Sequa Petroleum N.V.

Annual report and accounts for the year ending 31 December 2016

Contents

Annual report and accounts

Report of the Management Board

To the shareholders

The Management Board of Sequa Petroleum NV (the 'Company') hereby presents its financial statements for the year ending 31 December 2016. The Company and its consolidated subsidiaries are considered to be 'the Group' in these financial statements.

General information

Sequa Petroleum NV 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. It prepares its accounts in US dollars using IFRS as adopted in the EU and with Section 2:362(9) of the Netherlands Civil Code.

The Company focuses on taking discovered oil and gas reserves and resources from appraisal through to production. The Company is supported by a 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 a highly experienced Management Board with a proven track record and with expertise in the exploration, appraisal, development and production of oil and gas assets, both onshore and offshore, in jurisdictions around the globe. The Management Board membership in 2016 is shown below:

Summary data	**Jacob Broekhuijsen**	**Peter Haynes**	**Jim Luke**	**Jelte Bosma**
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	3 June 2016	3 June 2016	3 June 2016
Current term of office	until GM 2017	until GM 2017	until GM 2017	until GM 2017
Date of termination	N/A	1 July 2016	N/A	9 February 2017
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

The Management Board does not currently include a Chief Financial Officer, the responsibility for financial matters therefore sits with the Chief Executive Officer.

Effective 1 July 2016, Peter Haynes stepped down as a Director and is on unpaid leave to focus on his continuing recovery from illness.

As disclosed on 9 February 2017, Jelte Bosma has relinquished his role as Director and member of the Management Board to pursue additional interests outside the oil & gas sector. Mr Bosma continues as an employee of the Company with a focus on business development.

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 in 2016 were 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). The Supervisory board has a quorum of 3 and currently has only 2 directors, as of 10 April 2017, following the resignation of Edwin Eichler. The Company makes use of the Articles which provide for the other directors to assume the powers in these circumstances (Art 22). The Board was quorate at all times in the year ending December 2016. No transactions have been entered into between any member of the Management Board and the Company in which there was a conflict of interest.

Financial information

- The Group made a post-tax loss for the year of USD 137.1 million (2015 USD 31.1 million loss). The majority of this loss related to impairments and write-offs in the Norwegian and Kazakh business groups, as expanded upon below.
- The financial position of the Group became more challenging in the second half of 2016 due to the lack of available financing. A number of material uncertainties are present as explained in the going concern section of the management board report.
- In December 2016 the Company performed an impairment review on balances related to the acquisition of the Aksai licence in Kazakhstan. The decision was made to impair the carried licence acquisition costs of USD 80.0 million in full as uncertainty remains whether the feasibility studies and any new seismic data will result in economically attractive drillable prospects, and in the current market environment it may be difficult to demonstrate that a programme of exploration drilling on the Aksai licence would be an appropriate allocation of capital. The acquisition costs mainly consist of a loan to Bolz, the prior owner of the licence, which is repayable under certain conditions. The likelihood of these conditions being met are assessed as very low.
- In addition, as part of the review of asset carrying values the Company impaired USD 2.6 million of accumulated VAT associated with the Aksai project in Kazakhstan.
- Inventory carried on the books of Sequa Petroleum Kazakhstan LLP was impaired during the same review process. Casing subject to a sales agreement for USD 1.6 million remained on the books at cost of USD 1.4 million. Other casing was impaired to scrap value or nil if scrap value was deemed negligible. The impairment totalled USD 1.2 million.
- In April 2016 the Company announced its decision not to proceed with the Gina Krog deal due to unfavourable market conditions. The non-refundable deposit of USD 6.0 million paid to Total S.A. was therefore written off in full, increasing Tellus' accumulated recoverable tax losses.

- In February 2017 the Company announced it was initiating the closure of its Norwegian subsidiary, Tellus Petroleum AS (“Tellus”). This process returned in June 2017 a net amount of approximately USD 36.4 million to Sequa from Tellus through the refund of its net tax loss position per Norwegian regulations. The goodwill of USD 17.7 million recognised at Group level in relation to the acquisition of Tellus has been impaired in full at the balance sheet date.
- Net finance costs in the year were USD 23.0 million (2015 USD 9.9 million) primarily relating to interest on shareholder loans and senior convertible bonds, partially offset by foreign exchange differences.
- Total capital appraisal expenditure was USD 27 thousand (2015 USD 1,182 thousand) and was primarily associated with geological studies in Kazakhstan.
- During 2016, the Group began renegotiation of the Aksai work programme. The revised programme includes studies and seismic acquisition in 2017 and two wells in 2018. The total value of the works budgeted are USD 42.3 million and if not completed incur a penalty of 1%. As at the year end the amendment was awaiting final sign-off, which was received in August 2017.
- In January 2016, the Company’s USD 204.4 million senior convertible bonds were listed on the Nordic ABM, an unregulated bond marketplace.
- During 2016, the Company drew down USD 8.8 million on shareholder loan facilities totalling USD 62.5 million with Sapinda affiliated companies. The facility is convertible into ordinary shares at a price of EURO 2.55 per share no later than 2 years from date of signing, being November 2017.
- In October 2016, the Company announced it was unable to settle the coupon due of USD 5.1 million in relation to the USD 204.4 million issued convertible bonds. This balance was still outstanding at the balance sheet date. On 15 May the Company further announced it had been unable to meet the payment of the coupon of USD 5.1 million due in April 2017.
- At the balance sheet date, the Group held cash reserves of USD 0.4 million (2015 USD 10.8 million) and had net liabilities of USD 170.5 million (2015 net liability of USD 36.3 million).
- Cash flow and financing requirements are further discussed on page 9 under Going Concern.

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, see page 14 for further details.

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. The Group mitigates this risk through careful planning of major operations by experienced teams.

Exploration and appraisal risk

The Group employs advanced geoscience techniques, together with the support of experienced staff and consultants, to evaluate its exploration and 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 exploration / 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.

Financial risk

As the Group is not at this point self-funding, relying currently on injections of capital from its main shareholder through its convertible loan agreements with entities affiliated to the Sapinda group. The drawdowns on these loans have been received later, and in lower amounts, than requested. The Group considers the monetisation of the Norwegian tax loss balance of its wholly owned subsidiary, Tellus Petroleum AS, as mitigating this risk, and providing liquidity for the Group for the going concern period and beyond.

The Company is currently balance sheet insolvent. This means that unless the Company's debt can be successfully restructured that it runs the risk of insolvency and liquidation.

Financial reporting risk

The Group reports in different jurisdictions under different accounting policies. Major errors or delays in reporting could impact the Group's listing on Marché Libre or its Convertible Bond's listing on the Oslo Børs and therefore its credibility and ability to raise funds. The Group mitigates this risk through the employment of appropriately skilled staff and close contact with its advisors.

Due to the delayed filing of the Company's 2016 year-end and 2017 half-year financial statements, the Oslo Børs has suspended trading of the Company's USD 300,000,000 5.00 per cent Convertible Bonds due 2020 (of which USD 204,400,000 in principal amount remain outstanding) (ISIN: XS1220076779, SEQ01 PRO EC) issued by the Company in April 2015 ("Bonds"). As soon as the financial reports become available these will be submitted to Oslo Børs with the request to resume trading of the Bonds. The Bonds can still be traded on the Frankfurt Freiverkehr exchange.

Legal compliance risk

The Group operates in several countries, with significantly different legal systems. The Group is therefore exposed to the risk of failing to comply with local laws and regulations. This could lead to financial penalties or prosecution of Group entities or employees, seriously impacting the Group's ability to carry out its business. The Group mitigates this risk through the employment of experienced local teams with in-house capabilities, and partnering with international law firms.

Financial and non-financial performance indicators

Underlying G&A

Underlying G&A costs, being administration expenses not related to one-off events, for the year totalled USD 9.5 million (2015 USD 15.1 million). This represents a year on year reduction of 37% due to cost cutting measures put in place to reflect the changes to the Group's operating environment.

HSE incidents

There were no HSE incidents recorded in 2016 (2015 none).

Drawdowns on loans

During 2016 Sequa drew down USD 8.8 million on shareholder loan facilities (2015 nil).

Deals completed

The Group completed no deals in 2016 (2015 - one completed deal, being the acquisition of Tellus Petroleum AS).

Environmental and personnel related information

The Group is engaged in oil and gas appraisal, development and future production. All activities are planned and conducted in accordance with appropriate standards to minimise environmental impact.

All the Group's activities are planned to ensure the continued health and safety of employees, consistent with all legal requirements.

The Group provides appropriate incentives to the Management Board. Each member of the Management Board receives a competitive market salary, appropriate for their skills and experience, and is also a shareholder in the Company. These arrangements fully align the interests of shareholders and the Management Board.

Supervisory Directors receive appropriate fees to reflect their experience and time commitment to the Group.

Information regarding financial instruments

The Group has not to date entered into derivative contracts for hedging purposes. Spot foreign exchange transactions are undertaken for operational purposes only. Surplus funds are deposited with certain financial institutions approved by the Management Board and regulated by the Financial Conduct Authority in the UK.

Research and development information

Sequa Petroleum Kazakhstan LLP has a committed work programme for 2017 that includes geological studies and seismic acquisition over the Aksai licence. Management will evaluate each piece of work on a stand-alone basis to ensure it adds value to the Group.

Sustainability related information

The Group considers itself to be a guest in the countries that it operates in and manages its affairs to comply with all applicable local laws as well as international best practice standards for the sustainability of oil and gas extraction operations.

Male/female representation on Management and Supervisory Boards

The Management and Supervisory Boards of the Company are all male. This reflects the history of the Group to date, but the Company is committed to gender equality as a principle and will seek opportunities to recruit appropriately qualified female Directors in the future.

Information concerning application of code of conduct

The Company has voluntarily adopted the Dutch Governance Code on a comply or explain basis.

Various other codes and policies are adopted on a voluntary / best practice basis, including to cover UK Bribery Act obligations.

Strategy, business review and outlook

Strategy

The Company continues to pursue its strategy to create value in a cyclical market environment by means of acquisition, optimisation and monetisation of assets with proven resources, current and near term production, and value upsides, applying its technical and financial expertise to establish a balanced asset portfolio in select areas with low marginal cost, growth potential and synergies.

Business Review

2016 proved a challenging year for both Sequa and the oil industry as a whole. The economic and market conditions that had turned the sector on its head in 2015 continued, and early 2016 saw oil prices fall as low as $30 per barrel.

This highly challenging environment sadly led in April 2016 to the decision not to progress the acquisition of the 15% interest in the Gina Krog licence from Total S.A. which had been announced in October 2015, and the acquisition of a 0.554% interest in the Ivar Aasen field from OMV announced in November 2015.

During 2016 the management teams of both Sequa and Tellus strove hard to source another deal leveraging the experienced, ministry approved Norwegian team and the unique industry profile in Norway. Unfortunately these attempts did not prove successful.

On 14th November 2016 the Company notified the Bond Trustee that there would be a delay in payment of the coupon of USD 5.1 million due on its issued USD 204.4 million 5.00 per cent Convertible Bonds. As the failure to remedy had continued for 14 calendar days from 31 October this constituted (and continues to constitute) a potential default under the terms of the Bonds. On 15 May 2017 the Company further announced it had been unable to meet the payment of the coupon of USD 5.1 million due in April 2017.

Despite assurances from the providers of Sequa's shareholder loan facilities, insufficient funds were provided to make the payments. The interest payment remains outstanding at the date of signing these accounts, as does the coupon due in April 2017.

The Company has not to date received instructions from the Trustee to call a formal default, on either the interest payments or in relation to the approval of the wind-up of Tellus Petroleum, which would be required before the Bonds became immediately due and repayable. The Company does not expect to receive any form of instruction, especially since, to the Company's understanding, its main shareholder (Sapinda and affiliates) has repeatedly informed the Company that it has obtained above in excess of 95% ownership of the Bonds, being significantly above the required 75% voting majority, with the intent to restructure the Company's debt in due course. It should be noted that the Company does not yet have independent documentary proof of these holdings as bondholders have not responded to the Company's request, submitted by the bond Trustee to the clearing system, to confirm them. During 2016 Sequa began renegotiation of the Aksai work programme with the Kazakh ministry. The amended work programme includes feasibility studies and seismic acquisition in 2017 and two wells in 2018 and the total work programme has an estimated value of USD 42.3 million. The revisions were formally approved by the Kazakh authorities in August 2017. Sequa fully expects that the Kazakh ministry will be amenable to scaling back of the work programme including cancellation of the wells if the preparatory works do not provide compelling targets.

While Sequa remains committed to the Aksai project, uncertainty remains whether the feasibility studies and any new seismic data will result in economically attractive drillable prospects. In the current market environment it may be difficult to demonstrate that a programme of exploration drilling on the Aksai licence would be an appropriate allocation of capital. Accordingly, the Directors have considered it prudent at the 2016 year end to impair Aksai licence acquisition costs, inventory and associated VAT balances.

Outlook

Investments

Sequa believes that the current market environment provides an opportunity to acquire proven producing assets with upside at the current low value point in the industry cycle, taking advantage of a buyer's market. With this in mind, the Directors are examining several opportunities, mainly in Europe, and are optimistic about Sequa's chances of making progress in 2017.

Financing
In the week of 19 June the Company received net tax proceeds from the cessation of business of its wholly owned subsidiary Tellus Petroleum AS ("Tellus"). After payment of the trade creditors, loan notes and staff settlements of Tellus a sum of USD 36.4 million was remitted to Sequa Petroleum NV through repayment of intercompany loans and dividends. These monies provide funding for the remaining group companies for the going concern period and beyond.

