295
Sapinda Invest S.a.r.l. loan facility & interest	<b>6,889</b>	–
Sapinda Asia Limited loan facility	<b>569</b>	–
	<b>185,650</b>	175,295

In April 2015, the Group launched a 5% USD 300 million five year senior convertible bond programme. The total amount of senior convertible bonds in issue as at 30 June 2016 is USD 204.4 million. The bonds mature in April 2020 and are convertible into ordinary equity shares of the Company at the option of the holders. The Company announced on 16 March 2016 that it had cancelled the remaining unissued USD 95.6 million convertible bonds.

In November 2015, the Company entered into a loan agreement with Sapinda Invest S.à.r.l. ('Sapinda Invest'), under which Sapinda Invest provides a convertible shareholder loan facility of USD 62.5 million through 2016 and 2017. The loan facility will be converted into ordinary equity shares of Sequa Petroleum N.V. upon the loan facility having been drawn in full or after two years, whichever is earlier. On 10 May 2016, Sapinda Invest assigned USD 10 million of the remaining USD 57.5 million convertible shareholder loan facility to Sapinda Asia Limited. Both Sapinda group loan facilities attract an interest rate of 8% on the full commitment amount, which is capitalised into the debt. The accounting treatment of the interest mirrors that of drawdowns on the facilities, following IAS 32 and IAS 39 in splitting the liability between equity and debt. The Group is reliant on the facility to fund the commitments of the business.