

Sequa Petroleum N.V.

Unaudited Interim Group Financial
Statements for the six
months ending 30 June 2019

Sequa Petroleum N.V.

These unaudited interim financial statements for the six month period ending 30 June 2019 have been prepared showing the effects of the restructuring 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 remained outstanding (ISIN: XS1220076779, SEQ01 PRO EC) issued by the Company in April 2015 (the "**Bonds**"), completed on 24 July 2019 with the issue of 748,113,198 shares, to be distributed to former bondholders on or before the settlement date of 14 August 2019. A voting majority of the bondholders committed to this restructuring in April 2019, as disclosed by the Company on 15 April 2019.

London, 31 July 2019

Management Board:



Jacob Broekhuijsen



Jim Luke



Derk ter Avest

Consolidated statement of financial position

		Six months to 30 June 2019 USD '000	Year to 31 December 2018 USD '000
Assets			
Non-current assets			
Property, plant and equipment		1	1
		<u>1</u>	<u>1</u>
Current assets			
Other receivables		234	306
Cash and cash equivalents		22,194	25,372
		<u>22,428</u>	<u>25,678</u>
Assets held for sale	4	193	424
		<u>22,622</u>	<u>26,103</u>
Equity and liabilities			
Equity			
Called-up equity share capital	3/9	111,876	28,537
Share premium	3/9	207,661	25,065
Other reserve		-	30,615
Retained deficit		(297,792)	(287,900)
		<u>21,745</u>	<u>(203,683)</u>
Current liabilities			
Trade and other payables		845	498
Derivative financial instruments	10	-	4,493
Borrowings	3/10	-	224,617
		<u>845</u>	<u>229,608</u>
Liabilities directly associated with assets held for sale	4	32	178
		<u>877</u>	<u>229,786</u>
		<u>22,622</u>	<u>26,103</u>

Consolidated statement of comprehensive income

		Six months to 30 June 2019 USD '000	Year to 31 December 2018 USD '000
Continuing operations			
Operating costs			
Other costs	5	<u>(1,864)</u>	<u>(3,886)</u>
		(1,864)	(3,886)
Finance income	7	3,793	9
Finance expense	8	<u>(11,514)</u>	<u>(19,044)</u>
Net finance costs		<u>(7,721)</u>	<u>(19,035)</u>
Loss before taxation		(9,585)	(22,921)
Taxation		<u>-</u>	<u>-</u>
Loss for the year from continuing operations		<u>(9,585)</u>	<u>(22,921)</u>
Profit/(loss) for the year from discontinued operations	4	<u>(307)</u>	<u>(25,126)</u>
Loss for the period attributable to equity shareholders		(9,892)	(48,047)

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Consolidated statement of comprehensive income, continued.

	Six months to 30 June 2019 USD '000	Year to 31 December 2018 USD '000
Other comprehensive income		
Items being reclassified to profit or loss:		
Currency translation adjustments in respect of discontinued operations	-	23,538
	<hr/>	<hr/>
Total comprehensive income for the period attributable to equity shareholders	(9,892)	(24,509)
	<hr/>	<hr/>
Loss per ordinary share (cents)		
From continuing and discontinued operations		
Basic and diluted	(4.7)	(23.0)
From continuing operations		
Basic and diluted	(4.6)	(11.0)

Consolidated statement of changes in 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 2017	28,537	25,065	30,615	(23,538)	(239,853)	(179,174)
Loss for the period	–	–	–	–	(48,047)	(48,047)
Other comprehensive income	–	–	–	23,538	–	23,538
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2018	28,537	25,065	30,615	–	(287,900)	(203,683)
Loss for the period	–	–	–	–	(9,892)	(9,892)
Conversion of convertible bond debt	83,339	182,596	(30,615)	–	–	235,320
Other comprehensive income	–	–	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2019	111,876	207,661	–	–	(297,792)	21,745

Consolidated statement of cash flows

	Six months to 30 June 2019 USD '000	Year to 31 December 2018 USD '000
Loss after taxation	(9,892)	(48,047)
Adjustments for:		
Depreciation and amortisation	7	23
Put-option fair value movement	(3,793)	13
Recycle FX reserve	-	23,449
Finance expense	11,500	19,031
Unrealised exchange differences	11	7
(Increase)/decrease in inventories	(1)	6
(Increase)/decrease in other receivables	319	105
(Decrease)/increase in trade payables	228	(65)
(Decrease)/increase in provisions for abandonment obligations	(73)	(208)
	8,244	42,361
Cash used in operations	(1,647)	(5,686)
Interest paid	-	-
Tax recovered/(paid)	-	-
Net cash flows used in operating activities	(1,647)	(5,686)
Cash flows from investing activities		
Purchase of property, plant and equipment	-	-
Net cash used in investing activities	-	-
Cash flows from financing activities		
Bond restructuring conversion costs	(794)	-
Put-option settlement	(700)	-
Net cash outflow from financing activities	(1,494)	-
(Decrease)/increase in cash and cash equivalents in the period	(3,141)	31,075
Cash and cash equivalents at start of the period	25,450	31,058
Effect of movements in exchange rates on cash held	(14)	78
Cash and cash equivalents as at 31 December	22,295	25,450