As mentioned in the Business Review above, Sequa remains technically in a default position in regard to its unpaid Convertible Bond coupons of $5.11m due in October 2016 and $5.11m due in April 2017. However, since the Company's main shareholder (Sapinda and affiliates) has repeatedly informed the Company that it has obtained above the required 75% voting majority, with the intent to restructure the Company's debt in due course, the Company expects the potential Bond default not to mature into actual default. It should be noted that the Company does not have independent documentary proof of these holdings. On 15 September the Company wrote to its bondholders via the Trustee of the bond asking them to confirm their holdings by 1 October 2017, but as at the date of this report has received no replies. In light of the expected restructuring management does not expect to pay the coupon falling due on 29 October 2017.

Human resources
Sequa has no plans to hire further staff in any of its companies until it has restructured and completed a meaningful transaction.

Tellus is currently in the process of being dissolved, and this regretfully has necessitated the making redundant of its 12 staff.

R&D
Sequa Petroleum Kazakhstan LLP has a committed work programme for 2017 that includes geological studies and seismic acquisition over the Aksai licence. Management will evaluate each piece of work on a stand-alone basis to ensure it adds value to the Group.

Going Concern

In assessing the Group's ability to continue as a going concern, Management has reviewed the financial position of the Group, with reference to the potential event of default on its Convertible Bonds, operating cost profile, capital expenditure plans and cash flow projections as budgeted under a range of assumptions.

Management recognise that the circumstances described below represent material uncertainties that may cast significant doubt as to the Group's ability to continue as a going concern and that it may be unable to realise all of its assets and discharge all of its liabilities in the normal course of business. Nevertheless, Management are reasonably confident that agreement with relevant stakeholders can be reached and that market conditions are such that the Company has a reasonable chance of securing a deal with its current liquidity that allows it to continue in business, although it should be noted that the success of such a deal cannot be certain and involves market, counterparty and other risks. Accordingly, the financial statements have been prepared on a going concern basis and do not include the adjustments that would result if the Group were unable to continue as a going concern.

The Group announced on 20 June that it had on 19 June recovered the tax losses of its Norwegian subsidiary Tellus from the Norwegian Oil Taxation Office as part of the process of Tellus' liquidation. These funds consisted of NOK 369 million or USD 43.7 million at the FX rate prevailing at that time. Of these funds, circa NOK 61 million (or USD 7.2 million) were used to settle the outstanding liabilities of Tellus, and the remainder (USD 36.4 million) has subsequently been remitted to Sequa through a mixture of the repayment of intercompany loans and dividends, with a small amount retained to ensure the smooth wind-up of Tellus. Subsequently, USD 2.4 million of these funds has been used to settle the long term creditors of Sequa. As at 30 September 2017 the Group has bank balances of some USD 32.1million, with USD 32.0 million held in the bank accounts of the Company.

Management are proactively working to deliver an appropriate capital structure to finance existing and future activities. The Company currently has events of default with respect to its N.V. USD 300,000,000 5.00 per cent Convertible Bonds due 2020 of which USD 204,400,000 in principal amount are outstanding ("Convertible Bonds"), in respect of (i) the two outstanding coupons of USD 5.1 million, due to be paid 29 October 2016 and 29 April 2017 respectively, and (ii) the decision to cease activities in Norway.

Bond events of default (non-payment of interest under Section 10(a) of the Trust Deed and a cessation of the business of Tellus Petroleum AS in Norway under Section 10(g) of the Trust Deed) are not expected to be accelerated (such that the Bonds become immediately due and repayable). The Trustee has not, to date, exercised its discretion to accelerate the Bonds (and the Company's legal advice is that any exercise of Trustee discretion is extremely rare); nor has the Trustee received written instructions from holders of 25% of the Bonds to accelerate; nor has the Trustee received notification of an Extraordinary Resolution from bondholders to accelerate. The Company does not expect to receive any form of notification from the Trustee to accelerate the Bonds, in particular because, the Company's main shareholder (Sapinda and affiliates) has repeatedly informed the Company that it has obtained above the required 75% voting majority, with the intent to restructure the Company's debt in due course. It should be noted that the Company does not have independent documentary proof of current bond ownership. On 15 September the Company wrote to its bondholders via the Trustee of the bond asking them to confirm their holdings by 1 October 2017, but as at the date of this report had received no responses.

Management acknowledge their dependence on the Company's main shareholder (Sapinda and affiliates) to support the restructuring of the Convertible Bonds to enable the Company to continue as a going concern. Management also acknowledge that as no official confirmation of the bond holdings have been received it cannot guarantee that Sapinda's support alone will be enough to effect the restructuring.

Management reasonably expect (and have received confirmation from) its main shareholder and bond holder (Sapinda and affiliates) that they will support a restructuring of the Convertible Bonds. Whilst there can be no guarantee the restructuring will occur in a timely manner, Management are satisfied that it is appropriate to continue to adopt the going concern basis in the preparation of the consolidated and Company financial statements.

The Company has committed itself to a work programme in relation to the Aksai licence as disclosed in Note 23 Commitments and operational leases. Management believe that the expenditure commitments associated with the work programme could be renegotiated depending on the seismic interpretation and initial work programme results.

In the event that it becomes likely that default on the Bonds will occur, or the restructuring of the Bonds cannot take place, or the expenditure commitments on the work programme mentioned could not be renegotiated the Group may have to consider selling the business in Kazakhstan and if such a sale is unsuccessful, the Group may be required to initiate a wind down of some or all of its operations.

Subsequent Events

On 9 February 2017 Sequa announced the commencement of wind-up proceedings in regard to its 100% owned Norwegian subsidiary Tellus Petroleum AS. Subsequent to the failure of the financing process of the Gina Krog deal in April 2016, the Group had been unable to find appropriate deals and the decision was made to wind up the company and initiate recovery of its accumulated tax asset from the Norwegian government. Sadly this process has necessitated the making redundant of Tellus' 12 directors and staff members. At the date of signing these accounts, the Tellus tax loss has been recovered and break-up accounts are being prepared. The Tellus wind-up process is expected to be completed shortly.

In February 2017 Sequa Petroleum Kazakhstan LLP successfully completed a sale of casing held as inventory at a book profit. The sale provided the Group with liquidity of USD 1.8 million.

As of 9 February 2017, Jelte Bosma has relinquished his role as Director and member of the Management Board to pursue additional interests outside the oil & gas sector. Mr Bosma continues as an employee of the Company with a focus on business development.

On 10 April 2017, Edwin Eichler resigned as a Director of the Supervisory Board of Sequa Petroleum N.V. as part of an adjustment of his multiple directorships and business duties.

On 13 April 2017 the Company received confirmation from its main shareholder and affiliates holding more than 75% of the outstanding bonds that they will not require accelerated payment of the outstanding bonds and they are supportive of a restructuring of the bonds. This does not remedy the default situation under the terms of the bonds. The bonds are classified as short term as per 31 December 2016.

On 15 May 2017 the Company announced that it had failed to meet the coupon payment of USD 5.1 million due on its Convertible Bond due on 29 April 2017.

The Group announced on 20 June 2017 that it had recovered the tax losses of its Norwegian subsidiary Tellus from the Norwegian Oil Taxation Office as part of the process of Tellus' liquidation. These funds consisted of NOK 369 million or USD 43.7 million at the FX rate prevailing at that time. Of these funds, circa NOK 61 million (or USD 7.2 million) were used to settle the outstanding liabilities of Tellus, and the remainder (USD 36.4 million) has subsequently been remitted to Sequa through a mixture of the repayment of intercompany loans and dividends, with a small amount retained to ensure the smooth wind-up of Tellus. Subsequently, USD 2.4 million of these funds has been used to settle the long term creditors of Sequa.

On 4 August 2017 the Company received notification that its proposed amendments to the budget and work program of its subsidiary Sequa Kazakhstan had been agreed by the Kazakh authorities.

Due to the delayed filing of the Company's 2016 year-end and 2017 half-year financial statements, the Oslo Børs has suspended trading of the Company's USD 300,000,000 5.00 per cent Convertible Bonds due 2020 (of which USD 204,400,000 in principal amount remain outstanding) (ISIN: XS1220076779, SEQ01 PRO EC) issued by the Company in April 2015 ("Bonds"). As soon as the financial reports become available these will be submitted to Oslo Børs with the request to resume trading of the Bonds. The Bonds can still be traded on the Frankfurt Freiverkehr exchange.

Management statement

The Management Board hereby confirms that the financial statements are correct and complete, that the Report of the Management Board provides a true and fair view, and that the significant risks and uncertainties to which the Group is exposed have been adequately described.

London, 30 October 2017

Members of the Management Board:

Jacob Broekhuijsen

Jim Luke

Report of the Supervisory Board

To the shareholders

The Supervisory Board met frequently during 2016, with meetings either held at 23 Savile Row, London, W1S 2ET, or by telephone. Meetings were attended by the Supervisory Board members as set out in the table below. Each meeting included a discussion on the Company's strategy and the main risks to implementation, as summarised in the Management Board's report. The Supervisory Board membership in 2016 is shown below.

Summary data	**Lars Windhorst**	**Edwin Eichler**	**Jos van Rijswijk**
Gender	Male	Male	Male
Age	40	59	70
Profession	Active Investor	Executive	Supervisory board member
Principal position	Chairman	Member	Member
Nationality	German	German	Dutch
Other position relevant to this role (if any)	Employee of Sapinda	Employee of Sapinda	Independent
Date of appointment/re-appointment	7 January 2016	3 June 2016	7 January 2016
Current term of office	until General Meeting in 2017	until General Meeting in 2018	until General Meeting in 2017
Date of termination	N/A	10 April 2017	N/A
Securities held in Company	Yes (indirectly)	None	None
Benefit received on resigning from Board	N/A	None	N/A

Meeting attendance:

	Meetings attended
Lars Windhorst	3 of 23
Edwin Eichler	23 of 23
Jos van Rijswijk	23 of 23

During the meetings held in 2016, the Supervisory Board discussed the amendment of the Aksai licence work programme. The Supervisory Board also considered other upstream and downstream business development opportunities in Europe and elsewhere, including on the UK/Norwegian Continental Shelf, as well as equity and debt financing.

The Supervisory Board also discussed the annual investment plan related to these projects and Group cash flow analyses, and going concern issues caused by the Company's financial situation, all as presented by the Management Board.

From a governance perspective, the Supervisory Board reviewed governance, including compliance with the Group Code of Conduct and various compliance, tendering, disclosure and anti-corruption processes, which were adopted in January 2015, and was satisfied with their operation.

Compliance

The Group complies with the UK Bribery Act and applicable legislation in its countries of operation.

The Group's Code of Conduct and Anti-Corruption Policy and other policies are compliant with the UK Bribery Act and include, inter alia, provisions regarding anti-corruption, facilitation payments, gifts and hospitality, intermediaries, joint venture partners and due diligence. Ongoing training and information is provided to the Company and its subsidiaries and a whistleblowing mechanism and policy has been established.

The Group's Procurement Policy ensures that commitments made on Group's behalf are only by authorised individuals, and that applicable commitments are properly recorded and reported to the group and are compliant with local procurement legislation.

The Company's Tender Committee reviews the operation of this policy. The Committee's reporting is an important part of reporting to the Supervisory Board on compliance issues, including the UK Bribery Act.

The Tender Committee met once in 2016 as operational activity was very limited.

Disclosure and insider trading

The Group Insider Trading Policy was amended on 5 July 2016 in light of the EU Market Abuse Regulation 596/2014, which became effective on 3 July 2016, and also the Company maintains insider lists in light of the new regulation and also follows applicable disclosure legislation as follows:

The Company's listing on Euronext Paris Marché Libre and the approach of the French authorities in light of this listing, require the Group to comply with French insider information disclosure law.

The Company's listing of its 5% USD 300 million five year senior convertible bonds on Nordic ABM on 21 January 2016 requires it to follow the Continuing Obligations of the Nordic ABM relating to the Bond and additionally the Rules of the Oslo Stock Exchange, on corporate matters, as the bond is convertible into shares.

The Company is required to follow the most stringent law on any particular issue, which may mean that additional French legal requirements relating to disclosure apply in certain circumstances, in addition to Norwegian law, and vice versa.

The Company discloses this information through official distribution channels in France and Norway, as well as elsewhere, through these channels, and also places all disclosures in the news section of its website.

Corporate Governance

The Company voluntarily applies the Dutch Corporate Governance Code going forward and intends to recruit independent directors, in order to ensure that the Supervisory Board will contain a majority of independent directors. To further increase independence and bring the Company's corporate governance structure more in line with the principles of Dutch large company regime (*structuurregime*), in August 2015 the Articles of Association of the Company were amended to reduce the number of reserved matters previously requiring Supervisory Board approval. The adoption of the Dutch Corporate Governance Code and associated changes to the Company's Articles of Association will provide the Company with a solid foundation for autonomous growth and decision making more in accordance with standard practice for Dutch listed NVs.

Dutch Corporate Governance Code ("Code")

The Supervisory Board met 23 times and the Management Board met 21 times during the year, largely reflecting major asset acquisition and financing decisions under consideration by the Management Board, which required review by the Supervisory Board.

As the Company will be recruiting independent directors in parallel with its future acquisitions, Audit, Remuneration and Nomination Committees have not yet been set up, although Mr Van Rijswijk, a member of the Supervisory Board, would be considered independent under the Code and has relevant knowledge and experience in the oil and gas industry, being formerly employed by Royal Dutch Shell in senior technical roles over a long career.

Whilst Mr Windhorst would not be considered independent under the Code, due to his significant shareholding in the Company and employment within the Sapinda Group. He was re-appointed to the Supervisory Board by shareholders at the EGM held on 7 January 2016 and has extensive relevant knowledge and expertise in investment activities. Likewise, Mr Eichler would not be considered independent under the Code, due to his employment within the Sapinda Group, but has significant business and financial experience and was formerly an executive board member of ThyssenKrupp AG for 10 years and holds a number of other directorships. However, Code best practice provision III.2.1 is not formally met by this arrangement, as the Supervisory Board has two non-independent directors. See note 24 for further information on related parties.

As much as the Supervisory Board values diversity, there are currently no female Supervisory Board members. At the moment the Company has no policy determining a particular male/female split in the membership of the Supervisory Board. The Supervisory Board will continue to focus on the competences of new Supervisory Board members, while bearing in mind the value added by a diverse Supervisory Board. The Company's diversity policy will be reviewed and it is intended to provide a profile of the Supervisory Board and details of the Company's diversity policy on the website, once further appointments have been made.

The Supervisory Board does not have Terms of reference, but its role is set out in the Articles of the Company and the Company follows the principles set out in the Code. Terms of reference were approved by the Management Board for the Audit, Remuneration and Nomination Committees in April 2015. These will be placed on the Company's website, once members of these committees are appointed.

Review of key areas usually carried out by separate committees has been completed by the Supervisory Board, which the Company believes is appropriate at this stage of its development.

Involvement in external audit

KPMG presented their audit plan to the Supervisory Board on 6 December 2016. The Supervisory Board specifically reviewed the accounts for the year ending December 2016 at its meeting on 30 October 2017.

The Company does not have a separate internal audit function, although this role is performed by members of the finance and legal departments. At this stage in the Company's development, the Management and Supervisory Boards have not considered it appropriate to set up a separate function, although this remains under review in light of potential pending acquisitions, which will be transformative to the Company.

The external auditor is invited to attend Supervisory Board and General Meetings where the financial statements are recommended and adopted.

Remuneration review

The Remuneration policy of the Company has been stable during 2016 and was reviewed as part of the approval of the accounts for the year ending 2016 at its meeting on 30 October 2017. A formal report was not prepared as the Company believes it is appropriate to wait until the acquisition of assets is completed.

The agreed remuneration for the Management Board members includes a competitive base salary and a variable part consisting of a short-term incentive in the form of a cash payment to be determined at the sole discretion of the Supervisory Board at the end of each complete calendar year. Each member of the Management Board currently owns shares in the capital of the Company, which fully aligns the interest of the Management Board members, the shareholders and the Company. The Supervisory Board would like to thank the management team and staff for their commitment and support. The remuneration of the Management Board appears on page 72 of this Annual Report, which will be made available on the Company's website.

The Supervisory Board intends to conduct an effectiveness review in respect of the activities of both the Supervisory and Management Boards in 2017.

Nominations review

Members of the Supervisory Board and the Management Board have been involved in discussions regarding the proposed appointment of independent directors to the Supervisory Board, although this has been deferred to run in parallel with the Company's anticipated acquisitions.

The Supervisory Board has been involved in assessing the Company's risk management and compliance processes. Further the Supervisory Board has received updates as required from the General Counsel and Company Secretary and Chairman of the Tender Committee on risk management, compliance and procurement issues.

The General Counsel and Company Secretary is available to the Chairman and the Supervisory Board for advice and ensures that sufficient information is provided to the Supervisory Board on a timely basis. External counsel are invited to attend meetings on an as needed basis and are also available to the directors.

Risk Management and compliance and website disclosure

Risk Management and Compliance processes are considered suitable for the Company at its current size and complexity and are set out in the Company's policies, which are available on its website and which have been disseminated through the organisation in Norway and Kazakhstan, as well as its UK Head office. These policies are maintained under annual review and compliance is reported to the Supervisory Board as part of the year end process by the General Counsel and Company Secretary. Conflicts of interest are discussed as a standing item at all Supervisory Board meetings.

The Company is developing its website disclosure on risk management and compliance. Currently, the website discloses the Company's Code of Conduct, Procurement, Anti-Corruption, Gifts and Hospitality, Whistleblowing, Third party due diligence, Insider trading, Competition and Anti-trust and Conflicts of Interest policies. These policies include systems for monitoring and reporting on risk and control issues. Other unpublished policies contribute to these processes concerning group internal approvals and auditor independence.

The Company will be reviewing its procedures and policies in light of the obligations under the UK Modern Slavery Act 2015 and will be placing a statement on its website in due course.

The Supervisory Board's remuneration policy is set out in these accounts, which are disclosed on the website. Shareholder meeting documentation is also placed on the website and includes details of election and re-election dates for directors.

Whilst the Company does not have a written policy on shareholder communication, it maintains regular informal dialogue and shareholders are invited to raise any questions they may have at General Meetings.

The Supervisory Board informally discussed the functioning of the Supervisory and Management Boards during 2016, although it did not produce a formal report, preferring to encourage improvements informally, at this stage of the Company's development. The Supervisory Board discussed strategy for 2016 as part of its budget review process. Whilst the requisite number of independent directors is not yet present on the Supervisory Board, and only Mr van Rijswijk may be considered independent under the Code, it is intended to recruit independent directors during 2017, including those with requisite financial skills, in line with the Company's intended acquisitions. A more formal approach to training and education of directors will be adopted in 2017 following recruitment.

The Notice for General Meetings of shareholders, including explanatory notes and Agenda are made available at the Company's offices in London and circulated through Euroclear and Clearstream by the Company's agent, BNP Paribas Securities Services S.C.A Luxembourg Branch, and placed on the Company's website. There were two Notices for meetings of shareholders circulated during 2016 and shareholders were given the opportunity to raise questions in addition to formal agenda items on each occasion.

All Supervisory Board Directors were required to stand for re-election under the Company's articles during the year: two of the three Directors were re-elected on 7 January 2016, the third Director was re-elected on 3 June 2016. On 10 April 2017, Edwin Eichler resigned as a Director of the Supervisory Board of Sequa Petroleum N.V. as part of an adjustment of his multiple directorships and business duties. All four members of the Management Board were re-elected on 3 June 2016. Mr Haynes stepped down as a Director effective 1 July 2016, and remains on unpaid leave to focus on his continuing recovery from illness. Mr Bosma stepped down from the Management Board in February 2017 but continues to provide services to the Company.

Recommendation

The financial statements for the period ending 31 December 2016 were audited by KPMG Accountants N.V. The Supervisory Board discussed the financial statements with the Management Board in the presence of the external auditor. We recommend the adoption of the financial statements as presented in this report.

In addition we request the General Meeting of Shareholders to discharge the members of the Management Board of Directors of their responsibility for the conduct of business in 2016 and the Supervisory Board for their supervision in 2016.

London, 30 October 2017

Supervisory Board:

Lars Windhorst   Jos van Rijswijk

Consolidated statement of financial position as at 31 December 2016

(before appropriation of result)

		2016 USD '000	2015 USD '000
Assets			
Non-current assets			
Goodwill	*12*	**-**	17,737
Other intangible assets	*13*	**1,274**	81,018
Property, plant and equipment	*14*	**85**	161
Deferred tax assets	*11*	**39,780**	30,919
Other receivables	*16*	**442**	2,986
		41,581	132,821
Current assets			
Inventories	*15*	**1,356**	2,608
Other receivables	*16*	**507**	6,261
Cash and cash equivalents	*20*	**407**	10,767
		2,270	19,636
		43,851	152,457
Equity and liabilities			
Equity			
Called-up equity share capital	*18*	**27,701**	27,701
Share premium	*18*	**4,541**	4,541
Other reserve		**39,241**	6,874
Translation reserve		**(24,950)**	(26,048)
Retained deficit		**(217,066)**	(49,378)
		(170,533)	(36,310)
Non-current liabilities			
Borrowings	*21*	**-**	175,295
Provisions for abandonment obligations	*22*	**296**	296
Derivative financial instruments	*21*	**3,891**	2,956
Retirement benefit obligation		**192**	199
		4,379	178,746
Current liabilities			
Trade and other payables	*17*	**4,261**	6,075
Borrowings	*21*	**205,744**	3,946
		210,005	10,021
		43,851	152,457

The notes on pages 23 to 57 are an integral part of these financial statements.

Consolidated statement of comprehensive income for the year 2016

	Note	2016 USD '000	2016 USD '000	2015 USD '000	2015 USD '000
Operating costs					
Aksai appraisal expenditure impairment	*13*	**(80,023)**		–	
Aksai VAT impairment	*16*	**(2,564)**		–	
Aksai inventory impairment	*15*	**(1,190)**		–	
Loss on business development activities	*6*	**(23,700)**		(30,149)	
Other costs	*7*	**(14,930)**		(16,966)	
			(122,407)		(47,115)
Finance income	*9*	**686**		3,051	
Finance expense	*10*	**(23,695)**		(12,931)	
Net finance costs			**(23,009)**		(9,880)
Loss before taxation			**(145,416)**		(56,995)
Taxation	*11*		**8,347**		25,935
Loss for the period attributable to equity shareholders			**(137,069)**		(31,060)
Other comprehensive income					
Items that may be reclassified to profit or loss:					
Currency translation adjustments			**1,098**		(26,086)
Other items:					
Re-measurement of defined benefit pension obligation			**(20)**		(70)
Tax re-measurement of defined benefit obligation			**16**		55
Total comprehensive income for the period attributable to equity shareholders			**(135,975)**		(57,161)
Loss per ordinary share (cents)	*19*				
Basic			**(68.0)**		(15.5)
Diluted			**(68.0)**		(15.5)

The notes on pages 23 to 57 are an integral part of these financial statements.

Consolidated statement of changes in equity for the year 2016

	Share capital USD '000	Share premium USD '000	Other reserve USD '000	Translation reserve USD '000	Retained deficit USD '000	Total USD '000
As at 31 December 2014	27,534	127	–	38	(48,918)	(21,219)
Loss for the period	–	–	–	–	(31,060)	(31,060)
Issue of ordinary share	167	4,414	–	–	–	4,581
Other comprehensive income	–	–	–	(26,086)	(15)	(26,101)
Equity component of convertible debt instruments	–	–	–	–	30,615	30,615
Contingent shares on business combination	–	–	6,874	–	–	6,874
As at 31 December 2015	**27,701**	**4,541**	**6,874**	**(26,048)**	**(49,378)**	**(36,310)**
Re-class to Other reserves	**–**	**–**	**30,615**	**–**	**(30,615)**	**–**
Loss for the period	–	–	–	–	**(137,069)**	**(137,069)**
Issue of new shares	**–**	**–**	**–**	**–**	**–**	**–**
Equity component of convertible debt instruments	**–**	**–**	**1,752**	**–**	**–**	**1,752**
Other comprehensive income	**–**	**–**	**–**	**1,098**	**(4)**	**1,094**
Balance as at 31 December 2016	**27,701**	**4,541**	**39,241**	**(24,950)**	**(217,066)**	**(170,533)**

The notes on pages 23 to 57 are an integral part of these financial statements.

Consolidated statement of cash flows for the year 2016

	Note	2016 USD '000	2015 USD '000
Loss after taxation		**(137,069)**	(31,060)
Adjustments for:			
Depreciation and amortisation	**13/14**	**99**	115
Loss of disposal of IT equipment	**14**	**7**	–
Aksai unsuccessful appraisal expenditure	**13**	**80,023**	–
Aksai inventory impairment	**15**	**1,190**	–
Aksai VAT impairment	**16**	**2,564**	–
Goodwill impairment	**12**	**17,737**	–
Loss on business development activities	**6**	**5,963**	30,149
Finance income	**9**	**(686)**	(3,062)
Finance expense	**10**	**23,695**	12,931
Unrealised exchange differences		**1,005**	(917)
Taxation	**11**	**(8,347)**	(25,935)
Increase in inventories		**-**	(20)
Increase in other receivables	**16**	**(209)**	(497)
(Decrease) / Increase in trade payables	**17**	**1,160**	(7,998)
Increase / (decrease) in other payables		–	849
		124,201	5,615
		(12,868)	(25,445)
Interest paid		**(5,110)**	(5,115)
Tax paid		**(1,278)**	–
Net cash flows used in operating activities		**(19,256)**	(30,560)
Cash flows from investing activities			
Purchase of property, plant and equipment		–	(38)
Purchase of intangible non-current assets		–	(4,424)
Business combination net of cash acquired		–	1,274
Other advances and deposits on business development activities		–	(39,065)
Interest received		–	463
Net cash used in investing activities		–	(41,790)
Cash flows from financing activities			
Proceeds from borrowings		**8,827**	82,291
Net cash inflow from financing activities		**8,827**	82,291
Increase/(decrease) in cash and cash equivalents in the period		**(10,429)**	9,941
Cash and cash equivalents at start of the period		**10,767**	798
Effect of movements in exchange rates on cash held		**69**	28
Cash and cash equivalents as at 31 December	20	**407**	10,767

Notes to the consolidated financial statements for the year 2016

1 Reporting entity

Sequa Petroleum N.V. (the 'Company') is a company 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 financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities'). The Group is involved in the business of oil and gas exploration, appraisal, development and production.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) adopted by the European Union (EU-IFRSs) and with Section 2:362(9) of the Netherlands Civil Code. There were no new or revised Standards and Interpretations issued by the IASB and the IFRS Interpretations Committee (IFRIC) of the IASB that are relevant to the operations and effective for annual reporting periods beginning on or after 1 January 2016.

The consolidated financial statements were authorised for issue by the Board of Directors on 30 October 2017.

With reference to the Income statement account of the Company, use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except that, as disclosed in the accounting policies below, certain items, including derivatives, are measured at fair value.

(c) Functional and presentation currency

These 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.

(d) Use of estimates and judgements

In preparing these consolidated 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.

Judgements

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following note:

- Note 11 - classification of exploration / appraisal and evaluation expenditure;

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2016 are included in the following notes:

- Note 11 - recognition of deferred tax assets; availability of future taxable profit against which tax losses carried forward can be used;
- Note 13 - recoverability of the exploration / appraisal and evaluation expenditure; exploration / appraisal and evaluation costs are capitalised as intangible assets pending completion of the exploration / appraisal phase or discovery of commercial reserves in sufficient quantities to recover the investment. This requires judgemental assessments as to (a) the likely future commerciality of the asset, and (b) future revenues and costs relating to the project in order to determine the recoverable value of the asset.
- Note 16 – recoverability of Kazakhstan VAT; accumulated input VAT incurred on exploration / appraisal and evaluation activities can only be recovered through offset against output VAT levied on domestic sales. This requires a judgemental assessment of the likely future commerciality of the assets and future revenues. Kazakhstan input VAT is recorded as a non-current asset on the consolidated balance sheet pending completion of the appraisal activities.