Cash of value USD 101 thousand is disclosed within Assets held for sale on the consolidated Statement of financial position

Notes to the unaudited consolidated interim financial statements

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 23 Savile Row, London W1S 2ET, United Kingdom. The financial statements of the Company as at and for the period ended 30 June 2019 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

These interim financial statements for the 6 month period ended 30 June 2019 are unaudited and have been prepared in accordance with IAS 34 'Interim Financial Reporting' apart from the omission of half year comparative data and the inclusion of the effects of bond restructuring completed in July 2019.

These interim financial statements should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2018 and are available upon request or can be downloaded from the Company's website.

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

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

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

These financial statements reflect the restructuring of the restructuring of the Company's USD 204.4 million bond debt.

Despite the restructuring not having been enacted by the balance sheet date of these financial statements, Irrevocable Undertakings to enact the restructuring were given by a voting majority of bondholders in April 2019 and Sequa's management believes that including the effect of the restructuring in these financials provides a more relevant and useful point of reference for stakeholders.

3 Restructuring

In April 2015, the Group launched a 5% USD 300 million five year senior convertible bond programme. The total amount of bonds issued was USD 204.4 million. The bonds were to mature in April 2020 and were convertible into ordinary equity shares of the Company at the option of the holders.

The Company did not pay the bond coupon of USD 5.1 million due in October 2016. Since then the Company has not paid the USD 5.1 million coupon payments for April and October 2017, April and October 2018 and April 2019. This failure to pay coupons left the Company in a position

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of potential default, although no default was called by bondholders in relation to the missed payments.

Due to the position of potential default the bonds were at 31 December 2018 categorised as liabilities expiring within one year.

In April 2019 the Company announced it had received Deeds of Irrevocable Undertakings from a voting majority (greater than 75%) of bondholders to implement a cancellation of the bonds, receiving in return the rights to subscribe for new shares in the capital of the Company.

In July 2019 the restructuring of the Company's convertible bond debt was concluded, with the issue of 3.660045 ordinary shares for every US Dollar in principal bonds held by bondholders (748,113,198 shares).

Accordingly, as per the consent solicitation memorandum, the effective date on which the Bonds were cancelled was 24 July 2019 and before or on the settlement date of 14 August 2019 each Bondholder will receive 3.660045 ordinary shares for each U.S. Dollar in principal amount of Bonds they hold (approved at the Company's 18 June 2019 AGM). The issuance of new ordinary shares shall be in full and final settlement of all of the bondholders' rights under, arising out of or in any way connected with the Bonds, the trust deed or any related transaction, and any existing event of default or potential event of default arising under the trust deed and the Bonds will be irrevocably waived on and from the effective date.

More information regarding shares issued is included in Note 9.

The cancellation of the Bonds completes the restructuring of the Company's debt and liabilities. The Company's cash balances (on 1 July 2019 over \$22m), possibly together with new equity and/or debt funding, will enable the Company to progress current high quality acquisition targets of production and development assets. If the targeted investment opportunities are secured, then the realisation of these opportunities is expected to be value-accretive to the Company's shareholders.

Any material progress with business development and restructuring will be subject to further announcements.

As part of the debt restructuring process in mid-April the Company made a payment of USD 0.7 million to the former shareholders of Tellus Petroleum in full and final settlement of the Put Options they were granted when the Company purchased Tellus Petroleum in 2015. This payment eliminates the notional USD 4.5 million liability carried at 31 December 2018.

4 Discontinued operations

In July 2018 the Group's Aksai licence in Kazakhstan lapsed. The Group has since performed the abandonment works required of it in relation to the Aksai wells and has been preparing Sequa Petroleum (Kazakhstan) LLP for sale or wind-up. A sale (for a nominal amount) would accelerate the Group's country exit. Management believe they have found a buyer for the corporate entity and are confident they can effect a sale in the short term. If this sale fails the formal wind-up process of the subsidiary will be continued and completed.

The results of Sequa Petroleum (Kazakhstan) LLP are therefore treated as part of Discontinued Operations in the Statement of Comprehensive Income for the 6 months ending 30 June 2019 and year ending 31 December 2018, and its assets, liabilities and reserves are presented as Held for Sale on the Statement of Financial Position at 30 June 2019 and 31 December 2018.

Analysis of result from discontinued operations

An analysis of the results of discontinued operations included in the consolidated income statement for the year are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

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The six months to 30 June 2019 has seen limited further spend on abandonment of the Aksai licence and administrative costs of the business, and costs of bringing the business to saleable condition. Total expenditure for the period was USD 0.2 million with a further loss of USD 0.1 million attributable to FX movements.