Measurements of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes overseeing all significant fair value measurements, including Level 3 fair values.

The Company regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the Group's Management Board and Supervisory Board.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 21.

(e) Going concern

In assessing the Group's ability to continue as a going concern, Management has reviewed the financial position of the Group, with reference to the potential event of default on its Convertible Bonds, operating cost profile, capital expenditure plans and cash flow projections as budgeted under a range of assumptions.

Management recognise that the circumstances described below represent material uncertainties that may cast significant doubt as to the Group's ability to continue as a going concern and that it may be unable to realise all of its assets and discharge all of its liabilities in the normal course of business. Nevertheless, Management are reasonably confident that agreement with relevant stakeholders can be reached and that market conditions are such that the Company has a reasonable chance of securing a deal with its current liquidity that allows it to continue in business, although it should be noted that the success of such a deal cannot be certain and involves market, counterparty and other risks. Accordingly, the financial statements have been prepared on a going concern basis and do not include the adjustments that would result if the Group were unable to continue as a going concern.

The Group announced on 20 June that it had on 19 June recovered the tax losses of its Norwegian subsidiary Tellus from the Norwegian Oil Taxation Office as part of the process of Tellus' liquidation. These funds consisted of NOK 369 million or USD 43.7 million at the FX rate prevailing at that time. Of these funds, circa NOK 61 million (or USD 7.2 million) were used to settle the outstanding liabilities of Tellus, and the remainder (USD 36.4 million) has subsequently been remitted to Sequa through a mixture of the repayment of intercompany loans and dividends, with a small amount retained to ensure the smooth wind-up of Tellus. Subsequently, USD 2.4 million of these funds has been used to settle the long term creditors of Sequa. As at 30 September 2017 the Group has bank balances of some USD 32.1million, with USD 32.0 million held in the bank accounts of the Company.

Management are proactively working to deliver an appropriate capital structure to finance existing and future activities. The Company currently has events of default with respect to its N.V. USD 300,000,000 5.00 per cent Convertible Bonds due 2020 of which USD 204,400,000 in principal amount are outstanding ("Convertible Bonds"), in respect of (i) the two outstanding coupons of USD 5.1 million, due to be paid 29 October 2016 and 29 April 2017 respectively, and (ii) the decision to cease activities in Norway.

Bond events of default (non-payment of interest under Section 10(a) of the Trust Deed and a cessation of the business of Tellus Petroleum AS in Norway under Section 10(g) of the Trust Deed) are not expected to be accelerated (such that the Bonds become immediately due and repayable). The Trustee has not, to date, exercised its discretion to accelerate the Bonds (and the Company's legal advice is that any exercise of Trustee discretion is extremely rare); nor has the Trustee received written instructions from holders of 25% of the Bonds to accelerate; nor has the Trustee received notification of an Extraordinary Resolution from bondholders to accelerate. The

Company does not expect to receive any form of notification from the Trustee to accelerate the Bonds, in particular because, the Company's main shareholder (Sapinda and affiliates) has repeatedly informed the Company that it has obtained above the required 75% voting majority, with the intent to restructure the Company's debt in due course. It should be noted that the Company does not have independent documentary proof of current bond ownership. On 15 September the Company wrote to its bondholders via the Trustee of the bond asking them to confirm their holdings by 1 October 2017, but as at the date of this report had received no responses.

Management acknowledge their dependence on the Company's main shareholder (Sapinda and affiliates) to support the restructuring of the Convertible Bonds to enable the Company to continue as a going concern. Management also acknowledge that as no official confirmation of the bond holdings have been received it cannot guarantee that Sapinda's support alone will be enough to effect the restructuring.

Management reasonably expect (and have received confirmation from) its main shareholder and bond holder (Sapinda and affiliates) that they will support a restructuring of the Convertible Bonds. Whilst there can be no guarantee the restructuring will occur in a timely manner, Management are satisfied that it is appropriate to continue to adopt the going concern basis in the preparation of the consolidated and Company financial statements.

The Company has committed itself to a work programme in relation to the Aksai licence as disclosed in Note 23 Commitments and operational leases. Management believe that the expenditure commitments associated with the work programme could be renegotiated depending on the seismic interpretation and initial work programme results.

In the event that it becomes likely that default on the Bonds will occur, or the restructuring of the Bonds cannot take place, or the expenditure commitments on the work programme mentioned could not be renegotiated the Group may have to consider selling the business in Kazakhstan and if such a sale is unsuccessful, the Group may be required to initiate a wind down of some or all of its operations.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

Subsidiaries

Where the Company has the power, either directly or indirectly, to control the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the Group's financial statements from the date that control commences until the date that control ceases.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Joint arrangements

The Group's appraisal activities are primarily conducted through a joint operation. The Group recognises its own share of the assets, liabilities, revenues, expenses and cash flows associated with these operations.

(b) Intangible assets (Oil and gas exploration / appraisal assets)

The Group follows a successful efforts based accounting policy for oil and gas assets.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Statement of Comprehensive Income.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Costs are held unamortised within exploration / appraisal assets until such time as the exploration / appraisal phase on the licence area is complete or commercial reserves have been discovered.

Exploration / appraisal expenditure incurred in the process of determining exploration / appraisal targets is capitalised initially within intangible assets and subsequently allocated to drilling activities. Exploration / appraisal drilling costs are initially capitalised on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration / appraisal effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial.

All lease and licence acquisition costs including loans that are expected to be repaid out of hydrocarbon revenues, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible assets or oil and gas development costs according to their nature.

Intangible assets comprise costs relating to the exploration / appraisal and evaluation of licences which the members of the Management Board consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to oil and gas development costs and depreciated accordingly.

Where results of exploration / appraisal drilling indicate the presence of hydrocarbons which are ultimately considered not commercially viable, all related costs are written off to the Statement of Comprehensive Income.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons have been demonstrated are capitalised as oil and gas development costs on a field by field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any costs remaining associated with the replaced asset part are expensed.

Net proceeds from any disposal of an exploration / appraisal asset are initially credited against the existing capitalised costs. Any surplus proceeds are credited to the Statement of Comprehensive Income. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. A gain or loss on disposal of a development/ producing asset is recognised in the Statement of Comprehensive Income to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Impairment

Exploration / appraisal assets are reviewed regularly for indications of impairment and costs are written off where circumstances indicate that the carrying value might not be recoverable. In such circumstances the exploration / appraisal asset is allocated to development / producing assets within the same geographic segment and tested for impairment. Any such impairment arising is recognised in the Statement of Comprehensive Income for the period. Where there are no development or producing assets within a geographic segment, the exploration / appraisal costs are charged immediately to the Statement of Comprehensive Income.

Impairment reviews on development/producing oil and gas assets are carried out on each cash generating unit identified in accordance with IAS 36. The Group's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

At each reporting date, where there are indications of impairment, the net book value of the cash generating unit is compared with the associated expected discounted future cash flows. If the net book value is higher, then the difference is written off to the Statement of Comprehensive Income as impairment.

Where there has been a charge for impairment in an earlier year that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

Decommissioning costs

Where a legal or constructive obligation has been incurred during oil and gas activities, provision for abandonment obligations is made for the net present value of the estimated cost of decommissioning and a corresponding asset is recognised and classified as part of the associated oil and gas non-current asset. The unwinding of the discount on the provision is included in the income statement within finance costs. Any changes to estimated costs or discount rates are dealt with prospectively.

(c) Other intangible assets

Intangible assets, other than goodwill and exploration / appraisal costs, have finite useful lives and are measured at cost less accumulated depreciation and any impairment and depreciated over their expected useful economic lives as follows:

	Annual rate %	Depreciation method
Database and purchased software	33	Straight line

(d) Business combinations and goodwill

In the event of a business combination, fair values are attributed to the net assets acquired. Goodwill, which represents the difference between the purchase consideration and the fair value of the net assets acquired, is capitalised and subject to an impairment review at least annually, or more frequently if events or changes in circumstances indicate that the goodwill may be impaired. Goodwill is not tested for impairment in the year of acquisition.

(e) Property, plant and equipment

Tangible assets, other than development/producing assets, are measured at cost less accumulated depreciation and any impairment and depreciated over their expected useful economic lives as follows:

	Annual rate %	Depreciation method
Leasehold improvements	**20**	Straight line
Vehicles, fixtures and equipment	**20**	Straight line
Computer hardware	**33**	Straight line

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(f) Inventory

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition

(g) Financial instruments

The non-derivative financial instruments held by the Group at the balance sheet date comprise cash, trade and other payables, borrowings and other receivables.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Non-derivative financial assets and financial liabilities - recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets – measurement

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method.

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management. Cash and cash equivalents also include cash on deposit that is accessible within three months.

Available-for-sale financial assets

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments (see (f) and (i)), are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

On issue of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the equity component and is recognised in shareholders' equity and not subsequently re-measured.

Derivative financial assets and liabilities

Derivative financial instruments are initially recognised and subsequently re-measured at fair value with movements in fair value recognised in profit or loss.

(h) Equity and share capital

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

Repurchase and reissue of ordinary shares (treasury shares)

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented within share premium.

(i) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes denominated in euro that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

(j) Impairment

Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security;
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(k) Taxation

The current tax is based on taxable profit for the period. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and is accounted for using the liability method.

Provision is made in full for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be offset. Such assets and liabilities are recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Any such reduction will be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply.

(l) Foreign currencies

The functional and presentation currency of the Company is the US dollar (USD).

Exchange differences on monetary assets and liabilities arising in Group entities are taken to the income statement, with the exception of exchange differences on monetary items that form part of a net investment in a foreign operation. These differences are taken to reserves until the related investment is disposed of. All other exchange movements are dealt with through the income statement.

On consolidation, assets and liabilities denominated in currencies other than the US dollar are translated into US dollars at closing rates of exchange. Non-US dollar trading results of Group entities are translated into US dollars at average rates of exchange. Differences resulting from the retranslation of the opening net assets and the results for the year are recognised in other comprehensive income.

Share capital, share premium and other reserves are translated into US Dollars at the historical rates prevailing at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated into USD at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(m) Employee benefits

Pensions

A small number of the Group's Norway based employees are members of a defined benefit scheme. The scheme is closed to new members. The amount recognised on the balance sheet in respect of liabilities for the defined benefit pension plan represents the present value of the obligations offset by the fair value of plan assets. The cost of providing retirement pensions and related benefits is charged to the income statement over the periods benefiting from the employees' services. Current service costs are reflected in operating profit and net interest costs, where significant, are reflected in finance costs in the period in which they arise. Actuarial gains and losses are recognised in full as they occur in other comprehensive income. None of the Group's key management are members of the defined benefit scheme and the amount recognised on the balance sheet is considered immaterial. Accordingly, the Group has not presented the IAS 19 disclosures associated with this defined benefit plan.

Contributions made to defined contribution pension plans are charged to the income statement when payable.

Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(n) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of well abandonment, and the related expense, is recognised when wells are drilled.

(o) Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;

Interest income or expense is recognised using the effective interest method.

(p) Leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(q) New standards and interpretations not yet adopted

The following relevant new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these consolidated financial statements.

	Effective date for periods beginning on or after
IFRS 9 'Financial Instruments'	1 January 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRS 16 'Leases'	1 January 2019

IFRS 9 contains a new classification and measurement approach for financial asserts that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value though other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity loan and receivables and available for sale.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on fair value basis.

IFRS 9 largely retains the existing requirements in IAS39 for the classification of financial liabilities. However, under IAS39 all fair value changes of liabilities designed as at FVTPL are recognised in profit or loss, whereas under IFRS 9these fair value changes are generally presented as follows:

- the amount of change in fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liability at FVTPL and the Group has no current intention to do so. The Group's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016.

IFRS 9 will require extensive new disclosure, in particular about hedge, credit risk and expected credit losses. The Group's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach. Although, currently the Group does not have revenue from contracts with customers, the Group will apply all of the requirements of IFRS 15 to each comparative period presented.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease,

Currently, the Group does expect the change to have any impact on the reporting of existing leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. date of initial application of IFRS 16.

(r) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Management Board.

4 Segment analysis and geographical information

As at 31 December 2016 and 31 December 2015, the Group had one appraisal project, being the Aksai licence in Kazakhstan. In 2015, the Group acquired a Norwegian oil and gas company with the intention of building a portfolio of assets on the Norwegian Continental shelf. During 2016 the Kazakhstan and Norwegian businesses both operate in the same industry and are oil and gas companies and are considered to form part of a single Exploration and Production reportable segment. This is considered to be the only reportable segment of the Group. All corporate activities can be assigned therefore to this segment as well. Accordingly no additional segment analysis is disclosed.

As at 31 December 2016, the Group non-current assets balance of USD 41,581 thousand (2015 132,821 thousand) included an amount attributable to the UK head office of USD 38 thousand (2015 nil) Kazakhstan of USD 1,617 thousand (2015 USD 83,651 thousand) and Norway of USD 39,926 thousand (2015 49,875 thousand). As at 31 December 2016 and 31 December 2015, no non-current assets were attributable to the Netherlands.

5 List of subsidiaries

Set out below is a list of subsidiaries of the Group.

- Sequa Petroleum UK Limited (Directly 100% owned, registered and operating in the United Kingdom, with registered office in London).
- Sequa Petroleum (Kazakhstan) LLP (Indirectly 100% owned, registered in Almaty, Kazakhstan and operating in Kazakhstan).
- Tellus Petroleum Invest AS (Directly 100% owned, registered and operating in Norway, with registered office in Oslo).
- Tellus Petroleum AS (Indirectly 100% owned, registered and operating in Norway, with registered office in Oslo).
- CHC Energy plc (Directly 99.8% and indirectly 0.20% owned, registered in the United Kingdom, with registered office in London, currently dormant).

- CHC Energy (Kazakhstan) LLP (Indirectly 100% owned, registered in Almaty, Kazakhstan and currently dormant).
- Sequa Petroleum Europe Limited (Directly 100%, registered in Dublin, the Republic of Ireland and currently dormant)

6 Loss on business development activities

	2016	2015
	USD '000	USD '000
Tellus Goodwill impairment	**17,737**	-
Gina Krog deposit write off	**5,963**	-
Wintershall deposit write off	**-**	30,149
	23,700	30,149

After the decision to withdraw from the Gina Krog deal in April 2016 and of subsequent attempts to attract investment in similar Norwegian projects, it was decided in February 2017 to cease activities in Norway. At the 2016 year-end the carrying value of the goodwill associated with the Tellus business combination was reviewed and, in light of the unfavourable situation, was impaired in full. The deposit associated with the Gina Krog transaction of USD 6.0 million was written off upon the Company's exit from the deal.

7 Other costs

Other costs encompass the following items:

	2016	2015
	USD '000	USD '000
Expensed exploration / appraisal costs	**437**	1,982
Depreciation and amortisation	**99**	115
Legal and other professional fees	**4,175**	2,700
Consulting costs	**937**	2,018
Staff costs	**8,253**	8,382
Adjustment to contingent consideration for business combination	**-**	(928)
Other administration costs	**1,029**	2,697
	14,930	16,966

8 Personnel expenses and employees

	2016	2015
	USD '000	USD '000
Wages and salaries	**7,083**	7,455
Benefits	**567**	473
Social security costs	**688**	972
Pension charge	**333**	193
	8,671	9,093

During the year, personnel expenses of USD 8,253 thousand (2015 8,382 thousand) were reported as staff costs within other expenses and USD 418 thousand (2015 USD 711 thousand) were included within other oil & gas costs.

Average number of employees	**2016**	2015
	Number	Number
Based in the Netherlands	**-**	-
Based outside the Netherlands	**35**	41
	35	41

9 Finance income

	2016 USD '000	2015 USD '000
Interest on short-term bank deposits	**52**	463
Fair value movement on derivative financial instruments (note 21)	**-**	1,671
Release of contingent consideration	**284**	-
Foreign exchange result	**350**	917
	686	3,051

10 Finance expenses

	2016 USD '000	2015 USD '000
Interest on loans from shareholders	**(6,444)**	(1,250)
Interest on senior convertible bonds	**(16,298)**	(10,398)
Withholding tax	**-**	(1,278)
Fair value movement on derivative financial instruments (see note 21)	**(935)**	-
Other finance expenses	**(18)**	(5)
	(23,695)	(12,931)

11 Taxation

Current taxation

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

	2016 USD '000	2015 USD '000
Current taxation	**–**	–
Deferred taxation on the origination and reversal of temporary differences	**(8,347)**	(25,935)

During the year the Company made a payment of USD 1.3 million in relation to withholding tax on Convertible Bond interest. This was disclosed on the income statement of the Company for 2015.

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 are eligible for a cash tax refund on cessation of trade. Movement in recognised deferred tax assets for the year ended 31 December 2016 is shown below:

	Unused tax losses	**Other temporary differences**	**Total**
	USD '000	**USD '000**	**USD '000**
As at 1 January 2015	-	-	-
Credit for the year	**25,780**	**155**	**25,935**
Acquired on business combination	**5,685**	**-**	**5,685**
Currency translation adjustment	**(701)**	**–**	**(701)**
As at 1 January 2016	**30,764**	**155**	**30,919**
Credit for the year	**8,352**	**(5)**	**8,347**
Acquired on business combination	**-**	**-**	**-**
Currency translation adjustment	**514**	**–**	**514**
As at 31 December 2016	**39,630**	**150**	**39,780**

Tax losses carried forward and temporary differences for which no deferred tax asset has been recognised are shown below:

	2016	2015
	USD '000	USD '000
Tax losses	**10,295**	4,013
Other temporary timing differences, including capital allowances	**8,241**	7,924
Total deferred tax assets not recognised	**18,536**	11,937

The amount of tax losses carried forward generated in the UK is USD 60,450 thousand as at 31 December 2016 (2015 USD 22,186 thousand). A corresponding deferred tax asset, calculated using the rate of 17%, of USD 10,276 thousand (2015 USD 3,394 thousand) has not been recognised due to insufficient certainty regarding the availability of future profits against which the losses can be utilised. In addition, there is a tax loss carried forward of USD 97 thousand generated in Kazakhstan. A corresponding deferred tax asset of USD 19 thousand has not been recognised due to insufficient certainty regarding the availability of future profits against which the loss can be utilised.

Within Other temporary differences an amount of USD 41,243 thousand (2015 USD 39,735 thousand) of expenses generated in Kazakhstan is included which could be potentially deductible and offset against future taxable income. A corresponding deferred tax asset, calculated using the rate of 20%, of USD 8,249 thousand (2015 USD 7,947 thousand) has not been recognised due to insufficient certainty regarding the availability of future income against which the expenses could be offset.

The benefits of tax losses not brought to account will only be obtained if:

- assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
- conditions for deductibility imposed by the law are complied with; and

- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

Reconciliation of effective tax rate

	2016 **USD '000**	2015 USD '000
Loss before tax	**145,416**	56,995
Income tax benefit calculated at the average statutory rate of 20% (2015 20.25%) of the loss before tax	**29,083**	11,541
Deferred tax recognised on business combination	**-**	4,986
Effect of tax rates in foreign jurisdictions	**5,352**	12,064
Non tax-deductible or non-taxable items	**(10,866)**	(1,193)
Losses and timing differences for which no deferred tax asset was recognised	**(15,105)**	(3,093)
Other adjustments, including foreign exchange	**(117)**	1,630
Income tax credit	**8,347**	25,935

A deferred tax asset has been recognised in respect of tax losses generated in Norway on the basis that such losses would generate a cash tax refund on cessation of the business. This deferred tax asset is recognised on the Statement of Financial Position as non-current due to the status of Tellus at 31 December 2016, however due to the closure of Tellus (announced in February 2017) the tax asset was recovered in June 2017.

12 Goodwill

	2016 **USD '000**	2015 USD '000
Cost and net book value at 1 January	**17,737**	–
Additions	**–**	18,954
Goodwill impairment	**(17,737)**	–
Currency translation adjustment	**–**	(1,217)
Cost and net book value at 31 December	–	17,737

As at 31 December 2016 the goodwill related to Tellus Petroleum Invest AS, which was acquired in September 2015, has been impaired in full. Asset purchase opportunities associated with the business combination did not complete, and alternative deals have not materialised. In February 2017 the Directors of SPNV decided to cease business in Norway and commence consultation in regard to the closure of Tellus.

13 Other intangible assets

	Oil and gas exploration / appraisal USD '000	Other USD '000	Total USD '000
Cost as at 31 December 2014	**99,650**	**131**	**99,781**
Loan repayment	(54,000)	–	(54,000)
Additions	55,182	5	55,187
Currency translation adjustments	(19,876)	(4)	(19,880)
Cost as at 31 December 2015	**80,956**	**132**	**81,088**
Aksai impairment	(80,023)	–	(80,023)
Additions	27	–	27
Currency translation adjustments	294	–	294
Cost as at 31 December 2016	**1,254**	**132**	**1,386**
Accumulated amortisation as at 31 December 2014	**–**	**(28)**	**(28)**
Charge in the year	–	(42)	(42)
Accumulated amortisation as at 31 December 2015	**–**	**(70)**	**(70)**
Charge in the year 2016	–	(42)	(42)
Accumulated amortisation as at 31 December 2016	**–**	**(112)**	**(112)**
Net book value as at 31 December 2015	80,956	62	81,018
Net book value as at 31 December 2016	**1,254**	**20**	**1,274**

Oil and gas intangible assets comprise expenditure associated with the Aksai licence in Kazakhstan, primarily the acquisition cost of the licence. In view of the current industry environment and lack of financial means, management considered in December 2016 that the requirements to retain the capitalisation of the Aksai licence were no longer fulfilled and an impairment was required on the Aksai related balances. With a sale price being highly uncertain in the current market, the management took the view that a full impairment of the initial acquisition cost of the licence would be prudent.

The impairment loss in relation to the Aksai licence acquisition costs has been included in 'Operating costs' under 'Aksai appraisal expenditure impairment' on the Statement of comprehensive income.

The remaining capitalised cost in relation to the Aksai asset of USD 1.25 million relates to seismic expenditure on a new area of the licence. With further studies and seismic expenditure included in the 2017 Kazakh budget it was decided that this amount continues to meet the recognition criteria.

Other intangible assets primarily include expenditure on purchased software which is being amortised on a straight-line basis over three years.

14 Property, plant and equipment

	2016	2015
	USD '000	USD '000
Cost as at the beginning of the year	**254**	333
Additions	**-**	37
Disposals	**(38)**	-
Currency translation adjustments	**3**	(116)
Cost as at 31 December	**219**	254
Depreciation as at the beginning of the year	**(93)**	(49)
Charge in the year	**(56)**	(73)
Disposals	**16**	
Currency translation adjustments	**(1)**	29
Depreciation as at 31 December	**(134)**	(93)
Net book value as at 31 December	**85**	161

The additions relate to office equipment purchased in the period.

15 Inventories

	2016 USD '000	2015 USD '000
Raw materials and consumables	**1,356**	2,608
	1,356	2,608

Inventory associated with Aksai well has been reviewed at December 31, 2016 and it was decided to impair the value of inventory to net book value of the casing that has been contracted to be sold. The remaining items are held at scrap value. The impairment charge of USD 1,190 thousand has been included within Aksai inventory impairment on the Statement of comprehensive income. The sale was successfully completed in Q1 2017, achieving sale prices above book value.

16 Other receivables

	2016 USD '000	2015 USD '000
Amounts falling due within one year		
Value added tax receivable	**251**	377
Prepayments	**208**	139
Other receivables	**48**	5,745
	507	6,261
Amounts falling due after more than one year		
Value added tax receivable	**-**	2,105
Other receivables	**442**	881
	442	2,986

The other receivables due within one year primarily relate to rent deposits and value added tax receivable.

The value added tax amount due in Kazakhstan previously recognised as falling due after more than one year (2015 USD 2,105 thousand) has been impaired as at the 2016 year end. The impairment of this balance follows the treatment of Aksai licence acquisition costs as discussed in note 13. The remaining Kazakh VAT balance of USD 184 thousand is expected to be set against the sales VAT incurred on an agreed sale of casing and has therefore been transferred to amounts falling due within one year.

The other receivables due after more than one year include a USD 296 thousand contribution to an independently administered fund which will be used to discharge some or all of the Group's abandonment obligations associated with appraisal activities in Kazakhstan. The remaining other receivables due after more than one year consist of a rental deposit.

Information about the Group's exposure to credit and currency risks is included in note 21.

17 Trade and other payables

	2016 **USD '000**	2015 USD '000
Trade payables	**3,182**	1,649
Withholding taxes payable	**-**	1,278
Interest on senior convertible bond	**-**	1,703
Social security and other payroll taxes payable	**172**	523
Accruals	**907**	922
	4,261	6,075

Information about the Group's exposure to currency and liquidity risk is included in note 21.

18 Equity

Share capital

Amounts subscribed for share capital are at nominal value.

Share premium account

The share premium account represents the amounts received by the Company on the issue of its shares in excess of the nominal value of the shares, net of issue costs incurred.

Ordinary shares

Holders of these shares are entitled to dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company. All rights attached to the Company's shares held by the Group are suspended until those shares are reissued.

Other reserve

The other reserve represents the fair value of deferred contingent share arrangements issued by the Company as part of the consideration for the acquisition of Tellus Petroleum Invest AS in 2015.

Translation reserve

The translation reserve amount represents foreign exchange differences arising on the consolidation of the Group's foreign subsidiaries along with foreign exchange differences arising on intercompany monetary items that in substance forms part of the Group's net investment in its foreign operations.

Convertible bonds

The reserve for convertible bonds comprises the amount allocated to the equity component for the convertible bonds issued by the Group in April 2015 (see note 21).

Other comprehensive income

The Other comprehensive income reserve consists of foreign exchange differences created on translation of the financial statements of subsidiaries with functional currencies other than the US Dollar and foreign exchange differences created by the revaluation of intercompany loans.

Retained deficit

Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

Authorised shares

	Number	EUR '000
Ordinary shares of EUR 0.10 each	**956,666,660**	**95,667**

Allotted, issued and fully paid in EUR

	Number	Share capital EUR '000	Share premium EUR '000
As at 31 December 2014	200,000,000	20,050	89
Additional issue of shares	1,500,000	150	3,960
As at 31 December 2015	201,500,000	20,150	4,049
Additional issue of shares	-	-	-
As at 31 December 2016	**201,500,000**	**20,150**	**4,049**

Allotted, issued and fully paid in USD

	Number	Share capital USD '000	Share premium USD '000
As at 31 December 2014	200,000,000	27,534	127
Additional issue of shares	1,500,000	167	4,414
As at 31 December 2015	201,500,000	27,701	4,541
Additional issue of shares	-	-	-
As at 31 December 2016	**201,500,000**	**27,701**	**4,541**

19 Loss per share

Basic loss per share

The calculation of basic loss per share at 31 December 2016 was based on the loss attributable to ordinary shareholders of USD 137,069 thousand (2015 USD 31,060 thousand) and a weighted average number of ordinary shares outstanding of 201,500 thousand (2015 200,500 thousand), calculated as follows:

Weighted-average number of ordinary shares (basic)

	2016	2015
	x 1000	x 1,000
Issued ordinary shares as at 1 January	**201,500**	200,000
Effect of shares issued	-	500
Weighted average number of ordinary shares as at 31 December	**201,500**	200,500

The loss per share, based on the weighted average number of ordinary shares amounts to 68.0 dollar cents (USD 0.68) (2015 loss per share of 15.5 dollar cents (USD 0.16)).