2018 results were dominated by the recycling of the Currency Reserve related to the consolidation of Sequa Petroleum (Kazakhstan) LLP over the past 5 years, totalling USD 23.5 million. Administrative expenses included USD 0.9 million paid in regard to fines, training fees and social development costs and a further USD 0.1 million relating to Aksai costs with the remaining USD 0.7 million relating to staff, office and administrative expenses.

	Six months to 30 June 2019	Year to 31 December 2018
	USD '000	USD '000
Revenue		
Other operating income	-	49
Operating costs		
Exploration allocation	(28)	(107)
Depreciation and amortisation	(7)	(15)
Impairment	-	(84)
Legal and other professional fees	(12)	(434)
Staff costs	(137)	(521)
Other administration costs	(15)	(571)
	(199)	(1,683)
Finance income	-	6
Finance expense	(108)	(23,449)
Net finance costs	(108)	(23,443)
Profit/(loss) before taxation	(307)	(25,126)
Taxation	-	-
Profit/(loss) for the period attributable to equity shareholders	(307)	(25,126)

During the period the average number of staff was 5 (full time equivalent), all based in Kazakhstan.

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5 Other costs

Other costs encompass the following items:

	Six months to 30 June 2019	Year to 31 December 2018
	USD '000	USD '000
Depreciation and amortisation	-	8
Legal and other professional fees	124	389
Consulting costs	181	442
Staff costs	1,302	2,694
Other administration costs	257	353
	<u>1,864</u>	<u>3,886</u>

6 Personnel expenses and employees

	Six months to 30 June 2019	Year to 31 December 2018
	USD '000	USD '000
Wages and salaries	853	1,971
Benefits	320	475
Social security costs	126	245
Pension charge	3	3
	<u>1,302</u>	<u>2,694</u>

Average number of employees

	Six months to 30 June 2019	Year to 31 December 2018
	Number	Number
Based in the Netherlands	-	-
Based outside the Netherlands	5	5
	<u>5</u>	<u>5</u>

7 Finance income

	Six months to 30 June 2019	Year to 31 December 2018
	USD '000	USD '000
Fair value movement on derivative financial instruments (see note 10)	3,793	-
Foreign exchange result	-	9
	<u>3,793</u>	<u>9</u>

8 Finance expenses

	Six months to 30 June 2019	Year to 31 December 2018
	USD '000	USD '000
Accounting interest on senior convertible bonds	(11,497)	(19,020)
Fair value movement on derivative financial instruments (see note 10)	-	(13)
Other finance expenses	(3)	(11)
Foreign exchange result	(14)	-
	<u>(11,514)</u>	<u>(19,044)</u>

9 Equity

Issue of shares during the year

On 24 July 2019 the Company issued 748,113,198 ordinary shares in respect of the Bond conversion as discussed in Note 3. A credit on restructuring of USD 62.3 million and a debit of USD 0.8 million for related fees were also booked to the Share Premium account.

Authorised shares

	Number	EUR '000
Ordinary shares of EUR 0.10 each	<u>956,666,660</u>	<u>95,667</u>

Allotted, issued and fully paid in EUR

	Number	Share capital EUR '000	Share premium EUR '000
As at 31 December 2017	208,553,350	20,855	21,368
As at 31 December 2018	<u>208,553,350</u>	<u>20,855</u>	<u>21,368</u>
Additional issue of shares	748,113,198	74,811	108,658
Gain on restructuring of Bonds	-	-	55,964
Bonds restructuring conversion costs	-	-	(712)
As at 30 June 2019	<u>956,666,548</u>	<u>95,666</u>	<u>185,278</u>

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Allotted, issued and fully paid in USD

	Number	Share capital USD '000	Share premium USD '000
As at 31 December 2017	208,553,350	28,537	25,065
As at 31 December 2018	208,553,350	28,537	25,065
Additional issue of shares	748,113,198	83,399	121,045
Gain on restructuring of Bonds	-	-	62,344
Bonds restructuring conversion costs	-	-	(793)
As at 30 June 2019	956,666,548	111,876	207,661

10 Financial instruments

The following tables reflect the restructuring of the Company's Bond debt and the settlement of the Company's Put Option liability as discussed in Note 3.

Borrowings and facilities

	Six months to 30 June 2019 USD '000	Year to 31 December 2018 USD '000
<i>Expiring within one year</i>		
5% USD five year senior convertible bonds	-	197,364
Convertible bond interest	-	27,353
	-	224,617

Financial instruments measured at fair value

	Six months to 30 June 2019 USD '000	Year to 31 December 2018 USD '000
Fair value as at 1 January	(4,493)	(4,480)
Settlement in the year	700	-
Movement recognised in the income statement	3,793	(13)
Fair value as at 30 June	-	(4,493)