Diluted loss per share

The calculation for diluted weighted average number of shares includes 58,400,000 (2015 58,400,000) associated with the senior convertible bonds issued in April 2015 and 2,069,015 (2015 nil) in relation to convertible loans issued by Sapinda affiliates. The effect of the convertible bond and convertible loan shares on diluted loss per share is anti-dilutive and has therefore been excluded. There are no other potentially dilutive shares and accordingly the basic and diluted loss per share are the same.

20 Cash and cash equivalents

	2016	2015
	USD '000	USD '000
Cash at bank	**407**	4,455
Investment deposits	-	6,312
	407	10,767

21 Financial instruments

Financial risk management

The Management Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis.

No formal policies have been put in place in order to hedge the Group's activities to the exposure to currency risk or interest risk, however as the Group acquires significant debt finance, or as the Group enters commercial production this may be considered. No derivatives or hedges were entered into during the current or previous period.

General objectives, policies and processes

The Management Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Management Board receives regular reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Group is exposed through its operations to the following financial risks:

- liquidity risk;
- credit risk;
- market risk.

The overall objective of the Management Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. There have been no substantive changes in the Group's objectives, policies and processes for managing financial risks or the methods used to measure them during the period unless otherwise stated in this note. Further details regarding these policies are set out below.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

- Trade and other receivables.
- Cash and cash equivalents.
- Trade and other payables.
- Loans and borrowings.

The Group also has a derivative financial instrument comprising a written put option over a number of the Company's ordinary shares issued as part consideration for the business combination completed in the year. This put option is the only derivative currently held and derivatives are not considered a principal financial instrument used by the Group.

Liquidity risk

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain readily available cash balances to meet expected requirements for a period of at least 60 days. A priority of management is to determine and implement a stable capital structure to fund the longer term development of the Group.

In 2013 a short term shareholder loan facility was agreed with Centrics Oil & Gas B.V. During 2015, the shareholder loan was subsequently replaced with senior convertible bonds due to mature in 2020. Further details on the loan facility and its subsequent conversion can be found in the section on borrowings below.

The Company failed to meet the convertible bond coupon payment of USD 5.1 million due in October 2016, and subsequent to the 2016 year-end has failed to make the coupon payment due in April 2017 (also USD 5.1 million). As the Company has been repeatedly informed by its main shareholder group (Sapinda and related entities) that it has acquired a voting majority of the bond, it does not expect a default on the convertible bond to be called. However, were this to happen, it would most likely lead to the winding up of the Company.

Rolling cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly by the Management and Supervisory Boards with the objective that sufficient financial headroom exists for at least a twelve month period.

Contractual cash flows

The below tables represent the undiscounted contractual cash flows payable under financial liabilities as at the balance sheet date.

2016

	Carrying amount USD '000	Contractual cash flows USD '000	6 months or less USD '000	Between 6 and 12 months USD '000	Between 1 and 2 years USD '000	Between 2 and 5 years USD '000
Trade and other payables	**(4,261)**	**(4,261)**	**(4,261)**	–	–	–
Short term borrowings	**(17,557)**	**(4,037)**	**(4,037)**	–	–	–
Convertible bond	**(188,186)**	**(210,813)**	**(210,813)**	–	–	–
Derivative liability	**(3,891)**	**(4,374)**	–	–	(4,374)	–
	(213,895)	**(223,485)**	**(219,111)**	–	(4,374)	–

2015

	Carrying amount USD '000	Contractual cash flows USD '000	6 months or less USD '000	Between 6 and 12 months USD '000	Between 1 and 2 years USD '000	Between 2 and 5 years USD '000
Trade and other payables	(6,075)	(6,075)	(6,075)	–	–	–
Short term borrowings	(3,946)	(3,946)	(3,946)		–	–
Convertible bond	(175,295)	(249,990)	(5,110)	(5,110)	(10,220)	(209.510)
Derivative liability	(2,956)	(6,761)	–	–	–	(6,761)
	(185,316)	(266,772)	(15,131)	(5,110)	(10,220)	(216,271)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and cash balances.

The carrying amount of financial assets represents the maximum credit exposure.

Other receivables

The Group's other receivables exposed to credit risk are mainly value added tax balances due from governments, including an amount of USD 184 thousand (2015 2,105 thousand) of input tax incurred in Kazakhstan associated with appraisal expenditure.

At 31 December 2016 the Group had impaired USD 2,564 thousand of receivable VAT due from the Kazakh government (2015 nil). These were impaired as of December 2016 in line with the view on recoverability of Aksai acquisition costs.

The remaining Kazakh VAT balance of USD 184 thousand matches the expected recovery from inventory subject to a sales agreement at the year end. The default risk on all other value added tax receivables is not considered significant.

Cash and cash equivalents

The Group held cash and cash equivalents of USD 407 thousand at 31 December 2016 (2015 USD 10,767 thousand).

Guarantees

At 31 December 2016 and 31 December 2015, the Group had issued no financial guarantees.

Market risk

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

During 2016 and 2015, the Group did not use derivatives to manage market risks.

Foreign exchange risk

The table below shows the extent to which the Group has net monetary assets and (liabilities) in currencies other than the functional currency of the respective entity. These exposures give rise to net currency gains and losses recognised in the consolidated profit and loss account.

	2016	2015
	USD '000	USD '000
GBP	**(1,879)**	(1,417)
EUR	**(278)**	(41)
USD	**-**	37
NOK	**(237)**	(237)
Other	**-**	2
	(2,394)	(1,656)

Foreign exchange risk is inherent in the Group's activities and is accepted as such. No formal policies have been put in place in order to hedge the Group's activities to the exposure to currency risk. The Group holds currency in the proportions appropriate to meet forthcoming commitments. The Group considers this substantially mitigates foreign exchange exposure.

The Group's cash balances are maintained in a number of currencies and this spread reduces further exposure to foreign exchange risk. Management regularly monitors the currency profile and obtains informal advice to ensure that the cash balances are held in currencies which minimise the impact on the results and position of the Group from foreign exchange movements.

The most significant foreign exchange exposure as at 31 December 2016 relates to GBP liabilities held in USD functional entities. A reasonably foreseeable movement in the GBP against the USD would not have a significant impact on the Group profit or loss.

Interest rate risk

The interest rate profile of the financial assets of the Group as at 31 December 2016 is as follows (excluding non-interest bearing short term assets).

	Floating interest deposit on demand	**Fixed interest deposit on demand**	**Total**
	USD '000	**USD '000**	**USD '000**
Cash and cash equivalents			
EUR	**9**	**-**	**9**
GBP	**100**	**-**	**100**
NOK	**235**	**-**	**235**
USD	**61**	**-**	**61**
Other	**2**	**-**	**2**
	407	**-**	**407**

The interest rate profile of the financial assets of the Group as at 31 December 2015 is as follows (excluding non-interest bearing short term receivables).

	Floating interest deposit on demand USD '000	Fixed interest deposit on demand USD '000	Total USD '000
Cash and cash equivalents			
EUR	89	–	89
GBP	587	–	587
NOK	1,428	–	1,428
USD	8,661	–	8,661
Other	2	–	2
	10,767	–	10,767

Information of the interest rate risk associated with the Group's borrowings can be found in the section on Capital below.

As at 31 December 2016, the Group had no floating rate liabilities. It is estimated that a full year change in interest payable and receivable based on the composition of floating rate assets and liabilities as at the balance sheet date and a possible increase of interest rates of 100 basis points would not be significant.

Fair values of financial assets and liabilities

All non-derivative financial instruments used by the Group during the current and previous period are initially recorded at fair value and subsequently measured at historic or amortised cost. The Group holds one derivative financial instrument that is subsequently re-measured at fair value and discussed further below.

Financial instruments are classified in accordance with the following fair value hierarchy described in IFRS 13 'Fair Value Measurement', based on the inputs used in the valuation.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Hedges

The Group did not hold any hedging instruments at the reporting date.

Financial instruments measured at fair value

Expiring greater than one year:	**2016** **USD '000**	2015 USD '000
Put option granted over own shares	**(3,891)**	(2,956)
	(3,891)	(2,956)

The Group has a derivative financial instrument comprising a written put option over a number of the Company's ordinary shares granted as part consideration for the business combination completed in 2015. The fair value of the put option is derived from a valuation technique that includes relevant market prices and inputs derived directly and indirectly from the Company's own share price. A significant assumption underlying the fair value of the put option is the annualised volatility of the Company's share price, which has been determined to be 80%. The annualised share price volatility is considered to be an unobservable input, accordingly the put option is classified as level 3 in the fair value hierarchy.

The put option was initially recorded at a fair value of USD 4,627 thousand and was granted over 1,500,000 ordinary shares of the Company issued as part consideration for a business combination completed in the year together with up to 4,500,000 contingent ordinary shares to be issued in the event of completion certain asset transactions before a specific date. As at 31 December 2016, all transactions linked to the contingent share issues had failed and therefore these are not included in the calculation. The financial impact had already been included in 2015. As at 31 December 2016, the fair value of the put option was determined to be a liability of USD 3,891 thousand (2015 USD 2,956 thousand) with a notional principal amount of USD 4,500 thousand (2015 USD 6,761) based on the Company share price and market data at the valuation date. A fair value loss of USD 935 thousand (2015 gain USD 1,671 thousand) was recognised in the Statement of Comprehensive income and classified within finance expense.

Level 3 fair value measurements

The movements in the year associated with the put option derivative measured at fair value in accordance with level 3 of the hierarchy are shown below.

	2016	2015
	USD '000	USD '000
Fair value as at 1 January	**(2,956)**	-
Additions in the year	-	(4,627)
Recognised in the income statement	**(935)**	1,671
Fair value as at 31 December	**(3,891)**	(2,956)

The fair value loss in the year is recognised within finance expense.

As at 31 December 2016, the potential pre-tax increase in the fair value of the put option, assuming a 5% increase in the annualised volatility, was USD 385 thousand.

Other fair value measurements

During 2015 the Group issued USD 204,400 thousand 5% five year senior convertible bonds. In January 2016, the senior convertible bonds were listed on the Nordic ABM, an unregulated bond marketplace. The liability component of the bonds are measured at amortised cost and as at 31 December 2016 had a book value of USD 181,374 thousand. The fair value of the senior convertible bonds as at 31 December 2016 are estimated to be USD 142,300 thousand and fall within level 2 of the fair value hierarchy.

All other financial instruments held by the Group are considered to have a fair value approximate to their book value and fall within level 2 of the fair value hierarchy.

Capital

The objective of the Management Board is to maximise shareholder returns and minimise risks by keeping a reasonable balance between debt and equity.

In managing its capital, Management's primary objective is to ensure the Group's ability to provide a sufficient return for its equity shareholders, principally though capital growth. In order to achieve and seek to maximise this return objective the Group will in the future seek to maintain a gearing ratio that balances risks and returns at an acceptable level while also maintaining a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues, increases or reductions in debt, or altering a dividend or share buyback policies, the Group considers not only its short term position but also its medium and longer term operational and strategic objectives.

Borrowings and facilities

	2016	2015
	USD '000	USD '000
Expiring within one year		
5% USD five year senior convertible bonds	**181,374**	-
Convertible bond interest	**6,813**	
Sapinda Invest convertible facility	**4,634**	-
Sapinda Asia convertible facility	**3,540**	-
Interest on Sapinda facilities	**5,346**	
Loan notes	**4,037**	3,946
	205,744	3,946
Expiring after more than one year		
5% USD five year senior convertible bonds	-	175,295
	-	175,295

In April 2015, the Group launched a 5% USD 300 million five year senior convertible bond programme. At 31 December 2016 the total amount of senior convertible bonds in issue was USD 204.4 million. (2015 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 liability component of these convertible bonds are measured at amortised cost and as at 31 December 2016 had a book value of USD 181,374 thousand (2015 175,295 thousand).

As announced on 14 November 2016, the Company failed to pay the bond coupon of USD 5.1 million due in October 2016 and it remains outstanding. This situation of potential default has, as of the date of signing of the accounts, not matured into actual default. On 15 May 2017 the Company announced that it had failed to meet the coupon payment of USD 5.1 million due on its Convertible Bond due on 29 April 2017. Should 25% of the bond holders notify the trustees that they wish to accelerate the bond, it would become repayable immediately together with accrued but unpaid interest. Therefore the bond has been classified as expiring within one year

The remaining borrowings expiring within one year represent interest free loan notes acquired in the business combination with Tellus Petroleum Invest AS. The loan notes provided for no interest but gave the lenders rights to participate in the equity of the Tellus business under certain events. These participation rights ceased on the acquisition of Tellus by the Company at which point the lenders are only entitled to receive the face value of their loan. The loans are due for payment and were repaid in June 2017.

In November 2015, the Company entered into a loan agreement with Sapinda Invest S.a.r.l (‘Sapinda Invest), under which Sapinda Invest provides a convertible shareholder loan facility of USD 62.5 million through 2016 and 2017. On 10 May 2016 Sapinda Invest transferred USD 10.0 million of the facility to Sapinda Asia Limited (“Sapinda Asia”). Drawdowns on these loan agreements during 2016 totalled USD 8,826 thousand (2015 nil). The liability component of these convertible instruments are measured at amortised cost and as at 31 December 2016 had a book value of USD 8,174 thousand. 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 November 2017, whichever is earlier.

A possible change of 100 basis points in interest rates at the reporting date is not expected to have a significant impact on comprehensive income or equity.

22 Provisions for abandonment obligation

	2016	2015
	USD ‘000	USD ‘000
As at the beginning of the period	**296**	285
Additions	**-**	11
As at 31 December	**296**	296

The provision relates to the estimated abandonment obligation associated with appraisal activities in Kazakhstan. The Group contributes to a separately administered fund which will ultimately be used to fund some or all of the eventual costs of abandonment. The Group’s interest in this fund is separately recognised as a non-current asset (see note 13).

23 Commitments and operational leases

Future capital expenditure

	2016	2015
	USD ‘000	USD ‘000
Authorised but not contracted	**42,300**	54,506
Contracted	**-**	–
	42,300	54,506

During the year, a three year extension of the Aksai appraisal licence to July 2018 was approved. The commitment is denominated in KZT. During 2016 the work programme was re-negotiated, the revised programme includes studies and seismic acquisition in 2017 and two wells in 2018 and was at the year-end awaiting final sign-off, final approval was granted during August 2017. As at 31 December 2016, the total outstanding investment under the three-year work programme expressed in USD and using year end exchange rates is around USD 42.3 million (2015 USD 54.5 million), and if not completed could potentially incur a penalty of 1%. Management believe that expenditure commitments associated with the work programme could be renegotiated depending on seismic interpretation and initial work programme results.

Future minimum lease payments

At 31 December, the future minimum lease payments under non-cancellable leases were as follows.

	2016	2015
	USD ‘000	USD ‘000
Less than 1 year	**305**	668
Between 1 and 5 years	**20**	199
More than 5 years	**17**	–
	344	867

The lease payments relate to the minimum contractual monthly payments on the lease of office premises and residential properties. Amounts charged to the income statement in 2016 in respect of operating leases was USD 344 thousand (2015 USD 305 thousand).

24 Related party transactions

See note 11 of the Company financial statements.

25 Subsequent events

On 9 February 2017 Sequa announced the commencement of wind-up proceedings in regard to its 100% owned Norwegian subsidiary Tellus Petroleum AS. Subsequent to the failure of the financing process of the Gina Krog deal in April 2016, the Group had been unable to find appropriate deals and the decision was made to wind up the company and initiate recovery of its accumulated tax asset from the Norwegian government. Sadly this process has necessitated the making redundant of Tellus’ 12 directors and staff members. At the date of signing these accounts, the Tellus tax loss has been recovered and break-up accounts are being prepared. The Tellus wind-up process is expected to be completed shortly.

In February 2017 Sequa Petroleum Kazakhstan LLP successfully completed a sale of casing held as inventory at a book profit. The sale provided the Group with liquidity of USD 1.8 million.

As of 9 February 2017, Jelte Bosma has relinquished his role as Director and member of the Management Board to pursue additional interests outside the oil & gas sector. Mr Bosma continues as an employee of the Company with a focus on business development.

Sequa Petroleum N.V.

On 10 April 2017, Edwin Eichler resigned as a Director of the Supervisory Board of Sequa Petroleum N.V. as part of an adjustment of his multiple directorships and business duties.

On 13 April 2017 the Company received confirmation from its main shareholder and affiliates holding more than 75% of the outstanding bonds that they will not require accelerated payment of the outstanding bonds and they are supportive of a restructuring of the bonds. This does not remedy the default situation under the terms of the bonds. The bonds are classified as short term as per 31 December 2016.

On 15 May 2017 the Company announced that it had failed to meet the coupon payment of USD 5.1 million due on its Convertible Bond due on 29 April 2017.

The Group announced on 20 June 2017 that it had on 19 June recovered the tax losses of its Norwegian subsidiary Tellus from the Norwegian Oil Taxation Office as part of the process of Tellus' liquidation. These funds consisted of NOK 369 million or USD 43.7 million at the FX rate prevailing at that time. Of these funds, circa NOK 61 million (or USD 7.2 million) were used to settle the outstanding liabilities of Tellus, and the remainder (USD 36.4 million) has subsequently been remitted to Sequa through a mixture of the repayment of intercompany loans and dividends, with a small amount retained to ensure the smooth wind-up of Tellus. Subsequently, USD 2.4 million of these funds has been used to settle the long term creditors of Sequa.

On 4 August 2017 the Company received notification that its proposed amendments to the budget and work program of its subsidiary Sequa Kazakhstan had been agreed by the Kazakh authorities.

Due to the delayed filing of the Company's 2016 year-end and 2017 half-year financial statements, the Oslo Børs has suspended trading of the Company's USD 300,000,000 5.00 per cent Convertible Bonds due 2020 (of which USD 204,400,000 in principal amount remain outstanding) (ISIN: XS1220076779, SEQ01 PRO EC) issued by the Company in April 2015 ("Bonds"). As soon as the financial reports become available these will be submitted to Oslo Børs with the request to resume trading of the Bonds. The Bonds can still be traded on the Frankfurt Freiverkehr exchange.

Company balance sheet as at 31 December 2016

(before appropriation of result)

		2016	2015
		USD '000	USD '000
Non-current assets			
Intangible assets	*3*	**17**	**446**
Property, plant and equipment	*4*	**23**	**69**
Investments	*5*	**37,412**	**136,824**
		37,452	**137,339**
Current assets			
Receivables	*6*	**253**	**296**
Cash and cash equivalents		**350**	**9,229**
		603	**9,525**
		38,055	**146,864**
Shareholders' equity	*8*		
Called-up equity share capital		**27,701**	**27,701**
Share premium		**4,541**	**4,541**
Other reserve		**39,241**	**6,874**
Currency translation reserve		**(1,364)**	**(2,085)**
Retained deficit		**(240,652)**	**(73,341)**
		(170,533)	**(36,310)**
Non-current liabilities			
Borrowings	*9*	–	**175,295**
Derivative financial instruments	*9*	**3,891**	**2,956**
		3,891	**178,251**
Current liabilities			
Trade and other payables	*7*	**2,991**	**4,923**
Loans and borrowings	*9*	**201,706**	–
		204,697	**4,923**
Total equity and liabilities		**38,055**	**146,864**

The notes on pages 60 to 74 form an integral part of these financial statements.

Company income statement for the year 2016

	2016	2015
	USD '000	USD '000
Share in results from participating interests, after taxation	**(106,845)**	(39,380)
Other result after taxation	**(29,129)**	(17,781)
Net result	**(135,975)**	(57,161)

The notes on pages 60 to 74 form an integral part of these financial statements.

Notes to the Company financial statements for the year 2016

1 General

The Company financial statements form part of the 2016 financial statements of Sequa Petroleum N.V. (the 'Company').

With reference to the income statement of the company, use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

2 Principles for the measurement of assets and liabilities and the determination of the result

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, the Company makes use of the option provided in section 2:362 (8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements are the same as those applied for the consolidated EU-IFRS financial statements. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and endorsed by the European Union (hereinafter referred to as EU-IFRS). Please see pages 27 to 36 for a description of these principles.

Participating interests in group companies

Participating interests in group companies are accounted for in the Company financial statements according to the equity method. Refer to the basis of consolidation accounting policy in the consolidated financial statements.

Result of participating interests

The share in the result of participating interests consists of the share of the Company in the result of these participating interests. In so far as gains or losses on transactions involving the transfer of assets and liabilities between the Company and its participating interests or between participating interests themselves can be considered unrealised, they have not been recognised.

3 Intangible assets

	Oil and gas exploration / appraisal USD '000	Other USD '000	Total USD '000
Cost as at 31 December 2014	90,387	121	90,508
Additions	–	5	5
Disposals	(90,000)	–	(90,000)
Cost as at 31 December 2015	387	126	513
Additions	–	–	–
Impairment of Aksai expenditure	(387)	–	–
Cost as at 31 December 2016	**–**	**126**	**126**
Amortisation as at 31 December 2014	–	(26)	(26)
Charge in the year		(41)	(41)
Amortisation as at 31 December 2015	–	(67)	(67)
Charge in the year		(42)	(42)
Amortisation as at 31 December 2016	–	**(109)**	**(109)**
Net book value as at 31 December 2016	–	**17**	**17**
Net book value as at 31 December 2015	387	59	446

In 2016 the Company impaired Aksai related expenditure of USD 387 thousand in line with the Group treatment of Aksai appraisal costs.

Other intangible assets primarily include expenditure on purchased software which is being amortised on a straight-line basis over three years.

4 Property, plant and equipment

	2016 **USD '000**	2015 USD '000
Cost as at the beginning of the period	**120**	90
Additions	**-**	30
Disposals	**(27)**	-
Cost as at 31 December	**93**	120
Depreciation as at the beginning of the period	**(51)**	(18)
Disposals	**16**	-
Charge in the year	**(35)**	(33)
Depreciation as at 31 December	**(70)**	(51)
Net book value as at 31 December	**23**	69

5 Investments

	Participating interests in Group companies USD '000	Amounts receivable from Group companies USD '000	Total USD '000
Balance as at 31 December 2014	79	7,350	7,429
Additions	33,606	–	33,606
Result of participating interest	(7,657)	–	(7,657)
Loans provided	–	135,169	135,169
Provision for impairment	–	(29,638)	(29,638)
Currency translation adjustment	(2,085)	–	(2,085)
Balance as at 31 December 2015	**23,943**	**112,881**	**136,824**
Additions	–	–	–
Opening balance adjustment	**(1,131)**	**1,131**	–
Result of participating interest	**(20,639)**	–	**(20,639)**
Loans provided	–	**7,434**	**7,434**
Provision for impairment	–	**(86,928)**	**(86,928)**
Currency translation adjustments	**721**	–	**721**
Balance as at 31 December 2016	**2,894**	**34,518**	**37,412**

The Company share of the results of its subsidiary, Sequa Petroleum (Kazakhstan) LLP, has not been equity accounted for in these financial statements since it would result in a negative net equity value. The Company has long term receivables due from Sequa Petroleum UK LTD and its direct subsidiary, Sequa Petroleum (Kazakhstan) LLP. These balances are considered part of the overall net investment in the Kazakhstan business. These loan receivables have been impaired by USD 86,928 thousand, being the Company share of the participating result not recognised using the equity method.

The Company is the holding company of the group and has financial interests in the entities listed in note 5 to the Group financial statements on page 36.

6 Receivables

	2016 USD '000	2015 USD '000
Value added tax receivable	**62**	185
Other receivables	**35**	61
Prepayments	**156**	50
	253	296

7 Trade and other payables

	2016	2015
	USD '000	USD '000
Trade payables	**2,739**	1,222
Withholding taxes	**-**	1,278
Interest on senior convertible bond	**-**	1,703
Social security and other payroll taxes payable	**114**	231
Accruals	**138**	489
	2,991	4,923

8 Shareholders' equity

	Share capital USD '000	**Share premium USD '000**	**Other reserve USD '000**	**Translation reserve USD '000**	**Retained deficit USD '000**	**Total USD '000**
As at 31 December 2014	27,534	127	–	–	(48,880)	(21,219)
Issue of ordinary share	167	4,414	–	–	–	4,581
Loss for the period	–	–	–	(2,085)	(55,076)	(57,161)
Equity component of convertible debt instruments	–	–	–	–	30,615	30,615
Other comprehensive income	–	–	–	–	–	–
Contingent share consideration for business combination	–	–	6,874	–	–	6,874
As at 31 December 2015	**27,701**	**4,541**	**6,874**	**(2,085)**	**(73,341)**	**(36,310)**
Re-class to Other reserves	–	–	30,615	–	(30,615)	–
Loss for the period	–	–	–	721	(136,696)	(135,975)
Issue of new shares	–	–	–	–	–	–
Equity component of convertible debt instruments	–	–	1,752	–	–	1,752
Balance as at 31 December 2016	**27,701**	**4,541**	**39,241**	**(1,364)**	**(240,652)**	**(170,533)**

Share capital

Amounts subscribed for share capital at nominal value. At 31 December 2016, the authorised share capital comprised 956,666,660 ordinary shares. All shares have a par value of 10 euro cents (EUR 0.10c). As at 31 December 2016 201,500,000 (2015 201,500,000) shares were issued and all issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium account

The Share premium account represents the amounts received by the Company on the issue of its shares in excess of the nominal value of the shares, net of issue costs incurred.

Other reserve

The other reserve represents the fair value of deferred contingent share arrangements issued by the Company as part of the consideration for the acquisition of Tellus Petroleum Invest AS in 2015.

Translation reserve

The translation reserve amount represents foreign exchange differences arising on the translation of the Company's investments.

Retained deficit

Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

Proposal for profit appropriation

The General Meeting of Shareholders will be asked to approve the appropriation of the 2016 loss after tax of USD 135,975 thousand to be added to the retained deficit in the shareholders' equity.

The Company can only make payments to the shareholders and other parties entitled to the distributable profit in so far as the shareholders' equity exceeds the paid-up and called-up part of the capital plus the legal reserves and statutory reserves under the articles of association to be maintained.

9 Financial instruments

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

The Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital are the same as those set out for the Group in note 21 to the consolidated financial statements.

Quantitative information on risks arising from the use of financial instruments applicable to the Company are set out below.

Liquidity risk

Contractual cash flows

The below tables represent the undiscounted contractual cash flows payable under financial liabilities as at the balance sheet date.

2016

	Carrying amount USD '000	Contractual cash flows USD '000	6 months or less USD '000	Between 6 and 12 months USD '000	Between 1 and 2 years USD '000	Between 2 and 5 years USD '000
Trade and other payables	(2,991)	(2,991)	(2,991)	–	–	–
Short-term borrowing	(13,520)	(13,520)	(13,520)			
Convertible bond	(188,186)	(210,813)	(210,813)	–	–	–
Derivative liability	(3,891)	(4,374)	–	–	(4,374)	–
	(208,588)	**(231,698)**	**(227,324)**	–	**(4,374)**	–

2015

	Carrying amount USD '000	Contractual cash flows USD '000	6 months or less USD '000	Between 6 and 12 months USD '000	Between 1 and 2 years USD '000	Between 2 and 5 years USD '000
Trade and other payables	(4,923)	(4,923)	(4,923)	–	–	–
Convertible bond	(175,295)	(249,990)	(5,110)	(5,110)	(10,220)	(209,510)
Derivative liability	(2,956)	(6,761)	–	–	–	(6,761)
	(183,174)	(261,674)	(10,033)	(5,110)	(10,220)	(216,271)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and cash balances.

The carrying amount of financial assets represents the maximum credit exposure.

Receivables

The Company's receivables are mainly composed of value added tax amounts due from governments and sundry other debtors. At 31 December 2016 and 31 December 2015, no receivables were past due or impaired.

Cash and cash equivalents

The Company held cash and cash equivalents of USD 350 thousand at 31 December 2016 (2015 USD 9,229 thousand).

Guarantees

At 31 December 2016 and 31 December 2015, the Company had issued no financial guarantees.

Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates and interest rates – will affect the Company'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.

During 2016 and 2015, the Company did not use derivatives to manage market risks.

Foreign exchange risk

The functional currency of the Company is USD.

The table below shows the extent to which the Company has net monetary assets and (liabilities) in currencies other than the functional currency of the respective entity. These exposures give rise to net currency gains and losses recognised in the profit and loss account.

	2016	2015
	USD '000	USD '000
GBP	**(1,876)**	(1,379)
NOK	**(237)**	(237)
EUR	**(278)**	(41)
	(2,394)	(1,657)

A foreseeable movement in exchange rates at the reporting date is not expected to have a significant impact on comprehensive income or equity.

Interest rate risk

The interest rate profile of the financial assets of the Group as at 31 December 2016 is as follows (excluding non-interest bearing short term assets).

	Floating interest deposit on demand USD '000	**Fixed interest deposit on demand USD '000**	**Total USD '000**
Cash and cash equivalents			
USD	**62**	–	**62**
GBP	**98**	–	**98**
NOK	**181**	–	**181**
EUR	**9**	–	**9**
	350	–	**350**

The interest rate profile of the financial assets of the Group as at 31 December 2015 was as follows (excluding non-interest bearing short term receivables).

	Floating interest deposit on demand USD '000	Fixed interest deposit on demand USD '000	Total USD '000
Cash and cash equivalents			
USD	8,515	–	8,515
GBP	587	–	587
NOK	38	–	38
EUR	89	–	89
	9,229	–	9,229

Borrowings and facilities

	2016 USD '000	2015 USD '000
Expiring within one year		
5% USD five year senior convertible bonds	**181,374**	-
Interest on convertible bond	**6,813**	-
Sapinda Loan facilities	**8,174**	-
Interest on Sapinda Loan facilities	**5,345**	-
	201,706	-
Expiring after more than one year		
5% USD five year senior convertible bonds	-	**175,295**
	-	**175,295**

In April 2015, the Group launched a 5% USD 300 million five year senior convertible bond programme. At 31 December 2016 the total amount of senior convertible bonds in issue was USD 204.4 million. (2015 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 liability component of these convertible bonds are measured at amortised cost and as at 31 December 2016 had a book value of USD 181,374 thousand (2015 175,295 thousand).

As announced on 14 November 2016, the Company failed to pay the bond coupon of USD 5.1 million due in October 2016 and it remains outstanding. This situation of potential default has, as of the date of signing of the accounts, not matured into actual default. On 15 May 2017 the Company announced that it had failed to meet the coupon payment of USD 5.1 million due on its Convertible Bond due on 29 April 2017. Should 25% of the bond holders notify the trustees that they wish to accelerate the bond, it would become repayable immediately together with accrued but unpaid interest. Therefore the bond has been classified as expiring within one year.

In November 2015, the Company entered into a loan agreement with Sapinda Invest S.a.r.l ('Sapinda Invest), under which Sapinda Invest provides a convertible shareholder loan facility of USD 62.5 million through 2016 and 2017. On 10 May 2016 Sapinda Invest transferred USD 10.0 million of the facility to Sapinda Asia Limited ("Sapinda Asia"). Drawdowns on these loan agreements during 2016 totalled USD 8,826 thousand (2015 nil). The liability component of these convertible instruments are measured at amortised cost and as at 31 December 2016 had a book value of USD 8,174 thousand. 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.

A possible change of 100 basis points in interest rates at the reporting date is not expected to have a significant impact on comprehensive income or equity.

Fair values of financial assets and liabilities

All non-derivative financial instruments used by the Company during the current and previous period are initially recorded at fair value and subsequently measured at historic or amortised cost. The Company and Group holds one derivative financial instrument that is subsequently re-measured at fair value. As at 31 December 2016, this derivative had a fair value of USD (3,891) thousand (2015 USD 2,956) and is discussed in note 21 to the consolidated financial statements.

Financial instruments are classified in accordance with the following fair value hierarchy described in IFRS 13 'Fair Value Measurement', based on the inputs used in the valuation.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has issued USD 5% five year senior convertible bonds, and has two convertible loan facilities with Sapinda affiliated companies. The fair values of these instruments are discussed in note 21 to the consolidated financial statements.

All other financial instruments held by the Company are considered to have a fair value approximate to their book value and fall within level 2 of the fair value hierarchy.

Hedges

The Group did not hold any hedging instruments at the reporting date.

10 Fees of the auditor

The following fees were charged by KPMG Accountants N.V. to the Company, its subsidiaries and other consolidated companies, as referred to in Section 2:382a(1) and (2) of the Netherlands Civil Code. The fees for audit of the financial statements are allocated to the financial year to which the financial statements relate, irrespective of when the work has been performed.

2016	**KPMG Accountants N.V.**	**Other KPMG network**	**Total KPMG**
	USD '000	**USD '000**	**USD '000**
Statutory audit of annual accounts	306	34	340
Other assurance services	–	32	32
Tax advisory services	–	40	40
Other non-audit services	14	–	14
	320	106	426

2015	KPMG Accountants N.V.	Other KPMG network	Total KPMG
	USD ‘000	USD ‘000	USD ‘000
Statutory audit of annual accounts	**98**	**99**	**197**
Other assurance services	**8**	–	**8**
Tax advisory services	–	–	–
Other non-audit services	–	–	–
	106	**99**	**205**

11 Related parties

Parent and ultimate controlling party

The ultimate controlling party of the Company is Sapinda Holding B.V.

Lars Windhorst is the ultimate beneficiary of the Company via Sapinda and affiliates, Centrics and affiliates, and Sapinda Asia Limited.

Related parties

The shareholders of the Company, being members of the Management Board, Sapinda Holding B.V., Centrics Oil & Gas B.V. and their affiliates are related parties.

Transactions with the shareholders concern equity related transactions. Furthermore, an amount of zero USD (2015 USD 108 thousand) was recharged by Sapinda Holding B.V. to the Company regarding advisory related services.

During the year, Anoa Capital S.A., an affiliate of Sapinda Holding B.V., charged the company USD 1,468 thousand (2015 USD 183 thousand) for advisory services. As at 31 December 2016, USD 967 thousand (2015 USD 89 thousand) was payable to Anoa Capital S.A.

During 2016, the Company drew down USD 8.8 million on shareholder loan facilities totalling USD 62.5 million with Sapinda affiliated companies, Sapinda Invest and Sapinda Asia. The facilities are convertible into ordinary shares at a price of EURO 2.55 per share no later than 2 years from date of signing, being November 2017.

The Company has transferred USD 1.6 million to Sequa Petroleum Kazakhstan LLP under an intercompany loan agreement. During 2016, the outstanding loan balance attracted interest of USD 2.0 million.

During the year, the Company has transferred USD 2.8 million to Tellus under an intercompany loan agreement. USD 1.0 million was charged to Tellus under a Management services agreement. For disclosure on remuneration, see below. The terms and conditions of the transactions with key management personnel and other related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm’s length basis.

Transaction with key management personnel

Key management personnel compensation

Key management personnel are deemed to be the Directors of the Company.

Compensation for key management personnel comprised:

	2016	2015
	USD '000	USD '000
Short-term employees benefits	**1,515**	2,932
Post-employment benefits	**-**	–
	1,515	2,932

Key management personnel and director transactions

Members of the Management Board control 9.2% (2015 12.5%) of the voting shares of the Company.

12 Emoluments of Directors and Supervisory Directors

The emoluments as referred to in Section 2:383(1) of the Netherlands Civil Code, amounted to USD 1,447,469 for Managing Directors and former Managing Directors, and USD 67,490 for Supervisory Directors and former Supervisory Directors. The table below provides the remuneration and its individual components at the individual director level:

Managing Directors – 2016 **USD '000**	**Salary**	**Benefits**	**Total**
J. Broekhuijsen	**405**	**28**	**433**
P. Haynes (Managing Director until 01 July 2016)	**81**	**12**	**93**
J. Luke	**405**	**132**	**537**
J. Bosma	**324**	**61**	**385**
	1,215	**233**	**1,448**

Supervisory Directors – 2016 **USD '000**	**Salary**	**Benefits**	**Total**
J. van Rijswijk	**67**	–	**67**
	67	–	**67**

Managing Directors – 2015 USD ‘000	Salary	Benefits	Total
J. Broekhuijsen	527	14	541
P. Haynes	525	–	525
J. Luke	532	141	673
J. Bosma	532	136	668
A. Williams (Managing Director until 15 June 2015)	436	–	436
	2,552	291	2,843

Supervisory Directors – 2015 USD ‘000	Salary	Benefits	Total
J. van Rijswijk	87	–	87
	87	–	87

No other Supervisory Directors received remuneration from the Company in either 2016 or 2015.

Sequa Petroleum N.V.

London, 30 October 2017

Members of the Management Board:

Jacob Broekhuijsen

Jim Luke

Members of the Supervisory Board:

Lars Windhorst

Jos van Rijswijk

Other information

Provisions in the Articles of Association governing the appropriation of profit

Under article 25 of the Company's Articles of Association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

The Company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity exceeds the paid-up and called-up part of the capital plus the statutory reserves and exceeds the amounts resulting from the distribution test, performed by management at the date of each dividend payment.

Subsidiaries

The Company has the following subsidiaries.

Subsidiary name	Registered	Ownership
Sequa Petroleum UK Limited	United Kingdom	100% (Direct)
Sequa Petroleum (Kazakhstan) LLP	Kazakhstan	100% (Indirect)
Tellus Petroleum Invest AS	Norway	100% (Direct)
Tellus Petroleum AS	Norway	100% (Indirect)
CHC Energy plc	United Kingdom	99.8% (Direct) and 0.2% (Indirect)
CHC Energy (Kazakhstan) LLP	Kazakhstan	100% (Indirect)
Sequa Petroleum Europe Limited	Republic of Ireland	100% (Directly)

Independent auditor's report

To: the General Meeting of Shareholders of Sequa Petroleum N.V.

Report on the financial statements

Our disclaimer of opinion

We were engaged to audit the financial statements 2016 of Sequa Petroleum N.V., based in Amsterdam.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matter described in the Basis for our disclaimer of opinion section, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for our audit opinion.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2016;

2 the following consolidated statements for 2016: the statement of comprehensive income, changes in equity and cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the company balance sheet as at 31 December 2016;

2 the company income statement for the year 2016; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our disclaimer of opinion

The company's disclosure on going concern as outlined in note 2 (e) of the financial statements discloses, amongst others the fact that the company is dependent on the bondholders of the convertible bonds to support the restructuring of those bonds and not accelerate the repayment as long as their default situation remains. We were unable to obtain sufficient and appropriate audit evidence to determine whether 75% of the bondholders would support the restructuring of outstanding bonds and would thus not accelerate repayment of the convertible bond related amounts.

As a result of the above, we were unable to determine whether using the going concern basis of accounting in preparing the financial statements is appropriate and therefore whether any adjustments would be necessary in respect to the going concern assumption and the related financial statement captions and notes.

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at USD 439,000. The materiality is determined with reference to total assets, of which it represents 1.0%. We consider total assets as the most appropriate benchmark as the main stakeholders are primarily focussed on the assets and the most common benchmark in relation to result before tax is too volatile. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of USD 21,950, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Sequa Petroleum N.V. is head of a group of entities. The financial information of this group is included in the financial statements of Sequa Petroleum N.V.

Our group audit mainly focused on significant group entities that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements.

We have selected three group entities for which full scope audit procedures were performed.

We:

- performed audit procedures ourselves at group entities Sequa Petroleum N.V. and Sequa Petroleum UK Ltd. in respect of areas such as the annual goodwill impairment test, valuation of intangible fixed assets, and measurement and presentation of financial liabilities;
- sent detailed instructions to all component auditors, covering the significant areas and set out the information required to be reported to the group auditor. Performed file reviews at all component auditors and held telephone calls with all component auditors during which the audit approach, findings and observations reported to the group audit were discussed in more detail.

Coverage

This resulted in a coverage of 100% of total assets and 100% of operating and finance costs through full scope audits.

Given the significance of the matter described in the Basis for our disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for our audit opinion.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report of the Management Board;
- Report of the Supervisory Board;
- Other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code;

Given the significance of the matter described in the Basis for our disclaimer of opinion section of our report, we were not able to, as required by Part 9 of Book 2 of the Dutch Civil Code, conclude on whether the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

Management is responsible for the preparation of the other information, including the Report of the Management Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

We have operated as statutory auditor of Sequa Petroleum N.V. since 2013.

We were re-engaged by the General Meeting of Shareholders as auditor of Sequa Petroleum N.V. on 3 June 2016 for the financial year 2016.

Description of the responsibilities for the financial statements

Responsibilities of the Management Board and Supervisory Board for the financial statements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Management Board is responsible for such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Management Board should prepare the financial statements using the going concern basis of accounting unless the Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of financial statements

Our responsibility is to express an opinion on the financial statements based on conducting our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Because of the matter described in the Basis for our disclaimer of opinion section, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

We are independent of Sequa Petroleum N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

Amstelveen, 30 October 2017

KPMG Accountants N.V.

R. Rog RA